



## CHANDA OIL AND GAS SECURITIZATION COMPANY LIMITED (COGSCL)

RATING (APRIL 2007)

### 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: 20, principal: PKR 831mln). To date, COGSCL has paid all due installments on timely basis.

### RATING RATIONALE

The increase in production levels, following commissioning of commercial production from the 3<sup>rd</sup> well in Jul06, and stronger likelihood of oil prices maintaining current high levels have positive impact on the overall cashflows available to the TFC holders. Meanwhile, with plans to initiate drilling of a new well in Chanda field, the production levels are likely to be further augmented, going forward. Considering the improvement in cushion available to the TFC holders, the rating of TFC has been upgraded to 'A+' (Single A Plus), 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. However, at the same time, the relative limited scale of production from the field in the overall operations of OGDCL could have an impact on the operator's priority in timely implementation of major development works.
- 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 produced during a given period. The quantity extracted from the field was substantially lower than expected in the initial phase, 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.
- The production from the field resumed to originally estimated levels, following commencement of production from the newly drilled 3<sup>rd</sup> well in July06. Meanwhile, oil prices showed stability at high levels, thereby strengthening the overall cashflows available to the COGCL for meeting the TFC obligations. The drilling process for a 4<sup>th</sup> well (estimated production levels 2,800 bpd) is expected to commence shortly, and the commercial production from the well is likely to start in a year's time. While enhancing the production flows, the new well is likely to provide further cushion against any future decline in production flows from the existing wells due to any technical problems.
- Reserve Fund:** Reserve Fund, equal to one upcoming instalment, has been created, which takes care of any temporary disruption in the cash flow.

### KEY RATING DRIVERS

- The ratings are mainly dependent on the two critical variables a) the stability in oil prices, and b) production flows from the field. Any prolonged technical problem, leading to substantial decline in production flows and/or material fall in oil prices would have negative implications for the rating. At the same time, the successful commissioning of production from the 4<sup>th</sup> well, providing a greater stability in production levels or a further rise in oil prices would have positive impact on the rating.