RATING REPORT

PGP CONSORTIUM LIMITED (PGPC)

REPORT DATE:
November 27, 2020

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		Rating Watch Developing	
Outlook Date	*Nov 27'2020*		*Sep 17'2019*	

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 finalization 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: FY20: Rs. 11.8b; FY19-Rs:9.9b; FY18-Rs. 5.1b

Net Profit/(Loss):FY20: Rs. 2.2b; FY19:Rs.85m; FY18-Rs. 409m

RATING RATIONALE

Key Rating Factors:

The ratings assigned to PGP Consortium Limited (PGPC) takes into account company's ownership profile, unique business model and strategic positioning in the power sector of the country. 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 derive strength from the company's low business risk profile encompassing long-term energy supply contract inked with Pakistan LNG Terminals Limited (PLTL) ensuring guaranteed sales. Further, ratings draw comfort from smooth operations of the business, improved margins and exponential growth in profitability. Moreover, the ratings take note of the adequate financial risk profile on account of sound liquidity position, healthy cash flows in terms of contractual obligations and sizable debt coverages. Leverage indicators are comfortable; the same are expected to improve over time owing to debt repayments and internal capital generation and are captured in the assigned ratings. Ratings continue to be on 'Rating Watch-Developing' status pending the outcome of the dispute resolution matter with PLTL. Moreover, upholding operational performance in line with agreed performance levels would remain a key rating driver.

Project Profile: PGPC has a 15-year LNG Operation and Services Agreement (OSA)signed with PLTL, a wholly owned subsidiary of Government Holdings (Private) Limited for guaranteed purchase from of 600mmscfd of PGPC's 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 revenues are accrued in US Dollar, however; owing to sensitivity to changes in PKR/USD exchange rates fluctuations, exchange rate fluctuation had a positive impact on the income and cash flows of the company during the period under review. PLTL is responsible for 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 unutilized capacity of 150 mmscfd; the project has six trains of 125mmscfd. As per the management, the company is in negotiation with the FSRU supplier, BW FSRU II Pte Ltd, to increase the peak delivery of each train from 125 mmscfd to 150 mmscfd by end-Mar'21. As per the company's contract with PLTL, the capacity in excess of 600 mmscfd is available for PGPC's usage as per its discretion; the capacity can be sold to any third-party in compliance with the regulatory requirements. The enhanced excess capacity will be available by end-Mar'21; GoP is poised to expedite all approvals and procedures in that regard. This will create new revenue stream by monetizing excess capacity sales in the private sector 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 largely remained at prior year's level with property, plant and equipment representing slightly more than two-thirds of the total asset base. The net book value of operating assets declined slightly to Rs. 17.6b (FY19: Rs. 18.0b) during FY20 owing to depreciation. The fixed assets of PGPC were revalued during FY19 by independent valuers, Hamid Mukhtar and Co. (Pvt) Limited, on market value basis; the revaluation resulted in net surplus of Rs. 5.7b. 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. 1.5b (FY19: Rs. 1.7b) at end –FY20 in line with regular amortization over the 15 years of contract. Cash and bank balances were sizeable at Rs. 1.3m (FY19: Rs. 1.6b) in line with smooth business operations resulting in healthy internal capital generation; major proportion of cash balance includes restricted funds held under lien by banks for issuance of performance bond to PLTL and for the purpose of securing a guarantee issued in favour of the Port Qasim authority as per the Implementation Agreement. Further, trade receivables were recorded higher during the outgoing year owing to 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.

On the other hand, liabilities primarily comprise trade and other payables, long term finances and deferred taxation. Trade and other payables stood at Rs. 5.4b (FY19: Rs. 5.8b) at end-FY20, mainly constituting accrued liability payable to EPC contractor, Xinjiang Petroleum Engineering Company Limited, amounting to USD 7.3m in respect of non-operative letter of credit. No payment has been made till date, moreover as per the management, no decision on the timeline of payment has been made the company. Initially, when the project was started, an LC amounting to USD 46.5m was secured through a joint loan extended by JJVL and Educational Excellence limited (EEL). Term Finance Loan of Rs. 4.1b was procured in FY19 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 the short-term credit declined to Rs. 30.0m at end-FY19; the amount remained unchanged at end-FY20. Further, long-term debt decreased to Rs. 3.6b (FY19: Rs. 5.0b) at end-FY20 in line regular periodic repayments.

Financial Results

The revenue was recorded higher at Rs. 14.0b (FY18: Rs. 11.8b) in line with uninterrupted operations of the project coupled with appreciation of dollar leading to magnified impact on topline of the company. The terminal handled 37 LNG shipments containing about 2.3m tons of LNG and has delivered 111.1 billion cubic feet of RLNG to the national grid during FY20.In case the plant is unable to meet 96% availability, the revenue loss incurred by the company is secured by indemnification guarantee up to USD 300,000 from FRSU operator, BW Fleet Management AS. In line with enhancement of capacity, the incremental annual revenue to be reaped is expected to be around USD 30m translating into an annual increase of around Rs. 4.8b to the top line. PGPC's margins exhibited improvement and were recorded high at 29.7% (FY19: 25.9%) during FY20 as 67% of the project costs are pegged to USD so for the remaining part any appreciation in USD creates a positive spread between revenue and cost. The management projects to close FY21 at a gross revenue of Rs. 16.0b. The administrative costs were recorded higher at Rs. 437.9m (FY19: Rs. 353.2m) during FY20 on account of employee related expenses inline annual salary increments. Further, finance cost was also recorded higher at Rs. 1.0b (FY19: Rs. 927.4m) during the outgoing year as an outcome of higher average benchmark rates. The other expenses were reported lower at Rs. 573.2m during FY20 as compared

Rs. 1.5b in the preceding year; the one-time expense amounting to Rs. 1.3b during FY19 pertained to FSRU lease operation and service cost for pre-CSD period from July 16, 2017 to October 31, 2017. Subsequently as a combined outcome favourable forex movement, improved margins and no major one-time expense, PGPC reported an after tax profit of Rs. 2.2b (FY19: Rs. 85m) during FY20.

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) along with decline in debt levels, FFO to total debt and FFO to long-term debt increased to 0.91x (FY19: 0.48x) and 0.92x (FY19:0.49x) respectively at end-FY20. The debt service coverage was also adequate. Furthermore, in line with augmentation in equity base on account of internal capital generation, gearing and leverage indicators improved to 0.47x (FY19:0.89x) and 1.65x (FY18: 2.55x) respectively at end-FY20.

PGP CONSORTIUM LIMITED (PGPC) Appendix II

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**
Fixed Assets	3,964	12,471	18,016	17,630
Direct Cost On FSRU	-	1,782	1,657	1,533
Trade Debts	-	1,021	1,392	1,415
Advances, Deposits and Other Receivables	240	588	815	1,086
Loan to Associate	-	-	961	1,371
Cash & Bank Balances	899	107	1,597	1,293
Other Assets	332	160	66	54
Total Assets	5,435	16,129	24,504	24,382
Short Term Borrowing	-	4,213	30	30
Trade and Other Payables	104.0	5,022	5,803	5,391
Long Term Payables	-	64	1,377	1,236
Long Term Debt *(*incl. current maturity)*	736.4	1,279	5,047	3,601
Deferred Tax	-	256	2,026	2,206
Other Liabilities	7.3	151	304	158
Paid Up Capital	3,141	3,141	4,084	4,084
Tier-I Equity	4,587	5,144	5,720	7,694
Total Equity	4,587.0	5,144	9,917	11,579
INCOME STATEMENT	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**
Net Sales	-	4926.5	11,785	14,029
Gross Profit	-	1396.5	3,047	4,163
Administration expenses	(58.3)	156.8	353	438
Other Expenses	-	202.1	1,514	573
Profit Before Tax	(58.3)	665	340	2,427
Profit After Tax	(58.3)	409	85	2,247
FFO	-	1,186	2,448	3,301
RATIO ANALYSIS	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**
Gross margin (%)	-	28.3%	25.9	29.7
FFO to Long Term Debt (x)	-	0.93	0.49	0.92
FFO to Total Debt (x)	-	0.22	0.48	0.91
Debt Service Coverage Ratio (x)	-	5.45	2.17	1.69
Current Ratio (x)	10.2	0.19	0.50	0.68
Gearing (x)	0.16	1.07	0.89	0.47
Leverage (x)	0.18	2.14	2.55	1.65

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				
27/11/2020	A-	A-2	Rating Watch Developing	Reaffirmed
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				
27/11/2020	BBB	-	Rating Watch Developing	Reaffirmed
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings.

Due Diligence Meetings	Name	Designation	Date
	Mr. Mohsin Butt	Finance Manager	11-11-2020
	M. Mohd Kashif	CFO	11-11-2020