

## RATING REPORT

## Sui Northern Gas Pipelines Limited

**REPORT DATE:**

December 1, 2023

**RATING ANALYST:**

Nikeeta Rani

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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Date	December 01, 2023		November 02, 2022	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

## COMPANY INFORMATION

Incorporated in 1963	<b>Chairman of the Board:</b> Mr. Muhammad Ismail Qureshi
Public Listed Company	<b>Chief Executive Officer:</b> Mr. Amer Tufail
Key Shareholders (with stake 10% or more):	<b>External Auditors:</b> M/s. Yousaf Adil Chartered Accountants
Government of Pakistan – 58%	
General Public and Others – 42%	

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023) & Government Supported Entities (July 2020)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

<https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf>

## APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Sui Northern Gas Pipelines Limited (SNGPL)

OVERVIEW OF  
THE  
INSTITUTION

## RATING RATIONALE

**Sui Northern Gas Pipelines Limited** is a public limited company incorporated in Pakistan in June 1963 under the Companies Act, 1913 (now Companies Act, 2017) and listed on the Pakistan Stock Exchange Limited. The principal activity of the Company is the purchase, transmission, distribution and supply of natural gas.

**Chairman of the board:**

Mr. Muhamad Ismail Qureshi was last Rector of National School of Public Policy (NSPP), Pakistan's premier institute of public-servants' training and education till December, 2016. He has over 35 years of experience in public service and development, and has served in many positions in the Government of Pakistan

**Chief Executive Officer:**

Mr. Amer Tufail is a Chartered Accountant with ICAP membership. He joined the Company in 2004, holding key roles including Deputy MD (Services). With 28+ years of experience, he's worked in national and multinational entities, including multilateral funding agencies, exhibiting expertise in diverse fields.

**Industry Review:**

The gas industry in Pakistan is facing a significant demand-supply gap due to declining domestic natural gas production. Production of natural gas from indigenous resources is decreasing. Thus, to bridge the supply demand gap, Pakistan's reliance on imported Re-gasified Liquefied Natural Gas (RLNG) has traced an increasing trend over the recent years.

The indigenous gas production during FY22 was recorded at ~3,390 MMCFD (FY21:~3,505 MMCFD). As indigenous gas reserves deplete, gas production is likely to remain on a downward trend, projected to decrease to ~2,777 MMCFD by FY25 and further to ~1,369 MMCFD by FY31. Concurrently, gas demand is anticipated to rise, reaching ~5,017 MMCFD by FY25 and ~5,597 MMCFD by FY31. To address this challenge, gas utility companies have projected an investment of PKR ~96 bln for FY24, aimed at transmission, distribution, and other projects. However, during 9MFY23 period, RLNG imports declined to ~6.3mln MT, as against ~7.5mln MT during SPLY.

While the industry grapples with these challenges, the sector's regulatory framework, governed by Oil and Gas Regulatory Authority (OGRA), plays a pivotal role in determining prescribed gas prices, incorporating allowances for factors like UFG (Unaccounted for Gas), among others. Profitability within the sector is influenced by these regulatory aspects.

**Company Profile**

Sui Northern Gas Pipelines Limited ('SNGPL' or 'the Company'), was incorporated as a private limited company in 1963 and subsequently transformed into a public limited company in January 1964 listed on the Pakistan Stock Exchange Limited (PSX). Initially, SNGPL acquired the Sui – Multan System, encompassing 217 miles of 16-inch and 80 miles of 10-inch diameter pipelines, from the Pakistan Industrial Development Corporation (PIDC). Additionally, it procured the Dhulian – Rawalpindi – Wah system, comprising 82 miles of 6-inch diameter pipeline, from Attock Oil Company Limited. Commencing operations, SNGPL initiated gas sales averaging 47 MMCFD, effectively catering to 67 consumers distributed across the Multan and Rawalpindi regions.

Currently, as a premier integrated gas entity, SNGPL boasts a vast client base of nearly 7.5 million consumers within North Central Pakistan, extending its reach across Punjab, Khyber Pakhtunkhwa, and Azad Jammu & Kashmir. Leveraging over six decades of experience, SNGPL manages an expansive high-pressure gas transmission and distribution infrastructure. Total Transmission and Distribution network has extended to 9,052 KM and 146,327 KM respectively. Moreover, SNGPL demonstrates its versatility by extending its competencies to encompass Engineering, Procurement, and Construction (EPC) services, catering to both in-house ventures and external collaborations.

During FY23, RLNG's share in the energy mix decreased to 41%, a decline from the 49% in FY22. This decline can be attributed primarily to constraints in cargo transportation resulting from the Ukraine-Russia war. However, it is anticipated that the share of RLNG will rebound

and rise to approximately 50% in the upcoming period and it will continue to increase with increasing demand.

Moreover, SNGPL has expanded its operational scope, assuming the role of an Engineering, Procurement, and Construction (EPC) contractor. This move has enabled SNGPL to undertake the intricate tasks of pipeline planning, design, and construction, both for its own needs and on behalf of other organizations, further solidifying its position as a versatile industry player.

Last financial statements published by the Company is of 9MFY23. Currently, the financial statements for the year ending June-23 have not been published owing to cascading impact of delay in finalization of revenue requirement of prior years.

In June 2023, Amer Tufail was appointed as the Managing Director of Sui Northern Gas Pipelines Limited (SNGPL) by the Board of Directors, after the removal of Ali J. Hamdani. Changes were also noted in Board Composition.

#### **Key Rating Drivers:**

**Government Ownership and Sovereign Support:** SNGPL's ownership status as a semi-government entity, with ~58% of shares held directly or indirectly by the government, is a factor that provides significant comfort to ratings. This ownership structure provides a level of assurance in terms of potential sovereign support. The business risk profile of the company derives strength from its established franchise network, guaranteed return on net operating assets and presence of the sovereign throughout the value chain.

**Regulatory Framework and Policy Dynamics:** Ratings are significantly impacted by the regulatory framework governing the gas sector in Pakistan. The sector operates under strict oversight by the Oil and Gas Regulatory Authority (OGRA), which annually determines tariff structures and operational costs.

**Monopolistic Market Structure and Strategic Importance:** SNGPL's ratings are influenced by the monopolistic market structure of the gas distribution sector in Pakistan, further compounded by its strategically significant role in the country. With SNGPL and Sui Southern Gas Company Limited (SSGCL) being the primary players, each serving specific regions, the lack of competition within their respective jurisdictions affects the business environment. This concentration of market share not only underscores revenue generation and operational efficiency dynamics, but also emphasizes SNGPL's pivotal contribution to Pakistan's energy landscape, highlighting its strategic importance in the country.

**Impact of Recent Gas Tariff Increase and Circular Debt in SNGPL:** SNGPL is entangled in the gas circular debt issue, primarily caused by accumulation of tariff adjustments in both indigenous gas and RLNG segments. The recent gas tariff increase effective from November 2023, is expected to narrow the gas tariff differentials for SNGPL. This adjustment is anticipated to result in positive cash flow for the Company and will help stop the accumulation of circular debt.

**Changes in OGRA's UFG Benchmarks:** OGRA determined an overall UFG (Unaccounted for Gas) benchmark of 6.98% for both Transmission and Distribution networks in finalizing FRR of FY 2021-22. Recent changes include a 6.25% UFG allowance for SNGPL in the distribution system and 0.36% in the transmission network. OGRA will now track performance independently in distribution and transmission. However, this decision is under review, and SNGPL has requested determining the

benchmark after due consultation with stakeholders and experts, as per law. It has been contended, that till that is not done, existing benchmark may continue.

**Capitalization, Liquidity, and Coverage:** Ratings also consider SNGP's financial profile. Between FY20 and FY22 the reduction in total debt, coupled with increase in equity, signifies gradual improvement in the gearing profile, reported at 2.1x (FY21: 3.0x, FY20: 4.4x) in FY22. Leverage remained heightened due to the Company's exposure to the country's Circular Debt and significantly inflated payables. Moreover, SNGP's liquidity and coverage profile remained stable during the last two years. Company's Funds from Operations improved in FY22 as a result of higher profitability, FFO-to-Total Debt ratio improved from 56.6% in FY20 to 92.2% in FY22. Similarly, Debt Servicing Coverage Ratio (DSCR) has displayed an improved trend to 2.0x in FY22 from 1.7x in FY20.

**New discoveries:** With indigenous gas depletion at 8%-9% annually, new discoveries have become increasingly important. SNGP has initiated infrastructure work on two new discoveries which shall be able to inject gas upto 40 MMCFD from Bannu West gas field (well # 1) and 21 MMCFD gas from Wali gas field (well # 1), connecting them to the network to supply gas to Bannu. The project cost is around Rs. 15 billion, which is generally funded through 65:35 debt equity ratio. To sustain UFG levels, Rs. 13-15 billion rehabilitation and augmentation programs have also been planned, primarily funded by equity.

**Sui Northern Gas Pipelines Limited Appendix I**

<b>FINANCIAL SUMMARY (PKR Millions)</b>						
<b><u>BALANCE SHEET</u></b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>
Property, plant and equipment	164,102	190,610	200,838	205,998	214,091	224,938
Stock-in-trade	10,271	31,405	9,007	6,825	4,680	12,497
Trade debts	57,817	66,315	157,573	164,762	172,260	307,900
Cash & Bank Balances	3,648	7,075	6,153	7,513	10,328	15,794
<b>Total Assets</b>	<b>324,187</b>	<b>461,157</b>	<b>629,382</b>	<b>800,997</b>	<b>918,060</b>	<b>1,268,107</b>
Trade and Other Payables	131,662	233,680	351,430	452,394	528,309	828,842
Long-term Debt (incl. current portion and lease liability)	55,228	62,408	50,928	79,943	72,962	65,573
Short-term Debt	999	3,987	28,487	29,724	29,599	19,019
<b>Total Debt</b>	<b>56,227</b>	<b>66,394</b>	<b>79,415</b>	<b>109,668</b>	<b>102,561</b>	<b>84,592</b>
<b>Total Liabilities</b>	<b>313,591</b>	<b>442,481</b>	<b>608,339</b>	<b>775,860</b>	<b>883,840</b>	<b>1,228,459</b>
Paid up Capital	6,342	6,342	6,342	6,342	6,342	6,342
Equity (excl. Revaluation Surplus)	10,596	18,677	21,042	25,137	34,220	39,648
<b><u>INCOME STATEMENT</u></b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>
Net Sales	346,308	503,782	781,900	744,555	757,627	1,293,677
Gross Profit	19,699	26,997	35,796	54,337	52,852	85,522
Operating Profit	17,890	26,282	36,926	57,393	55,879	72,800
Finance Costs	5,351	10,806	25,777	48,976	40,037	57,296
Profit Before Tax	12,539	15,475	11,149	8,417	15,842	15,504
Profit After Tax	8,615	11,121	7,076	5,998	10,986	10,366
<b><u>RATIO ANALYSIS</u></b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>
Gross Margin (%)	5.7%	5.4%	4.6%	7.3%	7.0%	6.6%
Net Margin (%)	2.5%	2.2%	0.9%	0.8%	1.5%	0.8%
Funds from Operation (FFO)	19,131	26,566	43,886	62,062	65,799	77,970
FFO to Total Debt* (%)	34.0%	40.0%	55.3%	56.6%	64.2%	92.2%
FFO to Long Term Debt* (%)	34.6%	42.6%	86.2%	77.6%	90.2%	118.9%
Gearing (x)	5.3	3.6	3.8	4.4	3.0	2.1
Leverage (x)	29.6	23.7	28.9	30.9	25.8	31.0
Debt Servicing Coverage Ratio* (x)	2.3	1.7	1.9	1.7	1.9	2.0
Current Ratio	1.0	1.0	1.0	0.9	1.0	1.0
(Stock in trade + trade debts) / STD (x)	68.1	24.5	5.8	5.8	6.0	16.8
Return on Average Assets* (%)	5.3%	2.8%	1.3%	0.8%	1.3%	0.9%
Return on Average Equity* (%)	120.50%	76.0%	35.6%	26.0%	37.0%	28.1%

\*Annualized, if required

REGULATORY DISCLOSURES				Appendix II	
<b>Name of Rated Entity</b>	Sui Northern Gas Pipelines Limited				
<b>Sector</b>	Gas Utilities				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	01/12/2023	AA+	A-1+	Stable	Reaffirmed
	02/11/2022	AA+	A-1+	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>		<b>Date</b>
	1	Mr.Faraz Ejaz	Chief Accountant Tax		
	2	Mr Raheel Farooq	General Manager Accounts		