## Pakistan Oil & Gas



11 January 2022

# Oil & Gas Development Co. (OGDC PA)

## Wali discovery: Promising to be a material addition

In July 2021, Oil & Gas Development Co. (OGDC) notified a discovery in the exploratory well, Wali-1 (KPK). The well initially flowed about 1,000bpd of oil and 12mmcfd of gas – from one of three formations (Kawagarh, Hangu and Lockhart). Note that the well is located in close proximity to two of Pakistan's largest oil assets – Nashpa and Tal block – both of which produced over 20,000bpd of oil at peak. OGDC has 100% stake in Wali block.

## Flows have improved significantly

A recent <u>news report</u> indicated that the total production from the three formations is about 3x the initial flow – 2,950bpd oil and 36mmcfd gas – which translates into an earnings impact of c.PKR2.5/sh for OGDC (c.9% of FY23f EPS). As per management guidance, production from the field will start upon successful negotiations with the gas utility, SNGPL, for future offtake, which may take about a year's time. Also, timing of production from all three formations will depend on the success of future wells drilled at the block. Conservatively, we assume that the well will start producing from the Lockhart formation with c.1,000bpd oil and 15mmcfd gas – equivalent to about PKR1.0/sh in earnings.

## Indication of large reserves

We understand that the initial estimate of reserves of the discovery is similar to earlier estimates of Nashpa (the largest oil asset of OGDC which contributes c.22% of total oil output); but this can be ascertained only with further drilling in the block. OGDC plans to spud an appraisal well by June 2022. We also await PPIS Reserves data for December 2021 for more clarity.

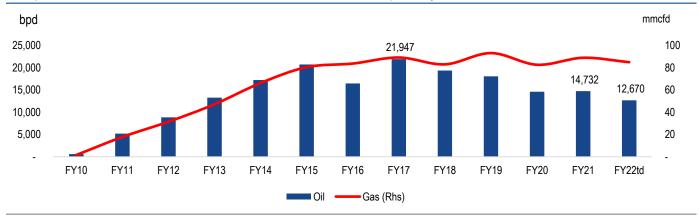
Nashpa was discovered in 2009 by OGDC; its initial flows were about 7,000bpd of oil from two formations. Wali's total production is estimated to be less than half of that. But findings from the appraisal well Wali-2 and the field's development plan will determine its future production trajectory. In case of Nashpa, OGDC drilled five more wells in the block after the discovery until July 2016, which led to peak oil production of over 25,000bpd by January 2017.

Given that production at Tal block and Nashpa have been depleting fast in recent years, we think it will be easier for OGDC to sell the crude oil from Wali to North based refineries in Pakistan (in case it produces more than 5,000bpd in a few years), in our view.

## Can help with price discovery for the stock

While it is still very early in the development of Wali, it is nonetheless an exciting prospect for OGDC, which is otherwise plagued by deep undervaluation due to circular debt. Note that oil contributes much less to the buildup of circular debt than it did before 2018, as there is now much more power generation on coal and RLNG than on furnace oil. We think if the discovery ultimately produces more than 5,000bpd of oil (c.14% of present total oil output of OGDC), it will prove to be a more durable catalyst for price discovery for the stock than any circular debt injection by the government.

We have a Buy rating on OGDC with a June 2022 TP of PKR165/sh. The stock is trading at very undemanding valuations – FY22f P/E of c.3.0x and EV/EBITDA of less than 2.0x.



### Nashpa has been one of the most lucrative discoveries in Pakistan in the past 20 years

Source: PPIS, IMS Research

#### Muhammad Saad Ali, CFA saad.ali@imsecurities.com.pk

+92-21-37131610

Copyright©2022 Intermarket Securities Limited (Local Research Partner of Tellimer). All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Intermarket Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by Intermarket Securities or its affiliates to buy or sell any securities or provide any investment advice or service.



I, Muhammad Saad Ali, CFA certify that the views expressed in the report reflect my personal views about the subject securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations made in this report. I further certify that I do not have any beneficial holding of the specific securities that I have recommendations on in this report.

Criteria
Total return expectation of $\geq$ 15% or expected to outperform the KSE-100 index
Total return expectation of > -5% or expected to match the return of KSE-100 index
Expected downside of more than 5% or expected to underperform the KSE-100 index

\*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks:(i) Rise in circular debt amid high oil prices - leading to dividend cuts, (ii) GoP reviving plans to sell stake in the company, and (iii) depletion at mature fields accelerates.

Disclaimer: Intermarket Securities Limited has produced this report for private circulation only. The information, opinions, and estimates herein are not direct at, or intended for distribution to or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or which would subject Intermarket Securities Limited to any additional registration or licensing requirement within such jurisdiction. The information and statistical data herein have been obtained from sources we believe to be reliable where such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness, and correctness. This report makes use of forward looking statements that are based on assumptions made and information currently available to us and those are subject to certain risks and uncertainties that could cause the actual results to differ materially. No part of the compensation of the author(s) of this report is related to the specific recommendations or views contained in this report.

This report is not a solicitation or any offer to buy or sell any of the securities mentioned herein. It is meant for information purposes only and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Before acting on any information in this report, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. Neither Intermarket Securities Limited nor any of its affiliates or any other person associated with the company directly or indirectly accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein.

Subject to any applicable law and regulations, Intermarket Securities Limited, its affiliates or group companies or individuals connected with Intermarket Securities Limited directly or indirectly may have used the information contained herein before publication and may have positions in, or may from time to time purchase or sell or have a material interest in any of the securities mentioned or may currently or in future have or have had a relationship with, or may provide investment banking, capital markets and/or other services to, the entities mentioned herein, their advisors and/or any other connected parties.

#### RESEARCH DISCLOSURES

#### Third Party Research

This is third party research. It was prepared by Intermarket Securities Limited (IMS), with headquarters in Karachi, Pakistan. Intermarket Securities Limited (IMS) is authorized to engage in securities activities according to its domestic legislation. Intermarket Securities Limited (IMS) has sole control over the contents of this research report.

Intermarket Securities Limited (IMS) is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission.

#### Disclaimers

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralized system. Registration of ownership of certain types of securities may not be subject to standardized procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.

#### **US** Distribution

This Report is considered independent third-party research and was prepared by Intermarket Securities Limited (FBD), with headquarters in Pakistan. The distribution of this Research is provided pursuant to the exemption under Rule 15a-6(a)(2) and is only intended for an audience of Major U.S. Institutional Investors (MUSIIs) as defined by Rule 15a-6(b)(4). This research is not a product of StoneX Financial Inc.. Intermarket Securities Limited has sole control over the contents of this research report. StoneX Financial Inc. does not exercise any control over the contents of, or the views expressed in, any research reports prepared by Intermarket Securities Limited and under Rule 15a-6(a)(3), any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information, please contact Gene Turok. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Intermarket Securities Limited.

Intermarket Securities Limited (IMS) is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

#### **Distribution outside US**

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

**UAE:** Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction