

RATING REPORT

Oil & Gas Development Company Limited (OGDCL)

REPORT DATE:

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RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	<i>Stable</i>		<i>Stable</i>	
Rating Date	22/02/2018		31/10/2017	

COMPANY INFORMATION

Incorporated in 1997	External auditors: KPMG Taseer Hadi & Co. and A.F. Ferguson & Co, Chartered Accountants
Public Limited Company	Chairman: Mr. Zahid Muzaffar Chief Executive Officer: Mr. Zahid Mir
Key Shareholders (with stake 5% or more):	
Government of Pakistan – 67.48%	
OGDCL – Employee Empowerment Trust – 10.05%	
Ministry of Privatization & Investment – 7.50%	

APPLICABLE METHODOLOGY

Rating Methodology: Industrial Corporate (May 2016)
<http://www.jcrvis.com.pk/kc-meth.aspx>

Oil & Gas Development Company Limited (OGDCL)

OVERVIEW OF THE INSTITUTION

Oil & Gas Development Company Limited (OGDCL) was incorporated as a Public Limited Company in October 1997. Core business activities of the Company involve exploration, development and production of oil and gas resources, including their sale and related activities.

Profile of Chairman

Mr. Zahid Muzaffar has over 40 years of diversified experience in oil and gas industry. Mr. Muzaffar holds a Bachelor of Economics degree from the University of the Punjab, Pakistan.

Profile of CEO

Mr. Zahid Mir is a petroleum engineer by profession with over 27 years of experience in the oil and gas industry. Mr. Mir did his B.Sc in Petroleum Engineering from University of Engineering and Technology, Lahore and MBA from Preston University, Islamabad.

Financial Snapshot

Net equity: 1QFY18: Rs.530.0b; FY17: Rs.513.0b; FY16: Rs.478.6

Net profit: 1QFY18: Rs.17.0b; FY17: Rs. 63.8b; FY16: 60.0b

RATING RATIONALE

The assigned ratings of Oil & Gas Development Company Limited (OGDCL) reflect its shareholding structure with around three-fourth shares held by the Government of Pakistan (GoP). Business risk is considered low on account of the Company's strategic importance in the oil & gas sector of the country; OGDCL is the industry leader in E&P sector of Pakistan and has assured product off-take as country's petroleum requirements remain in excess of local production. The ratings also take into account low financial risk profile of the institution as reflected by a debt free capital structure. The Company continues to face issue related to inter-corporate debt with large amounts of overdue receivables carried on the balance sheet; however, liquidity profile remains adequate as healthy margins and adequate cash flow generation enables the Company to meet its expenditure requirements, indigenously.

Market Share and Production

During FY17, the Company's share of local crude oil production improved to 51% (FY16: 48%), while share of gas production remained steady at 28% (FY16: 28%). Higher production from some owned, operated and non-operated joint venture fields combined with production start-up in development projects such as Kunnar Pasakhi Deep (KPD) and Tando Allah Yar (TAY) resulted in higher crude oil and LPG production. Average daily production of crude oil, LPG and sulphur has depicted an increase while average daily production of gas remained largely steady. At end-1QFY18, reserves life (calculated on barrels of oil equivalent – BOE) for oil and gas fields on 1P (Proven Reserves) basis is 5 years and on 2P (Proven & Probable Reserves) basis is 12 years. Proven reserve life for oil and gas separately on 1P basis is 3.8 years and 10.2 years, respectively. Few development projects are under progress which are expected to optimize crude oil, gas and LPG production in the near future. During the period under review, the Company also signed MoU with a Russian E&P company, Gazprom International, aimed at mutual cooperation and use of state of the art technology for production enhancement in Company's operated fields.

Asset Base

By end-1QFY18, asset base of the Company increased to Rs. 642.4b (FY17: Rs. 627.3b; FY16: Rs. 589.6b) primarily on account of higher short-term investments and cash and bank balances. Fixed assets comprise more than one-third of the total asset base while around one-fourth of the asset base reflect investments. Advance income tax amounted to Rs. 46.2b (FY17: 49.6; Rs. 41.6b) at end-1QFY18.

Profitability

Revenue from sale of natural gas continues to account for more than half of total revenue followed by crude oil and others (LPG, Sulphur and Gas Processing). During 1QFY18, average realized prices for crude oil increased to US\$ 45.1/barrel (FY17: US\$ 44.0/barrel; FY16: US\$ 39.1/barrel) while average realized price of natural gas declined to Rs. 252.2/Mcf (FY17: Rs. 239.1/Mcf; Rs. 253.8/Mcf). During the period under review, increase in sales volume of crude oil and LPG, modest recovery in international oil prices and positive exchange rate variance resulted in higher revenue and gross margin for the Company. Despite increase in operating expenses mainly on account of higher salaries & wages and depreciation of property, plant & equipment, improved gross margins and higher other income led to increase in net income during FY17.

Investments

By end-1QFY18, long-term investments reduced to Rs. 94.4b (FY17: Rs. 144.7b; FY16: Rs. 143.3b) mainly on account of redemption of PIBs of face value Rs. 50.8b which had been subscribed by the Company to settle its overdue receivables from oil refineries and gas companies. Subsequently, encashed amount was primarily invested in T-bills. By end-

1QFY18, long-term investments primarily comprised PPTFCs amounting Rs. 82.0b (including current maturity of Rs. 61.5b) issued by Power Holding (Pvt.) Limited (PHPL) for partial resolution of inter-corporate debt. The PPTFCs continues to remain non-performing, however comfort is drawn on the back of sovereign guarantee provided by GoP on the related principal and mark-up. By end-1QFY18, short-term investments increased to Rs. 67.5b (FY17: Rs. 11.3b; FY16; Rs. 11.4b) mainly on account of investment in T-bills (Rs. 50b) and TDRs.

Liquidity and Cash flows

By end-1QFY18, trade debts amounted to Rs. 118.6b (FY17: Rs. 118.6b; FY16: Rs. 111.2b). About 82% of trade debts pertained to GoP receivables while remaining are related to the private sector. More than half of GoP receivables remained overdue by more than a year. Nonetheless, overall liquidity profile remains adequate as internal cash flows are considered sufficient to meet expenditure requirements. During 1QFY18, Funds from Operations (FFO) amounted to Rs. 26.5b (FY17: Rs. 62.1b; FY16: Rs. 52.2b) mainly on the back of higher profit before tax and lower payments against royalty, income tax, and workers' profit participation fund. Moreover, cash balance and highly liquid short-term investments provide comfort to the liquidity assessment of the institution.

Capitalization and Funding

The equity base of the Company enhanced on account of partial profit retention. Given strong internal capital generation, OGDCL remains debt free despite considerable working capital requirements. The Company maintains adequate dividend payout ratio averaging 37% over the last five years.

Management and Corporate Governance

The management team of the Company comprises professionals having extensive experience in oil and gas sector. The Board members comprise senior GoP officials and prominent businessmen from the private sector which bring diversified experience to the Board. The Board has instituted a strong corporate governance framework.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Oil & Gas Development Company Limited (OGDCL)

Appendix 1

FINANCIAL SUMMARY <i>(amounts in PKR billions)</i>			
<u>BALANCE SHEET</u>	1QFY18	FY17	FY16
Fixed Assets	235.5	234.5	215.4
Long-term Investments <i>(*incl. current maturity)</i>	94.4	144.7	143.3
Short-term Investments	67.5	11.3	11.4
Trade Debts	118.6	118.6	111.2
Income Tax - Advance	46.2	49.6	41.6
Cash & Bank Balances	16.8	4.2	7.9
Other Assets	63.4	64.4	58.8
Total Assets	642.4	627.3	589.6
Trade and Other Payables	50.7	53.6	59.0
Non-Current Liabilities	61.7	60.7	52.0
Long Term Debt <i>(*incl. current maturity)</i>	-	-	-
Short Term Debt	-	-	-
Total Equity	530.0	513.0	478.6
<u>INCOME STATEMENT</u>	1QFY18	FY17	FY16
Net Sales	44.0	171.8	162.9
Gross Profit	25.2	95.0	87.9
Profit Before Tax	24.4	89.1	80.5
Profit After Tax	17.0	63.8	60.0
<u>RATIO ANALYSIS</u>	1QFY18	FY17	FY16
Gross Margin (%)	57.2	55.3	54.0
Net margin (%)	38.7	37.1	36.8
FFO	26.5	62.1	52.2
FFO to Long-term Debt (x)	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-
Leverage	0.21	0.22	0.23
ROAE (%)	13.0	12.9	13.0
Dividend Payout Ratio (%)	44.2	40.4	37.3

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Oil & Gas Development Company Limited (OGDCL)				
Sector	Oil & Gas				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History		Medium to Long Term	Short Term	Rating Outlook	Rating Action
	Rating Date	RATING TYPE: ENTITY			
	22/02/2018	AAA	A-1+	Stable	Reaffirmed
	31/10/2017	AAA	A-1+	Stable	Reaffirmed
	28/04/2017	AAA	A-1+	Stable	Initial
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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