Oil and Gas Development Company Limited

Conference Call on Half Year Financial Results FY 2020 (July 2019 – December 2019)

Presenters: **Mr. Shahid Salim Khan (Managing Director / CEO)**
Mr. Irteza Ali Qureshi (Chief Financial Officer)
Dr. Naseem Ahmad (Executive Director – Production)
Mr. Masood Nabi (Executive Director – Joint Ventures)
Mr. Munsif Hussain Channa (General Manager Incharge–Exploration)
Mr. Ahmad Hayat Lak, Company Secretary

Date: **Monday, February 26, 2020**
Time: **5:00 PM (Pakistan Standard Time)**

Mr. Shahid Salim Khan: Good afternoon and welcome to OGDCL's Half Year FY2020 Financial Results Conference Call. My name is Shahid Salim Khan, MD/CEO of OGDCL. Before proceeding with the presentation, let me first introduce my team to you. I've with me here Mr. Irteza Ali Qureshi, Chief Financial Officer, Dr. Naseem Ahmad, Executive Director (Production), Mr. Masood Nabi, Executive Director (Joint Ventures), Mr. Munsif Hussain Channa, General Manager Incharge (Exploration) and Mr. Ahmad Hayat Lak, Company Secretary, who will be part of the presenting team.

Mr. Shahid Salim Khan: Good afternoon, ladies and gentlemen. I welcome you all to OGDCL's Half Year (FY2020) Financial Results announcement conference call. I understand that our Investor Relations team has already sent you presentation on OGDCL's Half Year Results 2019-20. Let's start on page 2 of the presentation where I'll ask you to go over the legal disclaimer first. I will take a short pause while you read the legal disclaimer.

Ladies & gents, I am pleased to report OGDCL's operational & financial performance during 1st half of our financial year 2019/20. OGDCL, being the biggest upstream player in Pakistan, enjoys the largest share of exploration acreage in the country, which stands at 37% of the total awarded acreage, 82,239 sq. kms . As of June 2019, OGDCL held 38% of the country's recoverable oil reserves and 23% of the country's recoverable gas reserves. In terms of production, currently OGDCL delivers 28% of Pakistan's gas output and 46% of its oil output. Our remaining 2P recoverable reserves estimates, as at December 31, 2019, stood at 856 MMBOE. OGDCL have a portfolio of 109 Development & Production Leases (D&PLs) out of which 77 D&PLS are 100% owned and operated while 32 are non-operated D&PLs where we act as non-operators having Joint Venture agreements with foreign as well as local E&P companies. OGDCL operations are spread out all over Pakistan. During the fiscal year, from July 2019 to December 2019, OGDCL reported average daily net crude oil, gas and LPG production of 38,084 barrels 910 MMcf and 747 MT. Twelve (12) wells were spud, comprising of seven (7) exploratory, three (3) development and (2) two re-entry wells and the Company also made three (3) new hydrocarbon discoveries.

Moving on to slide 4, you can see a map which clearly shows OGDCL's dominant position in all the prospective areas of Pakistan. OGDCL holds a diverse portfolio of exploratory assets currently constituting forty-five (45) owned and operated joint venture exploration licenses along with holding working interest in six (6) blocks operated by other exploration and production companies.

To carry on with the presentation, I will now ask Mr. Irteza Ali Qureshi, Chief Financial Officer, and other heads of departments to take you through the next few slides of this presentation.

Mr. Irteza Ali Qureshi: Ladies and gentlemen, this is Irteza Qureshi, I am the Chief Financial Officer in OGDCL.

On the financial front, Turning to slide # 5, despite decline in production and international price of crude oil, OGDCL during the half year ended 31 December 2019 registered Sales Revenue of Rs 133.441 billion. Average basket price of crude oil during the six months dropped to US$ 61.93/barrel (1H 2018-19: US$ 72.34/barrel) leading to lower realized price of US$ 54.11/BBL (1H 2018-19: US$ 62.22/barrel). Moreover, Sales were influenced by decrease in average realized price of LPG to Rs 63,174/ton (1H 2018-19: Rs 69,296/ton) which were somewhat offset by increase in average realized price of gas to Rs 396.01/Mcf (1H 2018-19: Rs 317.33/Mcf) and average exchange rate to Rs 156.99/US$ (1H 2018-19: Rs 129.92/US$). Operating profit margin and net profit margin were 51%

& 40%, respectively with EPS of Rs 12.37. In addition, the Directors of the Company today approved a second interim payable cash dividend of Rs 1.75 per share for the year.

I now hand over the presentation to Mr. Munsif Hussain Channa, who is Head of exploration department to continue with this presentation.

Mr. Munsif Hussain Channa: Good day, Ladies & gents, I am Munsif Hussain Channa head of Exploration of OGDCL and will be taking you through slide 6. Being the market leader in E&P sector of Pakistan, OGDCL possesses the largest exploration acreage which as of 31 December 2019 stood at 82,239 sq. km representing 37% of the Country's total area under exploration. OGDCL with an aim to explore new oil and gas reserves and augment production acquired 1,503 Line km of 2D seismic data compared to 584 Line km of 2D and 394 sq. km of 3D seismic data in the corresponding period last year. This seismic data acquisition represents 79% of total 2D seismic data acquired in the Country during the period under review. Moreover, 1,623 Line km of 2D and 1,169 sq. km of 3D seismic data were also processed/reprocessed using in-house resources. In addition to the above, OGDCL during the reporting period spud twelve (12) wells comprising seven (7) exploratory/appraisal wells; Rangunwari-1, Dhok Hussain North-1, Wali-1, Metlo-1, Katiar-1, KUC-1 & Zin SML-4, three (3) development wells; Thora Deep-3, Rajian-11 & Nashpa-10 and two (2) re-entry wells; Siab-1 & Qadirpur-14. Moreover, drilling and testing of twelve (12) wells pertaining to previous fiscal year was completed, whereas total recorded meterage during the six months' period was 28,043 meters. OGDCL's exploratory endeavors to locate hydrocarbon reserves yielded three (3) oil and gas discoveries namely Pandhi-1 in district Sanghar, Sindh province, Togh-1 and Chanda-5 in district Kohat, KPK province. Aforementioned discoveries have cumulative daily production potential of 22 MMcf of gas and 836 barrels of oil. Preliminary reserves estimates of these three discoveries on 2P basis are 42.26 billion cubic feet of gas and 1.50 million barrels of oil, combined 9.37 million barrels of oil equivalent.

I will now hand over the presentation to Dr. Naseem Ahmad, who is Executive Director of Production.

Dr. Naseem Ahmad: Hello everyone, this is Naseem Ahmad, Executive Director of Production. OGDCL in line with its production strategy is endeavoring to maintain and optimize oil and gas production from owned and operated joint venture fields. In this pursuit, the Company during the half year contributed around 46%, 28% and 32% of Country's total oil, gas and LPG production, respectively. The Company's hydrocarbon production in comparison to corresponding period last year was adversely affected owing to natural decline at Rajian, Lashari Centre, Nashpa, Sinjhoro and Qadirpur fields coupled with mechanical problems at Tando Alam, Nashpa and KPD fields. Moreover, less gas intake from Uch-II and Qadirpur fields by UPL-II (unplanned ATA) and Engro (lower demand by WAPDA during November and December 2019) respectively, impacted gas production. Furthermore, decline in production from NJV fields contributed towards lower hydrocarbon production.

Aforesaid decline in production was partially mitigated by injection flow from seven (7) operated wells in the production system viz., Qadirpur-61, Pasakhi Deep-4 & 5, Nashpa-9, Qadirpur Deep X-1, TAY North-1 & Uch-17A which cumulatively yielded gross crude oil and gas production of 48,255 barrels and 2,483 MMcf respectively, whereas installation of Electrical Submersible Pump at Pasahki-5 produced a positive impact of 52,850 barrels.

Going over to slide 8, where latest status on our various development projects is given.

The Mela project scope includes Mela facilities upgradation and Laying of Mela-Nashpa Gas Pipeline. Khewari Development project includes production hook-up of Suleman 1, Suleman 2 and Mithri Wells. The wells have approximately 15 % CO2 contents. Gas processing facilities will be installed for removal of CO2 and gas will be supplied to SSGCL. Bitrisim Development project includes Bitrism West 1, Bitrism West 2, Gundanwari and Chabaro wells. Bitrism West 1 & Bitrism West 2 have been connected by utilizing available capacity at Sinjhoro Plant. Subsequently, after completion of Bitrism Project facilities processing, Gundanwari & Chabaro wells are expected to be connected by December 2020. Dhok Hussain: The early production facilities have been installed comprising of separation and dehydration facilities. SNGPL sales gas pipeline completion is awaited after which gas will be injected to SNGPL network. Nashpa Compression Project: Design review and HAZOP study have been completed while development work at project site by the EPCC contractor is underway. Qadirpur Compression Project: Turbine up-gradation contract has been finalized while cases for procurement of compressors and hiring of PC contractor is under financial and technical evaluation, respectively. Uch Compression Project: Basic engineering/FEED work has been completed while tender documents prepared by the consultant ENAR are under review.

Now I ask Mr. Irteza Ali Qureshi, CFO, to continue with this presentation.

Mr. Irteza Ali Qureshi: Thank you. Looking at slide number 9, which shows a graphical illustration of our financial performance. Firstly, we see the sales revenues, which is up 5.25% and the net production is down 7%, 8% and 6% for crude oil, gas and LPG, respectively, however there has been a slight increase in the gas price by 25% while there is a decrease in realized price of oil by 13% and LPG by 9%.

Further average exchange rate has increased or improved during the year by 21% over last year. Operating expenses increased by 3% and remained in check. Thirdly, increase in exploration and prospecting expenditure was due to five wells (1) Soghri X-3 costing Rs 2,833 million, (2) Shawa X-1 costing Rs 1,621 million (3) Ragunwari-1 costing Rs 980 million, (4) Urs-1 costing Rs 798 million and (5) Pirano-1 costing Rs 858 million declared dry in current period while in the corresponding period only one well Wasan-1 costing Rs 911 million was declared dry. Profit after tax decreased by 6% mainly due to decrease in petroleum prices/quantities.

Turning to slide number 10, which shows key performance indicators of the Company. To take the presentation to conclusion, I now hand over the presentation back to our MD/CEO.

Mr. Shahid Salim Khan: Thank you Irteza. OGDCL's Management is fully focused on achieving consistent growth in production volumes of the Company. OGDCL is also fully committed to ensure the speedy development of our projects in the pipeline. We plan to achieve the production and reserves growth through implementing international best practices across all our operations. This, ladies and gentlemen, concludes our presentation for today and I thank you all for joining in the conference call. We now ask the operator to conduct a Q&A session which we expect to be not more than 20 minutes duration.

Operator: Thank you. If you would like to ask a question, please press the star or asterisk key, followed by the digit one. We will pause for a moment to allow everyone to signal. We have our first question from Bilal Arshad from Maple Leaf Capital Limited. Please go ahead.

Bilal Arshad: Hi, this is Bilal Arshad from Maple Leaf Capital Limited. My question is regarding the drop in payout of OGDCL in the first half of the FY2020 and looking at the financials results, we also see that Company's receivable from gas distribution companies is consistently going up. Is OGDCL going to curtail its dividend going forward or was this just a one-time occurrence of lower dividend?

Irteza Ali Qureshi: Thank you for your question. The Board of Directors reviews the situation on a quarterly basis in terms of the paid receivables. At the time of making a decision on the payout, a lot of things are looked at. This time around as well, the cash balances were looked at. The cash balances, as you would have noted, have come down slightly to PKR68?? billion. At the same time, the company has taken initiatives to go abroad and make some investments. We are awaiting decisions on the application on the overseas exploration block that we have filed. We have also taken the initiative of drilling the first shale well that is one going. And obviously, an overall increase in the number of wells being drilled by the company. Furthermore, we were able to spud 12 wells, so a lot going on the CAPEX front, on the investment side and also on the recovery side. We are in constant touch with the relevant Government Offices to ensure that the circular debt gets settled. We are hopeful that some headway will be made soon in terms of some partial settlement of our receivables and the regular dialog is been carried out and the board is very much cognizant of the activities that are been undertaken by the management on a day-to-day basis in terms of managing the receivables.

Bilal Arshad: All right, thank you sir.

Operator: Our next question comes from Aftab Awan of Sherman Securities. Please go ahead.

Aftab Awan: What is your CAPEX target for financial year 2020? And if oil price drops to $40 going forward, will you be revising your CAPEX target?

Irteza Ali Qureshi: At the moment, we are looking at the year target of PKR45 billion in terms of CAPEX. The average realized price of crude in the first six months, as you are aware, was $54. So yes, in terms of next year, if the crude prices go down and they stay below or close to $40 levels, then obviously, we will be looking at the CAPEX requirements going forward. But at this moment in time, I'd say that we have relatively aggressive plans for drilling for the next four months and also for the next financial year, 2021.

Aftab Awan: Okay. So how much money will you receive from the upcoming energy SUKUK?

Irteza Ali Qureshi: Look, there is no concrete information as yet, Nobody has given us an exact amount as to what we will be getting. But our expectation is, as the last time around, we got paid out a total and of PKR8.5 billion. We expect that this time around, we should be able to get more than PKR8.5 billion from Uch Power and that also depends on how much money gets settled for Uch Power. But we're also talking to our customers, as well as with the government, to ensure that the other two gas companies, Sui Northern and Sui Southern, they're also made part of this resolution and they also get paid, so that they in turn can pay us.

Aftab Awan: Okay sir. My last question regarding privatization of OGDCL, can you give us any timeline on OGDC's divestment?

Irteza Ali Qureshi: We have not been given any timelines on the divestment of OGDCL and privatization commission has been working on this matter.

Aftab Awan: Okay sir, thank you.

Operator: Our next question comes from Wajid Rizvi of Fortune Securities.

Wajid Rizvi: This is Wajid Rizvi and thank you so much for the great detailed presentation. My first question is regarding the Uch pricing because we got the notice from OGDCL. I just want to know when is the effect and finalization of the pricing going to be on the books of OGDCL. And another question is on the D&P and its amortization cost, which has declined from PKR 18 billion last year to PKR 6.6 billion. So how has it come down so significantly and what are the reasons behind it? And the fourth question is regarding engagement with Gazprom. How is it panning out for OGDCL and what chunk of your CAPEX is tilted towards your engagement with this Russian company? Thank you.

Irteza Ali Qureshi: Okay, first question was on the Uch pricing. We have not yet accounted for the positive impact of the Uch pricing. We believe that this amount can be included in our revenue sometime this year once the formal notification from NEPRA is issued.

Second question was around the dry well cost. The total dry well cost in the first half of the year that we have booked is PKR7 billion. Five wells have been declared dry i.e, (1) Soghri X-3 costing Rs 2,833 million, (2) Shawa X-1 costing Rs 1,621 million (3) Ragunwari-1 costing Rs 980 million, (4) Urs-1 costing Rs 798 million and (5) Pirano-1 costing Rs 858 million declared dry in current period while in the corresponding period one well Wasan-1 costing Rs 911 million was declared dry. Increase in prospecting expenditure is mainly due to Non-Operated Blocks i.e. Banuu West and Mardan Khel where 2D & 3D Seismic Data Acquisition is in progress

Masood Nabi: This is Masood Nabi, Executive Director, Joint Ventures. As you may be aware, we have a MoU with Gazprom in which we cover jointly looking at international opportunities with them, and opportunities within Pakistan also. So we are engaged with Gazprom. We are looking at certain international opportunities with the company, but we cannot get into specifics right now because of confidentiality arrangements, but we are actively engaged with them and looking at opportunities.

Wajid Rizvi: Thank you.

Irteza Ali Qureshi: As for the amortization that you asked for, that is directly linked with the production. So lesser production will attract lesser amortization, and the reserves shifting takes place on well completion. So, these are the two main reasons why the amortization would have come down.

Aftab Awan: Just a follow-up question on circular debt. I already asked the question and you said you are expecting more than PKR8.5 billion. I wanted to ask that currently you guys have overdue receivables of PKR244 billion, and I don't think that PKR8.5 billion, a small amount more than that would be enough for you because the outstanding amount is too much. So how do you think you'll recover that amount, the PKR244 billion?

Irteza Ali Qureshi Well, we were talking about on an immediate basis from the sukuk earlier on. However, there have been various dialogs which are going on with our customers, how they can arrange to start paying us more. So we are in dialog with the government as well as with the gas companies to ensure that on a monthly basis, the collections are improved from these two sui companies especially. In terms of collections from refineries and the oil fields, there is no issue. It's all under control.

Aftab Awan: Okay sir, my last question, can you tell us the foreign holding in OGDC by December end?

Irteza Ali Qureshi: I'll have to check the latest on that, but it was about 6% the last I checked, but I'll get back to you on this.

Aftab Awan: Okay sir, thank you.

Operator: Our next question comes from Saad Hanif of Inside Securities. Please go ahead.

Saad Hanif: Hi two questions, What is the current trade debts at your balance as of now? And the second question regarding the crude oil outlook to the rest of the half, what was your uptake on that?

Speaker: In terms of the crude oil outlook, we are looking at anywhere between \$50 to \$55 for the basket price for the rest of the year. We also believe that the overall year will close not below \$50 in terms of realized price. It will stay in the region of \$52-55 on an overall basis.

Saad Hanif: And what about the receivables amount, the trade debts?

Irteza Ali Qureshi: The receivables you see, are going up on a quarterly basis. We believe that unless something substantial takes place in terms of settlement over the next three to four months, the receivable position will largely remain on a similar pattern.

Saad Hanif: What is the exact amount in billions right now, total debt at your balance sheet?

Irteza Ali Qureshi: As on December 31st 2019, the receivables balance was PKR 288 billion.

Saad Hanif: Okay, thanks a lot.

Operator: Our next question comes from Sateesh Balani of Ismail Iqbal Securities. Please go ahead.

Sateesh Balani: Just one question with regards to receivables and IFRS 9 implementation. It's mentioned in your quarterly report that the extension was granted until 2021 on financial assets, the applicability of ECL model on financial assets due to ultimate or direct ownership of Government of Pakistan. So what happen if this extension doesn't go beyond 2021, what could be possible impact since we're not seeing any remarkable reduction in receivables as we move forward? So what could be the impact of these numbers or do we see a 50% provisioning in the first year?

Irteza Ali Qureshi: You see if the exemption does not go beyond 2021, then obviously, we will work out based on that current situation, it will be based on entirely the ageing at that point in time when we reach end of June 2021. So, whatever the ECL model will then become will have to be adopted.

Sateesh Balani: Is it based on ageing or is it based on probability of recovery of receivables?

Irteza Ali Qureshi: So basically, the ageing will be used to determine the probability. So there are two, three factors that would be applied at that point in time to determine what could be the impact.

Sateesh Balani: Okay. So do you have to go through any third-party audit to determine this impact or it's done internal?

Speaker: No, while we will do the internal calculations, we will have to hire a third party to validate the internal calculations as well.

Sateesh Balani: All right, thank you.

Saad Ali: This is Saad Ali here. Basically, my question is pertaining to Nashpa field. Can you give us a sense of what sort of plateau the management sees for that asset after all these projects are completed? Where do you think oil production in particular of Nashpa will plateau?

Dr. Naseem Ahmad: After Nashpa compression is in place the plateau be around 15,000 barrels of oil per day and the gas would be around 80-85 million standard cubic feet per day.

Saad Ali: Okay, my next question will be regarding a potential petroleum policy revision. Is there anything that the government has intimated.

Irteza Ali Qureshi There is nothing on the record that a fresh petroleum policy is in the offering, but we do understand that there have been talks within the government sector to address some of the concerns of the industry based in the past.

Saad Ali: Okay so, my last question will be what has the experience of drilling shale gas well been so far? I mean, if you can give us a sense of cost that such a well entails or perhaps or how much higher reserve from a normal or conventional onshore well?

Dr. Naseem Ahmad: The first shale well that is Kuc-1, which is under drilling phase and in the first section, we will test the vertical section of the well, where we plan to do three frack jobs. And depending upon the best zone then we will do a horizontal section and then we will have a 17 more frack jobs. So the drilling is going on and we will be testing very soon.

Saad Ali: Thank you very much.

Operator: There are no further questions in the queue at this time. I would like to turn the conference back to our speakers for any additional or closing remarks.

Mr. Shahid Salim Khan: Thank you very much everybody. We are very grateful for your participation. I hope to see you again in six months' time. Please note that our Investor Relations team is available to attend to any further queries that you may have. Have a good evening, and goodbye. Thank you very much ladies and gentlemen.