RATING REPORT

PGP CONSORTIUM LIMITED (PGPC)

REPORT DATE:
November 28, 2022

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 28'2022*		*Nov 25'2021*	
Rating Action	*Reaffirmed*		*Reaffirmed*	

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) with the following sponsors:	
Jamshoro Joint Venture Limited (JJVL)	
Ahmed Family (Attiq, Fasih, Razi, and Sadia Ahmed)	
Mian Amir Mahmood	
TRAFIGURA	

APPLICABLE METHODOLOGY(IES)

Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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.

RATING RATIONALE

Key Rating Factors:

PGPC is a wholly owned subsidiary of Pakistan GasPort Limited (PGPL), whose sponsors have vast experience of establishing and operating energy sector projects. PGPC has established the country's second and the largest LNG import terminal at Port Qasim Karachi. Ratings derive strength from the company's low business risk profile encompassing long-term LNG terminal Operation and Services contract inked with Pakistan LNG Limited (PLL) (formerly Pakistan LNG Terminals Limited (PLTL) which merged into PLL) ensuring guaranteed revenues and cash flows. PGPC's arbitration proceedings with PLL in the London Court of International Arbitration is in process since the termination notice served to the company in October'19. Hence, outlook on the assigned ratings have been placed on Rating Watch-Developing. Ratings remain dependent on the outcome of the dispute matter with PLL when reached. As per management, the same is expected by first quarter of Calendar year 2023.

Low business risk profile based on guaranteed capacity charge paid by PLL.

Natural gas is one of the most important sources fulfilling Pakistan's energy requirements, primarily due to the country's natural endowment of the fuel and its inherent cost advantage over oil. Indigenous gas supplies in the country have depleted since 2008. Sui Southern Gas Company (SSGC) and Sui Northern Gas Pipelines Limited (SNGPL) are partially state-owned companies that are engaged in the business of transmission and distribution of natural gas. Every year, natural gas is depleting by 5% and demand for gas is increasing by 5-6%, thereby creating a demand supply gap of 10-11% every year. To bridge this gap, GoP imports natural gas in liquefied form-LNG. PLL is a public sector entity and has a mandate to buy and import LNG (Liquefied Natural Gas) from international markets (long-term procurement contracts as well as spot procurement contract), and to enter into onward arrangements for the supply of gas to end-users. LNG in Pakistan is imported from different countries mainly comprising Qatar, Dubai and Nigeria. The same is processed by LNG Terminals to re-gasify into RLNG for multiple end-uses. RLNG is generally used for power generation by industries, fuel in transport vehicles and by domestic consumers in Pakistan.

Currently, Pakistan possesses two LNG Terminals established by the following two companies; PGPC and Engro Elengy Terminal Private Limited (Subsidiary of Engro Corporation Pakistan). The available infrastructure has the capability to handle 13 vessels per month with cargo size of approximately 140,000 cubic. These terminals have the combined storage capacity of 310,000 cubic meters of LNG and regasification capacity of 1.38b cubic feet/day. PGPC LNG terminal has a regasification capacity of 750 mmscfd while Elengy Terminal by Engro has a regasification capacity of 630 mmscfd.

In mmscfd	PGPL RLNG Terminal	Engro Elengy Terminal
Committed Capacity	600	630
Uncommitted Capacity	150	0
Total Capacity	**750**	**630**

<u>Once received, LNG is stored at the terminals and re-gasified into RLNG through the regasification unit on board of the FSRU under the long-term LNG Terminal Operations</u>

and Services contract with PLL. Guaranteed Capacity charge is paid to the company by PLL irrespective of the LNG volumes regasified, given there is no operational issue. As a result, risk profile is on the lower side.

Pakistan first inked a 15-year LNG deal with Qatar in February 2016 with a reopening clause after 11 years. Another 10-year contract for LNG import from Qatar was signed on February 26, 2021with a reopening clause after five years. Two term-agreements with LNG trading companies ENI (15-year agreement for PGPC terminal) and GUNVOR were also signed in 2017. The agreement with GUNVOR ended in July'2022. Currently, Pakistan is getting around 10 cargoes per month against a capacity of 14 cargoes per month. Lower utilization is on account of subdued macroeconomic environment and elevated LNG prices. However, the utilization rate of Pakistan is still well above the global average.

LNG is considered to be a clean and economic fuel compared with furnace oil and diesel which is used as a substitute in power generation and transport sector, however it has usually been expensive in comparison to coal. Pandemic and post-pandemic period has seen extreme volatility in LNG prices. Past year has seen record high prices at the LNG was seen to rescue Europe from energy crisis in Russia-Ukraine war scenario. However, recently, prices have dropped on the back of lower demand of energy in Europe because of milder than expected winter. Despite lower price, consuming the price differential advantage is constrained on account of lengthy imports processes.

LNG/RLNG regime is covered under the mid and downstream petroleum industry of Pakistan and the local legislation on the subject is OGRA Ordinance 2002. Under the ordinance, the regulator has the power to grant, issue, renew or revoke a license for construction/operations of LNG Terminal, Transportation of RLNG, sale of gas/RLNGH and enforce compliance with licensing provisions. Currently, only government and state-owned companies are importing LNG; OGRA has issued license to some private sector companies, including the parent company of PGPC. However, private companies are not able to import LNG because of some pending arrangements regarding terminal and pipeline capacities requiring the consent of state owned entities including SSGC, SNGPL and PLL. State-owned companies also have to go-through long approval processes that lead to delays resulting in over/under pricing of the product. On the positive side, the GoP along with OGRA is in the process of providing access to LNG import terminals and SNGP and SSGC pipelines to the private sector. Reduction in unutilized capacity of the sector through materialization of the aforementioned is yet to be seen.

Project profile with PLL for importing LNG and making it available at FSRU

PGPC has a 15-year LNG Operation and Services Agreement (OSA) signed with PLL, a wholly owned subsidiary of Government Holdings (Private) Limited for guaranteed purchase of 600 mmscfd of PGPC's regasification capacity on a take-or-pay basis backed by the provision of a revolving Standby Letter of Credit (SBLC). PLL payments to PGPC are calculated on a daily basis irrespective of the LNG volumes re-gasified, given there is no operational issue. The revenues are accrued in USD, therefore, sensitivity in PKR/USD exchange rates impacts revenues and cash flows in PKR terms.

PLL 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, for contracted capacity of 600 mmscfd, which includes both daily capacity charge and utilization charge. In addition to the contract with PLL for 600 mmscfd, the project has additional unutilized capacity of 150 mmscfd; the project has six trains of 125mmscfd each. As per the company's contract with PLL, 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. PLL agreed to an arrangement with PGPC for utilization of excess capacity through a later dated August 03, 2022. However, owing to delays in approval by GoP, the arrangement has not yet materialized. In the meanwhile, the company is looking for contracts and under discussions to utilize the unutilized capacity.

Legal concern with PLL remains, hence ratings are on RW-Developing Status

PLL in Oct'19 issued a termination notice to the company for not providing adequate assurance of performance (AAP) under Clause 29.4 of OSA. PGPC rejected the contentions of PLL, as PLL unconditionally agreed on the company's offer for provision of charge on fixed assets amounting to USD $15m as AAP. According to company's management, PLL conducted its due diligence and accepted company's offer. Both the parties agreed on the draft of Letter of Hypothecation (LOH) for creation of charge on September 27, 2019. The company executed the LOH and created the required charge in favor of PLL on October 07, 2019, which was registered by Securities and Exchange Commission of Pakistan (SECP) in favour of PLL on December 06, 2019 and the same was upgraded to Pari-Passu on January 02, 2020 after obtaining NOCs from existing charge holders.

The company invoked dispute resolution under Clause 37 of Operations and Service Agreement (OSA) and the matter was referred to London Court of International Arbitration (LCIA) for Arbitration. The Islamabad High Court has also granted a status quo injunction against termination in the interim period. After invocation of dispute resolution under clause 37 of the OSA, PGPC continues to provide LNG services to PLL along with invoicing for its capacity and utilization charges on monthly basis and PLL continues to pay for them every month under the terms of the OSA.

Moreover, in Mar'20 the company also filed in LCIA for settlement of its financial claim for recovery of losses of USD $58.1m and Rs.790.4m related to delay in commissioning caused by PLL due to its failure in meeting its contractual obligations, recovery of revenue of USD $2.2m for rendering LNG Services prior to commercial start date, reimbursement of payments made to PQA of Rs 2.1b on account of royalties paid to PQA for the import of LNG by PLL and also for reimbursement of royalty to be paid on import of LNG in future.

PLL has in turn submitted to LCIA a claim for liquidated damages of USD $42m against the company on account of delay in commercial start date ('CSD'). The company has already recognized USD $1.0m in respect of liquidated damages payable to PLL as per arbitrator's recommendations based on applicable Pakistani Law under which the LDs are allowed only to the extent of actual losses suffered by the party. Management anticipates the decision on all these matters by first quarter of CY23.

Improved bottom line largely due to exchange gains and absence of compensation for financial support provided by related party

Revenue of the Company was reported higher at Rs. 13.8b (FY21: Rs. 12.6b) largely due to dollar appreciation against PKR as the fixed charges are pegged in USD. The terminal handled 51 (FY21: 58, FY20:37) LNG shipments containing about 3.1m MT (FY21: 3.5m MT, FY20: 2.3m MT) of LNG and has delivered 151.4b cubic feet (FY21: 173.4b cubic feet, FY20:111.1b cubic feet) of RLNG to the national grid during FY22. Ratings factor in regular and fixed payments made by PLL irrespective of quantum of gas stored or delivered. The plant availability was maintained above 96% during the outgoing year; 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.

Gross Margins of the company have remained stable at 30% in FY22 despite higher FSRU hire and operation & service costs along with elevated Pipeline hospitality charges, largely due to dollar appreciation against PKR as these costs are pegged in USD, during the same period. The increase in direct costs were offset by exchange rate volatility during the outgoing year. Around 67% of the project costs are pegged to USD so any appreciation/depreciation for the remaining in USD creates a positive/negative spread between revenue and cost.

Administrative costs were reported lower at 0.81b (FY21: Rs. 0.87b; FY20: Rs. 0.45b) on the back of lower legal and professional fees incurred during the year. The legal cost was elevated in the preceding year owing to ongoing case of PGPC in LCIA. Finance cost reduced by more than half to Rs. 633.5m (FY21: Rs. 1,890.4m; FY20: Rs. 1,074.5m). The reduction in the same was due to significant repayment of principal portion of Loans and elevation in the preceding year was owing to compensation for Financial Support provided by Associated Companies.

Other Operating expenses were reported significantly higher at Rs. 828.4m (FY21: Rs. 150.2m) in FY22 on account of an exchange loss of Rs. 769.4m on recurrent USD pegged payments and obligation including to BW Group (BW Gas Limited and BW Fleet Management AS). Through support of exchange gains in revenue and lower finance costs, net profit of Rs. 2.3b (FY21: Rs. 1.2b FY20: Rs. 2.4b) was achieved during FY22.

Weakened liquidity and leverage indicators explicitly on account of elevated lease liabilities on books post-implementation of IFRS-16. Improvement was noted in debt servicing coverages during the outgoing year.

Due to implementation of IFRS-16 in FY20, which requires operating lease to be treated similar to finance lease with discounted values for all future payments to be booked as liability along with corresponding leased asset, liquidity and leverage position of the company shows a weaker picture. However, the same is not true reflective of the actual scenario as the present value of the total lease obligations due in the next 12 years are recorded in the books.

In this regard, debt service coverage ratio presents a more accurate position with the same improving to 2.13x (FY21:1.41x) during FY22. Although leverage and gearing indicators remain elevated, the same were reported lower at 5.9x (FY21: 6.1x) and 4.4x (FY21: 4.6x) respectively at end-FY22. Going forward, repayment of a remaining principal portion of the loans is expected to remain comfortable, given consistent and timely receipt of fixed capacity payments from PLL.

At end-June'22 loan provided to JJVL amounted Rs. 4.9b (FY21: Rs. 2.7b) including interest receivable of Rs. 936m (FY21: Rs. 585m). Timeline of receiving these amounts is currently under discussion with JJVL given its non-operational status.

PGP CONSORTIUM LIMITED (PGPC) **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**
Fixed Assets	18,015.7	18,645.5	21,426.0	26,219.5
Direct Cost On FSRU	1,657.3	1,533.0	1,408.7	1,284.4
Net Investment in Lease	-	40,104.8	36,010.3	44,566.5
Trade Debts	1,391.6	1,411.3	1,335.5	1,732.6
Advances, Deposits and Other Receivables	814.5	1,076.6	1,087.9	2,168.6
Loan to Associate	961.3	-	1,757.8	3,466.3
Cash & Bank Balances	1,597.5	1,333.5	1,473.3	1,552.4
Total Assets	24,503.6	66,886.5	67,073.4	84,001.9
Short Term Borrowing	30.0	30.0	100.0	-
Trade and Other Payables	7,800.8	6,050.1	7,482.2	9,645.0
Long Term Payables	58.5	1,361.5	725.3	132.3
Long Term Debt (incl. current maturity & operating lease liabilities)	5,047.0	44,883.4	39,257.9	46,973.2
Total Debt	5,077.0	44,913.4	39,357.9	46,973.2
Total Liabilities	15,265.4	55,120.9	51,923.6	63,113.0
Deferred Tax	2,026.0	2,342.3	3,465.3	5,327.3
Paid Up Capital- Ordinary	4,083.6	4,083.6	4,083.6	4,083.6
Tier-I Equity	5,040.9	7,342.5	8,563.6	10,722.4
Total Equity	9,238.2	11,765.6	15,149.8	20,888.9

INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**
Net Sales	11,785	12,575	12,631	13,765
Gross Profit	3,059	4,107	3,738	4,140
Administration expenses	353.22	446.58	874.24	806.11
Profit Before Tax	(338.99)	2,669.59	1,482.57	2,614.50
Profit After Tax	(594.27)	2,431.79	1,187.61	2,249.87

RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**
Gross Margin (%)	26.0%	32.7%	29.6%	30.1%
Net Margin (%)	-5.0%	19.3%	9.4%	16.3%
FFO	2,508.05	2,449.32	2,114.92	2,873.47
FFO to Long Term Debt (x)	49.7%	5.5%	5.4%	6.1%
FFO to Total Debt (x)	49.4%	5.5%	5.4%	6.1%
Debt Service Coverage Ratio (x)	2.17	1.34	1.41	2.13
Current Ratio (x)	0.40	0.70	0.58	0.64
Gearing (x)	1.01	6.12	4.60	4.38
Leverage (x)	3.03	7.51	6.06	5.89
ROAA (%)	NA	5.3%	1.8%	3.0%
ROAE (%)	NA	39.3%	14.9%	23.3%

**Financial ratios (such as gearing or leverage) show a magnified position owing to recognition of leased liabilities on the books on account of implementation of IFRS-16.*

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				
	28/11/2022	**A-**	**A-2**	**Rating Watch Developing**	**Reaffirmed**
	25/11/2021	A-	A-2	Rating Watch Developing	Reaffirmed
	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				
	28/11/2022	**BBB**	**-**	**Rating Watch Developing**	**Reaffirmed**
	25/11/2021	BBB	-	Rating Watch Developing	Reaffirmed
	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 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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Due Diligence Meetings	Name	Designation	Date		
	Mr. Muhammad Kashif	CFO	24-10-2022		
	Mr. Mohsin Butt	Manager Finance & Compliance	24-10-2022		
	Mr. Yaseen	Manager Accounts	24-10-2022		