



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
15-Jan-2021	A	A1	Stable	Upgrade	-
15-Jan-2020	A-	A2	Stable	Maintain	-
16-Jul-2019	A-	A2	Stable	Maintain	-
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, exercise intensive oversight over the company. The control environment is considered a plus. The company has started reaping benefits since the production of Zarghun South Development and Production lease, augmenting its profitability considerably. There is high dependence on Zarghun field, which is alleviated by presence across different wells. This provides comfort to the ratings. 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 aims to sustain its existing portfolio as it aims to sustain - indeed improve - its volumes. In addition, the cash flow position is considered supportive. The company has a receivable from a group company, recovery of which is being worked out. The Head Office investments shows strength, which is expected to stay with the company.

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. Financial discipline is considered core to the ratings, with enduring emphasis on maintaining relevant coverage's and fulfilling the debt covenants. Sustenance and improvement in the gas and condensate production would remain a key factor.

#### 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-20)
<b>Related Research</b>	Sector Study   Oil Marketing Companies(Nov-20)
<b>Rating Analysts</b>	Faraan Taimoor   faraan.taimoor@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Spud Energy Pty Ltd, 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 holds working interests in three Exploration Licenses (Guddu, Sanjawi and Zamzama North) and six development and production leases (Zarghun South, Sara, Suri, Reti, Maru and Maru South) 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 an acquisition agreement pursuant to which Eastern Petroleum Ltd 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 ~60BCF with after tax NPV-10 of USD 110,471,000 as at 31st December, 2019 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 director. 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 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 31 years.

**Board Effectiveness** During CY20, 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) Reserves 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, 2019.

## 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—CEO of Spud Energy Pty Ltd (Pakistan Branch) since September 2017, is a seasoned professional Chartered Accountant. He has over 18 years of professional experience including 13 years within the 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.

**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.

## Business Risk

**Industry Dynamics** Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. Currently, ~1,139 exploration wells and 1,504 appraisal/development well drilled as of Dec'20. As at November 2020, oil and gas production in Pakistan stood at 74,810 Barrels of oil per day and 3,159 million cubic feet per day respectively. 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. Spud Energy Pty Ltd (Pakistan Branch) has two operated leases namely Sara and Suri, having working interest of 60% in each. Spud Energy Pty Ltd (Pakistan Branch) and its affiliate Frontier Holdings Ltd share in original recoverable reserves stood at ~46 BCF and ~14 BCF respectively.

**Revenues** Company's revenue mainly comprises of indigenous gas and condensate. During 9MCY20, revenue experienced an increase of 49.5% amounting to PKR 1,985mln (9MCY19: PKR 1,328mln). This increase is primarily attributed to the ZS-4 Well coming into operation as of April-20.

**Margins** During 9MCY20, gross margin of Company increased to 54.7% (9MCY19: 50.8%) on account of improvement in topline. Increase in operating income is due to the trickle-down effect of improved topline.

**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** As of 9MCY20, trade debts amounting to PKR ~1,370mln (9MCY19: ~860mln) are due from oil refineries and gas utility companies, of which PKR ~44mln are past due but not impaired. Spud Energy Pty Ltd.'s (Pakistan Branch) has stretched its payable days enough to finance its working capital since 2016 but as at 9MCY19 Company has only been able to stretch payable days enough as for receivable days, resultantly net cash cycle days improved at 9MCY20: 45 days (9MCY19: 0 days). Working capital Management of the entity is considered good due to stretched payment to concession operators.

**Coverages** FCFO during the period under review improved to PKR 1,293mln 9MCY20 as compared to PKR 847mln 9MCY19 on the back of improved profitability. Spud Energy Pty Ltd (Pakistan Branch) debt coverage ratio (FCFO / Interest + CMLTD) 9MCY20: 1.5x, 9MCY19: 1.2x.

**Capitalization** Spud Energy Pty Ltd (Pakistan Branch) currently has a low leveraged capital structure comprising of 28% debt as of 9MCY20 (9MCY19: 14%). Company's debt comprises primarily of long term borrowing. An upward leveraging trend in capital structure has been witnessed for CAPEX related to development Well ZS4 in Zarghun south.



Spud Energy Pty Ltd Exploration & Production	Sep-20 9M	Dec-19 12M	Dec-18 12M	Dec-17 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	6,595	6,023	5,256	4,671
2 Investments	-	-	-	-
3 Related Party Exposure	3,218	2,319	1,860	1,077
4 Current Assets	1,704	1,190	1,066	943
a Inventories	-	-	-	-
b Trade Receivables	1,369	865	646	186
<b>5 Total Assets</b>	<b>11,517</b>	<b>9,531</b>	<b>8,182</b>	<b>6,690</b>
6 Current Liabilities	1,902	1,794	1,183	1,336
a Trade Payables	650	928	609	476
7 Borrowings	2,365	882	1,221	1,528
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,066	755	441	294
<b>10 Net Assets</b>	<b>6,184</b>	<b>6,101</b>	<b>5,337</b>	<b>3,532</b>
<b>11 Shareholders' Equity</b>	<b>6,184</b>	<b>6,101</b>	<b>5,337</b>	<b>3,532</b>
<b>B INCOME STATEMENT</b>				
1 Sales	1,985	1,771	1,469	1,114
a Cost of Good Sold	(899)	(877)	(649)	(713)
<b>2 Gross Profit</b>	<b>1,086</b>	<b>894</b>	<b>820</b>	<b>401</b>
a Operating Expenses	(147)	(150)	(547)	(98)
<b>3 Operating Profit</b>	<b>939</b>	<b>744</b>	<b>273</b>	<b>303</b>
a Non Operating Income or (Expense)	13	126	415	100
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>952</b>	<b>870</b>	<b>688</b>	<b>404</b>
a Total Finance Cost	(199)	(264)	(211)	(183)
b Taxation	(197)	(213)	(87)	-
<b>6 Net Income Or (Loss)</b>	<b>556</b>	<b>394</b>	<b>390</b>	<b>221</b>
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	1,293	1,073	1,054	612
b Net Cash from Operating Activities before Working Capital Changes	1,139	922	921	510
c Changes in Working Capital	(1,045)	83	(802)	(306)
<b>1 Net Cash provided by Operating Activities</b>	<b>94</b>	<b>1,004</b>	<b>120</b>	<b>204</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(674)</b>	<b>(478)</b>	<b>(321)</b>	<b>(88)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>619</b>	<b>(684)</b>	<b>(177)</b>	<b>347</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>39</b>	<b>(158)</b>	<b>(378)</b>	<b>464</b>
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
a Sales Growth (for the period)	49.5%	20.5%	31.8%	70.9%
b Gross Profit Margin	54.7%	50.5%	55.8%	36.0%
c Net Profit Margin	28.0%	22.2%	26.5%	19.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	12.5%	65.3%	17.2%	27.5%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholder)	13.1%	6.9%	8.0%	6.8%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	154	156	103	50
b Net Working Capital (Average Days)	45	-3	-32	-101
c Current Ratio (Current Assets / Current Liabilities)	0.9	0.7	0.9	0.7
<b>3 Coverages</b>				
a EBITDA / Finance Cost	6.5	4.1	5.0	3.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	0.7	1.2	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.8	1.8	1.6	4.5
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	27.7%	12.6%	18.6%	30.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	16.1%	25.1%	15.4%	14.1%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	
CC	<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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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)

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- 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

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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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- (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)

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