RATING REPORT

Oil & Gas Development Company Limited

REPORT DATE:
December 20, 2023

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 20, 2023*		*December 23, 2022*	

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:** Mr. Ahmed Hayat Lak
Government of Pakistan – 67.48% OGDCL – Employee Empowerment Trust – 10.05% Privatization Commission of Pakistan, Ministry of Privatization and Investment – 7.50%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Corporates & Government Supported Entities
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.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, OGDCL, Port Qasim Authority, Quaid-e-Azam Thermal Power (Private) Limited and Gadoon Textile Mills Limited.

Profile of CEO:
Mr. Ahmed Hayat Lak has extensive experience in strategic leadership, corporate governance, public sector management and E&P industry. He holds an LL.M. degree from the University of Wolverhampton and a Bachelor of Law (Hons.) degree from the University of London, United Kingdom. He served as head of Corporate Legal Services department at POL as well as served as a consultant in the office of Prosecutor General of Pakistan. In OGDCL, Mr. Hayat served as the Company Secretary and Head Legal Services Department. In Feb 2023, he was appointed as MD/CEO of the Company.

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 products in the 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

- OGDCL, being the market leader in E&P sector, takes up the highest share in exploration acreage, seismic date acquisition, oil and gas reserves and production contribution compared to other E & P companies operating in the Country.
- As of June 30, 2023, its exploration acreage stood at 87,002 sq km, representing 37% of the Country's total area under exploration.
- OGDCL during FY 2022-23 contributed 46% in the production of total oil, 29% in natural gas and 36% in LPG.
- OGDCL's average daily net saleable crude oil, gas and LPG production was recorded at 32,478 barrels, 764 MMcf and 720 tons respectively in comparison to 35,292 barrels, 825 MMcf and 807 Tons last year. The production was impacted by natural decline in fields as well as production curtailments owing to rains/floods. Some technical issues at Uch power plant also led to lesser gas intake from Uch.
- The decline in production was partially offset by injection of 7 operated wells in the production gathering system viz., Lala Jamali-2, Chak 5 Dim South-3, Qadirpur-63, Pasakhi Deep-7, Umair South East-1, Wali-1 and Kot Nawab-1, which added crude and gas production of 202,210 barrels and 2,848 MMcf respectively.

Table 1: OGDCL Net Production

	FY18	FY19	FY20	FY21	FY22	FY23
Net Oil Production (BBL/D)	41,278	40,810	36,073	36,892	35,292	32,478
OGDCL Market Share – Oil	47%	45%	46%	48%	47%	46%
Net Gas Production (MMSCF/D)	1,022	1,014	893	870	825	764
OGDCL Market Share- Gas	29%	29%	29%	29%	29%	29%
Net LPG Production (MT/D)	690	802	739	803	807	720
OGDCL Market Share- LPG	25%	34%	34%	37%	37%	36%

- The Company's revenue base recorded an increase of 23% to Rs. 414b. Despite volume decline, the uptick in revenues was primarily fueled by favorable exchange rate and higher prices. Exchange rate on average was recorded at Rs248.2/$ compared to Rs.178.2/$ last year while average prices of crude oil, gas and LPG were recorded at US$ 71.78/barrel (FY 2021-22: US$ 75.69/barrel), Rs 610.92/Mcf (FY 2021-22: Rs 436.06/Mcf) and Rs 148,723/Ton (FY 2021-22: Rs 123,653/Ton) respectively.
- Gross margins remained fairly stable, increasing nominally to 65.2% (FY22: 64.7%). Price increase was partly offset by the rise in operating expenses on the back of inflationary pressures as well as higher repair & maintenance, rent, fee and taxes, amortization and impairment of development and production assets.
- Higher interest income on investment and bank deposits and exchange gain together with higher share of profit in associates contributed towards higher net profitability and improved net margins to 54.3% (FY22: 39.9%).

Table 1: Revenues & Profitability Metrics

	FY22	FY23	Q1'FY23	Q1'FY24
Net Sales (PKR billion)	335.5	413.6	106.0	120.1
Gross Margin (%)	64.7%	65.2%	70.9%	64.9%
Net Margin	39.9%	54.3%	50.3%	40.8%
Return on Average Assets (%)	12.8%	17.6%	18.4%	13.6%
Return on Average Equity (%)	16.3%	22.9%	23.6%	17.7%

- OGDCL's balance sheet footing increased by 26% to Rs. 1,424b primarily contributed by increase in trade debts and long term investments. Till date, the Company has invested Rs. 51b in the Reko Diq mining project in which OGDCL has an equity stake of 8.3%. Asset base growth was in line with the internal generation, however decrease in dividend payout was noted which reduced to ~16% in FY23 from an average of 28% over the last three years.
- Trade debts of the Company continued to increase to Rs. 577b (FY22: Rs. 457b) and to Rs 595b at end Sept 2023 with trade debts accounting for 41% (FY22: 40%)of total asset base. Trade debts primarily pertain to inter-corporate circular debt, receivable from oil refineries and gas companies, of which Rs. 210b and Rs. 201b are overdue from 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-Dec 2024 on financial assets due directly/ ultimately from the GoP in consequence of the circular debt, no provisions have been booked on account of that. Rising levels of trade debts remains a key rating concern.
- Liquidity of the Company remains sounds with cash and short term holdings of Rs 113b at year end.
- The Company continued its exploratory activities and added three new gas discoveries Toot Deep-1 in district Attock, Punjab and Chak 5 Dim South-3 and Kot Nawab-1 in district Sanghar, Sindh with a cumulative daily production potential of 3,007 barrels of oil and 3MMcf of gas.
- The Company in June 2023 successfully completed the installation of Early Production Facility (EPF) to fast-track monetization of hydrocarbons at Wali-1 in Bettani field.
- As part of the Company's diversification plan, OGDCL has entered into an agreement with Federal Government, Government of Baluchistan, GHPL, PPL and Barrick Gold Corporation for extraction of gold and copper reserves from Reko Diq. The state owned enterprises (SOEs); OGDCL, PPL and GHPL hold 25% of equity in the project, divided equally among these companies. A special purpose vehicle (SPV) namely Pakistan Minerals Private Limited (PMPL) has been incorporated to manage the shareholding of the SOEs.
- OGDCL in partnership with a consortium comprising PPL (as the operator), MPCL, and GHPL, acquired the offshore block-5 concession in Abu Dhabi on August 31, 2021. At present, the consortium is actively progressing with planned exploration and evaluation endeavors.
- In the upcoming fiscal year of 2023-24, OGDCL has laid out ambitious drilling plans, intending to complete 16 new wells. These will consist of 9 exploratory, appraisal, and shale wells, 6 development wells, and 1 re-entry well. The anticipated net capital expenditure for this endeavor is estimated at Rs 98.30 billion.

Rating Drivers

Rating incorporates Sponsor profile and Corporate Governance Framework

The assigned ratings take into account ownership structure of OGDCL, with more than 74.97% shareholding 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 9 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.

Ratings also take into accounts Company's compliance towards health, safety and environmental regulations. Initial Environmental examination and Environmental Impact Assessment (EIA) are integral part of operations.

The Company has also started working on a comprehensive framework for ESG and Sustainability reporting as well as signed MoU with other industry players to pursue Green Hydrogen opportunities.

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

The ratings also consider the Company's significant role in the national economy as Pakistan's largest upstream Oil and Gas Company. OGDCL enjoys a secure product off-take due to high demand for oil and gas compared to local supply. The Company's business risk profile is assessed as low, as indicated by strong profit margins that provide substantial protection against fluctuations in international oil prices. However, there is a business risk associated with the depletion of natural resources over time. Recognizing this, the Company maintains its focus on an exploration-led strategy. Additionally, strategic investments in projects such as Reko Diq aim to diversify the revenue stream by extracting copper and gold.

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

Ratings consider the Company's low financial risk profile, which is evident from its absence of debt in its capital structure and its robust liquidity position. The Company continues to fund its capital expenditure requirements, including the substantial spending on the Reko Diq Project and planned exploratory capital expenditures, through internal cash flows. Nevertheless, due to its strong internal cash flow generation capacity, the balance sheet is expected to represent strong financial position of the Company in the foreseeable future.

There is a concerning upward trend in industry-wide inter-corporate debt, particularly with trade debts as a percentage of assets increasing over time. However, since these debts are owed by the Government of Pakistan (GoP) controlled/owned entities, VIS believes that the credit risk associated with them is very low when viewed from a national scale rating perspective.

Oil & Gas Development Company Limited — Annexure I

FINANCIAL SUMMARY							*(amounts in PKR billions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**1QFY24**
Property, Plant and Equipment	124.1	100.9	100.7	95.7	92.7	85.8	85.5
Development and Production Assets – Intangible	94.4	92.0	101.4	100.4	118.3	122.6	123.5
Long-term Investments (incl. current maturity)	123.6	136.7	156.3	168.0	217.1	274.4	289.8
Other Non-Current Assets	14.5	24.2	25.7	26.4	24.0	16.8	16.1
Short-term Investments	67.8	74.7	47.7	56.4	48.5	87.3	103.5
Trade Debts	163.7	231.9	307.6	358.8	456.6	577.0	595.0
Income Tax – Advance	37.3	20.0	37.1	45.8	31.9	33.3	21.7
Cash & Bank Balances	3.7	20.6	16.8	7.4	31.6	25.8	20.9
Other Current Assets	37.4	38.0	34.4	37.6	39.3	42.4	43.5
Total Assets	**666.5**	**795.1**	**889.0**	**956.0**	**1,130.0**	**1,424.1**	**1,459.4**
Trade and Other Payables	36.7	46.7	63.6	72.4	105.1	123.3	108.6
Non-current Liabilities	60.7	78.9	89.1	84.7	115.5	180.2	181.1
Short Term Borrowings	-	-	-	-	-	-	-
Long Term Financing *(Inc. current maturity)*	-	-	-	-	-	-	-
Other Liabilities	18.5	23.2	25.8	29.3	33.9	37.7	37.5
Total Liabilities	**115.9**	**148.8**	**178.4**	**186.3**	**254.6**	**341.2**	**327.2**
Total Equity	**550.6**	**646.2**	**710.6**	**769.6**	**875.4**	**1,082.9**	**1,132.3**
Paid-Up Capital	43.0	43.0	43.0	43.0	43.0	43.0	43.0
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**1QFY24**
Net Sales	205.3	261.5	232.9	239.1	335.5	413.6	120.1
Gross Profit	121.5	167.1	138.4	139.7	216.9	269.7	78.0
Profit Before Tax	112.6	176.6	144.4	129.0	232.5	383.8	86.2
Profit After Tax	78.7	118.4	100.9	91.5	133.8	224.6	49.0
FFO	97.1	139.7	86.8	95.3	161.6	161.6	36.5
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**1QFY24**
Gross Margin (%)	59.2%	63.9%	59.4%	58.4%	64.7%	65.2%	64.9%
Net Margin (%)	38.3%	45.3%	43.3%	38.3%	39.9%	54.3%	40.8%
FFO to Long-Term Debt	-	-	-	-	-	-	-
FFO to Total Debt	-	-	-	-	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-	-	-	-	-
ROAA (%)	12.2%	16.2%	12.0%	9.9%	12.8%	17.6%	13.6%
ROAE (%)	14.8%	19.8%	14.9%	12.4%	16.3%	22.9%	17.7%
Debt Leverage (x)	0.21	0.23	0.25	0.24	0.29	0.32	0.29
Current Ratio	7.4	7.3	6.2	6.4	5.6	6.0	6.8
Dividend Payout Ratio (%)	54.6%	40.0%	28.8%	32.4%	23.3%	16.4%	14.0%

**Annualized*

REGULATORY DISCLOSURES					**Annexure II**
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				
	20/12/2023	AAA	A-1+	Stable	Reaffirmed
	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
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 Correspondence	**Name**	**Designation**	**Date**		
	Mr. Fahad Saeed	Senior Accountant	December 6, 2023		