The Pakistan Credit Rating Agency Limited

Rating Report

BE Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2019	A+	A1	Stable	Maintain	-
28-Feb-2019	A+	A1	Stable	Maintain	-
28-Aug-2018	A+	A1+	Stable	Maintain	-
15-Feb-2018	A+	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect BE Energy Limited association with a strong sponsor - Saudi based Bakri Group. Over the years, BE Energy has managed to gain ~3% market share and has ~337 retail outlets. BE Energy capitalizes on second largest oil storage infrastructure of over 182,000 MTs spread across three terminals located at Port Qasim, Machike, Shikarpur, and one depot at Daulatpur. This has brought forth hospitality income for the company, which currently contributes sizeable chunk to the profitability. The company's significant ongoing and expected investment in infrastructure (storage, supply chain, and retail outlets) will facilitate sustainable growth. The company has witnessed stable growth in revenues and also manages to diversify its product mix (HSD: PMG: FO –45%: 42% :13%). It has been successful in managing the impact of the reduction in demand for FO. BE Energy plans to focus on retail clients and enhance its supply chain infrastructure. To nurture its retail penetration the company is 1) rebranding its outlets on modern lines in a phased manner, 2) open new outlets along CPEC route and in the central parts of the country (mainly Punjab) where it has currently, low share, and 3) laying down supportive storage capabilities to ensure timely availability of its products. The rating is supported by a strong management structure reflected by three management committees in place to efficiently procure and deliver the product. BE Energy has adequate financial risk profile with moderate coverage indicators and leveraging. The company has a leveraged capital structure which mainly encompasses short-term borrowings whose needs emanate from working capital management. Given its plans, long-term debt may also increase but moderately.

In addition to the timely development of infrastructure and supply chain, the ratings are dependent on BE Energy's ability to build broad-based market penetration. The company needs to strengthen its relative positioning. Additionally, with the new debt to be acquired, the sustainability of coverages would remain important for the ratings.

Disclosure	
Name of Rated Entity	BE Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Oil Marketing Companies(Oct-18)
Rating Analysts	Mubasher Bhatti | mubasher.bhatti@pacra.com | +92-42-35869504

Profile

Legal Structure BE Energy Limited was incorporated as a private limited company on October 1996 wherein OMC operations started in 2007 after receiving a license in 2005.

Background The company commenced its operations from Overseas Oil Trading Company (Pvt.) Limited (OOTC) and Bakri Trading Company Pakistan (Pvt.) Limited (BTCP). In 2016, the company was granted permission to merge (OOTC) with and into BTCP. Pursuant to the merger, Bakri Trading Company Pakistan (Pvt.) Limited changed its name to Bakri Energy (Pvt.) Limited. During FY18 the company changed its status from private limited to public unlisted company. Subsequently it changed its name from Bakri Energy Limited to BE Energy Limited as a part of Global Rebranding of the group.

Operations The company is engaged in the procurement, storage, distribution, marketing and import of petroleum products and lubricants. Bakri has one of the largest oil storage infrastructure of 182K MTs spread all across the country. The company purchases petroleum products from different refineries and imports them as well. The customers of the company are IPPs and Retail customers from entire country as the operations of the company are diversified all over the country.

Ownership

Ownership Structure The company is owned by Rawafid Investments LLC (~90.97%) based in UAE and Energy Petroleum Consultant Company (9%) based in Kuwait. Shareholding of Rawafid Investments LLC lies with the members of Bakri Group (Bakri Family). In Bakri group, all five sponsors are brothers and their father is the Chairman of the group. The Energy Petroleum Consultant Company is 100% owned by Mr. Hussain Al Shammaa.

Stability The Group Business has been governed and administered by the members of Bakri Group and they are in process of preparing a succession plan for their business in the future.

Business Acumen The main activities of Bakri Group are concentrated in oil and energy trading, shipbuilding and ship repair, seaports and marine services, ship and airport refueling, ship management and international chartering. The sponsors have significant industry related experience.

Financial Strength The financial strength of the sponsors is considered good as the company represents that sponsors have well diversified profitable businesses. The sponsors stand ready to provide comprehensive and timely support if such need arises.

Governance

Board Structure The board of BE Energy comprises five experienced professionals. Two members are sponsors of Bakri Group, one is the CEO, while two member hold key positions in the group. All of them serves as an executive member on the board of BE Energy Limited. After changing the status of the company, from private to public unlisted, the company initiated plans to enhance its board size to seven members with the intent to include independent directors.

Members' Profile The BoD have a diversified experience and knowledge of marketing and distribution of oil. All the directors also hold or have held senior positions in other oil companies or other companies of the Bakri group and have sound professional experience in the oil industry. Mr. Zohair is the Chairman of the board, a Saudi National. He carries Bachelor Degree in Internal Medicine & Surgery. He is an experienced professional and holds multiple positions as a Director in Bakri Group.

Board Effectiveness There is one committee at board level; Board of Directors Committee. The Board of Director Committee is for controlling & overseeing the company performance, developing strategic plans, taking decisions on strategic matters. Minutes of the board meetings are not well-documented which seems lacking.

Financial Transparency M/S EY Ford Rhodes is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements as at year end 30 June 2018.

Management

Organizational Structure The company has a well-defined organizational structure with clear segregation of responsibilities. The operations of the company are mainly divided into i) Operations, supply chain & logistics, ii) Projects, iii) Marketing, iv) finance and v) Human Resource.

Management Team Mr. Hussain Al Shammaa is the CEO of the company. He has been involved in the oil business for the last 35 years. He mostly resides in Kuwait but he takes regular update from Mr. Javed Alam, who is the managing director (MD) of the company. Mr. Javed holds a bachelor's degree in Electrical Engineering. He has over ~40 years of total professional experience in his portfolio, howbeit, his association with the company is ~10 years. He is supported by a capable team.

Effectiveness To oversee the management of the company, the company has constituted three committees comprising various members of the management team. This includes i) Purchase Committee, ii) Product Pricing Committee and iii) HR Committee. The entire operational set-up of the company falls under the purview of the MD.

MIS The Company's operating environment relies on an IT infrastructure supported by ERP (Enterprise Resource Planning) solutions. The software is acquired from M/S Sidath Hyder. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.

Control Environment The entity takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, the Company's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory. The company's Internal Audit department has been outsourced to Deloitte.

Business Risk

Industry Dynamics Pakistan consumed a total of ~19.35mln (MT) of POL products in FY19 (FY18: 25.15mln MT ; FY17: 25.9mln MT), ~23.1% (FY18: ~3%) lower than the same period last year. This decline is seen mainly owing to decrease in the sales of Furnace oil by ~ 18.68% to ~3.49mln MT (FY18: ~7.3mln MT ; FY17: ~9.6mln MT), as the government of Pakistan plans to gradually reduce reliance on oil-based power plants to other power sources i.e. LNG & coal. MOGAS, FO, and HSD are three major products that are widely used because of their immense consumption in the country. Due to slackening economic growth during FY19 declining trend is seen.

Relative Position More than eighteen OMCs are operating in the domestic market to transport and supply fuel to the country. During FY19, OMCs including PSO, Hascol Petroleum, Total PARCO Pakistan Limited, Attock Petroleum, and Shell retain a large chunk of market share of ~80%, with PSO dominating at ~41%, APL~11%, HPL ~10%, and TPPL at ~10%. BE Energy's market share increased over the years to ~3% during FY19. The emergence of small players in the OMC sector is changing the competitive landscape of the industry.

Revenues During FY19 topline of the company stood at PKR 58.6bln (FY18: PKR 40.2bln ; FY17: PKR 35.7bln), an increase by ~45.71% which is contributed by an increase in volume of sales by 1.7% from 720mln liters in FY18 to 732mln liters in FY19. Expanding sale volumes of HSD and MOGAS is witnessed albeit the increase in price is also observed. Sale of furnace oil is on the declining side due to the oversupplied market as energy mix dynamics are changing in favour of coal & LNG.

Margins Cost of sales increased by a higher proportion (~46.65%) than revenues, resultantly a decline in the gross margins to ~3.9%, (FY18: ~4.5%; FY17: ~6.5%) is observed. Accounting for taxation, the net income of the company stood at PKR ~665mln (FY18: PKR ~647mln; FY17: PKR ~1,030mln), an increase of ~2.78% YoY basis. Other income, which mainly comprises of hospitality income, has increased that has positively aligned with the overall profitability.

Sustainability Going forward, the company plans to increase its foothold on the retail side by adding retail stations each year for the next 5 years to enhance its market share. To nurture its retail operations the company is 1) rebranding its outlets on model lines in a phased manner, 2) open new outlets along CPEC route & in the central parts of the country mainly Punjab where it has a low share, & 3) laying down supportive storage capabilities to ensure timely availability of its products.

Financial Risk

Working Capital BE Energy has well-managed working capital and to cover the working capital gap, the company has sufficient standing credit lines from banks of PKR 11.5bln (FY18: PKR 11.5bln; FY17: PKR 9.7bln), of which ~47% (FY18: PKR ~51%; FY17: ~0.5%) is utilized. Company's net working capital days remained stable at 48 days in FY19 (FY18: 48 days; FY17: 27 days).

Coverages During FY19, FCFO of the company, which is a function of profitability, has reached to PKR 1,718mln (FY18: PKR 1,197mln; FY17: PKR 1,601mln). Despite increasing CFs, fluctuation in exchange rate and high interest cost resulted in declining coverages [Int Coverage: FY19: ~1.3x; FY18: 1.4x; FY17: 2.0x]; [Debt Coverage: FY19: ~4.5x; FY18: 7.2x; FY17: 9.0x].

Capitalization The company currently has a leveraged capital structure of ~58.4%, (FY18: ~62.5%; FY17: ~19.4%). The trend in leveraging remains volatile as the company's substantial debt represents short-term financing facilities that are used for sight LC.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

BE Energy Limited Oil Marketing Companies	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET			
1 Non-Current Assets	3,980	2,955	2,691
2 Investments	-	-	-
3 Related Party Exposure	3	-	-
4 Current Assets	12,529	10,866	5,937
a Inventories	*6,847*	*6,571*	*3,189*
b Trade Receivables	*3,552*	*2,931*	*2,104*
5 Total Assets	16,512	13,821	8,628
6 Current Liabilities	5,273	2,805	4,121
a Trade Payables	*3,461*	*983*	*3,338*
7 Borrowings	6,352	6,672	812
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	354	335	334
10 Net Assets	4,533	4,009	3,362
11 Shareholders' Equity	4,533	4,009	3,362
B INCOME STATEMENT			
1 Sales	58,605	40,219	35,782
a Cost of Good Sold	*(56,351)*	*(38,419)*	*(33,454)*
2 Gross Profit	2,254	1,800	2,328
a Operating Expenses	(1,282)	(988)	(873)
3 Operating Profit	972	813	1,455
a Non Operating Income or (Expense)	*420*	*403*	*173*
4 Profit or (Loss) before Interest and Tax	1,392	1,215	1,627
a Total Finance Cost	*(401)*	*(184)*	*(200)*
b Taxation	*(325)*	*(384)*	*(398)*
6 Net Income Or (Loss)	665	647	1,030
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*1,718*	*1,197*	*1,601*
b Net Cash from Operating Activities before Working Capital Changes	*1,410*	*1,074*	*1,406*
c Changes in Working Capital	*927*	*(6,172)*	*1,625*
1 Net Cash provided by Operating Activities	2,337	(5,098)	3,031
2 Net Cash (Used in) or Available From Investing Activities	(1,391)	(607)	(542)
3 Net Cash (Used in) or Available From Financing Activities	(687)	5,764	(2,539)
4 Net Cash generated or (Used) during the period	259	59	(50)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	45.7%	12.4%	50.4%
b Gross Profit Margin	3.8%	4.5%	6.5%
c Net Profit Margin	1.1%	1.6%	2.9%
d Cash Conversion Efficiency (EBITDA/Sales)	3.5%	4.2%	5.4%
e Return on Equity (ROE)	15.6%	17.6%	36.2%
2 Working Capital Management			
a Gross Working Capital (Average Days)	62	67	56
b Net Working Capital (Average Days)	48	48	27
c Current Ratio (Total Current Assets/Total Current Liabilities)	2.4	3.9	1.4
3 Coverages			
a EBITDA / Finance Cost	5.4	10.1	10.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.4	2.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.7	0.7	0.5
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	58.4%	62.5%	19.4%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Average Borrowing Rate	5.8%	4.5%	8.6%

Credit Rating Scale & Definitions

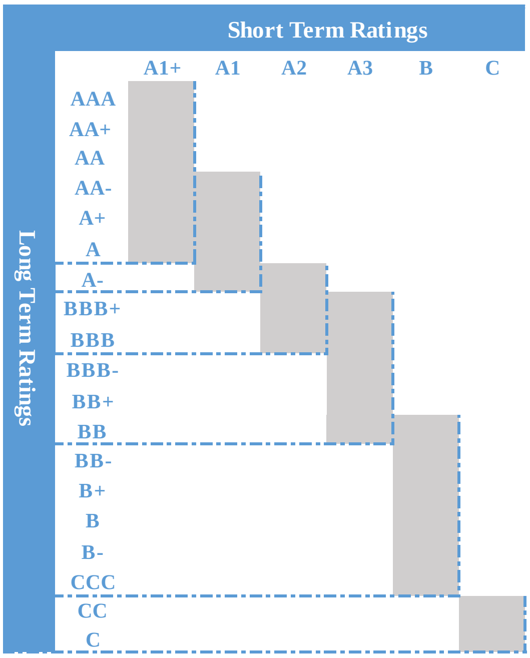
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.



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.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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)

Independence & Conflict of interest

(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)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(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)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(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)

Proprietary Information