



**AES PAK GEN (PRIVATE) LIMITED  
(AESPG)  
RATINGS (JANUARY 2010)**

NEW*	
ENTITY	
Long Term	AA
Short Term	A1+

\*These ratings are placed on Rating Watch.

**FINANCIAL DATA**

PKR (mln)	Sep-09*	Dec-08	Dec-07
Total Assets	13,726.5	19,103.3	15,127.7
Equity	13,008.4	11,995.9	12,934.5
Net Income	2,049.5	2,324.7	1,834.7
ROA%	14.9	12.1	12.1
ROE %	15.7	19.3	14.1
Total Debt/Equity (%)	0.8	44.5	13.2

\* Based on unaudited accounts for 9 months ended September 30, 2009

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**RATING RATIONALE AND KEY DRIVERS**

- These ratings reflect the low payment risk, emanating from a cashflow stream guaranteed by the GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed performance parameters. The ratings recognize the company's established operating track record, mainly attributed to extensive expertise of major sponsor - AES Corporation, USA (AES). However, the weak financial discipline of the sole customer, Water and Power Development Authority (WAPDA), is a key consideration.
- Ratings depend upon the management's ability to effectively manage the operating risks, especially those emanating from the Operations & Maintenance (O&M) performance and ability to maintain agreed benchmarks. Meanwhile, upholding strong governance and control environment would be important. Moreover, external factors such as any changes in the regulatory framework of IPPs and inability to adequately manage liquidity requirements, currently in focus due to the prevailing circular debt issue, remain critical to the ratings.
- AES has recently agreed to divest its entire shareholding (55%) in AESPG to Nishat Group. The group is a diversified and financially strong conglomerate. However, its decision regarding O&M operations – in house or outsourced – would be critical for ratings. Meanwhile, the ratings would remain on Rating Watch till the conclusion of the said transaction.

**ASSESSMENT**

- AESPG has a commissioned thermal power plant, based on residual fuel power (RFO), with an installed capacity of 365MW. The plant is located at Mehmood Kot, near Muzaffargarh (Punjab). The plant sells electricity to Water and Power Development Authority (WAPDA), the power purchaser. The project has a remaining contractual life of 19 years under PPA with the Power purchaser.
- AESPG has an established operating track of 12 years tenor out of 30years, attributed to significant expertise of AES. The company has been managing its operating risks through in-house O&M operations under guidance of AES. AESLP has ensured required level of efficiency (39%) as agreed in PPA. However, on completion of AES's divestment from the company, given the significance of O&M operations, the new sponsor's decision regarding the appointment of O&M operator would remain critical and could have significant bearing on the future prospects of the company. Nishat group, the new major sponsor, is already engaged in IPP business and is expected to successfully manage AESLP's O&M function to ensure smooth running of its operations.
- AESPG's fuel supplier is Pakistan State Oil (PSO), the leading local oil marketing company. The Fuel Supply Agreement (FSA) is backed by a government guarantee, which mitigates the reliance on a single fuel supplier. RFO is delivered to the company through pipelines as agreed in FSA. AESPG is required to maintain a fuel inventory of 30 days.
- An IPP's key source of earnings is the generation tariff from the power purchaser. It comprises a capacity charge component and an energy charge component. The former is based on dependable capacity and constitutes a minimum tariff guaranteed to the company which covers the fixed O&M costs, insurance charges, debt, working capital funding costs, and return on equity. The latter is a function of actual electricity dispatched. These charges, with the exception of agreed return to project shareholders with adjustment for performance achievements, are pass-through having no bearing on the IPP's core profitability. The reported profitability of AES, after full redemption of project debt, would constitute net return to shareholders besides few other payments.
- The stability and sustainability of cash flows is ensured through the minimum guaranteed capacity charge component of the tariff that the IPP receives even if it produces no electricity (in case of zero demand from the power purchaser). However, if AESPG is unable to supply electricity as per demand due to its own inefficiencies or fail to notify WAPDA of the available capacity 12 hours prior to the dispatch date, it would be liable to pay liquidated damages as per provisions of the PPA. The short-term financing is linked to working capital requirement of AESPG for managing ongoing operations incase of delayed payments by WAPDA. Moreover, AESPG has arranged additional working capital lines, hence providing it with sufficient cushion for liquidity management.
- Over the years, cash flows from operations of the company have remained strong on account of stable revenues and energy demand by WAPDA, thereby reducing the company's net working capital requirements. Meanwhile, the coverages of the company remained robust owing to stable revenue stream.
- AESPG enjoys a strong financial profile. The equity based capital structure provides financial flexibility. Moreover, the project debts would be redeemed fully in 2010.

**PROFILE**

- AES Pak Gen (Private) Limited (AESPG) – a subsidiary of the AES Corporation, USA – started commercial operations in Feb98. AESPG is a special purpose company established for carrying out the power project in Pakistan under the power policy 1994 as an Independent Power Producer (IPP) with primary objective of electricity generation.
- The principal sponsors of the company are AES (55%), followed by Islamic Development Bank (35%) and International Finance Corporation (10%). AES, operating across 26 countries in five continents, is one of the leading global power companies managing ~43,000MW of capacity worldwide with around 124 power plants. The reported revenues of AES are US\$ 10.7bln for 9MFY09 ended-Mar09 (Dec08: US\$ 16.0bln).
- AESPG's BoD, currently comprising six members including the CEO, consists of key sponsoring individuals. Mr. Shahid Zulfiqar Khan, an ACMA, having significant experience in energy sector is the CEO of the company. Subject to completion of equity divestment by AES to Nishat Group, the company's shareholding pattern, Board of Directors (BoD) and the management are expected to go through significant changes.