



The Pakistan Credit Rating Agency Limited

## Rating Report

### Spud Energy Pty Limited (Pakistan Branch)

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Jan-2019	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Spud Energy Pty Limited (Pakistan Branch) is engaged in upstream Oil and Gas business in Pakistan. The company is a wholly owned subsidiary of Jura Energy Corporation, public company listed on TSX Venture Exchange. The Board of Jura Energy Corporation, comprising six members, exercises oversight over the company. The control environment is considered a plus. Auditors of the company are A. F. Ferguson & Co, Chartered Accountants. Currently, the company has 40% working interest in Zarghun South Development and Production lease, from where the company is predominantly deriving its revenue. The other revenue stream is from the Guddu Block with four different Development and Production leases. The impact of circular debt prevailing in the country is a concern, yet the lag is not significant in case of Spud Energy Pty Limited (Pakistan Branch) particularly. The strength of the business reflects in the US dollar based pricing and its collection in US dollar directly into the foreign currency bank accounts. Spud Energy Pty Limited's (Pakistan Branch) management is pursuing an expansion strategy with the aim to make additions to its revenue stream which would support the business bottom-line. This is expected to be debt driven. Yet, the cash flow position is considered supportive. The company has a receivable from a group company, where the operational revenues are close to materialization.

The ratings are dependent on sustained competitive positioning of the company, while upholding good governance practices through its parent Company i.e. Jura Energy Corporation. Volatility in business margins and prevailing inter-corporate circular debt issue in the oil and gas industry of Pakistan remain key areas of consideration. Financial discipline is considered core to the ratings, with enduring emphasis on maintaining relevant coverages and fulfilling the debt covenants.

#### Disclosure

<b>Name of Rated Entity</b>	Spud Energy Pty Limited (Pakistan Branch)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Oil Marketing Companies(Oct-18)
<b>Rating Analysts</b>	Faizan Arif   faizan.sufi@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Spud Energy Pty Limited, a Company with limited liability, incorporated in Australia on May 2, 1996. Spud Energy operates in Pakistan through a branch office in Islamabad. The company is a wholly owned subsidiary of Jura Energy Corporation, Canada.

**Background** Spud Energy Pty Ltd was incorporated under the Corporations Law of New South Wales, Australia on May 2, 1996, as Novus Pakistan Pty Ltd. On April 14, 2005, Novus Pakistan Pty Ltd. changed its name to Spud Energy Pty Ltd. Jura Energy Corporation is a TSX-Venture Exchange listed company and conducts business in Pakistan through two wholly owned subsidiaries namely Spud Energy Pty Ltd and Frontier Holdings Ltd.

**Operations** Spud Energy Pty Ltd (Pakistan Branch) is engaged in upstream oil and gas business in Pakistan. The company has balanced portfolio of exploration, development and production assets in Pakistan. The Company holds working interests in three Exploration Licenses (Guddu, Zamzama North and Sanjawi) and five Development and production leases (Reti, Maru, Maru South, Zarghun South, Sara and Suri) in Pakistan.

## Ownership

**Ownership Structure** In 2005, Eastern Petroleum Ltd acquired 100% shareholding of Spud Energy Pty Limited. In November 2011, Eastern Petroleum Ltd and Jura Energy Corporation entered into a acquisition agreement pursuant to which Eastern Petroleum Limited sold 100% shareholding of Spud Energy Pty Ltd to Jura Energy Corporation.

**Stability** Considering the strategic importance of Jura Energy Corporation, coupled with positive future outlook of the business, stability of the business is considered adequate.

**Business Acumen** Jura Energy Corporation, through its subsidiaries has been engaged in exploration, development and production of oil and natural gas for more than two decades. Hence, business acumen is considered strong.

**Financial Strength** Jura Energy Corporation, immediate parent of Spud Energy Pty Ltd has total proved and probable reserves ~62 BCF with after tax NPV-10 of USD 109,542,000 as at 31st December, 2017 as per independent reserve report issued by McDaniel, Canada.

## Governance

**Board Structure** Spud Energy Pty Ltd has three members on the board. The board is controlled by the parent Company i.e. Jura Energy Corporation. Jura Energy Corporation's board has six members. The board comprises of three independent, two non-executive and one executive. Timothy M. Elliott-Chairman of the Board is also an independent director reflecting strong transparency and efficacy in Company's board.

**Members' Profile** The BoD members have a diversified experience and knowledge of investment banking, corporate finance and energy. Mr Elliott joined the Board of Directors in 2007 and became Chairman of the Board in November 2015. Mr Elliott has worked in the international oil and gas industry for 30 years.

**Board Effectiveness** During CY18, Jura Energy Corporation's board held four meetings to address the strategic decisions of the Company. The board ensures effective governance through its committees, namely, i) Audit Committee, ii) Reserve Committee, iii) Compensation Committee and iv) Corporate Governance and Nominating Committee.

**Financial Transparency** A. F. Ferguson & Co., is the external auditor of the Spud Energy Pty Ltd (Pakistan Branch) The auditors have expressed an unqualified opinion on the financial statements for the period ending December 31, 2017.

## Management

**Organizational Structure** Spud Energy Pty Ltd (Pakistan Branch) has a well-defined and flat organizational structure. The organizational structure of the Company is divided into six broad functional departments namely, i) Exploration & Development, ii) Reservoir / Production & Drilling, iii) Sara/Suri Field Office, iv) Finance, Reporting & Compliance, v) JV Commercial & Regulatory Affairs, and vi) HR, Admin & IT.

**Management Team** Mr. Nadeem Farooq—Chief Executive Officer of Spud Energy Pty Ltd (Pakistan Branch) since September 2017, is a seasoned professional chartered accountant. He has over 16 years of professional experience including 11 years of oil & gas industry. The CEO is assisted by a team of competent industry professionals.

**Effectiveness** The management of Spud Energy Pty Ltd (Pakistan Branch) plays a significant role in empowering the operational team to achieve the targeted results and ensures that a systematic decision making process is being followed.

**MIS** The Company maintains an adequate MIS reporting system, monthly performance reports along with the information pertaining to exploration data acquisition, drilling, production and other operational issues are presented at meeting of department heads chaired by the CEO. In addition to that, monthly operations and financial updates are shared with the board.

**Control Environment** Being a subsidiary of Canadian listed Company, Spud Energy Pty Ltd has adopted disclosure control and procedures required under the rules adopted by the Canadian Securities regulatory authorities and have Internal Controls over Financial reporting which comply with the 2013 COSO Framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

## Business Risk

**Industry Dynamics** In Pakistan, there are 16 domestic and 45 multinational oil and gas exploration and production companies. There are ~172 active exploration licenses as at November 2018, with 32 rigs actively deployed for drilling. Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. As at December 2018, oil production and gas production in Pakistan stood at 91,423 Barrels of oil per day and 3,766 million cubic feet per day respectively.

**Relative Position** At present, there are 30 operators operating in Pakistan, out of which 12 are local. Spud Energy Pty Ltd (Pakistan Branch) has two operated leases namely Sara and Suri, having working interest of 60% in each. Moreover, Pakistan's gas and condensate's total original recoverable reserves stood at 57,437 BCF and 1,247 MMBBL respectively, Spud Energy Pty Ltd (Pakistan Branch) and its affiliate Frontier Holdings Ltd share in original recoverable reserves stood at 57.64 BCF and 13.92 BCF respectively.

**Revenues** Spud Energy Pty Ltd (Pakistan Branch) revenue mainly comprises of indigenous gas and condensate. During CY17, Company's revenue experienced a significant increase of 71% amounting to PKR 1,114mln (CY16: PKR 652mln) with a volumetric growth of ~30%. The increase is primarily observed owing to the increased production on account of newly drilled development well i.e. Zarghun South-3 drilled in Zarghun South block. During 9MCY18, Spud Energy Pty Ltd (Pakistan Branch) has revenue amounting to PKR 1,013mln (USD 8.941mln).

**Margins** During 9MCY18, gross margin of Spud Energy Pty Ltd (Pakistan Branch) has improved in significant terms to ~69% (CY17: ~36%, CY16: 2%, CY15: 24%) on account of increase in petroleum and oil products' prices in the international market, which consequently, has resulted an increase in the overall price of indigenous gas. Operating profit of the Company stood at PKR 435mln during 9MCY18 (CY17: PKR 316mln).

**Sustainability** Sustainability in E&P sector for every Company depends on these factors i) Successful exploration of well, ii) Development of well, iii) Sustainable production from the well, and iv) Continuous replenishment of oil and gas reserves.

## Financial Risk

**Working Capital** During 9MCY18, trade debts amounting to PKR 520mln due from oil refineries and gas utility companies, of which PKR 280mln are past due but not impaired. Spud Energy Pty Ltd's (Pakistan Branch) net cash cycle stood at ~24 days at 9MCY18 (CY17: -95 days, CY16: -184 days). Working capital management is good due to stretched payment to concession operators.

**Coverages** During 9MCY18, free cash flows from operations improved to PKR 675mln (CY17: PKR 612mln, CY16: PKR 118mln) on the back of improved profitability. This has led to a minimal improvement in debt payback coverage ratio (FCFO post WC / Gross Interest + CMLTD + Uncovered STB) (9MCY18: 1.2x, CY17: 1.2x, CY16: 0.5x). By the end of 2QCY19, Spud Energy Pty Ltd (Pakistan Branch) is expected to receive the amount due from affiliate i.e. Frontier Holdings Ltd after the commercialization of Badin South gas field wherein the later as a working interest.

**Capitalization** Spud Energy Pty Ltd (Pakistan Branch) currently has a low leveraged capital structure comprises 21% debt as at 9MCY18 (CY17: 30%). An upward leveraging trend in Spud Energy Pty Ltd (Pakistan Branch) capital structure is expected as Company is planning to raise additional debt of ~PKR 3bln during CY19.



**Spud Energy Pty Limited (Pakistan Branch)**

<b>BALANCE SHEET</b>	<b>30-Sep-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>
	<b>9MCY18</b>	<b>CY17</b>	<b>CY16</b>	<b>CY15</b>
<b>Non-Current Assets</b>	<b>5,270</b>	<b>4,671</b>	<b>4,661</b>	<b>3,102</b>
<b>Investments (Incl. Associates)</b>	-	-	-	-
<b>Current Assets</b>	<b>2,345</b>	<b>2,019</b>	<b>909</b>	<b>1,247</b>
Inventory	-	-	-	-
Trade Receivables	520	186	123	612
Others	1,825	1,833	786	634
<b>Total Assets</b>	<b>7,615</b>	<b>6,690</b>	<b>5,571</b>	<b>4,350</b>
<b>Debt/Borrowings</b>	<b>1,347</b>	<b>1,528</b>	<b>1,063</b>	<b>299</b>
Short-Term	-	-	-	199
Other Short-Term Liabilities	955	1,336	993	1,416
Other Long-Term Liabilities	342	294	285	224
<b>Shareholder's Equity</b>	<b>4,971</b>	<b>3,532</b>	<b>3,230</b>	<b>2,410</b>
<b>Total Liabilities &amp; Equity</b>	<b>7,615</b>	<b>6,690</b>	<b>5,571</b>	<b>4,350</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>1,013</b>	<b>1,114</b>	<b>652</b>	<b>1,002</b>
Gross Profit	703	401	13	239
Net Other Income	214	88	1,305	(1,422)
Financial Charges	(167)	(183)	(34)	(160)
<b>Net Income</b>	<b>483</b>	<b>221</b>	<b>1,212</b>	<b>(1,470)</b>

**CASH FLOW STATEMENT**

Free Cash Flow from Operations (FCFO)	675	612	118	499
Total Cashflows (TCF)	675	612	118	499
Net Cash changes in Working Capital	(768)	(306)	(98)	(188)
Net Cash from Operating Activities	(192)	204	(56)	281
Net Cash from Investing Activities	(248)	(88)	(344)	(262)
Net Cash from Financing Activities	(59)	347	(702)	158

**Ratio Analysis**

**Performance**

Turnover Growth (vs SPLY)	-9%	71%	-35%	279%
Gross Margin	69%	36%	2%	24%
Net Margin	48%	20%	186%	-147%
ROE	13%	6%	38%	-61%

**Coverages**

Interest Coverage (FCFO/Gross Interest)	4.0	3.3	3.5	3.1
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.2	1.2	0.5	1.9
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.2	1.2	0.5	1.9

**Liquidity**

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	24	-95	-184	-108
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**Capital Structure (Total Debt/Total Debt+Equity)**

	21%	30%	25%	11%
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## 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		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	Obligations are currently in default.		



**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 surveil 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.

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(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**

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- 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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- (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.
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- (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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- (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)
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### **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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