Oil and Gas Development Company Limited

Conference Call on Half Year Financial Results FY 2018 (July 2017 – December 2017)

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)

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Mr. Zahid Mir: Good afternoon and welcome to OGDCL's Half Year 2018 Financial Results Conference Call. My name is Zahid Mir, 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) and Dr. Muhammad Saeed Khan Jadoon, Executive Director (Exploration), who will be part of the presenting team.

Mr. Zahid Mir: Good afternoon, ladies and gentlemen. I welcome you all to OGDCL's Half Year (FY2018) Financial Results announcement conference call. I understand that you have either downloaded this Results presentation from our website or have received it through our Investor Relations team by email. 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 inform you that during the Half 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 30% of the total awarded acreage. As of June 30, 2017, OGDCL held 59% of the country's recoverable oil reserves and 32% of the country's recoverable gas reserves. In terms of production, currently OGDCL delivers 28% of Pakistan's gas output and 48% of its oil output. Our remaining 2P recoverable reserves estimates, as at December 31, 2017, stood at an impressive 833 MMBOE. OGDCL have a portfolio of 107 Development & Production Leases (D&PLs) out of which 69 D&PLs are 100% owned and operated while 38 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's operations are spread out all over Pakistan. During the fiscal year from July 2017 to December 2017, OGDCL reported average daily net crude oil, gas and LPG production of 41,310 barrels 1,009 MMcf and 642 MTD, respectively. During the period under review, OGDCL spud nine (9) wells including Four (4) exploratory/appraisal wells and five (5) development wells. I am pleased to report that during the 6 months period, OGDCL also made three (3) oil & 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 fifty three (53) owned and operated joint venture exploration licenses along with holding working interest in five (5) blocks operated by other exploration and production companies. The Company's exploratory licenses cover an area of 104,384 sq. kms as of December 31, 2017 which is the largest exploration acreage held by any E&P Company in Pakistan.

I'll now hand over the call to Mr. Irteza Qureshi, our CFO, to give you a briefing on the financial performance of the Company.

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

On the financial front, OGDCL continued to exhibit successful performance during the period under review. This is witnessed by the fact that the Company registered Sales Revenue and Profit before Tax of Rs 95.960 billion and Rs 52.029 billion showing growth of 18% and 28%, respectively. The Company's Sales are primarily supported by increase in higher realized price of crude oil averaging US$ 48.69/barrel against US$ 41.46/barrel in the preceding period. Likewise, the Company recorded improvement in the realized price for gas and LPG averaging Rs 253.83/Mcf and Rs 53,591/ton compared with Rs 233.40/Mcf and Rs 37,710/ton respectively, during the corresponding period last year. Operating profit margin and net profit margins stood at of 46% and 38%, respectively. In addition, the Directors of the Company today approved a second payable cash dividend of Rs 3 for the half year.

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

Dr. Muhammad Saeed Khan Jadoon: This is Dr. Saeed Jadoon and I will be taking you through slide # 6. As of December 31, 2017, OGDCL being the market leader in E&P sector of Pakistan holds the largest exploration acreage that spreads across all four (4) provinces of the Country. During the reporting period, Company's 3D and 2D seismic data acquisition was 53% (305 Sq. kms) and 32% (690 Line kms), respectively of total seismic data acquired in the Country.

Regarding drilling activities during the period under review, OGDCL spud four (4) exploratory wells and five (5) development wells. In addition, drilling and testing of eight (8) ongoing wells pertaining to previous fiscal year have also been completed. During the period under review, OGDCL's exploratory endeavors to locate new hydrocarbon reserves resulted in three (3) oil and gas discoveries having expected cumulative daily production of 45 MMcf of gas and 749 barrels of oil. These discoveries were witnessed at Bhambara-1 in district Sukkur, Tando

Allah Yar South West-1 in district Hyderabad in Sindh province and Dhok Hussain-1 in district Kohat, KPK province.

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's production strategy is focused on intensifying field development activities, completion of ongoing development projects and utilization of latest production techniques to augment oil and gas production volumes from owned and operated joint venture fields. In this pursuit, the Company during the period under review injected twelve (12) new operated wells in the production system, which cumulatively yielded gross crude oil and gas production of 132,090 barrels and 4,540 MMscf, respectively. During July-December 2017, Company's production contributed around 48% and 28%, respectively of the Country's total oil and gas production.

During the period under review, average net crude oil production of 41,310 bpd, average net gas production of 1,009 MMcfd, average net LPG production of 642 MTPD & average net Sulphur production of 52 MTPD were realized. During the reporting period, KPD-TAY and Uch-II plants were made fully functional whereby KPD-TAY field's current daily production is around 4,000 barrels of oil, 200 MMscf of gas and 360 Tons of LPG while Uch-II field is daily contributing 130 MMscf of gas. Smooth production operations remained prevalent at Sinjhoro field which on daily basis is presently producing around 2,800 barrels of oil, 32 MMscf of gas and 180 Tons of LPG.

The Company carried on the progressive activities for completion of its ongoing Nashpa development project. To this end, construction activities remained in progress while pre-commissioning work has started in December 2017. Incremental daily production envisaged upon completion of the project is 1,100 barrels of oil/NGL, 10 MMcf of gas and 340 Tons of LPG.

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. Reasons for net sales; Here we see an increase in the net sales revenue from Rs 81 billion to Rs 95.96 billion year on year, which is up by 18%. This is mostly due to the increase in oil, gas and LPG prices and also an increase in the production of LPG. Here, it is also important to mention that in the second quarter OGDCL recorded approximately Rs 3.9 billion, being the gas price adjustment for prior years from TAL Block and other fields.

On the operating expenses side, we don't see any change year on year, which stayed flat. Rs 28.4 billion last year, and Rs 28.3 billion in the first half of this year. With respect to Exploration and prospecting expenditure, we recorded an expense of Rs 7.365 billion in the first half of this year against Rs 8.189 billion in the corresponding period last year. Also the cost of dry and abundant wells this period, has been about Rs 4 billion, as against Rs 3.1 billion in comparative period. A higher net profit was mainly due to an increase in sales revenue of the Company.

Turning to slide number 10, which shows key performance indicators of the Company. Here we see, that the earnings per share rose to Rs 8.53. The net profit margin climbed up to 38% versus 37% last year. And as mentioned earlier, the net sales are basically 18% higher than the previous period. The cumulative dividend per share, stands at Rs 4.75 as against Rs 2.50 in the corresponding period of last year.

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

Mr. Zahid Mir: Thank you Irteza. OGDCL remains steadfast in its resolve to carry on vigorous exploratory endeavors, 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.

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 conduct a Q&A session which we expect to be not more than 15 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 Shavi Masood from Next Capital. Please go ahead.

Mr. Shavi Masood: Hello. I wanted some clarity on the financials that were released today. I see that the share profit, from associate, jumped quite a lot. Does this indicate increased earnings from MPCL because in the last quarter the Company booked around Rs 450 million, and in this quarter it's almost a billion rupees?

Mr. Irteza Ali Qureshi: Basically, you must be aware that our equity holding in MPCL is 20%. How we do this is that we typically go for equity accounting; i.e, we take 20% of the profits of their last available accounts and that's what we have recorded here.

Mr. Shavi Masood: Okay, thanks.

Operator: Our next question comes from Mr. Sharoon Ahmad with Elixir Securities. Please, go ahead.

Mr. Sharoon Ahmad: Hi, Ahmad here from Elixir Securities. Just for clarity on the TAL Block re-pricing. POL recently posted result stating in the footnotes that there's been some issue on windfall levy in oil production. Looking at OGDCL results it is evident that OGDCL booking the retrospective impact and booking revenues on TAL Block at higher prices. Could you please provide the clarity on the windfall levy on oil in light of the recently issued SRO by the Government of Pakistan (GOP)?

Mr. Irteza Ali Qureshi: The Company is of the view that the rights that have already accrued, remain unaffected from any subsequent changes in the policy. Now, this is what is given in the petroleum policy 2012, as well. So the Company has taken various legal opinions on this. And we believe firstly that the GOP cannot unilaterally amend the supplemental agreements. Secondly GOP cannot, impose WLO, retrospectively and thirdly, the GOP cannot withdraw the conversion package. Our position on the issue is very clear. That OGRA's notifications are in place, which are the basis of revenue recognition for us. OGDCL will be contesting this particular notification in the court of law, which will happen shortly. And the Company believes that it has a strong case. That any rights that have previously accrued, under this policy for us, cannot be taken back and that too, unilaterally. So, we have recorded – yes, your understanding is absolutely correct. So, OGDCL have not reversed as POL done by and we have accounted for these revenues, which account to about Rs 8.5 billion in total.

Mr. Sharoon Ahmad: Also, as the worst case, let's say if the decision does not go in favour of OGDCL, then your view is that, in the worst case, the retrospective impact will not be eliminated. But going forward, the pricing can revert back to older policies as the worst case.

Mr. Irteza Ali Qureshi: You're absolutely correct. Going forward OGDCL have taken a prudent approach. As a bare minimum, the revenues and the rights accrued, till that particular point in time i.e. November 23, 2018 cannot be retrospectively taken away from us.

Mr. Sharoon Ahmad: These type of legal cases can take long, hopefully, this one won't. So, assuming that this continues to be a sub judice case, then going forward, for example, for the March quarter as well as for the upcoming quarters, do you plan to book revenues on TAL Block on the new policies?

Mr. Irteza Ali Qureshi: You will see that OGDCL will file a petition soon. There's going to be a hearing as well. And we will, after the case is heard, consult with our legal experts and then, based on the understanding, we will finalize as to how to move forward.

Mr. Sharoon Ahmad: Alright, thank you so much

Operator: Our next question is from Mr. Shahab Farooq with JS investments.

Mr. Shahab Farooq: Assalam o alaikum, everyone. The first question has already been answered, quite in detail. The second question that I had was, regarding your exploratory wells where recently discoveries were announced. Is there a guideline, in terms of the reserve levels, that Bhambara,Tando Allah Yar and Dhok Hussain have, and the flows of oil and gas that we are looking at?

Mr. Zahid Mir: I think it is too early to give you a firm number. The initial flow rates have been shared and all these wells are in the appraisal stage. You will appreciate that we will have to appraise the field first. So, it's too early to give you a firm number.

Mr. Shahab Farooq: Another question. We've been looking at your KPD development over last quarter and it seems as if it's now complete. I just want to understand the flow levels for gas and oil mentioned as of today. These flows are available with the Company, or is there any deviation from the expected production capacity?

Mr. Zahid Mir: Currently, we are producing more 200 million scf per day of gas, 375 metroc tons per day of LPG and more than 4,000 barrels per day of oil. The KPD reservoir is producing better than expected and we expect to maintain these production numbers.

Mr. Shahab Farooq: Thank you very much.

Operator: We do have a question from Muhammad Daniyal Kanani of AKD Securities. Please, go ahead.

Mr. Muhammad Daniyal Kanani: Hello, this is Daniyal from AKD Securities. I just have a very basic question. My question is I suppose that a Block has been awarded on 2001 policy. So now any new exploratory effort on that block would be priced on 2001 based policy, or is it going to be priced on 2012 based policy?

Mr. Zahid Mir: It depends on if a Company has signed the supplemental agreement for such a Block or not. If it has signed a supplemental agreement for a Block, then effectively, the pricing of the gas is based on 2012 policy. So in fact, the supplemental agreement, means, that for any exploratory effort in that Block after a certain date effectively will fetch you a 2012 price.

Mr. Muhammad Daniyal Kanini: Alright. Let's suppose Nashpa is on 2001 based policy. So are you guys paying windfall levy on that? Because the concept of windfall was initiated from the 2001 policy. So are you guys paying windfall on Nashpa, and other fields like that?

Mr. Zahid Mir: Nashpa is not based on 2001 policy. Nashpa is based on 1997 policy. And effectively, there is no windfall levy on oil, which has ever been paid. By the way, we have not signed a supplemental agreement for Nashpa. So, we are receiving gas price, which is on the low side. I mean, it's not 2012 policy gas price. But for the oil, at the same time, there is no windfall levy.

Mr. Muhammad Daniyal Kanini: Alright and my last question is does KPD include Kunnar and all of the fields, or just KPD alone?

Mr. Zahid Mir: Actually, the name of the development project is KPD-TAY. KPD plant is receive hydrocarbon from KPD, Kunnar, Pasakhi, Deep & TAY field wells.

Mr. Mohammad Daniyal Kanini: Alright. I have another question pertaining to Baluchistan province. There is not much going on in Baluchistan, is it because OGDCL is facing some problems, or is it because of some technical issues. And secondly, there is and if there's a find in some Block in Baluchistan, how much CAPEX expenditure will be involved.

Mr. Zahid Mir: It's not correct to say that nothing is happening in Baluchistan province. There is a lot of activity happening in Baluchistan province. It is the first time in the history of OGDCL, that in Baluchistan province, there are three active seismic parties working. If you look at the last one and a half years, you will see that we have shoot maximum seismic in Baluchistan province. The other thing is, we are now the operator in Block 28, which is the biggest and the oldest Block. And again, we have started geological survey there, and we are planning to start the seismic later this year. Now, as far as the capex is concerned, it all depends on where we find the discovery. And, obviously it will depend upon the location of the discovery.

And how far it is from the transmission system and it's previously to the other infrastructure. And if there is a big find then infrastructure will not be a problem.

Mr. Mohammad Daniyal Kanini: Alright, thank you so much.

Operator: Next, we'll hear from Hassan Raza of NAFA Funds. Please go ahead.

Mr. Hassan Raza: Good evening, this is Hassan Raza from NAFA Funds. My question pertains to the funds that the Company received from the realisation of TFC & PIB's So, I wanted to know what does the Company intend to do about these funds. Does the Company intend to hold onto these funds for the exploratory activities? Or we can expect higher pay-outs going forward?

Mr. Zahid Mir: You've already seen that we have started giving a higher dividend this quarter. And depending upon the cash positions and our decisions in the future, we will go ahead with the same approach in the next quarters. We have received the PIB's, and are looking at different options. One option is acquisition of exploration assets in and outside Pakistan. So, we are evaluating different options or we can start some exploration activities outside Pakistan. The other thing is our Board has approved to evaluate opportunities to diversify outside the typical oil and gas exploration and production not completely outside the oil and gas industry. But maybe, the downstream; the midstream sectors.

Mr. Hassan Raza: In terms of your foreign acquisition plan that you mentioned. Which regions are we looking at, for example, taking queue from the PPL's foreign acquisition in Iraq. As we realise that, that investment didn't go as planned, or was not very fruitful for the company, and might eventually be written off.

Mr. Zahid Mir: We are looking at Middle East, Africa, Indonesia, Malaysia, and Central Asia. If you look at our approach, we have a different approach than that of PPL.

We have signed MOU's with reliable companies' i.e, MOL and Gazprom. We are also talking to ENI. So, our approach is basically to work with the experienced operators outside Pakistan. And to remain a non-operator with a relatively smaller working interest. So, we are talking about 15% to 20% of working interest with either ENI, MOL or Gazprom. And, we would like to take this opportunity as a training program for our professionals.

Mr. Hassan Raza: Okay, thank you so much.

Operator: We do have a follow-up question from Mr. Sharoon Ahmad with Elixir Securities.

Mr. Sharoon Ahmad: Hello Sir. I just wanted to ask about KPD/TAY. For example, you have just said that production is around 4,000 barrels per day, and the gas production 200 million cubic feet per day. However, you have mentioned that expected production capacities around 5,000 barrels per day. So, I wanted to ask, if this level could be achieved in how much time?

Mr. Zahid Mir: The overall plant capacity is to process low gas upto 225 MMscfd and the sales gas is 205 MMscfd. Some of the gas is used for utilities and some of the gas shrinks to LPG. So, as far as the gas is concerned, it is absolutely on capacity. The daily average oil production will stay between 4,000 to 4,500. There are more wells which are in the backup.

Mr. Sharoon Ahmad: So you expect the 4,000 barrels of oil production will likely continue for the foreseeable future, right?

Mr. Zahid Mir: Yes, we don't see a reduction in the next 2-3 years and our profile will remain the same.

Operator: We do have a question from Mr. Ahsan Arshad with Taurus Securities.

Mr. Ahsan Arshad: Hello Sir. My question is, do you think you could get permission for crude oil export going forward.

Mr. Zahid Mir: We only had permission from DG (Oil) to export half a million barrels of oil. But, we don't want to do that, unless it is really required. As a precautionary move, we took the permission of export, however, we managed to distribute those 4,000 barrels of KPD condensate to different domestic refineries.

Mr. Ahsan Arshad: Okay, thank you.

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. Zahid Mir: 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.