RATING REPORT

PGP CONSORTIUM LIMITED (PGPC)

REPORT DATE:
October 17, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Rating Long-term	Rating Short-term
Entity	A-	A-2
Preference Shares	BBB	
Sukuk	A	
Rating Outlook	Stable	
Outlook Date	*Oct 07, 2016*	

COMPANY INFORMATION

Date of incorporation: Sept. 1, 2015	**External auditors:** Salman Arshad Chartered Accountants (Member firm of Integra International)
Public Limited Liability Company	**Chairman:** Mr. Iqbal Z. Ahmed **Chief Executive:** 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 is proposed to be contributed in the following manner:

Jamshoro Joint Venture Limited(JJVL)	25.15%
Ahmed Family (Attiq, Fasih, Razi, and Sadia Ahmed)	27.17%
Mian Amir Mahmood	23.29%
Rehmat Khan	5%
International LNG trader as strategic partner	5%
Syed Yawar Ali	2.47%
Other minority investors	11.92%

APPLICABLE METHODOLOGY(IES)

Industrial Corporate (May 2016)
Preference Shares (Feb 2003)
Notching the Issues (June, 2016)
http://www.jcrvis.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), is establishing the country's second LNG import terminal at Port Qasim, Karachi

RATING RATIONALE

The ratings assigned to PGP Consortium Limited (PGPC) take 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 a track record of implementing and operating energy sector projects. Under the 15-year LNG Operations and Services Agreement (LSA) signed between PGPC and 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 600mmcfd 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 shall be calculated on a daily basis irrespective of the LNG volumes regasified—a key rating factor. Further, the ratings also take into account the sound performance track record of the internationally renowned companies engaged for project development. Project agreements also impose liquidated damages on the parties in the case of any delays in deliverables.

Project Profile: PGPC will regasify LNG through a Floating Storage and Regasification Unit (FSRU) and will sell 600mmcfd of its regasification capacity to PLTL, which bears the responsibility of importing LNG and bringing it to the FSRU. Under the LSA, PGPC will make storage and regasification services available at a 96% annual availability factor against a levelized tariff of USD 0.4177 per mmbtu. The excess regasification capacity shall be made available to private-sector customers without affecting PGPC's contractual commitments to PLTL. BW Gas Limited (BW) will provide, operate and maintain the FSRU for which PGPC will pay lease and operating charges. Xinjiang Petroleum Engineering Company Limited (XPE), with its associate companies, shall undertake dredging and construction works. Fauji Foundation's Fauji Oil Terminal and Distribution Company Limited (FOTCO) will lay pipeline from jetty to delivery point.

Project Cost and Capital Structure: The total cost of the Project is estimated at Rs. 14.3b and will be funded with a debt-to-equity ratio of 60:40. The equity portion of the Project cost amounting to Rs. 5.7b will be split into common and preference shares amounting to Rs. 4.3b and Rs. 1.4b, respectively. The debt potion amounting to Rs. 8.6b will be arranged by issuing privately placed Sukuk for a tenor of seven (7) years including a grace period of 1.5 years. The profit on the issue will be variable at 3-months KIBOR plus 3% per annum with quarterly repayment of profit. The issue is to be redeemed in 22 quarterly instalments. PGPC plans to issue perpetual, partially convertible, non-voting, privately placed, unlisted, callable, putable, cumulative and floating rate preference shares amounting to Rs. 1.4b. These preference shares offer dividend at 6-months KIBOR plus 5.5% per annum.

Profitability: The main source of revenue generation is the tariff received from PLTL for LNG regasification. Payments shall be made by PLTL to PGPC in USD equivalent Pak Rupees. Total revenue for Year 1 is projected at Rs.11.45b and is subject to an increase due to depreciation of Pak Rupee against the USD. Jetty operating and maintenance costs, fuel costs and miscellaneous processing expenses are projected to increase by 5% each year. Royalty to Port Qasim Authority (PQA) is agreed at USD1.9 per ton of gas processed untilend-FY22 after which it will increase by 25% to USD 2.2 per ton. The gross margin is projected to remain unchanged at 30% for the first five (5) years of the Project. Net Profit for the first year of operations is estimated at Rs. 2.07b reflecting a net profit ratio of 18%. The same is projected to increase to 24% by FY22. The Project enjoys a tax holiday during the first five (5) years of operation.

Liquidity and Cash flows: Funds from Operations (FFO) are projected at Rs. 2.6b during FY18, growing by CAGR of around 8.18% during the first five (5) years of the Project. The debt repayment capacity of the company is projected to remain comfortable with debt service coverage ratio (DSCR) maintained over 1.2 throughout the debt tenure.

PAKISTAN GAS PORT CONSORTIUM LIMITED (PGPC) Appendix 1

Projections (All figures in Rs. millions)									
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**
Equity	5,724	7,630	9,883	12,444	15,295	17,108	19,536	22,102	24,756
Short term loan	-	-	-	-	-	-	-	-	-
Long term loan	8,586	7,836	6,336	4,788	3,192	1,596	-	-	-
	FY17	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**
INCOMESTATEMENT									
Revenues	-	11,448	12,020	12,651	13252	13,915	14,611	15,377	16,108
Gross Profit	-	3,397	3,580	3,781	3,968	4,175	4,064	4285	4,490
Financial Charges	-	879	675	541	399	256	114	25	26
Profit After Tax	-	2,071	2,418	2,275	3,016	3,326	2,427	2,566	2,655
	FY17	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**
RATIO ANALYSIS									
Gross Margin (%)	-	30	30	30	30	30	28	28	28
Gearing (x)	-	1.03	0.64	0.38	0.21	0.09	-	-	-
Leverage(x)		1.12	0.71	0.46	0.27	0.15	0.05	0.05	0.04
FFO	-	2,604	2,951	3,258	3,549	3,859	2,995	3,211	3,350
FFO to Debt (x)	-	0.33	0.47	0.68	1..11	2.42	-	-	-
Debt Servicing Coverage Ratio (x)	-	2.14	1.67	1.82	1.98	2.22	1.82		
ROAE (%)	-	31	28	24	22	21	13	12	11

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix 2

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.

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<tr><th>REGULATORY DISCLOSURES</th><th>Appendix 3</th></tr>
<tr><td>Name of Rated Entity</td><td>PGP Consortium Limited</td></tr>
<tr><td>Sector</td><td>Oil & Gas</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Rating</td></tr>
<tr><td>Rating History</td><td>
<table>
<tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr>
<tr><td colspan="5"><u>RATING TYPE: Entity</u></td></tr>
<tr><td>Oct 07, 2016</td><td>A-</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
<tr><td colspan="5"><u>RATING TYPE: Preference Shares</u></td></tr>
<tr><td>Oct 07, 2016</td><td>BBB</td><td>Preliminary</td><td>Stable</td><td>Preliminary</td></tr>
<tr><td colspan="5"><u>RATING TYPE: Sukuk Issue</u></td></tr>
<tr><td>Oct 07, 2016</td><td>A</td><td></td><td>Stable</td><td>Preliminary</td></tr>
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</td></tr>
<tr><td>Statement by the Rating Team</td><td>JCR-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.</td></tr>
<tr><td>About the Preference Shares</td><td>PGPC plans to issue perpetual, non-voting, privately placed, unlisted, callable, putable, cumulative and floating rate preference shares amounting to Rs. 1.4b. Preference shares are convertible into ordinary shares at conversion price equal to the book value per share including outstanding accumulated dividends. The conversion option may be exercised at the 4th anniversary of the issue. The Company undertakes to list the company within 12 months of exercise of the conversion option. Only 20% of the total shares held by each investor at the time of conversion shall be convertible into ordinary shares of the PGPL. Preference shares offers dividend at 6-months KIBOR plus 5.5% per annum.</td></tr>
<tr><td>About the Sukuk</td><td>PGPC plans to issue Sukuk amounting to Rs. 8.6b for a tenor of seven (7) years with a grace period of one and a half years. The date of issuance has not been finalized yet. The profit on the issue will be variable at 3-months KIBOR plus 3% per annum. The issue is to be redeemed in 22 quarterly instalments where first 8 instalments would be of 4.4% of the sukuk amount each and the remaining 14 instalments of 4.6% of the sukuk amount each. The instrument is secured with security package offering exclusive assignment over the company's receivables due under the LSA with 25% margin in addition to other securities.</td></tr>
<tr><td>Probability of Default</td><td>JCR-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.</td></tr>
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