RATING REPORT

Oil & Gas Development Company Limited

REPORT DATE:
December 23, 2022

RATING ANALYST
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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 Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*December 23, 2022*		*December 17, 2021*	

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:** Mr. Zafar Masud
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Syed Khalid Siraj Subhani
Government of Pakistan – 67.48% OGDCL Employees Empowerment Trust – 10.05% Ministry of Privatization and Investment – 7.50%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Oil & Gas Development Company Limited

OVERVIEW OF THE INSTITUTION

Oil & Gas Development Company Limited 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. Zafar Masud is a seasoned banker and entrepreneur with around 30 years of diverse experience in banking, entrepreneurship, development finance and corporate governance. In addition to serving as member Independent Monitory Policy Committee, he has served as Director in Boards of major public and private sector entities including State Bank of Pakistan, Oil & Gas Development Company Limited, Port Qasim Authority, Quaid-e-Azam Thermal Power (Private) Limited and Gadoon Textile Mills Limited.

Profile of CEO:

Syed Kahlid Siraj Subhani holds a well-versed executive career spanning over three decades in corporate conglomerates in Pakistan and various overseas engagements in the capacity of vice president and board member. Mr. Subhani is a chemical engineer with Executive Management Program from Haas School of Business from University of California. Some of his prior engagements include working as president and CEO of Engro Corporation Limited, Engro Fertilizers Limited, Engro Polymers and Chemicals Limited, Thal Nova Power and Thar Private Limited. Mr. Subhani is presently a director on the Board of Fauji Fertilizer Bin Qasim Limited, Mari Petroleum Company Limited, Pakistan

RATING RATIONALE

The Oil & Gas Development Company Limited ('OGDCL' or 'the Company') is Pakistan's national oil and gas company. The Company is the country's leader in terms of exploration acreage, oil and gas reserves and production contribution. It was founded as a Public Sector Corporation in 1961 and later converted to a Public Limited Company in October 1997. In October 2003, the Company was listed on the Pakistan Stock Exchange, and its Global Depository Shares began trading on the London Stock Exchange in December 2006. The primary business of OGDCL is the exploration, development, and production of oil and gas resources, and related activities. Crude Oil, Gas, Liquefied Petroleum Gas (LPG), and Sulphur are among the products in the product portfolio. OGDCL supplies crude oil and condensate to refineries for processing, while gas is supplied to gas distribution companies, power generation companies and the fertilizer industry.

Business Update

Table 1: Balance Sheet Extract (Rs in billion)

	Jun-21	Jun-22	Sep-22
Assets	**956**	**1,130**	**1,186**
- *Development and Production Assets – Intangible*	100	118	118
- *Property, Plant and Equipment*	96	93	91
- *Deposit with the GOP for equity stake in Reko Diq Project*	-	34	35
- *Other Non-Current Assets*	109	106	114
- *Trade Debts*	359	457	491
- *Cash & Bank*	7	32	29
- *Other Current Assets*	284	290	309
Equity	**770**	**875**	**929**
Liabilities	**186**	**255**	**257**
- *Trade & Payables*	72	105	103

- OGDCL's asset base has grown at a CAGR of 8% during the 3-year period (FY20-22), which is in line with the quantum of internal capital generation and proportion of internal retention. The Company's dividend payout ratio, which averaged 31% during the preceding 2-year period (FY20-21), fell to 23% in FY22.
- The Company's trade debts continue to accumulate, amounting to Rs. 491b as of Sep'22, overdue amount on account of inter-corporate circular debt is Rs 423b, receivable from oil refineries and gas companies, of which Rs. 177b and Rs. 156b are overdue from related parties, Sui Southern Gas Company Limited (SSGC) and Sui Northern Gas Company Limited (SNGP) respectively. As per management, the Government of Pakistan (GoP) is committed, hence continuously pursuing satisfactory settlement of inter-corporate circular debt issue, however, the progress is slower than expected resulting in accumulation of Company's trade debts. The Company considers this amount to be fully recoverable because GoP has been assuming responsibility to settle the inter-corporate circular debt in the energy sector. The Company recognizes interest/surcharge, if any, on delayed payments from customers when the interest/surcharge on delayed payments is received by the Company. As SECP has deferred the applicability of ECL model till end-June 2023 on financial assets due directly/ ultimately from the GoP in consequence of the circular debt, aggregate provision of doubtful debt is limited to Rs. 100m. As illustrated in the table below, proportion of trade debts to assets has been increasing on a timeline and is viewed as a concern.

International Oil Limited and Petroleum Institute of Pakistan.

Figure 1: Trade Debt to Assets

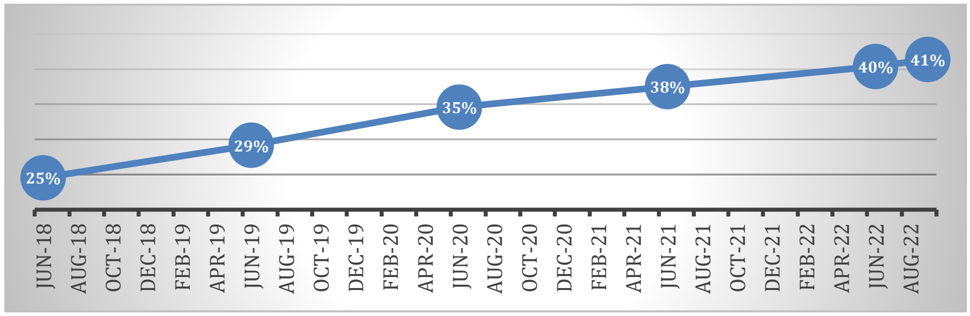

Table 2: Revenues & Profitability Metrics

	FY21	*FY22*	*Q1'FY22*	*Q1'FY23*
Net Sales (PKR billion)	239.1	335.5	71.5	106.0
Gross Margin (%)	58.4%	64.7%	64.7%	70.9%
Net Margin	38.3%	39.9%	47.0%	50.3%
Return on Average Assets (%)	9.9%	12.8%	12.6%*	18.4%*
Return on Average Equity (%)	12.4%	16.3%	15.9%*	23.6%*

** Annualized*

- The Company's revenue base and margins posted improvement during the FY22, mainly being supported by 66% increase in average crude oil basket prices. Given elevated commodity pricing, the growth in revenue base and improved margins persisted in Q1'FY23. OGDCL remains the market leader in supply of hydrocarbons in the country, contributing around 47%, 29% and 37% of the country's oil, natural gas and LPG production respectively.

Table 3: OGDCL Net Production

	FY18	*FY19*	*FY20*	*FY21*	*FY22*	*Q1'FY23*
Net Oil Production (BBL/D)	41,278	40,810	36,073	36,892	35,292	33,443
OGDCL Market Share – Oil	47%	45%	46%	48%	47%	46%
Net Gas Production (MMSCF/D)	1,022	1,014	893	870	825	779
OGDCL Market Share- Gas	29%	29%	29%	29%	29%	30%
Net LPG Production (MT/D)	690	802	739	803	807	722
OGDCL Market Share- Gas	25%	34%	34%	37%	37%	36%

- Except for LPG, OGDCL's net production for both Oil and Gas, has been posting a declining trend, even though the Company has broadly maintained its market share, in terms of production. The production for Oil and Gas depicts a 5 years Average Decline Rate (ADR) of '15%' and '19%' respectively. The Company's production enhancement efforts in the form of workovers, pressure survey campaigns, Annual Turn Around (ATA), installation of compression facilities and electronic submersible pumps (ESP) contributed in arresting the ADR to a certain extent. .
- OGDCL's aggregate 2P reserves stood at 77m barrels of oil and 5,497b cubic feet of gas as of Jun'22, falling from 106mm barrels of oil and 7,465b cubic feet of gas as of Jun'21.
- Cognizant of the reserve depletion, the Company continued with its exploration-led strategy. During FY22, OGDCL acquired 2,003 Line KMs of 2D seismic data and 601 Sq KMs of 3D seismic data, representing 80% and 31% of the industry 2D and 3D seismic data respectively. The trend of decline in exploration metrics has been noted, albeit the Company has maintained its market leader position in terms of 2D seismic exploration, representing roughly 80% of the industry's share during the past 3 years period (FY20-22). As per management, seismic operations were marginally lower than last year due to security situation in the seismic acquisition areas. On the drilling front, the Company spud 13 wells (FY21: 20 wells) including 7 exploratory/appraisal and 6 development. The Company's exploratory efforts to locate new reserves during the year under review yielded 7 oil & gas discoveries (FY21: 6 discoveries) having an expected cumulative daily production potential of 4,250 barrels of oil and 47 MMcf of gas.
- The Company has embarked on development of early production facilities from Wali-1 so as to bring Wali field into production. Recoverable 2P reserves from Wali-1 are estimated at 13m barrels of oil and 219b cubic feet of gas, equivalent to 55m BOEs. Project completion is expected in FY23.
- As per the business diversification plan, the Company has acquired 8.33% share in Reko Diq mining project pursuant to framework agreement with the federal Government, Government of Baluchistan, GHPL, PPL and Barrick Gold Corporation for extraction of copper and gold reserves from Reko Diq. All necessary approvals have been procured including administrative/legislative/regulatory/judicial and other conditions as agreed in the framework agreement.

- In line with its vision to expand its core business internationally, OGDCL along with consortium partners; PPL (operator), MPCL and GHPL was awarded offshore block-5 in Abu Dhabi by ADNOC in Aug'21. Offshore block-5 is located in a highly prospective basin and planned exploration and evaluation activities are underway in the block.

Rating Drivers

Rating incorporates Sponsor profile and Corporate Governance Framework

The assigned ratings take into account ownership structure of OGDCL, as more than 2/3rd shareholding is held by the Government of Pakistan (GoP). All nominations on the Board of Directors (BoD) are made by the GoP. Currently, the Company's Board comprises 11 directors including Chairman and Managing Director/ CEO. In line with best practices, at least one-third of the board comprises independent directors. In order to ensure effective implementation of internal control system and compliance with the Code of Corporate Governance, Board has constituted various committees; Human Resource and Nomination, Risk Management and Security, Business Development & Operations and Audit Committees.

Rating incorporates OGDCL's systemic importance and low business risk profile

The ratings also reflect systemic importance of the Company to the national economy as the largest upstream Oil and Gas Company in Pakistan. OGDCL has an assured product off-take amid excess demand of oil & gas vis-à-vis local supply. The business risk profile of the Company is viewed as low, as evident from robust margins, providing considerable cushion against volatility in international oil prices. In view of natural depletion of oil and gas resources as well as to augment reserves base, the Company remains focused on its exploration-led growth strategy, while in the outgoing year, the Company has made strategic investment in Reko Diq mining project to diversify revenue base towards extraction of copper and gold reserves.

Ratings also take into account low financial risk profile of the Company

Ratings take into account low financial risk profile of the Company as evident from debt-free capital structure and strong liquidity profile. The Company continues to manage its capital expenditure requirements through internal cash flows, which includes the sizable expenditure the Company will be undertaking in the Reko Diq Project. Nevertheless, given strong internal cash flow generation capacity, balance sheet is envisaged to remain debt free over the foreseeable horizon. However, the rising trend in industry wide inter-corporate debt is viewed as a concern, with trade debts as a proportion of assets rising notably on a timeline. Nevertheless, as the same are due directly or indirectly from GoP, VIS assumes the credit risk profile of the same to be very low, from a national scale rating purview.

Oil & Gas Development Company Limited — Annexure I

FINANCIAL SUMMARY				(*Amounts in PKR billions*)
BALANCE SHEET	**Jun'20**	**Jun'21**	**Jun'22**	**Sep'23**
Property, Plant and Equipment	100.7	95.7	92.7	90.7
Development and Production Assets	101.4	100.4	118.3	117.9
Long-term Investments (incl. current portion)	156.3	168.0	182.6	187.9
Lease Receivables (including current portion)	61.2	59.5	69.9	75.2
Other Non-Current Assets	25.7	26.4	24.0	26.1
Short-Term Investments	47.7	56.4	48.5	72.6
Trade Debts	307.6	358.8	456.6	490.7
Income Tax – Advance	37.1	45.8	31.9	21.3
Cash & Bank Balances	16.8	7.4	31.6	29.0
Other Current Assets	34.4	37.6	39.3	39.3
Total Assets	889.0	956.0	1,130.0	1,186.0
Trade and Other Payables	63.6	72.4	105.1	103.4
Non-current Liabilities	89.1	84.7	115.5	119.8
Short Term Borrowings	-	-	-	-
Long Term Financing *(Inc. current maturity)*	-	-	-	-
Other Liabilities	25.8	29.3	33.9	33.8
Total Liabilities	178.4	186.3	254.6	257.0
Total Equity	710.6	769.6	875.4	928.9
Paid-Up Capital	43.0	43.0	43.0	43.0

INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**Q1'FY22**	**Q1'FY23**
Net Sales	232.9	239.1	335.5	71.5	106.0
Gross Profit	138.4	139.7	216.9	46.3	75.2
Profit Before Tax	144.4	129.0	232.5	52.3	88.2
Profit After Tax	100.9	91.5	133.8	33.6	53.3
FFO	86.8	95.3	161.6	33.0	50.3

RATIO ANALYSIS	**FY20**	**FY21**	**FY21**	**Q1'FY23**
Gross Margin (%)	59.4%	58.4%	64.7%	70.9%
Net Margin (%)	43.3%	38.3%	39.9%	50.3%
FFO to Long-Term Debt	-	-	-	-
FFO to Total Debt	-	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-	-
ROAA (%)	12.0%	9.9%	12.8%	18.4%*
ROAE (%)	14.9%	12.4%	16.3%	23.6%*
Leverage (x)	0.25	0.24	0.29	0.28
Current Ratio (x)	6.2	6.4	5.6	6.0
Dividend Payout Ratio (%)	29.0%	32.4%	23.3%	NA

**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 III
Name of Rated Entity	Oil & Gas Development Company Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
23/12/2022	AAA	A-1+	Stable	Reaffirmed
17/12/2021	AAA	A-1+	Stable	Reaffirmed
25/01/2021	AAA	A-1+	Stable	Reaffirmed
20/01/2020	AAA	A-1+	Stable	Reaffirmed
01/02/2019	AAA	A-1+	Stable	Reaffirmed
22/02/2018	AAA	A-1+	Stable	Reaffirmed

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Fahad Saeed	Senior Accountant	December 12, 2022