RATING REPORT

PGP CONSORTIUM LIMITED (PGPC)

REPORT DATE:
September 20, 2019

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Preference Shares	BBB		BBB	
Rating Outlook	Rating Watch Developing		Positive	
Outlook Date	*Sep 17'2019*		*Apr16'2018*	

COMPANY INFORMATION

Date of incorporation: Sept 2015	**External auditors:** A.F.Ferguson & Co. Chartered Accountants
Public Limited (Unlisted) Company	**Chairman:** Mr. Iqbal Z. Ahmed **Chief Executive Officer**: Mr. Fasih Ahmed
Key Shareholders	
PGP Consortium Limited (PGPC) is a wholly owned subsidiary of Pakistan GasPort Limited (PGPL). The ordinary share capital of PGPL on finalisation shall be as given below:	
Jamshoro Joint Venture Limited(JJVL)	25.0%
Ahmed Family (Attiq, Fasih, Razi, and Sadia Ahmed)	25.3%
Mian Amir Mahmood	23.3 %
Rehmat Khan	5.0%
TRAFIGURA	5.0%

APPLICABLE METHODOLOGY(IES)

Industrial Corporate (May 2019)
Preference Shares (Feb 2003)
https://www.vis.com.pk/kc-meth.aspx

PGP Consortium Limited

OVERVIEW OF THE INSTITUTION

PGP Consortium Limited (PGPC), a wholly owned subsidiary of Pakistan GasPort Limited (PGPL), has established the country's second and the largest LNG import terminal at Port Qasim, Karachi

Profile of Chairman

Mr. Iqbal Z. Ahmed is the co-founder and chairman of the Associated Group (AG). He is a masters in economics from Punjab University. He has served as the chairman of LPG association of Pakistan and also serves as the president of the Government college university's endowment trust fund & President of King Edward Medical University's mobilization fund.

Profile of CEO

Mr. Fasih Ahmed, CEO of the company, is a graduate of Columbia University, USA. He is the founding editor-in-chief of Newsweek Pakistan, and had previously worked at The Wall Street Journal. Mr. Ahmed is a recipient of an East-West Institute fellowship.

Financial Snapshot

Total Equity: 3QFY19-Rs6.9b; FY18- Rs. 5.4b, FY17-Rs. 4.6b

Net Profit/(Loss):3QFY19-Rs.1.2b; FY18- Rs. 665.1m, FY17-Rs. (58.3m)

RATING RATIONALE

Key Rating Factors:

The ratings assigned to PGP Consortium Limited (PGPC) takes into account the ownership profile of the Company. PGPC is a wholly owned subsidiary of Pakistan GasPort Limited (PGPL), whose associate company Jamshoro Joint Venture Limited (JJVL) has sizable experience of establishing and operating energy sector projects. Ratings draw comfort from smooth operations of the business, sustained margins, enhanced profitability, sound cash coverages and improvement in leverage indicators.

Project Profile: PGPC has inked a 15-year LNG Operation and Services Agreement (OSA)with Pakistan LNG Terminals Limited (PLTL), a wholly owned subsidiary of Government Holdings (Private) Limited on July 1,2016, PLTL has guaranteed to purchase from PGPC 600mmscfd of its regasification capacity on a take-or-pay basis backed by the provision of a revolving Standby Letter of Credit (SBLC).PLTL payments to PGPC are calculated on a daily basis irrespective of the LNG volumes regasified, given there is no operational issue. The cost remains sensitive to changes in PKR/USD exchange rates fluctuations, however the revenues being accruing in US Dollar, exchange rate fluctuation has positive impact on the income and cash flows of the Company.

PGPC is the second LNG Import and regasification port in Pakistan utilizing a Floating Storage and Regasification Unit (FSRU) and is selling 600 mmscfd of its regasification capacity to PLTL, which in turn bears the responsibility of importing LNG and making it available at the FSRU. With a nameplate capacity of 750 mmscfd, PGPC provides receiving, storage and regasification of LNG services at 96% annual availability factor against a levelized tariff of USD 0.4177 per mmbtu which includes both daily capacity charge and utilization charge.

In addition to the contract with PLTL for 600 mmscfd, the project has additional capacity of 150 mmscfd. For the additional capacity, the company has signed a term sheet for selling 41 mmscfd of RLNG to Universal Gas Distribution Company Limited (UGDC)-a conglomerate of CNG Station Owners, against a tariff of USD 0.77 per mmbtu Besides this, K-Electric intends to purchase 90mmscfd RLNG from PGPCL terminal and PGPC plans on allocating the additional reserve capacity of 90mmscfd to K-Electric. This will create new revenue stream by monetizing excess capacity and as a result, additional revenue will be generated, which will have very positive impact on the company's cash inflows.

Financial Profile: PGPC's total assets augmented to Rs. 18.3b (FY18: Rs. 16.1b; FY17: Rs. 5.4b) by end-3QFY19 with property, plant and equipment representing slightly more than two-thirds of the total asset base. The fixed assets of PGPC Terminal were valued at Rs. 15.9b at end-Jan'19 by Independent Valuator, Hamid Mukhtar and Co. (Pvt) Limited, appointed by the funding banks. Direct cost on import of FSRU, one of the largest in the world, imported under a 15 year lease agreement with FSRU II Pte Ltd, was recorded at Rs. 1.7b (FY18: Rs. 1.8b) at end -3QFY19 on account of regular amortization over the 15 years of contract.. A sizeable increase was witnessed in cash and bank balances to Rs. 921.8m (FY18: Rs. 106.7m) in line with smooth business operations resulting in healthy internal capital generation. Further, trade receivables were recorded higher at Rs. 1.2b (FY18: Rs. 1.0b) at end-3QFY19 on account of increase in revenue due to devaluation of Pak Rupee against US Dollar having a positive impact on the revenues of the company; the recoverable from PLTL is neither past due nor impaired. As per the management, PLTL makes regular payments without delay; moreover there has been no event of non-payment since the inception of the project.

The company's paid up capital was enhanced to Rs. 5.7b (FY18: Rs. 4.7b) during the outgoing year comprising 408.4m ordinary shares and 157.9m preference shares of Rs.10 each. The dividend paid out on preference shares amounted Rs. 276.1m during FY18.

On the other hand, liabilities primarily comprise trade and other payables and long term finances. Trade and other payables stood at Rs. 5.5b (FY18 : Rs. 5.0b) at end-3QFY19,mainlyconstituting accrued liability payable to EPC contractor, Xinjiang Petroleum Engineering Company Limited, amounting to USD 7.3m in respect of non-operative letter of credit. As per the management, the same amount is expected to be fully paid by end- 2QFY20 therefore remains prone to foreign exchange risk.

Initially, when the project was started, an LC amounting to USD 46.5 m was secured through a joint loan extended by JJVL and Educational Excellence limited (EEL); the LC was retired in January'18 through sponsor's loan. Term Finance Loan of Rs. 4.1b was disbursed by BOP on March 27, 2019 to settle the sponsor's loan, which was obtained by PGPC for payment made to EPC contractor under the Letter of Credit (LC).Through this financing facility, the bridge loan availed by PGPC was converted from short term borrowing to term finance amounting to Rs. 4.1b. Hence, long-term debt increased to Rs. 5.1b (FY18: Rs. 1.3b) by end-3QFY19; meanwhile short-term borrowings were reported lower at Rs. 24.2m (FY18: Rs. 4.2b) at end-3QFY19. The debt is repayable in equal monthly instalments amounting to Rs. 114.6 m in three years

Operational Update

The Project achieved Commercial Start Date (CSD) upon successful completion of Acceptance Tests with effect from January 04, 2018 as per PLTL Acceptance Certificate. The Project exceeded all performance parameters under the Operation & Services Agreement (OSA) dated July 1, 2016. It achieved a dispatch rate of 750 mmcfd whereas the required dispatch rate under the OSA is only 600 mmcfd. The terminal has so far handled 48LNG shipments containing about 3 mtons of LNG and has delivered 136.04 billion cubic feet of RLNG to the national grid by end-3QFY19. In case the plant is unable to meet 96% availability, the revenue loss incurred by the company is secured by indemnification guarantee upto USD 300,000 from FRSU operator, BW FSRU II Pte Ltd.

Financial Results

The revenue was recorded higher at Rs. 8.4b (FY18: Rs. 4.9b) in line with uninterrupted operations of the project coupled with appreciation of dollar leading to magnified impact on topline of the company. The margins remained stable and healthy during the review period since major costs of the project are fixed, the same were recorded at 27.2% (FY18: 28.3%) during 3QFY19. The management projects to close FY19 at a gross revenue of USD 87m. The administrative increased to Rs. 215.9m (FY18: Rs. 156.8m) during 3QFY19 on account of higher headcount. Moreover, finance cost was also recorded higher at Rs. 593.4m (FY18: Rs. 372.4m) at end-3QFY19 as a result of general increase in cost of borrowing. Subsequently, PGPC reported an after tax profit of Rs. 1.2b (FY18: Rs. 665.1m) during 3QFY19.

Liquidity and Leverage

Liquidity profile of the company remains strong as an outcome of sizable cash reserves and adequate debt coverages. Moreover, in line with improvement in profitability metrics leading to higher Funds from operations (FFO) ,FFO to Total Debt increased to 0.50x (FY18: 0.22x) at end-3QFY19. Furthermore, in line with expansion in equity base on account of internal capital generation coupled with increase in issued capital, gearing and leverage indicators improved to 0.74x (FY18:1.01x) and 1.64x (FY18: 1.99x) respectively at end-3QFY19.

PGP CONSORTIUM LIMITED (PGPC) Appendix I1

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**	**31-Mar-19**
Fixed Assets	1,052.9	3,964.1	12,471.4	12,518.5
Direct Cost On FSRU	-	-	1,781.6	1,688.4
Advances, Deposits and Other Receivables	166.5	240.4	588.4	838.0
Cash & Bank Balances	0.4	898.7	106.7	921.8
Other Assets	-	331.76	1,180.6	2,351.4
Total Assets	1,219.8	5,434.8	16,128.7	18,318.1
Short Term Borrowing	0.0	-	4,212.6	24.2
Trade and Other Payables	1,220.1	104.0	5,022.0	5,502.4
Long Term Payables	-	-	64.2	64.2
Long Term Debt *(*incl. current maturity)*	-	736.4	1,279.2	5,124.2
Other Liabilities		7.3	150.6	660.4
Total Equity	(0.3)	4,587.0	5,400.1	6,942.7
INCOME STATEMENT	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**	**31-Mar-19**
Net Sales	-	-	4926.5	8,365.6
Gross Profit	-	-	1396.5	2,278.2
Administration expenses	0.4	(58.3)	156.8	215.9
Other Expenses	-	-	202.1	125.6
Profit After Tax	(0.4)	(58.3)	665.1	1,206.3
FFO	-	-	1,185.8	1,917.4
RATIO ANALYSIS	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**	**31-Mar-19**
Gross margin (%)	-	-	27.8	27.2
FFO to Long Term Debt (x)	-	-	0.93	0.50
FFO to Total Debt (x)	-	-	0.22	0.50
Debt Service Coverage Ratio (x)	-	-	5.45	4.78
Gearing (x)	-	0.16	1.01	0.74
Leverage (x)	-	0.18	1.99	1.64

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix IV
Name of Rated Entity	PGP Consortium Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity/Preference Share Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
17/09/2019	A-	A-2	Rating Watch Developing	Maintained
04/16/2018	A-	A-2	Positive	Maintained
10/07/2016	A-	A-2	Stable	Initial
		RATING TYPE: PREFERENCE SHARE		
17/09/2019	BBB	-	Rating Watch Developing	Maintained
04/16/2018	BBB	-	Positive	Final
10/07/2016	BBB	-	Stable	Preliminary

Statement by the Rating Team	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.
About the Preference Shares	PGPC issued perpetual, non-voting, privately placed, unlisted, callable, puttable, cumulative and floating rate preference shares amounting to Rs. 1.6b. Preference shares are convertible into ordinary shares at conversion price equal to the book value per share of the Company. The conversion option may be exercised at the 4th anniversary of the issue. Only 20% of the total shares held by each investor at the time of conversion shall be convertible into ordinary shares of the PGPL. PGPL shall list its ordinary shares within 12 months of exercise of the conversion option. Preference shares offers dividend at 6-months KIBOR plus 5.5% per annum.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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