

Oil & Gas Development Company Limited

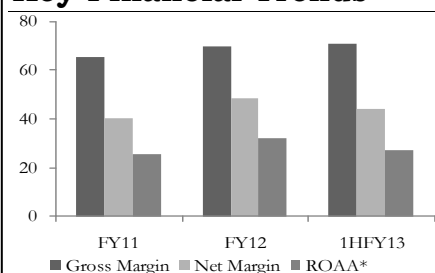
Chairman: Ch. Mubammad Shafi Arshad; MD&CEO: Mr. Masood Siddiqui

March 15, 2013

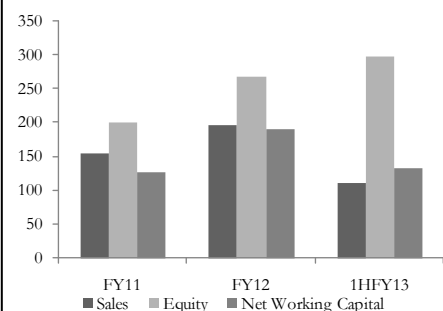
Analysts: Maimoon Rasheed
Waqas Munir, FRM

Category	Latest	Previous
Entity	AAA/A-1+	AAA/A-1+
Outlook	Stable Feb 27, '13	Stable Mar 18, '12

Key Financial Trends



* Annualized for 1HFY13



(Rs. billion)	FY11	FY12	1HFY13
Net Sales	155.6	197.8	110.6
Net Profit	63.5	96.9	49.2
Equity	201.6	268.4	298.2
Total Debt	-	-	-
Debt Leverage (x)	0.30	0.26	0.30
FFO	64.2	108.6	59.5
FFO/Total Debt	-	-	-
ROAE*	35.4%	41.2%	34.8%
ROAA*	25.9%	32.3%	27.2%

* Annualized for 1HFY13

Rating Rationale

Being the largest petroleum Exploration and Production (E&P) company, Oil and Gas Development Company Limited (OGDCL) holds strategic importance in the oil and gas sector of the country. Financial performance of the company during FY12 has remained robust given low business risk emanating from assured product off-take as Pakistan's energy requirements are in excess of local production; meanwhile consistently high international prices of fossil fuel have also contributed positively to the company's financial health.

While the liquidity issues in the power sector raise concerns as regards the timely receipt of receivables, so far the company has been able to manage its cash flows without having the need to access bank borrowings. Trade receivables escalated to Rs. 138.1b (FY11: Rs. 77.9b) by end-FY12. In order to partially settle overdue payments, Government of Pakistan (GoP) floated a Privately Placed Term Finance Certificate (PPTFC) during 1QFY13 amounting to Rs. 82.0b for a period of seven years. PPTFC was fully subscribed by OGDCL and the proceeds were utilized by the GoP to settle the trade debts of OGDCL. Investment in PPTFC was cash neutral transaction for OGDCL; however counterparties credit risk has been transferred from oil refineries & gas companies to the GoP. In the absence of any long term solution to address the issues underpinning the liquidity crisis in the power sector, OGDCL may once again be faced with mounting receivables. The impact on company's ability to conduct business in line with its vision will continue to be tracked by JCR-VIS. So far exploratory/development activities are progressing well.

During FY12, OGDCL carried out E&P activities at various fields with a focus on reserve addition and production enhancement. Drilling success improved as no well was declared dry during FY12 as compared to seven dry wells in the preceding year. On proven reserves basis, reserve life is estimated at 8 years at end-FY12. Meanwhile, investment in the IT infrastructure including Seismic Data Processing System and Petrel Software applications for reservoir engineering is expected to benefit the operations. Going forward, the company plans to increase its production of petroleum products; success of which is dependent on timely completion of on-going development works. For development projects currently underway, a cash outlay of Rs. 57.1b is planned for FY13.

Gross sales of the company increased by 25.3% during FY12, on the back of higher average sales price of petroleum products, along with marginal improvement in production volume. Gross margins of the company improved to 69.9% during FY12 (FY11: 66.0%). Given that crude oil and gas cumulatively contribute more than 95% of gross sales, gross margins of the company are a function of change in the price and quantity produced of these products. Profitability of the company also received impetus from reduced exploration and prospecting expenditure, with cost of dry wells declining significantly during FY12. Strong internal capital generation has continued to augment the capital base of the company over the years.

Overview of the Institution

OGDCL was incorporated on October 23, 1997 under the Companies Ordinance 1984. The company is engaged in the exploration, development, production and sale of oil and gas resources and its products. The company is listed on all three stock exchanges of Pakistan while its Global Depository Shares are listed on the London Stock Exchange. The registered office is located in Islamabad while fields and other production facilities are dispersed all over the country JCR-VIS