RATING REPORT

Oil & Gas Development Company Limited

REPORT DATE:
January 25, 2021

RATING ANALYST:
Narendar Shankar Lal
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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	*Stable*		*Stable*	
Rating Date	*January 25, '21*		*January 20, '20*	

COMPANY INFORMATION

Incorporated in 1997	**External auditors:** KPMG Taseer Hadi & Co., Chartered Accountants and A.F. Ferguson & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Dr. Qamar Javaid Sharif
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Shahid Salim Khan
Government of Pakistan – 67.48% OGDCL – Employee Empowerment Fund – 10.05% Ministry of Privatization and Investment – 7.50%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Oil & Gas Development Company Limited

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: Dr. Sharif is a Petroleum Engineer with over 35 years of experience in the oil and gas industry, across multiple disciplines. He completed his MS and PhD in Petroleum Engineering from Texas A&M University, College Station, Texas, USA and his B.Sc. Mining Engineering from University of Engineering and Technology (UET) Lahore, Pakistan.

Profile of CEO: Mr. Shahid Salim Khan is a Petroleum Engineer by profession having MS in Petroleum Engineering from University of Southern California, USA. He has more than 36 years of diversified experience in various disciplines of E&P sector including HSE, petroleum engineering, drilling, production operations, community relations & community development. He is currently serving on the board of Pakistan State Oil Company Limited (PSOCL) and Mari Petroleum Company Limited (MPCL).

RATING RATIONALE

The assigned ratings to Oil & Gas Development Company Limited (OGDCL) incorporate sound sponsor profile as majority shares of the company are held by the Government of Pakistan. The ratings also reflect systemic importance of the company to the national economy as the largest upstream Oil and Gas Company in Pakistan. The low business risk of the company emanates from its robust margins, providing considerable cushion against volatility in international oil prices. OGDCL has an assured product off-take amid excess demand of oil & gas vis-à-vis local supply. Ratings also take into account low financial risk profile of the company as evident from healthy capitalization levels, debt-free capital structure and strong liquidity profile. The Company continues to manage its capital expenditure requirements through internal cash flows. Despite bearing the impact of sizeable reduction in international oil prices as well as lower demand on account of COVID-19, the company posted healthy profitability during FY20 and 1Q FY21.

Key Rating Drivers

Strong profile of sponsors and sound corporate governance framework

The assigned ratings take into account strong ownership structure of OGDCL, as 67.48% shareholding is held by the Government of Pakistan (GOP) while 7.5% shareholding is held by the Ministry of Privatization and Investment. 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. Mr. Muhammad Ayub Chaudhry resigned from the Board of Directors in October 2020. In line with best practices, at least one-third of the BoD comprises independent directors. In order to ensure effective implementation of sound internal control system and compliance with the Code of Corporate Governance, OGDCL has 6 Board committees, namely i) Audit Committee, ii) HR & Nomination Committee, iii) Risk Management & Security Committee, iv) Procurement, Operations & Finance Committee, v) Transformation Committee and vi) CSR Committee. During FY20, Mr. Shahid Salim Khan was appointed as the Managing Director/CEO of the company. He is a seasoned professional with diversified experience in various disciplines of the Energy & Petroleum sector. 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.

Exploration led growth strategy remains in place

OGDCL is the largest E&P Company in Pakistan with 37% share of total area under exploration as at September 30, 2020. At end-1QFY21, business exploration assets comprised 43 owned and operated joint venture exploration licenses while the company also has working interest in 7 blocks operated by other E&P companies. During FY20, the company acquired 3,407 line km of 2D seismic data representing 79% of total 2D seismic data acquisition in the country. Moreover, 25 wells (FY19: 16 wells) were spud during the same period, out of which 15 were exploratory/appraisal wells, 5 were development wells and 5 were re-entry/side track wells. Drilling and testing of 7 wells pertaining to FY20 was completed in 1QFY21. Exploratory efforts led to 5 new oil and gas discoveries during FY20 (FY19: 3 wells), having cumulative daily production potential of 892 barrels of oil and 28 MMcf of gas. Another 2 discoveries were made at Siab-1 and Togh Bala-1 during 1QFY21. Preliminary reserves estimates attributable to these discoveries are 36.95 billion cubic feet of gas and 0.41 million barrels of oil. For FY21, the management has established target of drilling 45 new wells including twenty 26 exploratory/appraisal/shale wells, 12 development wells and 7 re-entry wells.

Completion of ongoing development projects remains a focus of the management in order to optimize oil, gas and LPG production. In this regard, Nashpa compression project has been completed. The contract for procurement of compressors has been awarded and the contract for hiring of PC contractors is at approval stage in the case of Qadirpur Compression Project. This project is expected to be completed in November 2021. For Uch Compression project, technical evaluation of bids is underway and the project is expected to be completed in December 2022.

OGDCL retains the market leadership position in terms of production

OGDCL is market leader in E&P sector of Pakistan. The company's share in local crude oil and gas stood at

47% (FY20: 46%; FY19: 45%) and 29% (FY20: 29%; FY19: 29%) respectively, during 1QFY21. The average daily net saleable crude oil production was during 1Q FY21 36,221 barrels (FY20: 36,073 barrels; FY19: 40,810 barrels), while the daily net saleable gas production clocked at 904 MMcf (FY20: 893 MMcf; FY19: 1,014 MMcf). The average daily net production of LPG clocked in at 714 tons (FY20: 739 tons; FY19: 802 tons). Shutdown/partial shutdown of refineries in the months from March 2020 to June 2020 enforced due to COVID-19 affected the lifting of crude oil/condensate from OGDCL fields. Consequently, Nashpa, TOC, Kunnar, KPD-TAY, Sinjhoro and Qadirpur fields were operated at reduced flow rates either by shut-in or via choke down of wells in FY20, which resulted in lower production levels. Moreover, natural decline at Rajian, Nashpa, Sinjhoro, TAY, Lashari Centre, Tando Alam and Qadirpur fields along with mechanical problems at Nashpa and KPD-TAY fields also contributed to lower production in FY20. During 1QFY21, oil and gas production was impacted due to natural decline at Dakhni, Kal, Pasakhi, Tando Alam fields coupled with partial revival/non-revival of some wells (Kunnar 2, 3, 9 & 10). Annual turnaround at Dakhni, Nashpa and Sinjhoro fields in August 2020 also contributed to lower production. Moreover, no gas intake from Qadirpur field by M/s Engro Powergen and less gas intake from Uch field by M/s UPL-I & II resulted in lower gas production. In order to mitigate natural decline and sustain production from mature fields, OGDCL carried out a total of 110 and 27 work-over jobs in FY20 and 1QFY21, respectively. Remaining recoverable reserves of oil and gas on 3P basis were 194 million barrels (FY19: 204 million barrels) and 11,196 billion cubic feet (FY19: 11,508 billion cubic feet) respectively.

Decrease in international oil prices and lower demand on account of COVID-19 pandemic coupled with higher exploration and prospecting expenditure and operating expenses resulted in lower profitability; however, overall profitability levels remain sound

OGDCL reported lower net revenue of Rs. 244.9b during FY20 (FY19: Rs. 261.5b), primarily on account of plunge in international oil prices and lower demand attributable to COVID-19 pandemic. Gas remained the leading revenue contributor representing 58.4% (FY19: 52.6%) of total revenue base, followed by crude oil (FY20: 33.8%; FY19: 39.1%), LPG (FY20: 7.7%; FY19: 8.1%) and others (FY20: 0.2%; FY19: 0.2%). Decrease in international oil prices translated to lower average realized crude oil price of USD 46.76 per bbl (FY19: USD 58.74 per bbl). Moreover, lower average LPG realized price of 63,997 per ton (FY19: 65,512 per ton) also contributed to reduction in revenues. Increase in average realized price of gas to Rs 393.32 per Mcf (FY19: Rs 336.62 per Mcf) along with higher average exchange rate of Rs. 158.32/USD (FY19: 136.55/USD) provided support to the company's financials during the same period. Decrease in average prices along with increase in operating expenses mainly on account of higher wages & benefits and depreciation of property, plant and equipment resulted in lower gross profits and gross margins. Furthermore, increase in exploration and prospecting expenditures (cost of dry and abandoned wells increased as 8 wells declared as dry and abandoned as opposed to 2 wells in the preceding year), lower other income generated from financial assets and reduced exchange gain recorded on revaluation of foreign currency investment translated to lower net profitability and net margins in FY20.

Similar trend also persisted in 1QFY21 as net revenue was reported lower at Rs. 59.5b (1QFY20: Rs. 66.2b) on account of reduced international oil prices as a result of COVID-19 pandemic. Realized price of average basket of crude oil observed significant decrease to USD 38.75 per bbl (1QFY20: USD 52.69 per bbl). On the other hand, higher average gas and LPG prices of 411.16 per Mcf (1QFY20: 386.60 per Mcf) and Rs. 58,951 per ton (FY20: 57, 032 per ton) as well as higher average exchange rate of Rs. 167.24/USD (1QFY20: Rs. 158.28/USD) provided support to the company's financials. Higher operating expenses as a result of increase in salaries, wages and benefits, joint operations expenses and amortization of development and production assets meant that gross margins remained subdued at 59.3% (1QFY20: 65.2%). Lower gross profitability translated to lower net profits and net margins, however the impact on net margins was less pronounced on account of reduction in the cost of dry and abandoned wells, and increase in other income and share of profit in associate. Going forward, with rollout of vaccines across countries, global economy is expected to recover from the effects of COVID-19 pandemic. Hence, oil demand and prices are expected to rebound, which bodes well from the profitability perspective of the company.

Higher asset base mainly manifested in trade debts (accumulated on account of increasing circular debt) and investment portfolio

Asset base registered sizeable increase to Rs. 881.8b by end-1QFY21 (FY20: Rs. 861.4b; FY19: Rs. 766.6b) mainly on account of higher long-term investments and trade debts. Fixed asset base primarily comprises property, plant and equipment (1Q'FY21: Rs. 115.5b; FY20: Rs. 116.4b; FY19: Rs. 117.8b) and development and production assets (1Q'FY21: Rs. 100.9b; FY20: Rs. 101.4b; FY19: Rs. 92.0b). Long term investment portfolio, inclusive of current portion, increased to Rs. 161.1b (FY20: 156.3b; FY19: Rs. 136.7b). Long term investment portfolio comprises investment in Mari Petroleum Company Limited of Rs. 20.4b (FY20: Rs. 18.6b; FY19: Rs. 12.7b), TDRs of Rs. 13.1b (FY20: Rs. 12.7b; FY19: nil) and TFCs of Rs. 127.5b (FY20: Rs. 125.0b; FY19: Rs. 113.7b). The investment portfolio includes 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. Quantum of trade debts increased to Rs. 342.2b (FY20: 325.6b; FY19: Rs. 242.7b) mainly on account of higher inter-corporate circular debt. Out of the total trade debts, amount overdue on account of inter-corporate circular debt stood at Rs. 286.1b (FY20: Rs. 275.2b; FY19: Rs. 194.2b). Nevertheless, receivables of the company are guaranteed by the Government of Pakistan, thereby implying low credit risk.

Ratings are underpinned by sound capitalization indicators, debt free capital structure and abundant liquidity; elements that provide financial flexibility to the company

Liquidity position of the Company is supported by healthy cash flow generation and sizeable investment portfolio. In line with the profits, OGDCL generated Rs. 21.1b in funds from operations (FFO) during 1QFY21 (FY20: Rs. 98.7b; FY19: Rs. 139.7b). Current ratio was also comfortable at 6.4x (FY20: 5.9x; FY19: 7.0x). OGDCL continues to maintain debt-free balance sheet, whereas equity base augmented to Rs. 712.3b by end-1QFY21 (FY20: Rs. 688.9b; FY19: Rs. 625.4b) on account of retention in profits. Despite showing marginal increase on a timeline basis, leverage ratio continues to remain on the lower side as the asset base is primarily funded through equity (1QFY21: 0.24x; FY20: 0.25x; FY19: 0.23x). Over the medium term, recovery in international oil prices is expected to improve internal cash flow generation of the company.

Oil & Gas Development Company Limited — Annexure I

FINANCIAL SUMMARY				(amounts in PKR billions)
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**1QFY21**
Property, Plant and Equipment	124.1	117.8	116.4	115.5
Development and Production Assets	94.4	92.0	101.4	100.9
Long-term Investments (incl. current maturity)	123.6	136.7	156.3	161.1
Other Non-Current Assets	14.5	24.2	25.7	27.0
Short-term Investments	67.8	74.7	47.7	54.0
Trade Debts	163.7	242.7	325.6	342.2
Income Tax – Advance	37.3	20.0	37.1	41.1
Cash & Bank Balances	3.7	20.6	16.8	5.9
Other Current Assets	37.4	38.0	34.4	33.9
Total Assets	**666.5**	**766.6**	**861.5**	**881.8**
Trade and Other Payables	36.7	49.5	68.6	66.2
Non-current Liabilities	60.7	68.6	78.3	77.9
Short Term Borrowings	-	-	-	-
Long Term Financing *(Inc. current maturity)*	-	-	-	-
Other Liabilities	18.5	23.2	25.8	25.4
Total Liabilities	**115.9**	**141.2**	**172.6**	**169.5**
Total Equity	**550.6**	**625.4**	**688.9**	**712.3**
Paid-Up Capital	43.0	43.0	43.0	43.0
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**1QFY21**
Net Sales	205.3	261.5	244.9	59.5
Gross Profit	121.5	167.1	149.1	35.3
Profit Before Tax	112.6	176.6	143.1	34.0
Profit After Tax	78.7	118.4	100.1	23.4
FFO	97.1	139.7	98.7	21.1
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**1QFY21**
Gross Margin (%)	59.2%	63.9%	60.9%	59.3%
Net Margin (%)	38.3%	45.3%	40.9%	39.4%
FFO to Long-Term Debt	-	-	-	-
FFO to Total Debt	-	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-	-
ROAA (%)	12.2%	16.5%	12.3%	10.8%*
ROAE (%)	14.8%	20.1%	15.2%	13.4%*
Debt Leverage (x)	0.21	0.23	0.25	0.24
Current Ratio (x)	7.4	7.0	5.9	6.4
Dividend Payout Ratio (%)	54.6%	40.0%	29.0%	36.7%

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 I
Name of Rated Entity	Oil & Gas Development Company Limited				
Sector	Oil & Gas				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	25/01/2021	AAA	A-1+	Stable	Reaffirmed
	20/01/2020	AAA	A-1+	Stable	Reaffirmed
	15/02/2019	AAA	A-1+	Stable	Reaffirmed
	22/02/2018	AAA	A-1+	Stable	Reaffirmed
	31/10/2017	AAA	A-1+	Stable	Reaffirmed
	28/04/2017	AAA	A-1+	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted	**S.No**	**Name**	**Designation**	**Date**	
	1	Mr. Fahad Saeed	Senior Accountant	Dec 31, 2020	