Oil & Gas Development Company Limited
Conference Call Transcript
Half-Year FY2013 Results
Wednesday, February 20, 2013

Oil and Gas Development Company Limited

Conference Call on OGDCL Half-Year Results FY2013 (July - December 2012)

Presenters: **Mr. Muhammad Rafi, (Executive Director – Finance / CFO)**
Mr. Zahid Imran Farani, (Executive Director - Exploration)
Mr. Khalid Subhani, (Executive Director - Production)

Date: **Wednesday, February 20, 2013**

Time: **4.30 PM (Pakistan Standard Time)**

Mr. Muhammad Rafi: Ladies and gentlemen, greetings from OGDCL Pakistan. I welcome you all to OGDCL's Half-Year Results FY2013 conference call. I believe all of you have received OGDCL's Half-Year Results FY2012-13 presentation which our Investor Relations team has sent to you a short while ago. Let's start on page 2 of the presentation where I'd ask you to go over the legal disclaimer. I will take a short pause while you read the legal disclaimer.

I hope all of you have gone through the legal disclaimer. Ladies and gentlemen, I welcome you all on behalf of Mr. Masood Siddiqui, Managing Director and CEO, OGDCL who had to leave for a very urgent meeting with a foreign delegation.

I am very pleased to inform you all that our Company is the largest upstream player in Pakistan. We enjoy the largest share of exploration acreage in the Country, which currently stands at 19% of the total awarded acreage. As of June 2012, OGDCL holds 60% of the Country's recoverable oil reserves and 39% of the country's recoverable gas reserves. In terms of production, currently OGDCL delivers 24% of Pakistan's gas output and 53% of its oil output. Our remaining 2P (Proven & Probable) recoverable reserves estimate, as of December 31, 2012 stood at an impressive 1,027 MMBOE.

OGDCL has a portfolio of 61 fields, out of which 46 fields are 100% owned and operated, while 15 are non-operated fields where we act as non-operators, having Joint Venture agreements with foreign as well as local E&P companies. We have extensive experience in operating in all the four (04) provinces of the Country and hence have acquired the expertise, which is second to none, in operations in all the varied geological terrains of Pakistan.

On the production volume side, OGDCL's net crude oil production witnessed a significant increase of 9.3% while the Company's net gas production increased by 5.5% when compared to the corresponding period last year. During July-December 2012, OGDCL spudded 11 wells, (3 exploratory/appraisal and 8 development wells). Exploration and appraisal success continued during the period under review, yielding three (03) new oil and gas discoveries namely Nashpa-3, Zin SML-1 and Suleman-1.

On slide number 4, you can see a map showing our exploration licences. This map clearly shows OGDCL's dominant position in all the prospective areas of Pakistan. A province-wide break-up as well as operated/non-operated break-up of our exploratory licences in the Country is shown here along with the pie chart which illustrates the province-wise percentage of acreage of OGDCL.

Ladies and gentlemen, now I will present the financial results for the Half-Year FY2013, which are summarised at slide number 5.

I am very happy to share with you that the Company maintained its rising trend of profitability during the period under review. The Company's sales revenue and profit after taxation rose to Rs 110.626 billion and Rs 49.227 billion as against Rs 88.680 billion and Rs 41.573 billion in the corresponding period of last year. These strong results have translated into Earnings per Share of Rs 11.45, indicating business sustainable growth and robust financial position.

During the period under review, the Company's improved financial performance is primarily attributable to increased hydrocarbon production coupled with increase in realised prices of crude oil, gas and LPG which averaged at US $82.78/barrel, Rs 263.83/Mcf and Rs 78,664/M.Ton respectively. Operating profit margin and net profit margin stood at 61% and 44%, respectively. In addition, The Directors of the Company today approved a second interim dividend of Rs 2 for the year 2012-13.

Ladies and gentlemen, to take you through the next slide, I now hand over the presentation to Mr. Zahid Imran Farani, who is OGDCL's Head of Exploration.

Mr. Zahid Imran Farani: Good day, Ladies and gentlemen. This is Zahid Imran Farani, Executive Director (Exploration).

During July-December 2012, the Company spudded eleven (11) new wells, including two (2) exploratory wells namely Raja-1 and Multan North-1, one (1) appraisal well Chak-Naurang South-2 and eight (8) development wells namely Nashpa-4, Qadirpur-46, Qadirpur-49, Bahu-5, Bahu-6, Bahu-7, Rajian-7 and Bobi-10.

As of December 31, 2012, the Company held the largest exploration acreage in the Country, covering an area of 52,863.18 Sq.kms. OGDCL's concession portfolio constituted thirty three (33) owned and operated joint venture (JV) exploration licences, in addition to having working interest ownerships in eight (8) blocks operated by other Exploration and Production companies. Exploration and appraisal successes continued during the period under review, yielded three (3) new oil and gas discoveries, namely Nashpa-3, Zin SML-1 and Suleman-1 well. During the period under review, the seismic crew of the Company acquired 841 L. Kms of 2D and 631 Sq. Kms of 3D seismic data.

Now I hand over to Mr. Khalid Subhani, Head of Production, who will take you through the next couple of slides.

Mr. Khalid Subhani: Hello, everyone. This is Khalid Subhani and I am Executive Director (Production).

During the period under review, OGDCL's net crude oil production witnessed a significant increase of 9.3%, primarily owing to start-up of production from Nashpa-3 and increase in production from Kunnar, Tando Alam, Bobi and Rajian oil fields along with increase in share of crude oil production from non-operated joint ventures.

Similarly, the Company's net gas production increased by 5.5%, mainly on account of increase in production from Kunnar, Mela and Nashpa fields in addition to increase in share of gas from non-operating JV fields. OGDCL's gas production during the reporting period, was adversely affected due to torrential rains at Qadirpur field and less intake by M/s Uch Power Limited due to tripping of its turbines and their extended Annual Turn Around (ATA) of forty four (44) days instead of the scheduled thirty (30) days. Regarding shut-in fields, the Company has completed the Nur & Bagla project and is ready to produce 100 barrels per day of condensate along with the supply of 10 MMcf per day of gas subject to laying of gas pipeline by M/s SSGCL.

Moving to the next slide, where latest status on our various development projects is given.

The Company is making all-out efforts to expedite the development of its ongoing projects. It is pertinent to mention here that OGDCL has also successfully completed Phase-1 of Sinjhoro Development Project and is currently supplying around 10 MMcf of gas per day to M/s Sui Southern Gas Company Limited (SSGCL) and producing 1,000 barrels of oil per day.

I now ask Mr. Muhammad Rafi, our CFO, to continue with the presentation.

Mr. Muhammad Rafi: As you would see at slide number 10, during this half-year, we have been able to improve on most of our Key Performance Indicators when compared with the corresponding period. The net sales increased by 24.7%, operating margin and EBITDA margin and net profit margin was slightly lower, but profit after tax increased by 18.4%. Profit from operating activities increased by 21.6%. Earnings per Share during the half-year increased by 18.4% to Rs 11.45 per share and the cumulative dividend to Rs 3.75 for FY2013 which was 25% higher when compared to corresponding period last year.

Ladies and gentlemen, OGDCL's management is fully focused on achieving consistent growth in production volumes of the Company. To this end, we are on a constant pursuit of conducting successful exploration with a view to increase our reserves base. OGDCL is 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 of our operations. Finally, we plan on achieving all this production growth by leaving a minimal signature on the environment, and at the same time enhancing the welfare of communities where our operations are located.

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.

Thank you, ladies and gentlemen.

Operator: Thank you. Ladies and gentlemen, the question and answer session will be conducted electronically. If you would like to ask a question, please press the star or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has been answered, you may remove yourself from the queue by pressing *2. Once again, press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

We will now take our first question from Mr. Saad Sayed of Taurus Securities. Please go ahead.

Saad Sayed: Assalam-o-Alaikum. I would like to ask what is the current scenario of resolving the gas supply to SNGPL? When would it come online? And secondly, how much it would cost? Like as per the market news it's somewhere around $5-$6 but if you can shed light on it further. Thank you.

Mr. Muhammad Rafi: You have asked about the gas supply from SNGPL but you have not mentioned the field. Which field you are referring to?

Saad Sayed: Pertaining to M/s Engro.

Mr. Salman Amin: Thank you. As per the recent allocation made by the Government of Pakistan, 202 MMcfd of gas from five fields belonging to different producers have been allocated to the consortium comprising of four fertilizer manufacturing companies. Pertaining to M/s Engro, they are also a part of this consortium and will get 79 MMcfd of gas from the allocated volume. The price of Gas for each producer shall be fixed under the applicable petroleum policy and relevant Gas Pricing Agreements.

Operator: We will now take our next question from Asad Siddiqui of Top Line Securities. Please go ahead.

Asad Siddiqui: Good day, gentlemen. Could you please give me a break-up of the exploration cost because I see it has gone up by two-folds if we compare it to the previous year? So could you please provide me with the break-up?

Mr. Muhammad Rafi: I believe you are asking about the exploration and development expenditure for the half-year FY2013.

Asad Siddiqui: Yes.

Mr. Muhammad Rafi: Exploration and development expenditure increased during the period under review because of the write-off of five (05) exploratory wells as against no well charged as dry well in the corresponding period of last year. That is why the cost is higher.

Operator: We will now take our next question from Salman Badami of HBL Asset Management. Please go ahead.

Salman Badami: Hi, why exploration cost has increased significantly in this quarter?

Mr. Muhammad Rafi: I have just answered this question. During this quarter, there were five (5) dry holes.

Operator: We will now take our next question from Asmar Shams of UBL Fund Managers. Please go ahead.

Asmar Shams: I wanted to ask which wells have you expensed out during the period and if you would give an approximate amount of the expenditure.

Mr. Muhammad Rafi: The wells that were expensed out during the period under review are Naurang-Shah-1, Jabbi-1 (Side Track), Khawaja-1(Side Track), Multan-North-1 and Uch Deep-1B (Side Track) with an approximate cost of Rs 625 million, Rs 418 million, Rs 379 million, Rs 256 million and 231 million respectively.

Operator: We will now take our next question from Sanam Khan of Almeezan Investments.

Sanam Khan: I have two questions on Uch. First question, Uch was also downgraded last year and then revised again upwards. Any specific reason for that?

Mr. Muhammad Rafi: I will request my colleague, Mr. Muhammad Yousaf of Reservoir Management Department to answer this question.

Mr. Muhammad Yousaf: The reserves have been upgraded on account of completion of drilling of fifteen (15) wells.

Sanam Khan: Thank you. My second question is what will be the policy applicable on the Uch-II? Will it be old policy price or new policy price on supply of additional production of 160MMcfd?

Mr. Muhammad Rafi: Let me inform you that Uch II pricing is being negotiated with M/s Uch II Power Limited on IRR basis and the Government has allocated this gas for power generation purposes. Therefore, the applicable price will be higher compared with the previous one, since this is low BTU gas.

Sanam Khan: Thanks.

Operator: We will now take a follow-up question from Asad Siddiqui of Top Line Securities. Please go ahead.

Asad Siddiqui: Coming back to your supply to SNGPL regarding the fertilizer sector, can you shed some light on what range would the price be per MMBtu because as I understand internationally, fertilizer sector is supplied gas at $3.50-$4.50 per MMBtu. So would it be in the same range or would it be higher than this?

Mr. Salman Amin: Thank you. As per the allocation made by Government of Pakistan, OGDCL has got three fields allocated to supply gas to fertilizer manufacturing companies. The first one being the KPD-TAY (Kunnar Pasakhi Deep- Tando Allah Yar) where we are going to supply at the applicable Petroleum Policy 2001 price The next are Bahu and Reti-Maru fields where we are having negotiations with the fertilizer manufacturing companies that whether they would like to get processed or unprocessed gas. If they are going to get the processed gas, obviously the cost factor such as processing charges, capital expenditure and other related costs would be included in the pricing. And if they would like to get the raw gas then obviously policy price will be applicable.

Operator: We have no further questions. Would you like me to close the call now?

Mr. Muhammad Rafi: Yes, before you close down, I wish to thank all the participants who attended today's conference call.

Operator: That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.