RATING REPORT

PGP CONSORTIUM LIMITED (PGPC)

REPORT DATE:
April 20, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Initial Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Preference Shares	BBB		BBB	
Rating Outlook	Positive		Stable	
Outlook Date	*Apr 16'2018*		*Oct 07'2016*	

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 finalisation shall be as given below:	
Jamshoro Joint Venture Limited (JJVL)	25%
Ahmed Family (Attiq, Fasih, Razi, and Sadia Ahmed)	26.15%
Mian Amir Mahmood	25%
Rehmat Khan	5%
TRAFIGURA	5%
Syed Hasnain Ali	2.47%
Other minority investors	11.38%

APPLICABLE METHODOLOGY(IES)

Industrial Corporate (May 2016)
Preference Shares (Feb 2003)
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), has established the country's second and the largest LNG import and regasification terminal in Pakistan

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

Net Equity: HYFY18- Rs. 4.6b, FY17-Rs. 4.6b

Net Loss: HYFY18-Rs. (104.3m), FY17- Rs. (58.3m)

RATING RATIONALE

The ratings assigned to PGP Consortium Limited (PGPC) takes 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 the experience of establishing and operating energy sector projects. The ratings also incorporate initiation of commercial operations of PGPC.

Project Profile: PGPC is the second and the largest LNG import and regasification terminal in Pakistan utilizing a Floating Storage and Regasification Unit (FSRU) constructed by Samsung in Korea and is selling 600 mmcfd of its regasification capacity to Pakistan LNG Terminals Limited (PLTL), a wholly owned subsidiary of Government Holdings (Private) Limited, under the 15-year LNG Operation and Services Agreement (OSA) signed on July 1, 2016, which in turn bears the responsibility of importing LNG and making it available at the FSRU. PLTL has guaranteed to purchase from PGPC 600 mmcfd 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 are calculated on a daily basis irrespective of the LNG volumes regasified, given there is no operational issue.

The cost remains sensitive to changes in interest rates and PKR/USD exchange rates fluctuations, however the revenues being accruing in US Dollar, exchange rate fluctuation has positive impact on the income and cashflows of the company. With a name plate capacity of 750 mmcfd, PGPC provides storage and regasification services at 96% annual availability factor against a levelized tariff of USD 0.4177 per mmbtu. The management is also working on using the spare capacity of 150 mmcfd for sale of RLNG to private sector customers. According to the management, these private sale negotiations are in advanced stages of finalizing with potential customers.

Capital Structure & Project Cost: As per the half yearly reviewed report from the auditors M/S A. F. Ferguson & Co., total assets increased to Rs. 15.74b (FY17: Rs. 5.43b) by end-1 HFY18; property, plant and equipment consisted 79.1% of total assets amounting to Rs. 12.45b (FY17: Rs. 3.96b). Direct cost on import of FSRU (brand new largest FSRU in operations in the world) amounted to Rs. 1.84b, which was imported under a long term (15 Years) lease agreement with BW FSRU II Pte. Ltd. Current assets amounted to Rs. 1.16b (FY17: Rs. 1.14b) at end-1 HFY18, mainly consisted of cash and bank balances.

Meanwhile, liabilities primarily comprised trade and other payables and long term finances. Trade and other payables amounted Rs. 9.21b (FY17: Rs. 0.1b) at end-1HFY18, mainly constituted accrued liability payable to EPC contractor, other project import and local components and custom duty (Rs. 1.8b) on import of FSRU. Rs. 5.12b have already been paid out of these payables to EPC Contractor by the sponsors;others will be retired upon finalization of local funding arrangement through local financial institutions (FI's), terms of the same are being negotiated with FI's and are expected to be finalized soon. Balance final amount of US $ 7.3 million payable to EPC contractor is prone to foreign exchange risk.

Long-term financing at end-1HFY18 amounted Rs. 1.28b (FY17: Rs. 0.73b). The equity portion remained atRs. 4.58b (FY17: Rs. 4.57b) at end-1HFY18; with ordinary and preference shares amounting at Rs. 3.14b &Rs. 1.53b, respectively.

Initially, projected cost of the project amounted to Rs. 14.3b with a proposed debt-to-equity ratio of 60:40. On completion of project, the total cost increased to Rs. 15.6b. Actual cost of the project has exceeded the projected cost mainly on account of increase in FSRU import duties, exchange rate fluctuation and increase in cash margin requirement for performance bonds and guarantees.

Loan portion is now projected at Rs. 9.355b from banks and DFIs. With debt to equity ratio of 60:40, loan portion from Syndicate banks and DFIs will primarily be utilized to retire liabilities payable to EPC contractor and other project related liabilities. A certain portion of the project increase will be met through issue of preference shares capital and also through profits generated by the company in first quarter before disbursement, to maintain proposed debt-to-equity ratio.

Operational Update

The Project achieved Commercial Start Date (CSD) upon successful completion of Acceptance Tests with effect from January 04, 2018 as per PLTL Acceptance Certificate. The Project exceeded all the parameters of the OSA thus confirming the earning potential of the Terminal beyond the PLTL Contract. Three regular billings after CSD have been completed and payments for the first and second invoice for January 2018 and February 2018 have been received on the due dates, payment against the third invoice for March 2018 is due on April 23, 2018.

Dispute regarding Liqudated Damages (LDs) for delay in commercial operation, and delay in provision of SBLC by PLTL to PGPC covering 3-months capacity payments has been considered by the authorised representatives of the parties and is pending PLTL Board approval, at USD 1 million to be paid over 15 years.

PGP CONSORTIUM LIMITED (PGPC) Appendix I

Project Cost agreed with the banks is given below:

Project Cost in respect of:	**Rs. In Million**
Leasehold land	64.7
Furniture and fixtures	0.5
Office and other equipment	1.0
Vehicles	14.4
Plant & machinery	3,670.6
Jetty & dredging	8,454.6
FSRU cost - Custom duties and others	1,843.8
SBLCs/Performance Bond Cash Margin Required	1,261.0
Security deposits for FSRU	262.5
Transaction costs on syndicated finance facility	74.3
Unamortized transaction costs on availed loans	19.3
Total project cost till January 03, 2018	**15,666.7**

PGP CONSORTIUM LIMITED (PGPC) Appendix II

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**31-Dec-17**	**30-Jun-17**	**30-Jun-16**
Fixed Assets	12,449.4	3,964.1	1,052.9
Direct Cost On FSRU	1,843.8	-	-
Advances, Deposits and Other Receivables	216.0	240.4	166.5
Cash & Bank Balances	898.4	898.7	0.4
Other Assets	338.5	331.7	-
Total Assets	15,746.0	5,434.7	1,219.8
Short Term Borrowing	61.5	-	-
Trade and Other Payables	9,218.4	104.0	1,220.1
Long Term Payables	509.8	-	-
Long Term Debt *(*incl. current maturity)*	1,277.7	736.4	-
Other Liabilities	95.9	7.3	-
Total Equity	4,582.7	4,587.0	(0.3)
INCOME STATEMENT	**31-Dec-17**	**30-Jun-17**	**30-Jun-16**
Net Sales	-	-	-
Gross Profit	-	-	-
Administration expenses	(37.7)	(58.3)	(0.4)
Other Expenses	(66.6)	-	-
Profit After Tax	(104.3)	(58.3)	(0.4)
RATIO ANALYSIS	**31-Dec-17**	**30-Jun-17**	**30-Jun-16**
Gearing	0.40	0.16	n.m
Leverage	2.44	0.18	n.m

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

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	(see table below)
Statement by the Rating Team	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.
About the Preference Shares	PGPC issued perpetual, non-voting, privately placed, unlisted, callable, puttable, cumulative and floating rate preference shares amounting to Rs. 1.5b and plans to issue more preference shares, upto a total of Rs. 1.691b. 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	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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10/07/2016	A-	A-2	Stable	Initial
04/16/2018	A-	A-2	Positve	Maintained
RATING TYPE: PREFERENCE SHARE				
10/07/2016	BBB	-	Stable	Preliminary
04/16/2018	BBB	-	Positive	Final