Oil and Gas Development Company Limited

Conference Call on Full Year Financial Results FY 2018 (July 2017 – June 2018)

Presenters: **Mr. Zahid Mir (Managing Director / CEO)**
Mr. Irteza Ali Qureshi (Chief Financial Officer)
Dr. Muhammad Saeed Khan Jadoon (Executive Director – Exploration)
Dr. Naseem Ahmad (Executive Director – Production)
Mr. Rehan Laiq (Executive Director – Finance)

Date: **Friday, September 07, 2018**
Time: **5:00 PM (Pakistan Standard Time)**

Mr. Zahid Mir: Ladies and Gentlemen, welcome to OGDCL's Full Year 2018 Financial Results Conference Call. My name is Zahid Mir, I am Managing Director / CEO of OGDCL. Before I proceed with the presentation, let me first introduce my team to you. I've with me here Mr. Irteza Ali Qureshi, Chief Financial Officer, Dr. Muhammad Saeed Khan Jadoon, Executive Director (Exploration), Dr. Naseem Ahmad, Executive Director (Production) and Mr. Rehan Laiq, Executive Director (Finance).

The structure of today's presentation will consist of an overview of the Company, its operational and financial highlights and then the closing remarks.

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Ladies & gents, I am pleased to inform you that during the year 2017-18, OGDCL witnessed stable operational performance and remained the largest producer of hydrocarbons in the Country.

OGDCL, being the largest upstream player in Pakistan, enjoys the largest share of exploration acreage in the country, which stands at 26% of the total awarded acreage. As of June 30, 2018, OGDCL held 55% of the country's recoverable oil reserves and 32% of the country's recoverable gas reserves. In terms of production, currently OGDCL delivers 29% of Pakistan's gas output and 47% of its oil output.

Our remaining 2P recoverable reserves estimates, as at June 30, 2018, stood at an impressive 945 MMBOE. OGDCL have a portfolio of 108 Development & Production Leases (D&PLs) out of which 72 D&PLS are 100% owned and operated while 36 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 enjoys unmatched E&P expertise in our operations, which are spread out all over Pakistan.

During the fiscal year 2017-18, OGDCL reported average net crude oil production of 41,278 bpd, average net gas production of 1,022 MMcfd, average net LPG production of 690 mtpd and average net Sulphur production of 58 mtpd.

During the period under review, OGDCL spud twenty (20) wells including twelve (12) exploratory/appraisal wells and eight (8) development wells and Company's exploratory efforts to discover new hydrocarbon reserves yielded four (04) new oil and gas 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.

These exploratory assets of the Company currently constitute forty seven (47) owned and operated joint venture exploration licenses along with holding working interest in four (4) blocks operated by other exploration and production companies. Having spread across all four (4) provinces of the Country, the Company's exploratory licenses cover an area of 89,745 sq. kms as of June 30, 2018 which is the largest exploration acreage held by any E&P Company in Pakistan.

That's a short overview of the Company. Now I'll ask Mr. Irteza Qureshi who's our CFO to take you through the next couple of slides of the presentation.

Mr. Irteza Ali Qureshi: Ladies and gentlemen, this is Irteza Qureshi, I am Chief Financial Officer in OGDCL. Turning to slide number 5, OGDCL witnessed yet another year of improved financial performance for the year ended 30 June 2018. This is evident by the fact that Company's Sales Revenue and Profit before Tax climbed to 205.335 billion (FY 2016-17: Rs 171.829 billion) and Rs 112.627 billion (FY 2016-17: Rs 89.137 billion) showing growth of 19% and 26%, respectively. Financial results are primarily supported by moderate recovery in average basket price of crude oil which during the twelve months period stood at US$ 61.21/barrel against US$ 49.27/barrel in the comparative period leading to higher average realized price of US$ 54.56/barrel against US$ 44.04/barrel in the last year.

In addition to the above, OGDCL during the reporting period also recorded improvement in the realized price for gas and LPG averaging Rs 258.93/Mcf and Rs 55,666/ton compared with Rs 239.08/Mcf and Rs 43,684/ton, respectively in the preceding year. Increase in LPG production and positive exchange rate variance lent further strength to business financials. Moreover, OGDCL's financial performance during July 2017-June 2018 was boosted by increase in share of profit in associate by 68%. Operating profit margin and net profit margins stood at of 46% and 38%, respectively. In addition, the Board of Directors of the Company today approved a final payable dividend of Rs 2.50 for the fiscal year 2017-18.

I now hand over the presentation to Dr. Muhammad Saeed Khan Jadoon, who is OGDCL's head of Exploration to continue with the presentation. .

Good day, Ladies & gents, I am Dr. Muhammad Saeed Khan Jadoon and will be taking you through slide 6.

OGDCL spud twenty (20) wells comprising twelve (12) exploratory/ appraisal wells and eight (8) development wells. Additionally, drilling and testing of fourteen (14) wells from previous fiscal years have been completed. Fiscal year 2017-18 has witnessed success across the Company's exploration acreage with four (4) new oil and gas discoveries. Aforementioned discoveries have an expected cumulative daily production potential of 47 MMcf of gas and 749 barrels of oil while preliminary reserves estimates are 116.87 billion cubic feet of gas and 1.40 million barrels of oil with combined reserves of 20.45 million barrels of oil equivalent. Subsequently, in August 2018, the Company reported another discovery at Mela-5 in district Kohat, KPK province having a daily production potential of 95 barrels of oil and 0.25 MMcf of gas.

OGDCL during the fiscal year 2017-18 carried on exploration activities in its awarded acreage which as of 30 June 2018 stood at 89,745 sq. km and represents the largest exploration area held by any E&P company in Pakistan. The Company's exploration portfolio spreads across all four provinces of Pakistan, currently constituting forty seven (47) owned and operated joint venture exploration licenses. In line with its exploration-led growth strategy of exploring new oil and gas reserves, OGDCL during the year acquired 2,073 line kms of 2D seismic data and 792 sq. kms of 3D seismic data representing 39% and 75%, respectively of total seismic data acquisition in the Country.

Dr. Naseem Ahmad, Head of Production will take you through the next couple of slides.

Dr. Naseem Ahmad: Hello everyone, this is Naseem Ahmad, Executive Director of Production, Let's turn to slide 7. OGDCL being a state owned enterprise is making all viable efforts to maintain and optimize hydrocarbon production through expediting connectivity of exploratory, appraisal and development wells in the system coupled with employing latest production techniques to minimize natural decline and completing ongoing development projects in a timely manner. In this pursuit, the Company during the fiscal year 2017-18 injected twenty five (25) new operated wells in the production system which cumulatively yielded gross crude oil and gas production of 581,412 barrels and 17,628 MMcf respectively. Moreover, Company's production during July 2017-June 2018 contributed around 47% and 29% towards the Country's total oil and natural gas production, respectively.

During the period under review, average net crude oil production of 41,278 bpd, average net gas production of 1,022 MMcfd, average net LPG production of 690 mtpd & average net Sulphur production of 58 mtpd were realized during the fiscal year.

Going over to slide 8, during the period under review, OGDCL in addition to commissioning of LPG plant on 14 February 2018 made significant progress towards construction and development activities at Nashpa field. At present, Nashpa plant is in normal operational mode and daily producing around 19,200 barrels of oil/NGL, 82 MMcf of gas and 245 metric tons of LPG. In order to cater for depletion in pressure and exploit maximum production potential, compression project has also been initiated at Nashpa field. The project is expected to be completed in March 2020. At Mela field, oil and gas are currently produced from installation of early production facilities. Development activities are underway to up-grade plant facilities and lay gas pipeline to Nashpa plant for the purpose of LPG and NGL extraction. The Early Processing Facilities for Dhok Hussian are also in progress and *r*egarding Jhal Magsi project, government has reallocated gas to the Company for sale to a third party.

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

Mr. Irteza Ali Qureshi: Looking at slide number 9, which shows graphical illustration of our financial performance. Here we see increase in net sales revenue due to the increase in oil, gas & LPG prices, along with slight increase in average dollar exchange rate of Rs 110.09 as compared to Rs 104.91 also contributing to the surge in net sales during the year. Higher operating expenses: mainly owing to increase in salaries, stores and supplies consumed, increase in contract services (mainly related to the security services w.e.f 01-July-2017), work over charges (17 wells in current period as compared to 14 wells in corresponding period), allocated cost of Logistic Department for shifting of various materials at Kunnar, KPD/TAY, Qadirpur and Dakhni are higher in the current period. Repairs and maintenance increased due to ATA at KPD TAY, Kunnar, Chanda, Dakhni, Uch, and Sinjhoro fields during current period. Depreciation expenses increased: Capitalization of assets mainly at KPD (Rs 33 Billion) in last year June, hence full 12 months depreciation impact booked in the current period. Variance in exploration & prospecting expenditure on account of Cost of dry and abandoned wells and prospecting expenditure 11 wells declared dry in the current period while 4 wells were declared as dry in the corresponding period; lower 2D seismic survey 1,140 l.kms (last year 2,242 l.kms) and 3D seismic survey 792 Sq. kms (last year 908 sq. kms) while outsourced 2-D data acquired 933 l.kms (last year 1,792 l.kms) and 3D nil in the current period (last year 245 sq. kms). Higher net profit; mainly due to a fall through impact of increase in sales revenue of the Company during the year.

Turning to slide no 10 which evinces the key performance indicators of the Company. We recorded profit after tax of Rs 78.736 billion as against Rs 63.80 billion last year. Earnings per share, closed in at Rs 18.31 per share as against Rs 14.83 per share last year. Cumulative dividends per share during FY are Rs 10.00 when compared to last year at Rs 6.00

To take the presentation to conclusion, I now hand over the presentation back to our MD/CEO, Mr. Zahid Mir.

Mr. Zahid Mir: Thank you very much Irteza, OGDCL remains steadfast in its resolve to carry on vigorous exploratory endeavours, expedite completion of ongoing development projects and exercise financial discipline while undertaking new development activities to maintain and improve business operational performance alongside creating material value for the shareholders in the years to come.

So ladies and gentlemen, this concludes our presentation for today and I thank you all for joining in the conference call. We now ask the Operator to please conduct a Question and Answer session which we expect to be of not more than 15 minutes duration.

Operator: Thank you gentlemen. If the participants would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. We will now take our first question from Mr. Aftab Awan from Sheman Securities. Please go ahead.

Aftab Awan: Greetings everyone. My first question will be regarding the offshore Block G and when is the actual drilling expected to start.

Zahid Mir: The drilling of Kekra-1 is planned to be drilled in first quarter of 2019 in the weather window and we are pretty much on schedule to spud the well in January 2019.

Aftab Awan: Okay. Continuing the question; if hopefully discovery is made, how much time do you think it would take to put it into production?

Zahid Mir: Well, you have to remember that it's a deep-water well. So, if there is a discovery, it will be an expensive development and it will take a lot of time. Currently, we are expecting that may take about four to five years to develop the field.

Aftab Awan: Okay Sir. My other question is regarding the TAL Block, which is under litigation in Islamabad High Court. Do you think it would be resolved during the FY 2018-19?

Zahid Mir: Yes. We have met with the new Minister and the new Secretary and we have raised this issue. As you know there is a stay on it and we are in court. The message that we have received from the new Government is that we are willing to discuss all the outstanding issues and conflicts with the existing operators. So, we are positive that this issue should be settled by the end of fiscal year 2018-19.

Aftab Awan: Okay Sir. Another question, the most important one, is that how do you plan to tackle with the stagnant growth in gas production because for the past couple of years, gas production has witnessed stagnant growth. So, how would you tackle it? Do you think it would increase in future?

Zahid Mir: Well, that's a challenge that we have. Currently we are producing little above one Bcfd. To answer your question frankly, we'll have to discover more gas that is the bottom line. We have to bring online the newly discovered fields as soon as possible. For example, Thal East has a potential to produce about 50 million gas a day and Thal West has a capacity to produce about 30 million to 40 million gas a day. And then we also have discoveries in Bitrisim , Khewari, Suleman and Chabaro where we are working on the development of these fields. And in fact, if you add these numbers, we should be able to bring in about 150 million cubic feet of gas per day in the next two years.

Aftab Awan: Okay Sir. There is another issue of circular debt. I was going through the accounts and I found out that in current fiscal year Company's receivables from gas utility companies have increased to about Rs 25 billion. So, do you think that this amount will be recovered in fiscal year 2019?

Zahid Mir: Well, this is the part of the bigger issue within Pakistan, the intercorporate circular debts the overall receivables have increased. However, you may highlighted that our cash position has also increased, that is the cash in hand has increased substantially mainly because of the maturity of the PIBs. Now again, we have recently met with the new Government, the Secretary and the Minister; and also with the Finance Ministry. And they are preparing plans to resolve the issue of the circular debt. So, there is a commitment from the Government to reduce it substantially. So, we are very hopeful that this number will improve in the coming years.

Aftab Awan: Thanks Sir. My last question is regarding the foreign investors and shareholding in OGDCL. I think it was Rs 403 million last year. Can you tell me the current number of their shareholding?

Irteza Ali Qureshi: I believe – we'll need to get back to you on this. But my impression is from the numbers that I saw last, it's about 8% at the moment.

Aftab Awan: Thank you so much.

Zahid Mir: Thank you.

Operator: And that does conclude our conference today. Thank you for your participation. Mr. Mir, I would like to turn the conference back to you for any additional or closing remarks.

Zahid Mir: Thank you very much, everybody. Have a nice day and I hope to see you again in six months' time. Thank you very much.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.