Oil and Gas Development Company Limited

Conference Call on Full Year Financial Results FY 2017 (July 2016 – June 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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Time: 5:00 PM (Pakistan Standard Time)

Mr. Zahid Mir: Ladies and Gentlemen, welcome to OGDCL's Full Year 2017 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) and Dr. Naseem Ahmad, Executive Director (Production),

The structure of today's presentation will consist of an overview of the Company, its operational and financial highlights for the year ended June 30, 2017 and then the closing remarks.

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Ladies & gents, I am pleased to inform you that during the year 2016-17, 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 33% 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, during FY 2016-17 OGDCL delivered 28% of Pakistan's gas output and 51% of its oil output. Our remaining 2P recoverable reserves estimates, stood at an impressive 868 MMBOE as at June 30, 2017. 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 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 2016-17, OGDCL reported average net crude oil production of 44,041 bpd, average net gas production of 1,051 MMcfd, average net LPG production of 455 MTPD and average net Sulphur production of 63 MTPD. During the period under review the Company spud twenty two (22) wells including eleven (11) exploratory/appraisal wells and eleven (11) development wells and Company's exploratory efforts to discover new hydrocarbon reserves yielded five (5) new oil and gas discoveries.

Moving on to the next slide 4, where you see a map of Pakistan which clearly shows OGDCL's dominant position in all the prospective areas of Pakistan. OGDCL's concession portfolio contains a diverse portfolio of exploratory assets with the potential to offer robust short, medium and long term growth opportunities. These exploratory assets of the Company currently constitute fifty eight (58) owned and operated joint venture exploration licenses along with holding working interest in five (5) 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 114,581 sq. kms as of 30 June 2017 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 Ali Qureshi, I am Chief Financial Officer in OGDCL. Turning to slide number 5, OGDCL being the largest E&P company of Pakistan continued to show resilience while pursuing its business strategy to carry out aggressive exploration activities, fast track completion of projects in hand and optimize production, efficiently and cost effectively, to counter the impact of low commodity prices. This led the Company to register improved Sales Revenue of Rs 171.829 billion against Rs 162.867 billion last year.

OGDCL's adherence to aforesaid business strategy has started to make significant gains, foremost being strong increase in crude oil and LPG production recorded during the year which is an increase of 8.5% & 33% respectively, when compared to preceding period. Moreover, other factors contributing in its sales growth were moderate recovery in realized price of crude oil averaging US$ 44.04 / barrel against US$ 39.07/ barrel in the preceding period accompanied with positive exchange rate variance.

Operating profit margin and net profit margin stood at 41% and 37%, respectively. In addition, the Directors of the Company, today recommended the final cash dividend of Rupees two (2) per share for the year, in addition to three cumulative interim cash dividends of Rs four (4) per share already declared and paid during the year.

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, during the year, carried on its drilling campaign to replenish and augment hydrocarbon reserves. In this regard, the Company spud twenty two (22) new wells comprising eleven (11) exploratory/appraisal wells and eleven (11) development wells. Additionally, drilling of fifteen (15) ongoing wells from the previous fiscal years continued, out of which drilling and testing of fourteen (14) wells have been completed, while total drilling meterage during the year was 81,774. OGDCL's exploratory endeavours to locate new hydrocarbon reserves during the year culminated in five (5) new oil and gas discoveries having expected cumulative daily production of 53 MMcf of gas and 320 barrels of oil. Preliminary reserves estimate attributable to the aforesaid discoveries is 124.47 billion cubic feet of gas and 0.82 million barrels of oil combined 22.80 million barrels of oil equivalent. Subsequently, in August 2017, another gas discovery with production potential of 5.73 MMcf per day is made at Bhambhra-1, district Sukkhur, Sindh province

As of 30 June 2017, the Company held the largest exploration acreage in the Country covering an area of 114,581 sq. kms. OGDCL during July 2016-June 2017 acquired 4,034 Line km of 2D and 1,153 sq. km of 3D seismic data representing respectively 66% and 34% of total seismic data acquisition in the Country.

Now 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 the leading flagship Company in Pakistan 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 its owned and operated joint venture fields. Pursuit to this led the Company to record highest ever gross crude oil production of 50,354 barrels per day on 28 November 2016. Moreover, the Company contributed largest share of 51% and 28% in the Country's total oil and natural gas production, respectively during July 2016-June 2017.

In pursuance to production optimization, OGDCL, during the year under review, injected twenty two (22) new wells in the existing production gathering system which cumulatively yielded gross crude oil and gas production of 2,012,718 barrels and 17,185 MMcf, respectively. Additionally, production testing has been completed at Dachrapur-3, Qadirpur HRL-12 and Chutto-1.

During the period under review, average net crude oil production of 44,041 bpd, average net gas production of 1,051 MMcfd, average net LPG production of 455 MTPD and average net Sulphur production of 63 MTPD were realized.

Going over to slide 8, OGDCL, during the year under review, completed mechanical commissioning of gas processing unit at KPD-TAY phase-II leading to supply of on-spec gas to SSGCL w.e.f 1 September 2016 while LPG production commenced on 14 December 2016. KPD-TAY daily current production is around 3,600 barrels of oil/condensate/NGL, 170 MMcf of gas and 260 Tons of LPG. After completion of performance test of the equipment and optimization of parameters, KPD-TAY project will render expected average daily production of 4,000 barrels of oil/condensate/NGL, 205 MMcfd of gas and 350 Tons per day of LPG per day. Likewise, the commissioning of hot oil system, amine and dehydration unit, overall completion of Uch-II development project is achieved on 12 January 2017. At present, Uch-II plant is in normal operational mode and producing around 130 MMcf of gas per day. Jhal Magsi Development Project is on hold at the moment as the matter is being reviewed at Government level for a decision on the same. EPCC contractor at Nashpa development project has completed the design phase and after delivery of major equipment at site, installation and erection works are in final stage. At present, Nashpa plant's production is around 22,650 bopd of oil and 94 MMcfd of gas. Expected daily incremental production upon completion of the project is 1,100 barrels of oil/NGL, 10 MMcf of gas and 340 Tons of LPG. At Soghri development project, shifting of amine unit from Sinjhoro field and procurement of necessary equipment has been completed while hiring of the PC contractor is in progress, On completion in June 2018, the Soghri project is anticipated to render incremental production of 20 MMcf of gas per day.

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 slight increase in net sales revenue due to the increase in oil prices and increase in Oil & LPG production and slight increase in average dollar exchange rate of Rs 104.94 as compared to Rs 104.56 in the corresponding period last year. Higher operating expenses were mainly due to increase in salaries, wages and benefits, work over charges, repairs and maintenance, rent, fee and taxes, depreciation expenses and utilities expenses. Decrease in exploration & prospecting expenditure was on account of cost of dry and abandoned wells (4 wells declared as dry in the current period while 6 wells declared dry last year) and prospecting expenditure which is lower in the current period as compared to corresponding period. Higher net profit was mainly due to increase in prices of crude oil & production increase in the current period.

Turning to slide no 10 which evinces the key performance indicators of the Company. We recorded profit after tax of Rs 63.80 billion as against Rs 59.97 billion last year. Earnings per share, closed in at Rs 14.83 per share as against Rs 13.94 per share last year. Cumulative dividends per share during FY are Rs 6.00 when compared to last year at Rs 5.20

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 Fawad Khan from BMA Capital Management. Please go ahead.

Fawad Khan : I have two questions. First, if there's any resolution of the Uch gas pricing during the year and if there is, please guide us in terms of detail on the exact gas prices that OGDCL will be looking at?

Zahid Mir: There is no resolution as yet and we are discussing this with the Government, and OGRA to notify the price and an hope for that this will be resolved very soon. Additionally, we have not booked any revenues at the new oil and gas prices, which will be booked after the notification.

Fawad Khan: So has ECC given you approval on this, on the oil prices?

Zahid Mir: There is a Uch-II gas pricing agreement that has been signed between the buyer and the seller. Issue is that, OGRA needs to notify the price but OGRA can only notify if there is an agreement with the Government. However, as stated earlier, we expect that the issue will be resolved soon.

Fawad Khan: Okay. My next question is about the Business Plan drilling target 2016-17. Company has drilled 22 wells, both exploration and development against 25 wells. What are the Company's drilling target for the year 2018 and what kind of CAPEX target would the Company be undertaking on the exploration and development to deliver in 2017-18?

Zahid Mir: OGDCL has planned to drill 25 wells in the 2017-18. A lot will depend upon the results of the seismic that we have recently acquired and we are currently processing the data. The total CAPEX that we anticipate spending in our current fiscal year is about Rs 55 billion.

Fawad Khan: Thank you.

Operator: We'll move next to Nauman Khan from Foundation Securities. Please go ahead.

Nauman Khan: Asslam-o-Alaikum. There was a maturity of PIB of about Rs 55 billion towards the end of July. Can you just brief us, how did you receive the cash flow and how will you spend that cash going forward?

Zahid Mir: Yes, the cash has been received. Currently, it is invested in the treasury bills. Board is considering different options and one of the options is to give it back to the shareholders, we are also looking at possibilities of acquisitions in and outside Pakistan, so there may be a possibility that we may acquire additional production or we decide to go outside Pakistan to get some blocks for exploration. Nothing is finalized yet and all available options are being considered.

Nauman Khan: Thank you very much.

Operator: We will now take our next question from Kishor Kumar from Multiline Securities Private Limited. Please go ahead.

Kishor Kumar: Hello. Assalam o alaikum. I have a couple of questions. OGDCL has recently signed an MOU with the MOL Group. I just want to ask if there are any firm project in sight and what will be the return on that project?

Zahid Mir: Yes, we have just signed the MOU a couple of days back. Well, it is too early to say. And there are many projects which are under evaluation in Pakistan and outside Pakistan. And I think it will take some time before we finalize a project. I mean, it's currently in the evaluation phase. It's not only MOL, but we have also signed an MOU with Gazprom, the Russian gas company.

Kishor Kumar: Sir, what is your strategy in the Baluchistan province which is a high risk and high reward zone keeping in view OGDCL exploration of success ratio of 1 : 2.84. And reservoir has it that China is trying to enter in the Baluchistan for tight gas. So what are your plans for the Baluchistan province?

Zahid Mir: Baluchistan is more of a frontier area, and there were and are security issues, which are now being gradually cleared up. So, we are moving into Baluchistan and we expect to be drilling more wells. Three seismic companies are operating in Baluchistan and we have conducted record seismic in Baluchistan. Overall, we have got 11 blocks in Baluchistan and it is expected that we will be drilling wells there also. As far as tight gas is concerned, the Company is not privy to any information on tight gas in Baluchistan.

As far as your question about the Chinese company, yes, interests has been shown by a Chinese company to work with us on the shale gas. And we are discussing with them. The Government is working on the shale gas price and we are also currently working with PPL as a joint venture to drill shale gas as a pilot project and once that is done, then further activity will depend upon the shale gas price and the commercial viability of the project.

Kishor Kumar: Okay. Thank you.

Operator: Thank you. We will now take our next question from Ali Asghar from Al Meezan Investments.

Ali Ashgar: Assalam o alaikum, everyone. My question is on the TFC's principle and interest payment that are due from the Government, can you throw some light on it, when do you expect to see repayment?

Zahid Mir: We've recently received about Rs 5 billion in June 2017 of the outstanding TFC mark-up. The mark-up is still outstanding and so is the principal amount. Now, the Government wants to reschedule this TFC. Currently, we are negotiating with the Government to agree on a viable solution.

Ali Ashgar: Thank you.

Operator: Our next question will come from Danish Ali with Alfalah Securities. Please go ahead.

Danish Ali: Assalam o alaikum. What can we expect on the foreign acquisitions from OGDCL? Will OGDCL go for acquisition of share in Exploration blocks in Africa and Middle East region?

Zahid Mir: There is no specific preference as far as a region as a region concerned. However, opportunities in Middle East, Africa and Central Asia are a possibility. Nothing is firm yet but we hope that in this year, we will be able to identify something interesting and get the approval from the Board.

Danish Ali: Thank you.

Operator: Our next question will come from Saad Ali with Intermarket Securities. Please go ahead.

Saad Ali: Assalam o alaikum, everyone. Can you give a bit more colour on the CAPEX plan? Specifically, in light of the fact that most of your development projects have completed or are near completion and you have plans for about $500 million of CAPEX for the upcoming FY 2018. Where exactly would this CAPEX go and which projects are you looking at?

Zahid Mir: The large portion of our CAPEX will go into drilling of wells. The other major CAPEX overlay will be towards the completion of Nashpa project.

Saad Ali: All right. And given the plan of about 25 wells, how many of them will be exploratory?

Zahid Mir: This year, 16 wells will be exploratory.

Saad Ali: So there is more exploration this year?

Zahid Mir: Yes, that's what we are targeting this year.

Saad Ali: Just a question on the exploration expenses which are pre-drilling, would there be a decline in this year in that your drilling may increase? Or can we look similar exploration expenses in the future, aside from dry wells, of course?

Zahid Mir: The large spending on seismic acquisition over the last two or three years has been on account of the 28 new blocks that we took in the year 2014. In about a year's time, seismic acquisition commitments on these blocks will be completed. So yes, you can expect some decline after nine months or so, the seismic expense will start to go down.

Saad Ali: Right. Last question. What will your guidance for production from KPD and from Nashpa in the following year? You have already given us the current production levels, but is there a certain target that you have for these two blocks?

Zahid Mir: The oil & gas production in KPD/TAY will rise. We are producing about 170 million cubic feet per day and we expect to cross about 200 MMscfd pretty soon. The current oil production is about 3,600 barrels per day, and we expect to add about 1,000 barrels. As far as Nashpa is concerned, currently, we are producing 90 MMscfd from Nashpa. But the main commodity that will come out of Nashpa project is the LPG, which will be 350 tonnes per day. It is expected that by the end of November 2017, may be December 2017, this field will fully come online. So basically, the full year impact of KPD for oil, gas and LPG will come in this year, as well as the new LPG production from Nashpa.

Saad Ali: Is the KPD-TAY project completely online? Or there are still some areas which require completion?

Zahid Mir: I would say, 80% of the production is online. We have overcome the debottlenecking issues and it is now being re-commissioned after the recent ATA. By next week, hopefully, it will achieve full production.

Saad Ali: Thank you so much.

Operator: Our next question will come from Sanakhawan Syed from JS investments, please go ahead.

Sanakhawan Syed: Assalam o alaikum, everyone. Last year, when the oil prices were declining, there was a narrative by the management that the cost on the entire value chain has adjusted downwards. So I just wanted to understand with the oil prices rebounding somewhat, have the cost remained sticky downwards, or is there a change in the downward trend?

Zahid Mir: The trend is still here. OGDCL have recently negotiated better rig rates @ $17,500 a day for the last three rigs that we have engaged. So, for the time being, there are no increase in rates that the Company has witnessed.

Sanakhawan Syed: What oil price are you assuming for your budgetary purposes?

Zahid Mir: We take the forecast from different sources and then we take an average of these. The current average is something like $ 54 / 55 per barrel, which is what we take for budgetary purposes.

Sanakhawan Syed: Thank you.

Operator: We will take our follow-up question from Fawad Khan with BMA Capital Management.

Fawad Khan: Sure. Just a follow-up question on the acquisition of OMV that OGDCL mentioned at the time of the maturity of the PIBs. So has there been any progress on the acquisition side?

Zahid Mir: Well, it's a possibility. It's an opportunity that is available in Pakistan. However, it's a small sized opportunity. The total production of the Company is about 40 MMscfd of gas which is not a huge number. However, we are evaluating it and if the opportunity makes any economic sense for us, we will go ahead with it. The fields that they are operating are pretty much at the end of the life.

Fawad Khan: Sure. If I can ask one more question, and once again, this relates to acquisition. OGDCL already owns 20% of Mari Petroleum, and apparently the Government is kind of divesting 20% more, potentially in the secondary market. So I just wondered if OGDCL would be interested, either directly or indirectly, in negotiating with the Government.

Zahid Mir: We are not negotiating. The Government has set a price, which we think is high and they had given us an option according to the shareholder agreement. The option of first right of refusal which we have not exercised.

Fawad Khan: Thank you.

Operator: It appears there are no further questions at this time. 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.