



CHANDA OIL AND GAS SECURITIZATION COMPANY LIMITED (COGSCL)

RATING (JUNE 2006)

CHANDA OIL AND GAS
SECURITIZATION COMPANY
LIMITED

	New	Previous
Securitized TFC (PKR 1,000mln)	A	A

ANALYSTS

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THE ORIGINATOR

ZPCL, incorporated in August 1991, is the first local exploration and production company. Hashoo Group owns the majority stake in ZPCL through its different companies and individual nominees. The group has diversified business interests, out of which Pearl-Continental Hotel and Marriott Hotel chains are the most significant. ZPCL utilized the funds raised through securitized TFC for its core operations and for debt re-profiling. The company currently has working interests in five exploration concessions in Pakistan and one in Sudan.

TRANSACTION SUMMARY

- COGSCL is a bankruptcy-remote special purpose vehicle (SPV) incorporated in February 2004 under the Companies (Asset Backed Securitization) Rules, 1999. The SPV has acquired the title, property and right in receivables of Zaver Petroleum Corporation Limited (ZPCL) originating from sales of oil, upto 2 MMBOE, gas, upto 7.5 BCF, and LPG, upto 18,000 metric tonnes that is approximately equal to ZPCL's estimated share of oil, gas and LPG to be produced from the Chanda field. ZPCL has 10.5% working interest in Chanda oilfield, shared with OGDCL (72%) and Government Holdings (Pvt.) Limited (17.5%). GOP declared the field commercial on June 01, 2002 and granted a 20 years development and production lease to working interest partners. Commercial production from the field commenced in July 2004.
- The SPV generated the funds required to purchase the receivables through issuing asset backed term finance certificates in February 2005. The SPV has created a first exclusive charge over the receivables in favour of the trustee. The transaction between COGSCL and ZPCL is a true sale. Payments to the TFC holders shall be made only from collection against receivables. The TFC has a tenor of 7 years maturing in February 2012 carrying profit based on simple average of last 7 days of ask side of 3 months KIBOR rate plus 325bps with a floor of 8.95% p.a. and a cap of 13% p.a. Principal redemption is to be made in 27 unequal quarterly instalments that commenced from August 2005 (outstanding instalments: 23, principal: PKR 912mln). To date, COGSCL has paid all due instalments (1: Aug-05, 2: Nov-05, 3: Feb-06, & 4: May-06) on timely basis.

RATING RATIONALE

The cash flows from sale of oil, gas and LPG are considered adequate to allow COGSCL to meet the contractual TFC obligations comfortably. The TFC is, therefore, assigned a rating of 'A' (Single A) implying a low expectation of credit risk emanating from a strong capacity for timely payments of financial commitments. This opinion is based on evaluation of various risk factors as summarized below:

- Adequacy of Reserves:** Chanda oilfield is in production for around two years and is estimated to have around 20 million barrels of oil and 75 billion cubic feet of gas. This estimate of Oil and Gas Development Company Limited (OGDCL) has been confirmed by an independent engineering consultant, GSM Inc., USA.
- Production Risk:** Chanda oilfield is a non-operated joint venture of ZPCL. OGDCL manages the operations of the field. Given the rich experience of the operator in this business, the potential risk in production operations stands mitigated.
- Demand Risk:** GOP has nominated ARL and SNGPL as buyers for oil and gas from the Chanda field. Given the high reliance on petroleum imports and the pronounced preference of local refineries for local crude, sale to any other refinery, in case of a production disruption at ARL, does not pose any difficulty. The sale of gas to SNGPL is being made through a dedicated pipeline. While there could be disruptions owing to technical snags, such events may lead to temporary interruptions and not likely to have any material impact.
- Payment Risk:** There has been no instance of substantial delay in payments from major buyers (ARL & SNGPL). Given established revenue streams of these buyers with input from the Chanda field forming a relatively small proportion of their total volumes, any extraordinary delay in payments is unlikely.
- Cash flow Risk:** The stability of cash flows is vulnerable to sale price and quantity of oil and gas generated during a given period. Since commencement of commercial production, the quantity extracted from the field is substantially lower than expected mainly due to problems at one of the two wells (Chanda Deep 1). However, the impact on cash flows was more than compensated by significant increase in the price of oil over this period. Moreover, there is no change in the size of the reservoir and the lower output simply exhibits technical snags. Meanwhile, third well has been drilled and commercial production is expected to commence shortly. A cash flow model has been developed assuming the current production levels with addition of inflows from the third well beginning Aug-06. The output is assumed to drop by 10% at the beginning of every coming year starting Jul-07 and oil price is assumed at US\$ 50/barrel. These cash flows reflect robust ability to meet the TFC obligations. In order to assess the strength of the cash flows to absorb any contingencies, these have been sensitised separately for price and quantity of output. The sensitivity run on this model shows that the cash flows remain sufficient to meet the obligations even with a 48% drop in the production level or decrease in oil price to a level of US\$ 22/barrel – though a remote possibility – or a combination in varying proportions of both contingencies.
- Reserve Fund:** Reserve Fund, equal to one upcoming instalment, has been created. This reserve takes care of any temporary disruption in the cash flow. Moreover, in extreme cases of prolonged cash flow constraints, the principal portion of an instalment can be postponed till the next instalment without affecting the total tenor of the TFC.
- Unforeseen Factors:** In the event of any force majeure situation, to be formally declared by the GOP, resulting in disruption of the Chanda field's operations, the trustee can restructure the terms and conditions of the TFC.