RATING REPORT

Oil & Gas Development Company Limited

REPORT DATE:
December 4, 2024
RATING ANALYST
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A1+	AAA	A1+
Rating Outlook/Watch	*Stable*		*Stable*	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*December 4, 2024*		*December 20, 2023*	

COMPANY INFORMATION

Incorporated in 1997	**External auditors:** 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

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.

RATING RATIONALE

Company Profile

Oil & Gas Development Company Limited ('OGDCL' or 'the Company') is Pakistan's largest 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.

Operational Profile

OGDCL, being the market leader in the E&P sector, takes up the highest share in exploration acreage, seismic data acquisition, oil and gas reserves and production contribution compared to other E&P companies operating in the Country. As of June 30, 2024, its exploration acreage stood at 99,284 sq km, representing 39% of the Country’s total area under exploration.

Amongst the operations, the Company demonstrated marked progress in FY24, with 13 wells spud (FY23: 10) and 11 wells injected (FY23: 7). Exploration efforts also expanded, as 3D seismic survey coverage increased to 1,201 sq. km (FY23: 765 sq. km), however 2D seismic survey coverage went down to 1,236-line km (FY23: 1,804-line km), due to non-availability of imported ground electronics owing to LC issues, & non-commencement of Tirah/Orakzai project due to security issues and heavy rainfall. At present, most of these issues are resolved and the seismic activities are expected to improve in the next financial year. Production metrics showed a mixed trend; net crude oil production rose to 33,117 barrels per day (FY23: 32,478 barrels per day), whereas net saleable gas production declined to 717 MMcf per day (FY23: 764 MMcf per day). Additionally, the Company achieved 5 new discoveries during FY24, underscoring its ongoing exploration success.

Operationally, the Company has focused on production optimization at various fields resulting in incremental cumulative daily production of 2,184 barrels of crude oil, 12 MMcf of gas and 10 Tons of LPG through targeted enhancement initiatives. Exploration efforts continue, evidenced by the discovery of gas condensate at multiple wells such as Chak 214-1, Dars West-2, Kharo-1, and Togh-2, and tight gas at Nur West-1. The completion of the Khewari development project and the reintegration of low-pressure wells from KPD field into the production system further demonstrate its focus on operational efficiency.

Table 1: OGDCL Net Production

	FY21	FY22	FY23	FY24
Net Oil Production (BBL/D)	36,892	35,292	32,478	33,117
OGDCL Market Share – Oil	48%	47%	46%	46%
Net Gas Production (MMSCF/D)	870	825	764	717
OGDCL Market Share- Gas	29%	29%	29%	28%
Net LPG Production (MT/D)	803	807	720	717
OGDCL Market Share- LPG	37%	37%	36%	37%

Reko Diq

OGDCL has recently undertaken strategic initiatives aimed at enhancing its operational scope and contributing to the energy sector. In collaboration with the Federal Government, Government of Balochistan, GHPL, PPL, and Barrick Gold Corporation, the Company has entered into agreements for the extraction of gold and copper reserves from the Reko Diq project. The state-owned enterprises (OGDCL, PPL, and GHPL) collectively hold a 25% equity stake through a newly formed special purpose vehicle, Pakistan Minerals (Private) Limited (PMPL), while Barrick Gold retains 50% equity along with management and operatorship rights, and the remaining 25% is held by the Government of Balochistan. A project feasibility study is underway and is expected to conclude by the end of 2024.

Abu Dhabi Block-5

OGDCL, alongside PPL (operator), MPCL, and GHPL, holds a 25% equity stake in Pakistan International Oil Limited (PIOL), established for operations in Abu Dhabi's Offshore Block-5. Exploration and evaluation activities are ongoing, with significant progress made, including the completion of drilling for two appraisal wells and ongoing drilling of an exploratory well. Additionally, a field development plan has been submitted to ADNOC, and pre-FEED study is in progress.

Key Rating Drivers

Business Risk Profile

Industry Risk; Oil and Gas Exploration: Medium to Low.

The business risk profile for Pakistan's oil and gas exploration sector is assessed as medium to low, reflecting a balance between resource potential and operational challenges. While the sector benefits from steady domestic demand and strategic importance, it faces risks related to reserve depletion, exposure to circular debt, and the complexities of developing unconventional and offshore resources.

Pakistan's proven oil and gas reserves have been declining over the years due to natural depletion and ageing reservoirs. This depletion underscores the necessity for new discoveries and enhanced recovery techniques to sustain production levels.

The sector is also impacted by the accumulation of circular debt within the energy supply chain, affecting the financial health of exploration and production companies. Delayed payments and liquidity constraints hinder operational efficiency and investment capacity.

The potential for discovery of significant offshore oil and gas reserves in Pakistan's territorial waters presents opportunities for resource expansion. Additionally, the government has introduced policies to incentivize the exploration of tight gas reserves, aiming to tap into unconventional resources.

Steady domestic demand for energy, driven by industrial and population growth, reinforces the sector's strategic importance. However, the realization of potential benefits is contingent upon addressing financial challenges, implementing supportive policies, and investing in advanced exploration technologies.

Strategic Asset and Government Ownership

The assigned ratings take into account ownership structure of OGDCL, with 74.97% shareholding held by the Government of Pakistan (GoP). All nominations on the Board of Directors (BoD) are made by the GoP.

The ratings reflect OGDCL's strategic importance to Pakistan's economy as the leading upstream oil and gas producer. The Company benefits from a stable demand for its products, supported by the persistent supply-demand gap in the local energy market. Its business risk profile remains robust, underpinned by healthy profit margins that offer a strong buffer against volatility in international oil prices. Nevertheless, the natural depletion of resources presents an inherent business risk. To mitigate this, OGDCL emphasizes exploration-led growth and has diversified its portfolio through strategic initiatives, including ventures like the Reko Diq project for copper and gold extraction, the development of tight gas reserves to expand its resource base, green initiatives such as the geothermal energy project and exploration activities underway in Abu Dhabi Offshore Block 5.

OGDCL's business risk profile is further supported by its sufficient reserves base, ensuring long-term sustainability of operations. As at end-June'24, the Company's total gross remaining recoverable 2P reserves stood at 123m barrels of oil and 5,832b cubic feet of gas, as verified by GLJ Petroleum Consultants, Canada, through the 2023 Reserves Evaluation Study. The reported reserves reflect updates based on production performance, new discoveries, development drilling, and field optimization initiatives. Despite a Reserve Replacement Ratio of 59% in FY24, driven by five new discoveries and incremental reserves from the study, the substantial reserves position underpins OGDCL's ability to maintain steady production and cash flow generation.

Corporate Governance

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.

Environmental, Social, and Governance (ESG)

OGDCL demonstrates a commitment to sustainable operations and regulatory compliance. The Company adheres to the Pakistan Environmental Protection Act, 1997, and integrates international best practices to ensure minimal environmental disturbance during exploration and production activities. Key initiatives include conducting Initial Environmental Examinations (IEE) and Environmental Impact Assessments (EIA) to address project impacts, implementing energy audits for efficiency, and adopting bioremediation and floating treatment wetlands for waste management. Continuous HSE training, awareness programs, and compliance with NORM safety standards further reflect its focus on operational safety and environmental stewardship. Furthermore, the Company is targeting to publish its first ESG report in November 2024. Below are the relevant KPIs monitored by the Company in regards to the Health, Safety & Environment, for FY24:

KPIs	Target	Annual Outcome
Fatality Index	0	0.096
LTIFR	0.15	0.18
TRICF	0.55	0.533
TVIR	0.4	0.183

Financial Risk Profile

Profitability Profile

OGDCL's profitability during FY24 reflected mixed performance, with sales increasing to Rs. 464b (FY23: Rs. 414b), driven by enhanced production levels and favorable pricing and exchange rate dynamics. However, gross margins declined to 61.1% (FY23: 65.2%) due to elevated operating expenditures, notably from increase in the rent, fees and taxes, amortization and salaries, wages and benefits.

Net margins significantly dropped to 45.1% (FY23: 54.3%. Profitability trends reflected mixed performance, was slightly impacted by elevated costs and lower finance income, while increase in associates contribution and one-off tax adjustments on account of reversal of provision for depletion allowance pertaining to prior periods supported bottom-line performance.

Capitalization Profile

The ratings reflect the Company's strong financial position, characterized by a debt-free capital structure and sound liquidity. Despite rising costs impacting profitability, the Company's Funds from Operations (FFO) have consistently stayed above Rs. 150b (FY24: Rs. 154b; FY23: Rs. 162b; FY22: Rs. 162b). This steady cash flow generation allows the Company to meet its capital expenditure needs entirely through internal resources, including substantial investments in the Reko Diq Project and ongoing exploration activities domestically and internationally.

Liquidity Profile

Despite the persistent issue of inter-corporate circular debt, OGDCL's liquidity position remains robust. As of June 30, 2024, overdue receivables stood at Rs. 561.025b, with significant amounts owed by GoP-controlled entities, SSGC (Rs. 235.429b) and SNGPL (Rs. 244.982b). The credit risk associated with these receivables is considered low from a national scale rating perspective due to the backing of the GoP. Moreover, OGDCL's strong cash and cash equivalents to Rs. 259b provides a substantial buffer, ensuring that elevated trade debts do not adversely affect liquidity. Improved collection rates, rising to 76% in FY24 (FY23: 42%) following gas price adjustments and the GoP's initiatives to address circular debt, including the recovery of Rs. 82b by end-June'24 representing principal amount of company's investment in PPTFCs, further underscore OGDCL's stable financial footing.

Oil & Gas Development Company Limited **Annexure I**

FINANCIAL SUMMARY

BALANCE SHEET (PKR Billions)	**FY22**	**FY23**	**FY24**
Property, Plant and Equipment	92.7	85.8	86.8
Development and Production Assets	118.3	122.6	120.4
Long-term Investments	217.1	274.4	216.6
Lease Receivables (incl. current portion)	69.9	158.7	155.5
Other Non-Current Assets	24.0	16.8	31.8
Short-term Investments	48.5	87.3	118.0
Trade Debts	456.6	577.0	635.0
Income Tax – Advance	31.9	33.3	54.0
Cash & Bank Balances	31.6	25.8	141.0
Other Current Assets	39.3	42.4	45.1
Total Assets	**1,130.0**	**1,424.1**	**1,604.3**
Trade and Other Payables	105.1	123.3	139.5
Non-current Liabilities	115.5	180.2	172.9
Short Term Borrowings	-	-	-
Long Term Financing *(Inc. current maturity)*	-	-	-
Other Liabilities	33.9	37.7	41.3
Total Liabilities	**254.6**	**341.2**	**353.8**
Paid-Up Capital	43.0	43.0	43.0
Reserves & Retained Earnings	832.4	1,039.9	1,207.5
Total Equity	**875.4**	**1,082.9**	**1,250.5**

INCOME STATEMENT (PKR Billions)			
Net Sales	335.5	413.6	463.7
Gross Profit	216.9	269.7	283.3
Operating Profit	181.8	218.5	239.3
Finance Cost	2.3	4.7	7.1
Profit Before Tax	232.5	383.8	293.8
Profit After Tax	133.8	224.6	209.0

RATIO ANALYSIS			
Gross Margin (%)	64.7%	65.2%	61.1%
Operating Margin (%)	54.2%	52.8%	51.6%
Net Margin (%)	39.9%	54.3%	45.1%
Fund Flow from Operations (FFO) (PKR billion)	162	162	154
Gearing (x)	-	-	-
Leverage (x)	0.29	0.32	0.28
Debt Servicing Coverage Ratio (x)	-	-	-
Current Ratio (x)	5.6	6.0	5.9
ROAA (%)	12.8%	17.6%	13.8%
ROAE (%)	16.3%	22.9%	17.9%
Debtor Turnover (Days)	386	411	431
Dividend Payout Ratio (%)	23.3%	16.4%	20.8%

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/Watch	Rating Action
RATING TYPE: ENTITY				
04/12/2024	**AAA**	**A1+**	**Stable**	**Reaffirmed**
20/12/2023	AAA	A1+	Stable	Reaffirmed
23/12/2022	AAA	A1+	Stable	Reaffirmed
17/12/2021	AAA	A1+	Stable	Reaffirmed
25/01/2021	AAA	A1+	Stable	Reaffirmed
20/01/2020	AAA	A1+	Stable	Reaffirmed
01/02/2019	AAA	A1+	Stable	Reaffirmed
22/02/2018	AAA	A1+	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.
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Due Diligence Correspondence

Name	Designation	Date
Nauman Yousaf	Chief Accountant	
Fahad Saeed	Senior Accountant	21st November, 2024
Faisal Shahzad	Senior Accountant	