

RATING REPORT

PGP CONSORTIUM LIMITED

REPORT DATE:

September 10, 2024

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/Rating Watch	Stable		Positive	
Outlook Date	September 10, 2024		July 04, 2023	
Rating Action	Upgrade		Maintained	
Sukuk	AA- (plim)			
Rating Outlook/Rating Watch	Stable			
Rating Action	Preliminary			

COMPANY INFORMATION

Incorporated in 2015	External auditors: RSM Avais Hyder Liaquat Nauman
Public Unlisted Limited Company	Chairman of the Board: 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 (Mr. Attiq Ahmed, Mr. Fasih Ahmed, Mr. Razi Ahmed and Ms. Sadia Ahmed)	
Mian Amir Mahmood	
Trafigura Holdings Limited	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates https://docs.vis.com.pk/docs/CorporateMethodology.pdf
Rating The Issue https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf

RATING SCALE(S)

VIS Issue/Issuer Rating Scale: https://docs.vis.com.pk/docs/VISRatingScales.pdf
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PGP Consortium Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

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 master's 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.

Company Profile

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 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).

Proposed Sukuk Structure

PGPC intends to issue a Rated, Secured, and Listed Diminishing Musharakah Sukuk of PKR 4,000 million, including a PKR 500 million Green Shoe Option, via a public offer. The proceeds will address the Company's CAPEX and working capital needs. A pre-IPO placement of PKR 3,000 million is proposed. Additionally, a shelf registration of PKR 3,000 million is planned, allowing the sale of securities without a separate prospectus for one year from listing.

The Sukuk has a 5-year term, including a 1-year grace period. The profit rate is proposed at 6-month Kibor plus a margin of up to 4.0% per annum, with a minimum floor rate of 12% per annum, payable semi-annually in arrears.

Proposed security structure is as follows:

- A ranking charge on Fixed Assets before fund disbursement, upgraded to a pari-passu charge within 120 days.
- Establishment of a Sukuk Payment Account (SPA) managed by Digital Custodian Company Limited (DCCL), ensuring prioritized debits.
- Blocking of sponsors' shares in the parent, PGPL, at a 25% discount, equivalent to the Sukuk's issued value.
- Assignment of the SBLC issued by PLL to the extent of the issue amount.

The SPA will receive monthly credits from the Collection Account to cover upcoming installment obligations.

Industry

Natural gas remains a key energy source in Pakistan due to its cost advantages over oil. Indigenous gas supplies have declined since 2008. Sui Southern Gas Company (SSGC) and Sui Northern Gas Pipelines Limited (SNGPL), both partially state-owned, manage transmission and distribution. The gap between demand and supply grows annually by 5-10%, leading the Government of Pakistan (GoP) to import LNG through Pakistan State Oil Company Limited (PSO) and Pakistan LNG Limited (PLL). PLL, a public sector entity, manages long-term and spot procurement contracts for LNG, importing primarily from Qatar, Dubai, and Nigeria. LNG is re-gasified into RLNG at terminals managed by PGPC and Engro Elengy Terminal Private Limited, with combined storage of 310,000 cubic meters and regasification capacity of 1.38 billion cubic feet per day. PGPC LNG terminal has a regasification capacity of 750 mmscfd while Elengy Terminal by Engro has a regasification capacity of 630 mmscfd.

Currently, Pakistan imports about 9-10 cargoes per month against a capacity of up to 14, with utilization affected by the macroeconomic environment and LNG prices.

Major Litigations

1. In Oct 2019, PLL had issued a termination notice for the Operation and Services Agreement (OSA) with the Company. The Arbitral Tribunal appointed under the London Court of International Arbitration (LCIA) Rules, 2014, on April 26, 2023, issued its award in the arbitration between PGPC and PLL, declaring the termination notice issued by PLL on 14 October 2019 as void and illegal. The tribunal went further by directing PLL to provide PGPC with a Stand-by Letter of Credit for USD 21,481,272 as prescribed in the OSA. Subsequently,

on May 29, 2023, PLL withdrew the termination notice and on July 05, 2023, PLL issued the SBLC for US\$ 21.48 million as directed under the LCIA award.

The LCIA tribunal awarded USD 7.2 mln plus interest based on KIBOR + 1% from March 13, 2018, to PLL, as liquidated damages (LDs) for delays in commissioning the LNG Terminal. PLL filed for enforcement in the Islamabad High Court (IHC). The Company objected, arguing the LDs violate Pakistani law, which allows LDs only to the extent of actual losses, asserting PLL suffered no such losses. Both parties agreed on an interim arrangement, with PLL deducting USD 800,000 from monthly bills starting May 2023. The IHC endorsed this arrangement, but without prejudice to the final court decision. PGPC has so far paid US\$ 12.41 million (including interest of US\$ 5.46 million) and the remaining amount, last instalment, will be paid in September 2024. The arguments on the Enforcement Petition No. 2 are in process in IHC.

Current Arbitration with PLL:

2. PGPC referred Third Party Access dispute along with disputes on royalty reimbursement and payment for pre-CSD services on October 28, 2023, to LCIA since the Authorized Representatives appointed by the Parties could not amicably resolve these disputes.
3. Company management said that under Clause 9.4 of the Operation and Services Agreement (OSA), PGPC had the right to use its excess capacity for third parties and PLL had to allow PGPC to utilise the excess capacity by executing third-party access agreements for joint storage and re-gasification of LNG. PGPC claimed losses of \$ 101.69 mln up to 1 March 2024 from PLL upto the date of filing and continuing loss of around US\$ 1.46 million per month prospectively, caused by non-utilisation of the excess capacity. PGPC and PLL had made an arrangement for the utilisation of excess capacity through a letter dated August 03, 2022, which was also approved by the PLL board, but it was not being implemented by PLL. The Company has referred this matter to LCIA for arbitration for potential losses for not finalizing the arrangement.
4. PGPC also claimed reimbursement of PQA royalty on LNG imported by PLL and payment of US\$ 2.2 million for pre-CSD services. The Company is of the view that Royalty on import of LNG is the obligation of PLL under the OSA and claimed reimbursement of already paid royalty of Rs 2,503.586 mln. However, PLL refused to reimburse the same. PGPC referred the matter to the LCIA for amicable resolution. The matter is pending before LCIA for arbitration and the management is confident for favourable outcome..

Key Rating Drivers:

Ratings incorporate medium to low business risk

Ratings reflect a medium to low business risk profile, with the Company exposed to moderate cyclicality in its operating environment. Gas demand remains stable despite economic fluctuations, mainly influenced by seasonal factors. Operational performance is largely dependent on maintaining the availability of LNG services infrastructure, mitigated by a capacity payment contract on a take-or-pay basis. The Company benefits from low competition due to significant entry barriers, limiting the threat of new entrants. The capital-intensive nature of the business further deters new market participants. Technological risk is low, while regulatory risk is assessed as medium for the industry.

Ratings incorporate guaranteed offtake on a take-or-pay basis

PGPC has a 15-year LNG Operation and Services Agreement (OSA) with PLL, a wholly owned subsidiary of Government Holdings (Private) Limited, for the guaranteed purchase of 600 mmscf of PGPC's regasification capacity on a take-or-pay basis, backed by a revolving Standby Letter of Credit (SBLC). PLL's payments to PGPC are calculated daily, regardless of LNG volumes re-gasified, assuming no operational issues. Revenues are accrued in USD, making PKR devaluation impactful on income and cash flows.

PLL is responsible for importing LNG and delivering it to the FSRU. With a nameplate capacity of 750 mmscf, with six trains of 125 mmscf each, PGPC provides receiving, storage, regasification and transportation services utilizing FSRU and RLNG transmission pipeline at a 96% annual availability factor against a levelized tariff of USD 0.4177 per MMBtu for the contracted capacity of 600 mmscf, which includes daily capacity and utilization charges. PGPC has an additional 150 mmscf of unutilized capacity out of which 50 mmscf was allocated to PLL and the remaining 100 mmscf is available to PGPC for Third Parties under the arrangement agreed between the parties through the letter dated August 03, 2022. However, the implementation of August 03 is still pending.

Profitability profile remains healthy.

In FY24M*, the Company's revenue grew by 11%, driven by the appreciation of the dollar against the PKR, as revenue is pegged in USD. Gross margins remained stable in FY24M* at 30.54% (FY23: 30.45%, FY22: 30.08%).

In FY23, shareholders approved costs of financial support provided by director and Jamshoro Joint Venture Limited (JJVL) at 2.5% for un-funded, 17.33% for funded facilities, and 1.5% for personal guarantees. This charge led to lower net margin in FY23 to 9.26% (FY22: 16.34%). Net margin recovered to 15.43% in FY24M*. As per management, since funded facilities are now being secured against PGPC's own assets and most of the financial support provided by JJVL is matured/settled, going forward, there would be no material cost of financial support.

Support to associate and liquidity.

The Company's liquidity profile has been impacted as a result of funds extended towards related party support. In addition, liquidity profile has been further affected by build-up of payables, including pending payments to an EPC contractor and royalty obligations. While the liquidity profile has faced short-term challenges, it is positioned for improvement following the completion of payment of PLL's liquidated damages deduction by September 2024. The liquidity profile is further supported by an arrangement with the EPC contractor, ensuring predictable payments starting from November 2024. Management has indicated that steps are being taken to secure long-term financing aimed at addressing the temporary balance sheet mismatch, which is expected to yield positive results. This is expected to improve liquidity metrics over time. Current ratio depicts continuous progression from 0.54x in FY22 to 0.75x in FY23 and 0.93x in FY24M*, with further improvement anticipated, reaching 1.15x by FY25.

Elevated capitalisation metrics in line with industry norms. Debt servicing remains adequate.

The Company has elevated capitalization metrics due to the capital-intensive nature of the industry, characterized by sizeable operational leases recognized under IFRS 16. PGPC reported gearing and leverage ratios of 3.58x (FY23: 5.16x, FY22: 4.58x) and 5.24x (FY23: 7.13x, FY22: 6.13x), respectively at end FY24M*. However, adjusted (for operating lease) gearing and leverage ratios stand at 0.03x (FY23: 0.09x, FY22: 0.12x) and 1.69x (FY23: 2.07x, FY22: 1.66x), respectively at end FY24M*. Going forward, we expect some increase in gearing as Company plans to take on long term financing for capex purposes.

Debt service coverage remains comfortable at 1.54x (FY23: 1.22x) during FY24M*, albeit lower than its high of 1.70x in FY22. Going forward, despite the projected increase in debt, debt servicing is expected to remain adequate.

Assignment of SBLC provides comfort to ratings

The ratings draw comfort from the provision of the revolving Standby Letter of Credit (SBLC) by PLL to PGPC, ensuring that payments stipulated in the Operation and Services Agreement (OSA) will be met. This SBLC, which can also be assigned to lenders, adds further support. The ongoing availability and continuation of this SBLC remains imperative. The SBLC is required to be maintained by PLL throughout the term of the agreement as per the provisions of the OSA.

**M – Management Accounts*

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	PGP Consortium Limited				
Sector	Oil & Gas				
Type of Relationship	Solicited				
Purpose of Rating	Instrument				
Rating History					
	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	10/09/2024	A	A-2	Stable	Upgrade
	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
	<u>RATING TYPE: PREFERENCE SHARE</u>				
	10/09/2024	BBB+	-	Stable	Upgrade
	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
	<u>RATING TYPE: SUKUK I</u>				
	10/09/2024	AA- (plim)	-	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.				
Instrument (Sukuk) Structure	PGPC plans to issue a rated, secured, listed Diminishing Musharakah Sukuk of PKR 4,000 million, including a PKR 500 million Green Shoe Option. Proceeds will support CAPEX and working capital requirements. A shelf registration of PKR 3,000 million is proposed, enabling securities sales without a separate prospectus for one-year post-listing. The Sukuk has a 5-year tenure with a 1-year grace period, offering a profit rate of 6-month KIBOR plus a margin of up to 4.0%, with a 12% minimum floor, payable semi-annually. Security includes assignment its SBLCs to the instrument in addition to a charge on fixed assets, establishment of a Sukuk Account, and blocking of sponsors' shares.				
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	
	Mr. Mohsin Butt	Manager Finance & Compliance	July 25, 2024
	Mr. Yaseen	Manager Accounts	