RATING REPORT

PGP CONSORTIUM LIMITED (PGPC)

REPORT DATE:
July 04, 2023

RATING ANALYSTS:
Saeb Muhammad Jafri
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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	Positive		Rating Watch Developing	
Outlook Date	*Jul 04'2023*		*Nov 28'2022*	
Rating Action	*Maintained*		*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)

VIS Entity Rating Criteria Methodology –Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
Rating The Issue (November 2021)
https://docs.vis.com.pk/docs/Notchingtheissue202007.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.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

PGP Consortium Limited ('PGPC' or 'the Company') 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 Agreement (OSA) inked with Pakistan LNG Limited (PLL) (formerly Pakistan LNG Terminals Limited (PLTL) which merged into PLL) ensuring guaranteed revenues and cash flows backed by the provision of a revolving Standby Letter of Credit (SBLC).

PGPC was engaged in arbitration proceedings with PLL in the London Court of International Arbitration (LCIA) since the termination notice served to the company in October'19 by PLL. Hence, outlook on the assigned ratings were placed on 'Rating Watch-Developing' from 'Positive'.

LCIA on April 26, 2023, concluded that PLL was not entitled to terminate the OSA and has declared the termination notice issued by PLL "void and illegal". Subsequently, PLL has withdrawn the termination notice and all other notices or letters issued under different option and direct agreements to BW, FOTCO, PQA and lenders pursuant to the termination notice.

As a result, PGPC will continue to own, operate and manage its LNG terminal and will be entitled to receive monthly payments against its invoices, under the OSA, from PLL for the remaining term of the contract i.e., up to January 3, 2033.

In light of this development and in accordance with low business risk profile, strong profitability and a healthy debt-servicing profile, albeit higher leverage ratios (due to implementation of IFRS-16), PGPC's outlook is being changed from 'Rating Watch-Developing' to 'Positive'.

<u>Key Rating Drivers:</u>

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, domestic natural gas production 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 -14 vessels per month with cargo size of approximately 140,000 cubic meters. 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**

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 Operation and Services Agreement with PLL. Guaranteed Capacity charge is paid to the company by PLL irrespective of the LNG volumes re-gasified, 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, 2021 with 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 upto 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 as 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 the Europe has built up the required stocks and the global energy supply chains have been realigned. Despite lower price, consuming the price differential advantage is constrained on account of government's lengthy imports processes while the private sector is still waiting for completion of regulatory formalities to start import of private sector cargos.

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/RLNG 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 has positive impacts on the income and cash flows of the company.

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 and termination notice, the arrangement has not yet materialized. Following the LCIA Award and subsequent withdrawal of the termination notice and all other notices or letters issued by PLL, the management is optimistic that the Clarification Letter of August 03, 2022 in which principles for utilization of excess capacity were agreed upon, will now be implemented. In the meanwhile, the company is looking for contracts and under discussions to utilize the unutilized capacity.

Margins remained intact during 9MFY23.

In 9MFY23 revenue of the Company was reported at Rs. 13.6b (FY22: Rs. 13.8b, FY21: Rs. 12.6b) largely due to dollar appreciation against PKR as the revenue is pegged in USD. Gross Margins of the company remained stable at 32.5% in 9MFY23 (FY22: 30.1%, FY21: 29.6%). Net Margins are 13.2% in 9MFY23 (FY22: 13.01%, FY21: 9.4%).

The profits and gains derived by LNG Terminal Operators and Terminal Owners were exempt for a period of five years beginning from the date when commercial operations are commenced in terms of clause 141 of Part I of the Second Schedule to the I.TO 2001. Under clauses 11A and 110 of Part IV of the Second Schedule to the I.TO 2001, the

Company was also exempt from levy of minimum tax on 'turnover' and alternative corporate tax respectively under section 113 of the I.T.0 2001. The five-year exemption period lapsed on January 03, 2023, and now the Company is subject to levy of Corporate Taxes under of Income Tax Ordinance, 2001. The provision for current tax also includes tax on interest income on long-term loan to associated company.

Weakened liquidity and leverage indicators explicitly on account of elevated lease liabilities on books post-implementation of IFRS-16. Improvement has been noted in debt servicing coverages during the period under review.

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 2.42x (FY22: 4.65 x, FY21: 1.61x) during 9MFY23. Although leverage and gearing indicators remain elevated at 6.75x (FY22: 6.13x, FY21: 6.1x) and 5.18x (FY22: 4.58x, FY21: 4.60x) respectively at end-Mar'23. Going forward, repayment of the remaining principal portion of the loans is expected to remain comfortable, given consistent and timely receipt of fixed capacity payments from PLL.

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

FINANCIAL SUMMARY					(amounts in PKR millions)
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	18,015.7	18,645.5	21,426.0	26,219.5	26,271.6
Direct Cost On FSRU	1,657.3	1,533.0	1,408.7	1,284.4	1,191.2
Net Investment in Lease	-	40,104.8	36,010.3	44,558.3	59,242.1
Trade Debts	1,391.6	1,411.3	1,335.5	1,732.6	1,809.5
Advances, Deposits and Other Receivables	814.5	1,076.6	1,087.9	1,242.1	1,953.7
Loan to Associate	-	-	1,757.8	4,240.1	5,005.6
Cash & Bank Balances	1,597.5	1,333.5	1,473.3	1,552.4	1,987.7
Total Assets	24,503.6	66,886.5	67,073.4	83,338.5	102,920.7
Short Term Borrowing	30.0	30.0	100.0	-	-
Trade and Other Payables	7,800.8	6,050.1	7,482.2	9,651.8	12,176.5
Long Term Payables	58.5	1,361.5	725.3	132.3	72.6
Long Term Debt (incl. Lease Liabilities)	5,047.0	44,883.4	39,257.9	46,973.2	62,128.2
Total Debt	5,077.0	44,913.4	39,357.9	46,973.2	62,128.2
Total Liabilities	15,265.4	55,120.9	51,923.6	62,851.9	80,943.9
Deferred Tax	2,026.0	2,342.3	3,465.3	5,148.2	5,619.9
Paid Up Capital- Ordinary	4,083.6	4,083.6	4,083.6	4,083.6	4,083.6
Tier-I Equity	5,040.9	7,342.5	8,563.6	10,259.5	11,990.9
Total Equity	9,238.2	11,765.6	15,149.8	20,486.6	21,976.8
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	11,785	12,575	12,631	13,765	13,564
Gross Profit	3,059	4,107	3,738	4,140	4,411
Administration expenses	353.22	446.58	874.24	817.1	609.42
Profit Before Tax	(338.99)	2,669.59	1,482.57	1,944.3	2,923.66
Profit After Tax	(594.27)	2,431.79	1,187.61	1,790.8	1,791.01
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	26.0%	32.7%	29.6%	30.1%	32.5%
Net Margin (%)	-5.0%	19.3%	9.4%	13.0%	13.2%
FFO	2,508.05	2,450.97	2,114.92	2,826.62	1,422.63
FFO to Long Term Debt (x)	49.7%	5.5%	5.4%	6.0%	2.3%
FFO to Total Debt (x)	49.4%	5.5%	5.4%	6.0%	2.3%
Debt Service Coverage Ratio (x)	1.35	1.37	1.61	4.65	*2.42
Current Ratio (x)	0.40	0.70	0.58	0.54	0.63
Gearing (x)**	1.01	6.12	4.60	4.58	5.18
Leverage (x)**	3.03	7.51	6.06	6.13	6.75
ROAA (%)	NA	5.3%	1.8%	3.0%	*2.56%
ROAE (%)	NA	39.3%	14.9%	23.9%	*21.46%

**Annualized*

***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.*

REGULATORY DISCLOSURES	Appendix II
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		
04/07/2023	**A-**	**A-2**	**Positive**	**Maintained**
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		
04/07/2023	**BBB**	**-**	**Positive**	**Maintained**
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.
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.

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