

**RATINGS (APRIL 2011)**  
**PAKISTAN NATIONAL SHIPPING**  
**CORPORATION (PNSC)**

ENTITY	NEW	PREVIOUS
Long Term	AA-	AA-
Short Term	A1+	A1+

**FINANCIAL DATA**  
**PKR (mln)**

	2QFY11*	FY10	FY09
Total Assets	24,492	19,514	18,372
Equity	18,204	17,965	16,479
Turnover	4,220	7,849	11,474
Net Income	522	968	2,359
Gross Margin %	21.8	19.3	26.7
ROA (%)	4.3	4.9	12.6
ROE (%)	5.7	5.4	14.1
EBITDA	1,113	1,868	4,384

\*Based on unaudited accounts for the 6 months ended December 31, 2010.

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**RATING RATIONALE AND KEY RATING DRIVERS**

- The ratings reflect PNSC's sovereign ownership structure – majority (77%) owned by the Government of Pakistan (GoP) – and its strategic importance. The ratings incorporate the corporation's strong risk absorption capacity, emanating from a robust equity base and healthy liquidity position. Meanwhile, the monopolist position of PNSC, as the only domestic shipping entity, and long-term nature of its contracts insulate the corporation to a certain degree from the inherent cyclical nature of the shipping industry.
- The ratings remain dependent upon the successful implementation of the corporation's fleet expansion/replacement plan and subsequent higher revenues, translating into strong cash flow generation. Adverse business developments, resulting in lower freight and charter revenues and/or excessive leveraging, impacting the financial profile, would have negative rating implications. In this regard, management's ability to proactively manage the corporation's financial obligations is important for the ratings. Meanwhile, upholding a strong governance framework would be critical.

**ASSESSMENT**

- Shipping, as a global industry, is closely tied to the level of economic trade activity in the world. It plays a vital role in world economics as it caters to ~ 80% of world trade volume. The industry is cyclical in nature and freight rates generally tend to be volatile. Shipping companies' freight rates and earnings are primarily a function of demand and supply dynamics of the global markets. Since the early 2000s, the sector benefited from the benign global economic environment, which gave impetus to capacity expansion. With this capacity coming online over 2011-13 in the wake of continuing subdued demand, the industry is likely to experience capacity overhang and depressed freight rates for next three years. No doubt, by early 2010, a global recovery is under way; though it is un-even and at best fragile.
- During FY10, PNSC, handled ~9% of the country's sea trade volume (FY09: 10%). PNSC's fleet, with a total capacity of 565,273 DWT, currently comprises 9 vessels – 3 oil tankers, 3 combi vessels and 3 bulk carriers. During FY10, the corporation witnessed steep drop in revenue and gross margin mainly due to slow global economic activity and subdued freight rates. Moreover, inflated administrative cost further adversely impacted the bottomline. During 1H FY11, the corporation experienced increase in its turnover despite having pressurized freight rates. This was mainly attributable to change in the fleet mix – induction of relatively new vessels. The change also helped to improve gross margins, albeit slightly. As a result, the operating income from the core business has witnessed improvement. However, since the corporation's investment book has declined, its non-core investment income contribution towards profitability has substantially decreased – further dampened by enhanced interest cost. Consequently, PNSC's profit before tax has experienced dip on YoY basis, if one-off gain of PKR 160mln on sale of ships is excluded.
- Going forward, PNSC plans to continue with its fleet expansion program (target: 17 vessels by 2013). In this regard, it has already purchased 2 new bulk carriers while acquisition of 3 dry cargo carriers is underway. Previously, PNSC made replacement in its fleet through induction of 3 double hull oil tankers and two bulk carriers. With this, the average age of the fleet has come down. The corporation is taking steps to secure new business for additional upcoming capacity both in the domestic and regional markets. Nevertheless, the extent to recovery in the backdrop of overcapacity in the industry remains to be seen. At the same time, rising bunker cost due to unrest in MENA region would remain a challenge. Moreover, modification in business strategy and/or related timeline remains a possibility with recent change at the top management ladder.
- PNSC utilizes Enterprise Resource Planning software (Shipmanagement Expert System) for MIS reporting. It employs Purple Finder, an international satellite system, to track vessels. The system generates several reports that adequately capture the operational performance of the corporation.
- PNSC had been enjoying a debt-free capital structure. To finance the fleet replacement and expansion plan, the corporation has acquired debt, recently. As per plan, PNSC's leveraging, though currently low, would increase in a gradual manner. Incremental cash flow generation by the new fleet would be the primary source for debt repayment. It is, therefore, highly crucial for the company to secure long-term business simultaneously while building the new capacity. Moreover, given that debt accumulation is a new phenomenon at corporation, the top management, supported by robust MIS, needs to be vigilant.

**PROFILE**

- Incorporated under the provisions of the Pakistan National Shipping Ordinance, 1979, Pakistan National Shipping Corporation (PNSC) functions as the holding company with 19 subsidiary companies (18 wholly owned) and an associate company. PNSC and its subsidiaries, operating on a one-ship one-company model, are principally engaged in the business of charter of vessels and cargo transportation.
- The seven member board comprises five nominees of the GoP, including the Chairman – Vice Admiral (R) Saleem Ahmed Meenai, who has recently taken over the position. Vice Admiral (R) Saleem Ahmed Meenai – recipient of Hilal-e-Imtiaz (Military) – has been associated with Pakistan Navy for more than forty years. The two vacant board positions are to be filled by the government in the due course.

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