CREDIT RATING REPORT

Oil & Gas Development Company Limited (OGDCL)

REPORT DATE:
February 15, 2019

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AAA	A-1+	AAA	A-1+
Rating Outlook	*Stable*		*Stable*	
Rating Date	*February 15, '19*		*February 22, '18*	

COMPANY INFORMATION	
Incorporated in 1997	**External auditors:** KPMG Taseer Hadi & Co. and A.F. Ferguson & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** 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
JCR-VIS Entity Rating Criteria *Industrial Corporate (May 2016)* **http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf**

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 Punjab, Pakistan.

Profile of CEO

Mr. Zahid Mir is a petroleum engineer by profession with over 28 years of experience in the oil and gas industry. Mr. Mir did his BSc in Petroleum Engineering from University of Engineering and Technology, Lahore and MBA from Preston University, Islamabad.

Financial Snapshot

Total Equity: 1QFY19: Rs. 577.3b; FY18: Rs. 550.6b; FY17: Rs. 513.0b

Assets: 1QFY19: Rs. 692.3b; FY18: Rs. 666.5b; FY17: Rs. 627.3b

Profit After Tax: 1QFY19: Rs. 26.7b; FY18: Rs. 78.7b; FY17: Rs. 63.8b

RATING RATIONALE

The assigned ratings of Oil & Gas Development Company Limited (OGDCL) incorporate its ownership structure with majority shares held by the Government of Pakistan. The low business risk of the company emanates from its robust margins providing considerable cushion against adverse international oil price fluctuations. Moreover, OGDCL is the leading company in local exploration and production sector in Pakistan. The Company has an assured product off-take amid excess demand of oil & gas vis-à-vis local supply. The ratings also take into account low financial risk profile emanating from debt free capital structure and strong liquidity indicators. Furthermore, higher realizable price of oil and gas during period under review along with recent devaluation of Pak Rupee against the US Dollar have provided impetus to the profitability. Despite rising trend in industry-wide inter-corporate debt, the Company continues to manage its capital expenditure requirements through internal cash flows.

Exploration led growth strategy:
By end-1QFY19, OGDCL exploration acreage represented 26% of the Country's total area under exploration. Business exploration assets by end-1QFY19 comprised 47 owned and operated joint venture exploration licenses while the company has working interest in 4 blocks operated by other E&P companies. During the period under review, the Company spud 20 wells (FY 17: 22 wells) comprising 12 exploratory/appraisal and 8 development wells. In addition, drilling and testing of 5 wells pertaining to prior fiscal years were completed during 1QFY19 (FY18: 14 wells and FY17: 14 wells). OGDCL's exploratory prowess during 1QFY19 led to 2 oil and gas discoveries namely Chanda-1 and Mela-5 in district Kohat, KPK (FY18: 4 discoveries; FY17: 5 discoveries).

OGDCL also continued with the development work on Nashpa compression project to exploit maximum production from Nashpa field. Nashpa compression project is expected to be completed in March 2020. Likewise, up-gradation of plant facilities at Mela field coupled with laying of gas pipeline to Nashpa plant for LPG and NGL extraction are underway and anticipated to be completed in June 2019. In line with its exploration led growth strategy, OGDCL has entered into strategic partnership with Gazprom International, MOL and KUFPEC for mutual cooperation in exploring new oil and gas reserves. Moreover, world's leading exploration company, ExxonMobil, has joined the Company's non-operated offshore block-G as working interest owner.

The Company maintains leading position in E&P sector:
By end-1QFY19, OGDCL's share of local crude oil production stood at 48% (FY18: 47%; FY17: 51%), while share of gas production increased to 30% (FY18: 29%; FY17: 28%). However, OGDCL's average daily net saleable crude production during 1QFY19 declined to 40,729 barrels per day (FY18: 41,278 barrels; FY17: 44,041 barrels) largely on account of natural decline at Kal, Palli Deep, Qadirpur and Nashpa fields. Average daily net saleable gas production clocked at 1,044 MMcf per day (FY18: 1,022MMcf per day; FY17: 1,051MMcf per day) during 1QFY19 on account of higher gas production at Uch-II, KPD-TAY and Sinjhoro fields coupled with start-up of production at Chutto-1. LPG production increased to 771 tons/day during 1QFY19 (FY18: 690 tons/day; FY17: 455 tons/day) on account of commencement of production from Nashpa field in conjunction with production increase from KPD-TAY and Sinjhoro fields. At end-1QFY19, reserves life for oil and gas fields on 2P (Proven & Probable) basis was 12 years (FY17: 12 years) - calculations made on MMBOE basis.

Increase in average international oil prices during FY18 & 1QFY19 coupled with rupee devaluation rallies profitability:
Considerable increase in average realized prices of crude oil, gas and LPG coupled with positive exchange rate variance and higher LPG production translated into higher net sales of Rs. 205.3b (FY17: Rs. 171.8b) and improved gross margins of 59% (FY17: 55.3%) in FY18. Further improvement was witnessed during 1QFY19 as average realized prices for crude oil increased to US$ 64.30/barrel (FY18: US$ 54.56/barrel; FY17: US$ 44.0/barrel) while average realized price of

natural gas increased to Rs. 285.44/Mcf (FY18: Rs. 258.93/Mcf; FY17: Rs. 239.1/Mcf). Similarly, average realized price for LPG increased to Rs. 71,516/ton (FY18: Rs. 55,666/ton; FY17: Rs. 43,684/ton) during 1QFY19. Despite increase in operating expenses and higher costs related to 11 wells declared dry and abandoned (FY17: 4 wells), the company reported considerable increase in profitability during FY18. Increasing trend in profitability was also witnessed in 1QFY19.

Overall increase in investment portfolio:
Asset base of the Company increased to Rs. 692.3b (FY18: Rs. 666.5b; FY17: Rs. 627.3b) by end-1QFY19 primarily on account of higher trade debts, current portion of long term investments, short-term investments and cash and bank balances. Fixed assets consisting of PP&E, development and production assets, exploration and evaluation assets cover almost one-third of the asset base while more than one-fourth of the asset base reflected trade debts. Long-term investments amounted to Rs. 126.4b (FY18: 123.6b; FY17: Rs. 166.6b) at end-1QFY19; long-term investments decreased to Rs. 123.6b (FY17: Rs. 166.6b) by end-FY18 was mainly on account of encashment of PIBs worth Rs. 50.8b on the maturity date. Now long-term investments primarily comprised PPTFCs amounting Rs. 82.0b issued by Power Holding (Pvt.) Limited (PHPL) for partial resolution of inter-corporate debt. Although the said instrument continues to remain non-performing, comfort is drawn on the back of sovereign guarantee provided by GoP on the related principal and mark-up. Short-term investments increased to Rs. 71.5b (FY18: Rs. 67.8b; FY17: Rs. 11.3b) by end-1QFY19 on account of investment in treasury bills and further investment in TDRs. Cash and bank balances increased to Rs. 19.2b (FY18: Rs. 3.7b; FY17: Rs. 4.2b) by end-1QFY19.

Strong liquidity profile and debt free capital structure:
Trade debts increased to Rs. 178.9b (FY18: Rs. 163.7b; FY17: Rs. 118.6b) by end-1QFY19 including overdue amount of Rs. 134.8b (FY18: Rs. 121.3b; FY17: Rs. 82.7b). Despite trade debt, overall liquidity profile of the Company remained strong as internal cash flows are considered sufficient to meet working capital requirements. During 1QFY19, increasing trend was witnessed in funds from operations (FFO) to Rs. 38.1b (FY18: Rs. 97.1b; FY17: Rs. 62.2b) mainly on the back of higher profitability. Moreover, higher cash balance and short-term investments provide comfort to the liquidity profile of the Company. On account of higher profit, OGDCL's equity base enhanced to Rs. 577.3b (FY18: Rs. 550.6b; FY17: Rs. 513.0b) by end-1QFY19.

Satisfactory compliance with Code of Corporate Governance:
All the nominations on the Board of Directors (BoD) are made by the GOP. The BoD comprises government officials and experienced professionals having extensive experience in the oil and gas sector. The BoD has at least one-third of its total members as independent directors. In line with the best corporate governance practices, OGDCL has five Board level committees, including Audit Committee, HR & Nomination Committee, Procurement, Operations and Finance Committee, Risk Management Committee and CSR committee. OGDCL also has an independent internal audit department, the scope and role of which is approved by the BoD whilst the head of internal audit reports directly to the Audit Committee. The board has established a system of sound internal control and set in place adequate systems and controls to ensure that an appropriate control environment exists in the Company spanning E&P activities, financial reporting and compliance activities.

Oil & Gas Development Company Limited (OGDCL) Annexure I

FINANCIAL SUMMARY (*amounts in PKR billions*)

BALANCE SHEET	FY17	FY18	1QFY19
Fixed Assets	234.5	225.0	223.3
Long-term Investments (incl. current maturity)	166.6	123.6	126.4
Short-term Investments	11.3	67.8	71.5
Trade Debts	118.6	163.7	178.9
Income Tax – Advance	49.6	37.3	30.4
Cash & Bank Balances	4.2	3.7	19.2
Other Assets	42.5	45.4	42.6
Total Assets	**627.3**	**666.5**	**692.3**
Trade and Other Payables	39.2	36.7	36.9
Non-current Liabilities	60.7	60.7	60.5
Short Term Borrowings	-	-	-
Long Term Financing *(Inc. current maturity)*	-	-	-
Other Liabilities	14.4	18.5	17.6
Total Liabilities	**114.3**	**115.9**	**115.0**
Total Equity	**513.0**	**550.6**	**577.3**

INCOME STATEMENT	FY17	FY18	1QFY19
Net Sales	171.8	205.3	61.8
Gross Profit	95.0	121.5	39.7
Profit Before Tax	89.1	112.6	39.4
Profit After Tax	63.8	78.7	26.7
FFO	62.2	97.1	38.1

RATIO ANALYSIS	FY17	FY18	1QFY19
Gross Margin (%)	55.3	59.0	64.0
Net Margin (%)	37.1	38.0	43.0
FFO to Long-Term Debt	-	-	-
FFO to Total Debt	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-
ROAA (%)	10.5	12.2	15.7
ROAE (%)	12.9	14.8	19.0
Debt Leverage (x)	0.22	0.21	0.20
Current Ratio	6.4	7.4	8.1
Dividend Payout Ratio (%)	40.4	54.6	44.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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.

REGULATORY DISCLOSURES — Annexure 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	see table below
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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
15/02/2019	AAA	A-1+	Stable	Reaffirmed
22/02/2018	AAA	A-1+	Stable	Reaffirmed