

23 February 2021

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Oil Search Limited

Energy

BUY

OSH A\$4.05
TARGET PRICE A\$5.03

Oil Search Limited (OSH) is engaged in the exploration, development and production of oil and gas in Papua New Guinea (PNG). OSH's main producing operations are Kutubu, Moran, SE Mananda, Gobe and Hides.

Company Data

Number of shares	2,077.9M
Market Capitalisation	\$8,415.3M
Free float (%)	89.8
12-month high/low	\$5.99/\$1.83
Average Daily Turnover (\$m)	33.20
% S&P/ASX200	0.44%
DDM Ranking	71
% All Ordinaries	0.38%
GICS Industry Group	Oil, Gas & Consumable Fuels

Source: FactSet, Barclay Pearce Capital

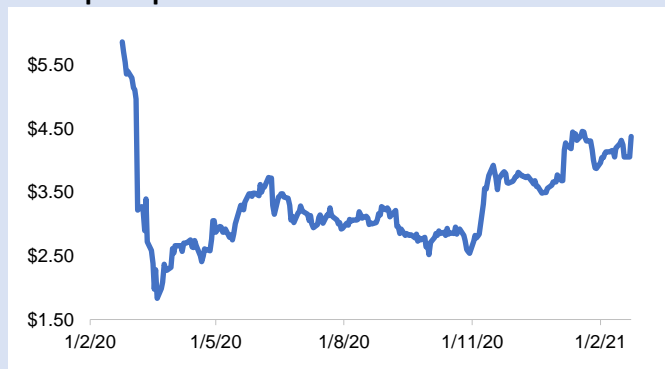
Earnings Summary (AUD)

Year end December	2020A	2021F	2022F	2023F
Revenue (\$M)	1,359.7	1,778.8	1,976.6	2,053.9
EBITDA (\$M)	912.8	1,211.4	1,443.0	1,510.7
Reported NPAT (\$M)	-405.9	296.2	484.4	656.4
Adjusted NPAT (\$M)	28.0	296.9	450.3	522.0
Reported EPS (c)	-21.0	14.3	21.5	30.2
Adjusted EPS (c - FD)	1.4	15.2	21.7	23.7
Adjusted EPS growth (%)	-95.2	946.4	43.4	8.8
Adjusted P/E (x)	279.6	26.7	18.6	17.1
Dividend (c/sh)	0.6	4.2	9.7	27.9
Gross yield (%)	0.1	1.0	2.2	6.4
Net yield (%)	0.1	1.0	2.2	6.4
ROIC (%)	0.2	2.7	4.0	4.0

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

2020 Full Year Results and Presentation

On 23rd February, Oil Search Limited (OSH) released their results for the full year ended 31 December 2020 with the following highlights:

Full Year results (US\$ millions)	2020	2019	Change (%)
Revenue	1,074.2	1,584.8	(32%)
EBITDAX	721.1	1,145.9	(37%)
NPAT	(320.7)	312.4	(203%)
Core NPAT	22.0	320.9	(93%)
Net Debt	2,376.2	2,983.2	(20%)
Free cash flow	12.8	(58.7)	122%
Final Dividend (US cents per share)	0.5	4.5	(89%)

- Oil Search has delivered full year production of 29.0 mmbob and the strongest safety performance since assuming operatorship in 2003;
- The financial results reflects significantly lower realised hydrocarbon prices in 2020 compared to 2019, and this resulted in a full year net loss of US\$320.7 million, including a post-tax impairment charge of US\$260.2 million that had been recognised in the interim financial results; and
- Core net profit after tax (NPAT) excluding impairment and other significant non-recurring items was US\$22.0 million.

Commenting on the 2020 full-year results, Managing Director Dr Keiran Wulff said: "Oil Search emerged from 2020 stronger and more resilient as a result of its response to the Covid-19 pandemic, demand collapse and oil price downturn. Despite the material challenges, Oil Search achieved three important records for the year. The first is the strongest safety performance in PNG since becoming operator of the PNG oil fields in 2003, with a Total Recordable Incident Rate of 0.78 per million hours worked, and no Tier 1 process safety events. The second is the strongest production reliability from our operations in PNG since the 2018 earthquake and, lastly, the delivery of record annual production from the PNG LNG project."

Outlook

"We will continue to focus on maximising operating cash flow and delivering on our material growth projects which will be underpinned by resilient operations and disciplined capital management. We have established a dedicated transformation team to embed a high-performance culture across the business."

Earnings changes

For the full year 2020, OSH reported underlying NPAT of \$28.0 million, which compares with market consensus of a \$9.6 million loss. OSH limited discretionary spending and enhanced liquidity to deliver positive NPAT despite the demand collapse and oil price downturn. Hydrocarbon prices are still recovering. Hence, we expect positive earnings revisions of 7.5% for future periods.

Valuation

We are initiating on OSH with a price target of \$5.03 and a BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Valuation Methodology

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Barclay Pearce Capital Recommendation Proportions

Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)