The Pakistan Credit Rating Agency Limited

Engro Elengy Terminal (Private) Limited

Entity Ratings

	New [Apr-17]	Previous [Dec-16]
Entity		
Long Term	A	A
Short Term	A1	A1
Outlook	Stable	Stable

Report contents

April 2017

Profile

- Engro Elengy Terminal (Private) Limited (EETPL) is the operator of the country's first LNG facility at Port Qasim. The design capacity of the terminal is 600mmscfd.
- EETPL, a private limited company, is owned by ETPL. ETPL is owned by Engro Corporation Limited (ECL) - 80% - and International Finance Corporation (IFC) - 20%.

Governance

- Two-member board of directors comprising the Chairman - Ghias Khan - and CEO – Syed Muhammad Ali. Mr. Khan replaced Khalid Siraj Subhani as CEO of ECL. Mr. Ali has been associated with Engro Group for more than 15 years.
- There are presently no board sub-committees; all deliberations are held at board meetings only.

Management & Controls

- EETPL has a lean organizational structure. The overall operational responsibilities have been divided among four main departments: a) Legal, b) Terminal Management Team, c) Finance and d) Admin & HR.
- To oversee terminal operations and company management, a management committee exists. It is chaired by the CEO and includes Mr. Fahim (CFO), Mr. Amir Mahmud (Terminal Manger), and Junaid Ahmad (HR & Admin Manager).

Project

- SSGC, a gas utility company, has signed an LNG Services Agreement (LSA) for storage and re-gasification services of 400mmsfcd LNG with EETPL for a term of fifteen years.
- EETPL is the operator under the LSA and owns the LNGI. EETPL has leased a 600mmsfcd Floating Storage and Re-gasification Unit (FSRU) from Excelerate Energy (EE).
- EE is responsible for operations and O&M of the FSRU under the Time Charter Parity Agreement between EETPL and EE.

Business Risk

- During CY16, EETPL handled ~131bcf of gas and posted a revenue of PKR 9.2bln, with gross and net profits of PKR 2.5bln and PKR 1.5bln, respectively.
- The second SBLC expired in Oct-16. However, the said SBLC has been renewed for a period of one year till Oct-17.
- The guaranteed availability of 95% to SSGC has been ensured by securing a 96.7% availability guaranteed from EE.
- SSGC has floated the tender to procure additional LNG whilst EETPL has submitted the bid. Currently both parties are under negotiation and EETPL expects that the related LSA amendment will be executed by Jun'17.

Financial Risk

- EETPL achieved financial close on March 10, 2016.
- The planned funding was obtained from: a) IFC (USD 20mln), b) Asian Development Bank [ADB] (USD 30mln), and c) consortium of local banks comprising, NIB Bank Limited, Askari Bank Limited and Pak Brunei Investment Company Limited (PKR 4,000mln).
- The working capital cycle of the company is largely a function of receivables from SSGC. During the period SSGC has been paying the company in timely manner.
- EETPL's coverages remain strong on the back of fixed capacity charge based cashflows.

RATING RATIONALE

The ratings reflect sustained operations of EETPL. At the same time, the business profile of EETPL is strong, emanating from GoP's commitment to mitigate prevailing gas crisis in the country by way of importing LNG. SSGC – the sole intermediary, rated "A+" has demonstrated timely payments against committed purchase despite challenges. Additionally, Stand-by Letter of Credit, covering capacity payments for a year and option to offer LNG to third parties, provide comfort. The ratings also take significant support from EETPL's association with Engro Corporation Limited (ECL) which has demonstrated financial strength. The subordinated debt from ECL is being replaced by commercial lending - includes foreign lenders ADB and IFC, which remained adequately covered by EETPL's cash flows.

KEY RATING DRIVERS

The ratings remain dependent on the smooth operations of the terminal and conduct of SSGC - with reference to the timely payments to the company. Meanwhile, debt service coverages and other financial metrics must remain strong.

PKR mln

Engro Elengy Terminal (Private) Limited

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
	CY16	CY15	CY14
Non-Current Assets	**11,470**	**11,882**	**8,628**
Investments (Incl. associates)	**-**	**894**	**-**
Equity	-	-	-
Debt Securities	-	894	-
Current Assets	**4,524**	**2,835**	**5,100**
Inventory	1,788	-	-
Trade Receivables	-	1,066	-
Others	2,736	1,769	5,100
Total Assets	**15,994**	**15,610**	**13,728**
Debt	**7,573**	**7,702**	**8,626**
Short-Term	-	-	-
Long-Term (Incl. Current Maturity of Long-Term Debt)	7,573	7,702	8,626
Other Short-Term Liabilities	1,167	2,705	3,463
Other Long-Term Liabilities	724	220	-
Shareholders' Equity	**6,530**	**4,983**	**1,639**
Total Liabilities & Equity	**15,994**	**15,610**	**13,728**
INCOME STATEMENT			
Turnover	**9,196**	**7,768**	**-**
Gross Profit	2,528	2,968	-
Net Other Income	456	196	1
Financial Charges	(795)	(714)	-
Net Income	**1,547**	**1,910**	**(17)**
Cashflow Statement			
Free Cash Flow from Operations (FCFO)	2,210	2,038	(17)
Net Cash changes in Working Capital	(1,000)	1,286	(380)
Net Cash from Operating Activities	526	2,378	(1,247)
Net Cash from InvestingActivities	660	(5,579)	(4,674)
Net Cash from Financing Activities	42	(141)	10,282
Ratio Analysis			
Performance			
Turnover Growth	18%	N/A	N/A
Gross Margin	27%	38%	N/A
Net Margin	17%	25%	N/A
ROE	24%	41%	N/A
Coverages			
Interest Coverage (FCFO/Gross Interest)	2.8	2.9	N/A
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.1	2.6	N/A
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.1	2.3	N/A
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	5.4	5.9	-521.0
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	18	-47	N/A
Capital Structure (Total Debt/Total Debt+Equity)	54%	61%	84%

STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

Rating	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant Credit Risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**High default risk**. Substantial Credit Risk CCC: Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised), negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future but may stay in abeyance for long.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the debt instrument is redeemed.

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity	Engro Elengy Terminal (Private) Limited
Sector	Liquified Natural Gas
Type of Relationship	Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
26-Apr-17	A	A1	Stable	Maintain
31-Dec-16	A	A1	Stable	Maintain
31-Dec-15	A	A1	Stable	Upgrade
31-Dec-14	A-	A2	Stable	Initial

Related Criteria and Research

Master Methodology: Corporate Rating Methodology

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Rating Team Statement

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