The Pakistan Credit Rating Agency Limited

Rating Report

Orient Petroleum Inc. (Pakistan Branch)

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Orient Petroleum Inc. (Pakistan Branch) is engaged in upstream Oil and Gas business in Pakistan, it includes exploration, development and production of oil and natural gas reserves. Currently, OPI has six production leases which include Ratana, Dhurnal, Bhangali, Sinjhoro, Mehar & Sofiya and seven exploration licenses nalmely Sakhi Sarwar, Marwat, Harani South, Saruna, Kohlu, Sinjhoro & Mehar. Orient Petroleum Inc. (OPI) is part of the group which includes Zaver Petroleum Corporation (Pvt) Limited (Zaver “ZPCL”) and Orient Petroleum Pty Ltd. (OPPL). The group is an established oil and gas business unit in Pakistan, with a portfolio of 9 Exploration Licenses and 8 Development and Production Leases. OPI’s management is pursuing an expansion strategy as it aims to make additions to its revenue stream, to support the bottom-line profit. OPI has 2P recoverable reserves of 31 MMBOE and net upside recoverable volume of 27 MMBOE from its production assets and 634 MMBOE resource potential from its exploratory assets. The work program to enhance production volumes in the upcoming years will be supported through a mix of in-house financing and debt. The strength of the entity lies in risk adjusted recoverable reserves both from its production and development assets and exploration assets. With increased volume, the profitability will improve as the synergies and efficiencies will take effect. As a consequence, incremental cash flows will help the leveraged balance sheet, while augmenting the company’s ability to meet its obligations. The financial discipline has been good and would be pivotal to future fiscal management.

The ratings are dependent on sustained relative positioning of the company in oil & gas industry. Volatility in topline and profitability remains key areas for considerations. Financial discipline is considered core to the ratings, with enduring emphasis on maintaining relevant coverages.

Disclosure

Name of Rated Entity	Orient Petroleum Inc. (Pakistan Branch)
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Oil Marketing Companies(Nov-20)
Rating Analysts	Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Orient Petroleum Inc. is incorporated in Cayman Islands with limited liability and is operating in Pakistan through its Pakistan branch office (OPI), ("the Company").

Background Occidental of Pakistan Inc. a USA based company has been functioning in Pakistan since 1979. Within five years of commencing E&P operations, the company made Pakistan's largest oil discovery from its Dhurnal field in Potwar Basin, Punjab with oil in place of over 150 Million Barrels and was producing over 22,000 Barrels of oil per day. In 1995 it was acquired by Hashoo group and renamed from Occidental Pakistan Inc to Orient Petroleum Inc.

Operations OPI has six production leases which include Ratana, Dhurnal, Bhangali, Sinjhoro, Mehar & Sofiya and seven exploration licenses nalmely Sakhi Sarwar, Marwat, Harani South, Saruna, Kohlu, Sinjhoro & Mehar. It holds a non-operated working interest in Sinjhoro, Kohlu and Mehar blocks being operated by Oil & Gas Development Company Limited and UEP Alpha Limited respectively.

Ownership

Ownership Structure Beneficial ownership structure of the Company is distributed in two holding Companies namely, First Global Investment Holdings Ltd and Zaver Petroleum International Inc. hold 45% and 55% ownership respectively. Both of these companies are holding companies.

Stability The ultimate beneficial ownership lies with Mr. Sadruddin Hashwani, a well known Pakistani businessman. His son, Mr. Hasan Ali Hashwani exercise oversight on the business operations of OPI.

Business Acumen Mr. Sadruddin Hashwani holds 100% beneficial ownership in Orient petroleum having more than 40 years of business experience which reflects strong business acumen.

Financial Strength In addition to its own internal resources, OPI has strong financial backing of its sponsors.

Governance

Board Structure The board has total four members consisting of two executive and two non-executive directors.

Members' Profile The members of BoD have extensive experience. Mr. Sadruddin Hashwani is the chairman of the board.

Board Effectiveness All board members on average have 35 years of extensive industry experience. Mr. Hasan Hashwani, younger son of Mr. Sadruddin Hashwani, is involved in day to day operations of the Company. Board holds quarterly meetings to review and guide the operations.

Financial Transparency Grant Thornton Anjum Rahman is the auditors of OPI. They have given an unqualified opinion on financial statements of December-2019. Moreover, in addition to pre-audit function, all the business operations are managed through delegation of authority matrix.

Management

Organizational Structure Company has a well-defined organizational structure. The operations of the Company have been bifurcated into eleven major functional areas. These areas include exploration, surface operations, drilling, Reservoir engineering, petroleum engineering, Finance, Admin, MIS, HR, Internal audit and Procurement & Supply Chain.

Management Team OPI has professionally well experienced management team. OPI's higher management on average has 29 years of experience in upstream oil & gas industry. Mr. Kamran Ahmed is the CEO of the company, has over 30 years of diversified experience in investment banking, oil & gas upstream and downstream industry. Mr. Tauqeer Ahmad Nayyar is the CFO of the Company having 35 years of industry experience. Mr. Akbar Ali Khan (GM Operations) 32 years of experience, Mr. Zaheer A. Zafar (GM Exploration) 30 years of experience and Muhammad Saeed Akhtar (GM Reservoir Engineering) 29 years of experience.

Effectiveness The Management of the Company 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 OPI has implemented and is using all key modules of Oracle ERP suite. It was implemented in 2003. The suite is providing a real-time end-to-end integrated solution for all operations including financial, purchasing, inventory, HRMS, joint venture, cost allocation, fixed assets, payroll and approval management system. OPI has a dedicated team of professionals for in-house development, customization and maintenance of Oracle applications for Oil & Gas specific requirements.

Control Environment The Company has full time internal audit department. For maintaining the independence and objectivity of the internal audit department, all transactions are subject to pre-audit.

Business Risk

Industry Dynamics Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. Currently, ~1,114 exploration wells and 1,484 appraisals/development well drilled as of Dec'19. As at November 2019, oil production and Gas production in Pakistan stood at 81,496 Barrels of oil per day and 3,403 million cubic feet per day respectively Exploration and production of hydrocarbons requires high levels of capital expenditures and is a high-risk venture. Future cash flows of the company are dependent on a number of factors including, but not limited to i) success in finding and commercially producing reserves, and ii) prices of oil and natural gas. These key business risks are associated with all E&P companies.

Relative Position At present, there are 24 operators operating in Pakistan, out of which 10 are local. The market share is dominated by state-owned Oil and Gas Development Company Limited (OGDCL). The other large-tier companies comprise of PPL, Mari Petroleum, and UEPL etc. Mid-tier companies include MOL, POL and OPI.

Revenues During 6MCY20, the company recorded a revenue of PKR 1.308bln (CY19: PKR 3.036bln). Sales of the OPI mainly driven by gas as it approximately contributes 50% of the total sales. At June-20 Percentage wise product sale consist of 47% gas, 23% condensate, 18% LPG and 12% Oil. Sustainable revenue stream as Company has Top line of PKR 3bln in CY-19 and strong equity base of PKR 3.5bln after the adjustment of reserve PKR 23.73bln for head office current account.

Margins Gross Margins increase slight from CY 19 (64.3%) to 6MCY20 (65%). Operating Margins of the OPI is 19.8% at 6MCY20 and 21% at CY19. The slight decrease in operating margin is due to decline in operating profit (mainly due to decline in oil prices).

Sustainability OPI has joint ventures with prominent local and foreign companies involved in E&P activities in Pakistan. These include Oil & Gas Development Company Limited, The Attock Oil Company Limited, Pakistan Oil fields Limited, United Energy Alpha Limited and Zaver Petroleum Corporation (Pvt.) Limited. OPI has maintained its revenue stream in between PKR 3.2bln to 3bln from last three years. The strength of the entity lies in minimum risk adjusted recoverable reserves both from their producing & developed assets and exploration blocks. OPI has 2P recoverable reserves of 31 MMBOE and net upside recoverable volume of 27 MMBOE from its production assets and 634 MMBOE resource potential in its exploration assets.

Financial Risk

Working Capital Company's Net Working Capital days have decreased to 13 days 6MCY 20: 81days (CY19: 94 days) which is primarily due to the reduction in receivable days and increase in payable days. At 30th June 2020 OPI trade payables stood at PKR 590mln (CY19: PKR 578mln; CY18: PKR 677mln) and receivables stood at 1,173mln (CY19: PKR 1,138mln; CY18: PKR 1,650mln).

Coverages The Company's cash flows remain a function of its profitability. During 6MCY20 company cash flows are declining majorly due to payment of loan of PKR 520mln. In course of 6MCY20, FCFO of the company are PKR 663mln (CY19: PKR 1,460mln) which are slightly less on annualized basis. The decline is due to decrease in EBITDA. Coverages ratios [FCFO/Gross Interest+CMLTD: 6MCY20: 0.9x, CY19: 0.8x].

Capitalization The Long term borrowing of the company is PKR 2,002mln (CY19: PKR: 2,002mln) and Short-term borrowing is PKR 418mln (CY19: PKR 920mln). Since it is a branch, it maintains a current account with the parent. This keeps changing depending upon the circumstances. The Company maintains a current account balance of PKR 3,522mln at 6MCY20. Debt to capital ratio of the company currently stands at 49%.

Financial Summary
PKR mln

The Pakistan Credit Rating Agency Limited

Orient Petroleum Inc.(Pakistan Branch)	Jun-20	Dec-19	Dec-18	Dec-17
Oil Exploration & Production	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	11,793	11,943	12,664	11,173
2 Investments	-	-	-	-
3 Related Party Exposure	1,780	1,859	2,811	1,638
4 Current Assets	3,740	5,995	4,157	4,207
a Inventories	*12*	*12*	*24*	*11*
b Trade Receivables	*1,173*	*1,138*	*1,650*	*1,519*
5 Total Assets	17,314	19,797	19,632	17,018
6 Current Liabilities	2,605	2,622	1,853	2,428
a Trade Payables	*590*	*578*	*677*	*535*
7 Borrowings	3,390	4,218	2,784	4,252
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	7,796	7,788	7,139	5,189
10 Net Assets	3,522	5,169	7,856	5,148
11 Shareholders' Equity	3,522	5,169	7,856	5,148
B INCOME STATEMENT				
1 Sales	1,308	3,036	3,929	3,161
a Cost of Good Sold	*(458)*	*(1,083)*	*(840)*	*(851)*
2 Gross Profit	849	1,953	3,089	2,309
a Operating Expenses	(591)	(1,315)	(1,348)	(861)
3 Operating Profit	259	637	1,741	1,448
a Non Operating Income or (Expense)	*115*	*(31)*	*(204)*	*(56)*
4 Profit or (Loss) before Interest and Tax	374	606	1,537	1,393
a Total Finance Cost	*(238)*	*(648)*	*(571)*	*(526)*
b Taxation	-	*6*	*(629)*	*(335)*
6 Net Income Or (Loss)	136	(35)	337	532
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*663*	*1,460*	*2,689*	*1,993*
b Net Cash from Operating Activities before Working Capital Changes	*678*	*1,469*	*2,693*	*2,001*
c Changes in Working Capital	*114*	*2,248*	*(1,952)*	*(1,987)*
1 Net Cash provided by Operating Activities	792	3,716	741	14
2 Net Cash (Used in) or Available From Investing Activities	(253)	(54)	(373)	(1,149)
3 Net Cash (Used in) or Available From Financing Activities	(2,338)	(1,937)	(114)	(1,006)
4 Net Cash generated or (Used) during the period	(1,799)	1,724	254	(2,142)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-13.8%	-22.7%	24.3%	1.8%
b Gross Profit Margin	65.0%	64.3%	78.6%	73.1%
c Net Profit Margin	10.4%	-1.2%	8.6%	16.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	59.4%	122.1%	18.8%	0.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	7.2%	-0.7%	4.6%	10.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	163	170	150	175
b Net Working Capital (Average Days)	81	94	94	114
c Current Ratio (Current Assets / Current Liabilities)	1.4	2.3	2.2	1.7
3 Coverages				
a EBITDA / Finance Cost	2.8	2.3	4.7	3.8
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.8	1.4	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.5	4.1	1.2	2.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.0%	44.9%	26.2%	45.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	12.5%	18.5%	16.2%	12.4%

Credit Rating

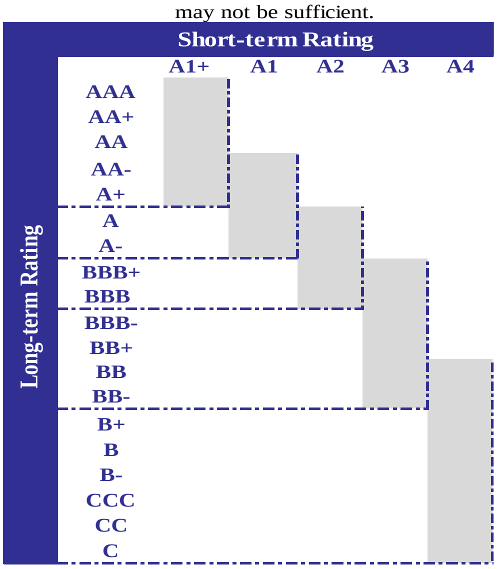
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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