The Pakistan Credit Rating Agency Limited

Rating Report

Engro Elengy Terminal (Private) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Mar-2019	A+	A1	Stable	Maintain	-
04-Sep-2018	A+	A1	Stable	Maintain	-
27-Feb-2018	A+	A1	Stable	Upgrade	-
26-Apr-2017	A	A1	Stable	Maintain	-
30-Dec-2016	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect sustained operations of Engro Elengy Terminal (Private) Limited (EETPL), given revenues and cash flows are guaranteed by Sui-Southern Gas Company (SSGC), subject to adherence to agreed parameters. SSGC, the sole intermediary (rated "A+"), has demonstrated timely payments against committed purchases despite challenges. The business profile of EETPL is strong, emanating from GOP's commitment to manage prevailing energy crises in the country by way of imported LNG. Thus, a sizable and recurring stream of income is ensured. The ratings incorporate rapid developments in the industry owing to gas shortage in the domestic market. Engro Elengy continues to meet its availability (CY18: 97.3%) - an outcome of technically sound operations and maintenance operator, Excelerate Energy (EE), is a key source of comfort in managing the plant's operations. A stable stream of revenue leads to build up of surplus cash, which after making committed payments to lenders would be distributed to sponsors regularly, as per policy, going forward. The working capital cycle is solely the differential of the days of receipts from SSGC and payments to suppliers. Payments from SSGC are secured by way of Stand-By Letter of Credit (SBLC), due to which chances of deterioration in the Working capital cycle are very low. This keeps working capital needs under check. Company's total long-term debt of PKR 6,209mln as at end-Dec18, payable till Dec23. Corporate Guarantee from Engro Corporation soothes financial risk. The governance structure has been further nurtured after induction of Vopak LNG Holding B.V., which will take representation on the board as well.

The ratings take significant support from EETPL's association with Engro Corporation Limited, which has demonstrated financial strength. The ratings remain dependent on smooth operations of the terminal, and conduct of SSGC with reference to the timely payments to Engro Elengy Terminal. Meanwhile, debt service coverages and other financial related metrics must remain strong.

Disclosure

Name of Rated Entity	Engro Elengy Terminal (Private) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Liquefied Natural Gas(Jul-18)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure Engro Elengy Terminal (Pvt) Limited is a Private Company, wholly owned by Elengy Terminal Pakistan Limited, which is a subsidiary of the Corporate conglomerate Engro Corporation Limited.

Background Pakistan's domestic gas production of ~4,000 MMCFD is unable to meet the country's demand of more than ~6,000 MMCFD. To overcome this shortage, the Government of Pakistan has started importing Liquefied Natural Gas (LNG) since early 2015. The developments in LNG Industry took a boom after the establishment of first LNG Regasification terminal by Engro Elengy Terminal (Private) Limited.

Operations Engro Elengy Terminal has been established as a special purpose vehicle to own and operate the LNG facilities and enter into all project related agreements including the LSA. It has leased a 600mmscfd baseload Floating Storage and Re-gasification Unit (FSRU) from Excelerate Energy.

Ownership

Ownership Structure Elengy Terminal Pakistan Limited holds 100% of the shares of Engro Elengy Terminal (Pvt) Ltd. Recently, Vopak LNG Holding B.V. extended its shareholding in Elengy Terminal Pakistan Limited. Consequently, Engro Corp and Vopak LNG Holding B.V. now own 56% and 44% respectively.

Stability Dawood Hercules Corporation – along with Dawood Family and its associated concerns - holds a major stake in Engro Corporation Limited through corporate and individuals. The Corporation has a distinguished name in Pakistan with business interests spread across various sectors. Therefore, Stability factor is considered strong.

Business Acumen The Sponsor Acumen for Engro Elengy Terminal is extensive due to its association with Engro Corporation Limited. Moreover, a firm support is provided to Engro Elengy Terminal by Engro Corp and Elengy Terminal Pakistan Limited by entering into a Sponsor Support Agreement on November 23, 2015 with Engro Elengy Terminal's financing party, Asian Development Bank (ADB), where NIB Bank (now MCB Bank) has acted as an Inter-creditor Agent, in order to provide continuing Financial support to Engro Elengy Terminal.

Financial Strength Engro Corporation Limited (ECL) has expanded its footing in diversified business avenues with a sizable portfolio of strategic investments. The group's business portfolio spans across various sectors including the manufacturing and marketing of fertilizers, PVC resin, and food, energy, and chemical terminal and storage businesses.

Governance

Board Structure The board of directors (BoD) of Engro Elengy Terminal comprises seven members including the CEO; majority members represent Engro Group.

Members' Profile The CEO, Mr. Jahangir Piracha joined Engro Elengy in the first quarter of CY17. However, his enjoys long association with ECL and was Ex- CEO of Engro PowerGen Qadirpur Limited, one of the Group's Companies.

Board Effectiveness The number of board meetings held during CY18 were eight. During CY17, Board Audit Committee was established to assist board in relevant matters.

Financial Transparency M/S A.F.Ferguson & Co. Chartered Accountants is the external auditor of the company. They expressed an unqualified opinion on the company's annual financial statements for the year ended December 31, 2018.

Management

Organizational Structure The Company 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) HR & Admin.

Management Team Mr. Jahangir Piracha, the CEO of the company. After receiving his bachelors' degree in Chemical Engineering, he gained over 25 years of corporate experience in functions such as manufacturing, human resource, and procurement. Mr. Fahim, the CFO of the Company, is a fellow Chartered Accountant with an overall experience of ~17 years.

Effectiveness A management committee comprising four members and chaired by the CEO is in place to oversee the terminal operations. Other committee members include the CFO, Terminal Manager, and the HR&Admin Manager.

MIS Daily MIS/Summary Report encompassing terminal operations concerning i) number of MMBTUs re-gasified and pumped into SSGC's network ii) pressure of gas and iii) required amount of gas by SSGC on a daily basis is used to monitor the terminal performance.

Control Environment Engro Elengy Terminal's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Business Risk

Industry Dynamics The industry is in the process of rapid development with new initiatives being taken by the Government as well as the private sector. Second LNG Terminal came online in Nov17, constructed by Pakistan Gas Port Consortium Limited (PGPCL) - a wholly owned subsidiary of Pakistan Gas Port Limited (PGPL). Some other key names from private sector want to make entry in industry; materialization of projects still pending. For further facilitation of industry players, federal government has established two entities namely Pakistan LNG Limited (for the Import of LNG) and Pakistan LNG Terminal Limited (for Terminal Handling). The government is also contemplating the amalgamation of these two state-owned entities.

Relative Position Engro Elengy was the first Company in Pakistan to commission an LNG terminal in March'15 with a storage and re-gasification capacity of 500mmcfd. During CY17, as per the amended LSA, EETPL's terminal is contracted out for daily LNG volumes of up to 630mmcfd from 500mmcfd. Additionally, LNG handling has also been increased to 4.5 MTPA from 3.0 MTPA, with no change in Guaranteed Availability clause. Hence, relative position of engro elengy remains strong when compared with other player.

Revenues During CY18, the company's topline increased to PKR 12.6bln (CY17: PKR 10.4bln) up 20% YoY; a function of the fixed capacity payments and utilization charges. Capacity payments are fixed at USD 228,016/day till the 15th year of operations. The surge in topline is solely consequent to increase in volume supplied to SSGCL. The key risks impacting Engro Elengy operations include i) the risk of ensuring availability of LNG infrastructure to SSGC at 95%, which is mitigated by having a similar arrangement with Excelerate Energy (EE) based on providing guaranteed availability at 96.7%, ii) the risk of termination of LNG Service Agreement (LSA) owing to a default by Engro Elengy, relating primarily to providing availability of less than 70% in any contract year or non-payment of liquidity damages.

Margins During CY18, gross margins of the company inched down to ~27% (CY17: ~28%). This decline is on account of (i) percentage of WHT for Excelerate energy has changed (8% to 12%) (ii) there has been an additional payment of $4,000 per day for additional capacity provided for 2018 against incremental 200mmccfd of gas.

Sustainability Going forward, Engro Elengy is planning to undergo debottlenecking as a result of which the peak capacity of the LNG terminal is expected to increase to 750mmcfd. The feasibility analysis and related formalities are underway, planned materialization in CY20.

Financial Risk

Working Capital The working capital cycle of the company is largely a function of receivables from SSGC and payment to suppliers; any delays in payment from SSGC may impede the company's working capital. Therefore, net working capital cycle stood at 3 days end-Dec18 (end-Dec17: 34 days), reflecting improvement.

Coverages Yearly principal repayments against long-term borrowings exerting pressure on debt service coverages. At the same time, debt servicing ability remained adequate [Debt Coverage: CY18: 1.3x, CY17: 1.7x, CY16: 1.9x], due to a sizable stream of cash flows [FCFO: CY18: PKR 3,898mln, CY17: PKR 3,566mln, CY16: PKR 3,513mln]. Going forward, repayment of a principal portion of the loans is expected to remain comfortable, given fixed capacity payments from SSGC.

Capitalization The capital structure of Engro Elengy is leveraged with borrowings comprising solely of long-term funding from IFC (USD 20mln), ADB (USD 30mln) and the consortium of local Banks (PKR 4bln). Funding is procured for a period of 8 years with 16 half yearly installments. As at end-Dec18, leveraging stands at 49% (CY17: ~58%).

PKR mln

Engro Elengy Terminal Pvt. Limited
Listed Public Limited

BALANCE SHEET	Dec-18	Dec-17	Dec-16
	12M	12M	12M
a Non-Current Assets	**10,723**	**10,844**	**11,470**
b Investments (Incl. Associates)	-	-	-
Equity Instruments	-	-	-
Debt Instruments	-	-	-
c Current Assets	**4,658**	**3,661**	**4,524**
Inventory	-	-	-
Trade Receivables	1,258	1,903	1,788
Others	3,400	1,758	2,736
d Total Assets	**15,381**	**14,505**	**15,994**
e Debt/Borrowings	**6,210**	**6,589**	**7,573**
Short-Term	-	-	-
Long-Term (Incl. Current Maturity of Long-Term Debt)	6,210	6,589	7,573
Other Short-Term Liabilities	1,985	2,346	1,167
Other Long-Term Liabilities	802	851	724
f Shareholder's Equity	**6,385**	**4,719**	**6,530**
g Total Liabilities & Equity	**15,381**	**14,505**	**15,994**
INCOME STATEMENT			
a Turnover	**12,601**	**10,464**	**9,196**
b Gross Profit	3,346	2,884	2,528
c Financial Charges	(1,710)	(913)	(795)
d Net Income	**1,666**	**1,888**	**1,547**
CASH FLOW STATEMENT			
a Free Cash Flow from Operations (FCFO)	3,898	3,566	3,513
b Total Cashflows (TCF)	3,898	3,566	3,535
c Net Cash from Operating Activities	4,203	3,212	1,851
RATIO ANALYSIS			
a Performance			
Turnover Growth	20%	14%	18%
Gross Margin	27%	28%	27%
Net Margin	13%	18%	17%
ROE	30%	34%	27%
b Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.3	1.7	1.9
Interest Coverage (X) (FCFO/Gross Interest)	2.4	4.3	4.7
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	2.7	2.4	2.7
c Capital Structure (Total Debt/Total Debt+Equity)			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	3	34	26
Capital Structure (Total Debt/Total Debt+Equity)	49%	58%	54%

Engro Elengy Terminal Pvt. Limited
Mar-19

Rating Scale

Credit 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.

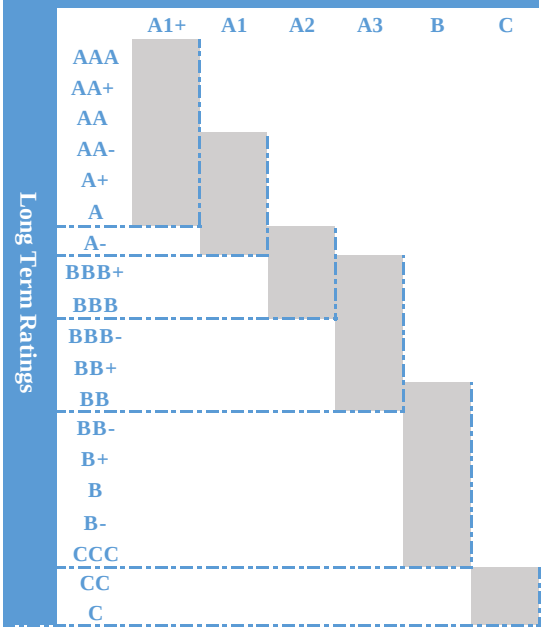
Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High 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	**Very high credit 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.

Short Term Ratings



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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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