



Rating Action

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Analyst

Rida Zahoor
(+92-42-35869504)
rida.zahoor@pacra.com
www.pacra.com

Applicable Criteria and Related Research

- Gas Utilities - Viewpoint | May-16
- Corporate Rating Methodology

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PACRA Maintains Entity Ratings of Sui Northern Gas Pipelines

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of Sui Northern Gas Pipelines Limited (SNGPL) at "AA-" (Double A minus) and "A1" (Single A One), respectively. The ratings denote a very low expectation of credit risk emanating from a very strong capacity of timely payment.

In Nov15, OGRA - the regulator - finalized the outstanding revenue requirements (FRR) for SNGPL. OGRA, while determining its benchmark rate for Unaccounted For Gas (UFG) losses at 4.5%, allowed certain allowances in line with the Economic Coordination Committee guidelines. SNGPL has issued its financial statements (FY13-FY15) incorporating the same. Hence, Rating Watch has been removed.

The ratings reflect SNGPL's strategic importance as country's largest gas utility company. The business profile of the company draws strength from its established franchise network, and guaranteed return on its net operating assets. The decision of OGRA, regarding performance benchmark, significantly impacted the company's profitability as UFG losses remained significantly higher than the benchmark. However, provisional allowance of certain claims regarding UFG volume in law affected areas and pilfered volume by non-consumer by OGRA has provided some relief. Final resolution of the matter is pending till completion of UFG impact study and subsequent decision by Supreme Court. SNGPL is part of Re-gassified Liquid Natural Gas (RLNG) project. The company is near completion of Phase-I, while Phase-II is also underway. Both projects are 100% debt financed. Cumulative UFG disallowance toll on bottomline coupled with debt-driven capex has adversely impacted the company's financial risk profile; equity base has squeezed notably. Nevertheless, debt service coverages remain adequate. Moreover, OGRA in its off-late decision has allowed guaranteed return on LNG pipeline infrastructure. With notable financial impact, this would help relieving pressure from the company's financial risk; thus adequate coverages over debt repayment period. SNGPL remains a part of circular debt (net payable position: PKR 8bln at end-Apr16). Resolution of the same remains dependent on GoP's decision. Meanwhile, ratings continue to draw comfort from sovereign ownership structure of the company.

Ratings are dependent on the management's ability to prudently manage its financial risk profile, particularly post acquisition of LNG related debt. Bringing down UFG loss volume to support bottomline is important. Meanwhile, any unfavorable decision by the regulator in defined areas negatively impacting the entity's risk profile will have rating implications.

About the Company: SNGPL, the largest gas company in Pakistan, is engaged in the business of purchase, transmission, and distribution of natural gas. The government has the largest stake (~54%) in the company. Among the private business groups, Nishat Group has a ~7% stake through MCB Bank. The fourteen member Board comprises one ED and thirteen NEDs including six independent directors. Mr. Amjad Latif (DMD) assumed additional charge of MD in Mar16.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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