

RATING REPORT

Oil & Gas Development Company Limited (OGDCL)

REPORT DATE:

May 04, 2017

RATING ANALYSTS:

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Category	Rating	
	Long-term	Short-term
Entity	AAA	A-1+
Rating Outlook	Stable	
Outlook Date	28 April'17	

Incorporated in 1997	External Auditors: KPMG Taseer Hadi & Co. and A.F. Ferguson & Co. Chartered Accountants
Public Limited Company	Chairman: Mr. Zahid Muzaffar
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Zahid Mir
Government of Pakistan – 67.48%	
OGDCL – Employees Empowerment Trust – 10.05%	
Ministry of Privatization and Investment – 7.50%	
Franklin Templeton Investment Funds – 5.66%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (May, 2016)*

<http://www.jcrvis.com.pk/kc-meth.aspx>

Oil & Gas Development Company Limited (OGDCL)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Oil & Gas Development Company Limited (OGDCL) was incorporated as a Public Limited Company in October 1997. The core business activities involve exploration, development and production of oil and gas resources, including their sales and related activities.

Profile of Chairman

Mr. Zahid Muzaffar has over 36 years of diversified experience in oil and gas industry. Mr. Muzaffar holds a Bachelor of Economics degree from the University of the Punjab, Pakistan.

Profile of CEO:

Mr. Zahid Mir is a petroleum engineer by profession with over 27 years of experience in the oil and gas industry. Mr. Zahid did his B.Sc in Petroleum Engineering from University of Engineering and Technology, Lahore and MBA from Preston University, Islamabad.

Financial Snapshot:

Net equity: 1HFY17 – Rs.493.6b; FY16 – Rs.478.6b

Net profit: 1HFY17 – Rs.30.0b; FY16: Rs. 60b

The ratings assigned to Oil & Gas Development Company Limited (OGDCL) take into account the shareholding structure of the Company with around three-fourth shares held by the Government of Pakistan (GoP). Business risk profile of the Company remains strong emanating from strategic importance of the Company in the oil and gas sector of the country having largest petroleum exploration and production operations and assured product off-take as country's petroleum requirements remains in excess of local production. The ratings also take into account sound financial risk profile of the institution reflected by a debt free capital structure. The Company continues to face circular debt issue with large amounts of overdue receivables carried on the balance sheet; however liquidity profiles remain adequate as healthy margins and adequate cash flow generation enables the Company to meet its expenditure requirements indigenously.

Exploration and production

In view of the prolonged depressed international oil prices, the Company has accelerated its exploration and production related activities recording its highest ever gross crude oil production of 50,354 barrels per day on November 28, 2016. Average daily net saleable crude, LPG and Sulphur production has also depicted an increasing trend. Some development projects are underway which are expected to mitigate the impact of natural decline in reserves. At end-FY16, OGDCL's total gross remaining recoverable 3P reserves stood at 498.5m barrels of oil and 11,689.2b cubic feet of gas. On 1P basis, the proven reserves life is 9 years for gas and 4 years for oil fields.

Financial performance

Depressed prices of oil in the recent years have impacted OGDCL's financial performance. Average realized prices for crude oil and gas were USD 41.5/barrel and Rs. 233.4/Mcf, respectively during 1HFY17 (FY16: USD 39.1/barrel and Rs. 253.8/Mcf; FY15: USD 63.3/barrel and Rs. 272.6/Mcf). This decline in prices coupled with decrease in saleable oil and gas production led the Company to report gross profit margins of 54.0% (FY15: 62.7%); gross margins largely remained stable and stood at 53.1% during 1HFY17. Net profit of the Company declined to Rs. 60b (FY15: Rs. 87.2b) primarily on account of lower realized prices of crude oil and gas, reduced other income mainly due to interest income on investment and bank deposits and increased exploration and prospecting expenditure on account of enhanced geophysical survey while net profit amounted to Rs. 30.0b during 1HFY17. The Company maintains a strong dividend payout ratio averaging 36% over the last five years.

Liquidity

At end-1HY17, around 82% of the trade debts pertained to GoP receivables while remaining are private sector receivables. Aging profile of the GoP receivable depicts a weak position with more than 50% of GoP receivables overdue by more than a year. Moreover, PPTFC issued in Sep-12 to settle trade debts is also non-performing. The management is making efforts to expedite the collection of receivables. Nonetheless, overall liquidity profile remains adequate with internal cash flows considered sufficient to meet expenditure requirements. Moreover, approaching maturity of sizeable PIBs, carried on balance sheet, provide comfort to the liquidity assessment of the institution.

Management and Corporate Governance

The management team of the Company comprises professionals having extensive experience in oil and gas sector. The management team is headed by Mr. Zahid Mir, a petroleum engineer with over 27 years of progressive experience. Board member comprises senior GoP officials and prominent businessmen from the private sector which bring diversified experience to the Board. The Board has instituted a strong corporate governance framework.

JCR-VIS Credit Rating Company Limited

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

Oil & Gas Development Company Limited (Appendix III)

BALANCE SHEET (Amounts in Billions)	1HFY17	FY16	FY15
Fixed Assets	219.98	215.37	196.38
Long Term Investments	52.07	112.52	131.19
Trade Debts	119.86	111.20	121.41
Cash & Bank Balances	3.45	7.90	13.02
Total Assets	608.16	589.57	553.79
Trade and Other Payables	62.03	58.97	61.90
Long Term Debt (<i>*incl. current maturity</i>)	-	-	-
Short Term Debt	-	-	-
Total Equity	493.59	478.63	442.52
INCOME STATEMENT	1HFY17	FY16	FY15
Net Sales	81.08	162.87	210.62
Gross Profit	43.06	87.89	131.97
Profit Before Tax	40.50	80.51	127.03
Profit After Tax	30.0	59.97	87.25
RATIO ANALYSIS	1HFY17	FY16	FY15
Gross Margin (%)	53.1	54.0	62.7
Net Profit Margin (%)	37.0	36.8	41.4
FFO	32.5	52.2	78.7
FFO to Long Term Debt (x)	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-
Debt Leverage (%)	0.23	0.23	0.25
ROAE (%)	12.3%	13.0%	20.8%

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: JCR-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.jcrvis.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.jcrvis.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.

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

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES		Appendix V			
Name of Rated Entity	Oil and Gas Development Company Limited				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	28/04/17	AAA	A-1+	Stable	Initial
Statement by the Rating Team	JCR-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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