



Rating Action

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Applicable Criteria and Related Research

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

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PACRA Revises Entity Ratings of Sui Southern Gas Company Limited; Remains on Rating Watch

PACRA has revised SSGC's long-term entity rating to 'A+' [Previous: AA-], while the short-term rating is maintained at 'A1'. These ratings denote low expectation of credit risk emanating from strong capacity for timely payment of financial commitments. Meanwhile, ratings remain under Rating Watch, with negative outlook.

In Nov15, OGRA - the regulator - finalized the longstanding revenue requirements (FRR) for SSGC. OGRA, while determining its benchmark rate for Unaccounted For Gas (UFG) losses at 7% - on the basis of interim relief given by Sindh High Court - also allowed certain allowances in line with the Economic Coordination Committee guidelines. Consequently, SSGC has issued its long overdue financial statements (FY13-FY15). However, the timeliness of financial statement is yet to fully regularize (quarterly financials of FY16 are delayed).

Given SSGC's exclusive license to operate in its area of franchise (provinces of Sindh and Balochistan) and guaranteed return on its net operating assets, the business profile is considered strong. However, the company's profitability has been significantly impacted on account of UFG losses. Nevertheless, provisional allowance of certain claims regarding UFG volume in law affected areas and pilfered volume by non-consumer by OGRA has provided some relief. The company's financial risk profile is stretched owing to (i) high leveraging - a factor of debt-driven CAPEX projects, and (ii) inadequate coverages - due to lower cashflows. Working capital requirement (gaps in inflows from consumers and the government), a continuous drag on the liquidity profile, is managed through holding payables to state-owned gas suppliers; consequently, limited related borrowings. SSGC is a part of Re-gasified Liquid Natural Gas (RLNG) project. Under the project, SSGC will be laying 338KMs pipeline at an estimated cost of ~PKR 39bln; expected commissioning: Dec16. The loan carries a sovereign guarantee with repayments commencing in Jun18. Return on these new assets should support SSGC's diminished profitability. Consequent cashflows should also provide some respite to financial risk profile in the medium term. The ratings continue to draw material comfort from sovereign ownership structure and forthcoming support from GoP in case the need arises.

SSGC enjoys legal stay on UFG benchmark of 7% versus OGRA allowed 4.5%. Final resolution is pending till completion of UFG impact study and subsequent decision by Sindh High Court. The negative outlook captures the downside, which, if materializes, will have significant detrimental impact on the profile of the company. Notably, 9MFY16 accounts have been prepared on 4.5% UFG benchmark due to pending approval by OGRA on court's stay.

About the Company: SSGC is engaged in the business of purchase, transmission, and distribution of natural gas. The company is catering the requirements of ~2.8mln customers. The government holds the largest stake (~67%). The thirteen-member board comprises one ED and twelve NEDs including four independent directors. Mr. Khalid Rehman, MD since Jan15, is supported by an experienced team.

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. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA 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.