

# Oil & Gas Development Company Limited

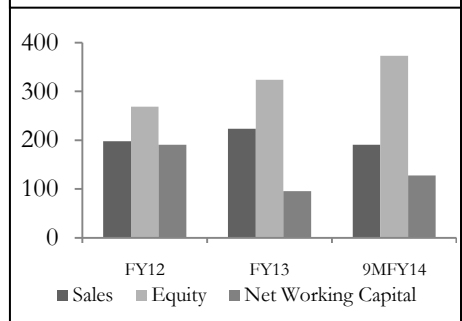
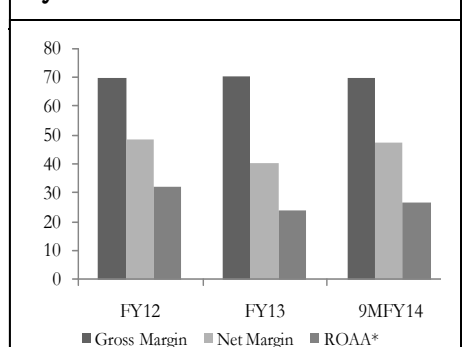
Chairman: Mr. Zahid Muzaḥḥfar; MD & CEO: Mr. Muhammad Rafi

June 25, 2014

**Analysts:** Maimoon Rasheed  
Syed Adil Hussain

Category	Latest	Previous
Entity	AAA/A-1+ June 9, '14	AAA/A-1+ Feb 15, '13
Outlook	Stable June 9, '14	Stable Feb 15, '13

### Key Financial Trends



(Rs. billion)	FY12	FY13	9M14
Net Sales	197.8	223.4	190.4
Net Profit	96.9	90.8	90.9
Equity	268.4	323.7	373.1
Total Debt	-	-	-
Debt Leverage (x)	0.26	0.28	0.31
FFO	108.4	96.6	93.0
FFO/Total Debt	-	-	-
ROAE*	41.2%	30.7%	35.4%
ROAA*	32.3%	24.1%	26.9%

\* Adjusted for all price revisions notified in the period. 9MFY14 figures are annualized

## Rating Rationale

Oil and Gas Development Company Limited (OGDCL) operates in upstream Exploration and Production (E&P) segment of oil and gas sector of the country. As Pakistan has the largest trade bill related to import of crude oil, government support to the sector in terms of various initiatives has remained evident. OGDCL, being the largest producer of fossil fuel, holds strategic importance in the local context. While pursuing growth opportunities translating into enhanced production capacity through exploration activities, the company has maintained low business risk profile. Maintenance of debt free capital structure by the company capitulates to its low financial risk profile. Given the strong global demand for oil and gas, international prices are expected to remain range bound in the foreseeable future.

During FY13, the company witnessed considerable reduction in outstanding trade debts on account of government's initiatives to partially resolve inter-corporate debt along with intensified follow-up by the company's management leading to increased collection of receivables. The trade debts were settled against government backed Privately Placed Term Finance Certificates (PPTFCs) and Pakistan Investment Bonds (PIBs). While the inter-corporate debt, mainly against a gas utility company has started piling again, though at a slower rate, the management is hopeful of more frequent periodic payments against receivables going forward.

The financial performance of the Company has remained strong. Despite severe liquidity issues prevailing in the energy sector during recent years, the company has been able to manage its cash flows without utilizing bank borrowings. With improving cash flow situation, the management has envisaged higher exploration & production related capital expenditure in the ongoing year. Recently, the company has been awarded 29 new blocks through participation in competitive bidding process. This has increased the number of owned and operated exploration licenses from 33 to 62 and enhanced the acreage under exploration by more than two times. While the company has provided an estimated reserve life of 15 years for both oil and gas based on BOE of proven & probable reserves, it is around 20 years when calculated for recoverable reserves at current production levels of oil & gas.

The improved production profile of the company for both oil and gas was complemented by favorable exchange rate during most of 9M14. This along with relatively higher realized price of oil and gas resulted in higher net sales during this period. The company witnessed stable gross margins in FY13 and 9M14. The enhanced investment portfolio of the company primarily led to considerable increase in other income during FY13 and 9M14. However, during FY13 bottom line of the company was adversely impacted by higher exploration and prospecting expenditure on account of increase in geological and geophysical survey and ten wells declared dry/abandoned including unsuccessful drilling. Moreover, higher effective tax charge, mainly owing to prior years' assessment, resulted in lower net income for FY13. Recent appreciation of Pak rupee against US\$ may have a drag on both sales and exchange gain on foreign currency TDRs during FY14 financial results. However, improving production levels, favorable product prices and higher interest income mainly from PPTFCs & PIBs on account of first full investment year, is likely to help in posting higher net income during FY14 vis-à-vis prior year.

## Overview of the Institution

OGDCL was incorporated on October 23, 1997 under the Companies Ordinance 1984. The company is engaged in the exploration, development, production and sale of oil and gas resources and its products. The company is listed on all three stock exchanges of Pakistan while its Global Depository Shares are listed on the London Stock Exchange. The registered office is located in Islamabad while fields and other production facilities are dispersed all over the country. [JCR-VIS](#)

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: Entity</u></b>				
09-Jun-14	AAA	Stable	A-1+	Reaffirmed
27-Feb-13	AAA	Stable	A-1+	Reaffirmed
09-Mar-12	AAA	Stable	A-1+	Reaffirmed
18-Mar-11	AAA	Stable	A-1+	Reaffirmed
08-Apr-10	AAA	Stable	A-1+	Reaffirmed