The Pakistan Credit Rating Agency Limited

Rating Report

Orient Petroleum Inc. (Pakistan Branch)

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Dec-2022	A-	A2	Stable	Maintain	-
22-Dec-2021	A-	A2	Stable	Maintain	-
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 comprise of Ratana, Dhurnal, Bhangali, Sinjhoro, Mehar & Sofiya and seven exploration licenses namely 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. (The Group). The group is one of the oldest and established oil and gas business unit in Pakistan. OPI’s reported segmental production of Crude Oil, Gas & LPG for period Jul21-Jun22 is 160,433 BBL; 2,593 MMSCF and 5,533 MT respectively. OPI’s management is pursuing an expansion strategy as it aims to make additions to its revenue stream, to support the bottom-line profit. In CY21, OPI reported topline of PKR 2,936mln (CY20: PKR 2,385mln) highlighting a sales growth of 23%. During CY21, gross profit margin has improved to PKR~2,178mln, a surge of 74% as compared to previous correspondence period, CY20: PKR~1,602mln. Similarly, the effect has translated into Operating Profit margin which stood at PKR~860mln, up by 30%, however couldn't translate it into net profit due to depreciation, amortization, unrealized exchange loss and unwinding of deferred labilities amounting to PKR 591mln, PKR 238mln, PKR 198mln and PKR 298mln respectively being non cash items. The strength of the entity lies in risk-adjusted recoverable reserves both from its production and development assets and exploration assets. With the increased volume, the profitability will improve as the synergies and efficiencies will take effect due to the aggressive work program currently the Company is pursuing. OPI has significantly improved its leverage structure to 37% CY21 as compared to 52% in CY20. Long-term borrowings of the Company stood at PKR~2,642mln (CY20: PKR: ~2,112mln) and short-term borrowing reported to PKR~442mln (CY20: PKR~316mln). Equity of the Company stood at PKR~6,560mln, hence supplementing 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 the sustained relative positioning of the Company in the oil & gas industry. Volatility in topline and profitability remains key areas for considerations. However, financial discipline, sponsors strength and better business dynamics are 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 Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Refineries(Nov-21),Sector Study | Oil Marketing Companies(Nov-22)
Rating Analysts	Behrooz Fareed | behrooz.fareed@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).

Background Occidental of Pakistan Inc. a USA-based organization has been working in Pakistan beginning around 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 The beneficial ownership structure of the Company is distributed in two holding Companies namely, First Global Investment Holdings Ltd (45%) and Zaver Petroleum International Inc. (55%). Both of these companies are holding companies.

Stability The beneficial ownership lies with Mr. Hasan Ali Hashwani, a renowned Pakistani businessman. Mr. Hasan himself is leading the business operations of OPI.

Business Acumen The Group expands its business in multiple segments like hospitality and oil & gas exploration and production. The success of the Group bears witness to impeccable business acumen of the sponsors and their ability to form and execute business strategies. Mr. Hasan Ali Hashwani holds 100% beneficial ownership in Orient petroleum have more than 20 years of business experience while Mr. Sadruddin Hashwani is the chairman of the Board of Directors which reflects strong commercial and business acumen.

Financial Strength In addition to OPI's internal resources, the Company has the strong financial support of its sponsors and the Group.

Governance

Board Structure The board comprises of four members including two executives and two non-executive directors. Both non-executive directors are nominated by sponsors while executive directors are nominated by Orient Petroleum Inc. Further, the board is supported by technical advisory committee, composed of well-established names in the industry.

Members' Profile Mr. Sadrud-din-Hashwani is the founder and chairman of the Group graces over 41 years of experience in his portfolio and is one of Pakistan's top business profiles. All members of BoD have extensive experience.

Board Effectiveness The Board is actively involved in supervision and oversight of management in order to make informed decisions, leading to the entity achieving its objectives. The board conducts regular meetings with the presence of each director to discuss various aspects of the Company and business.

Financial Transparency M/S Grant Thornton Anjum Rahman, External Auditors of the Company, have expressed an unqualified opinion on financial statements of year ended-Dec21, however, the Auditors have inserted an 'Emphasis of Matter' paragraph which describes the uncertainty related to determination of impairment of Bhangali field assets as management intends to get extension of Bhangali field D&PL for further period and work program.

Management

Organizational Structure The Company has a well-defined organizational structure. Operations of the Company have been bifurcated into Reservoir Engineering, Exploration, Surface Operations, Drilling, Petroleum Engineering, Finance, Admin, MIS, HR, Internal Audit and Procurement & Supply Chain. The board is actively involved in supervision and oversight of management in order for it to make effective decisions.

Management Team Mr. Kamran Ahmed, CEO of OPI, possesses 30+ years of experience in investment banking and in the oil & gas industry. He has been associated with Shell Pakistan and Islamic Investment Bank Ltd formerly and been a part of the Hashoo Group Oil & Gas division for 17 years. He is supported by a group of seasoned professionals.

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 Oracle ERP has been implemented in Orient Petroleum, which provides real-time end-to-end integrated solution for all operations including financial, purchasing, inventory, HRMS, allocation, 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 a dedicated team for in-house maintenance of software , with particular emphasis on the health and safety protocols, ensuring all equipment are in running order. SoPs are implemented to ensure safe operations and people properly trained to work in the prescribed manner.

Business Risk

Industry Dynamics In Pakistan, there are 15 domestic and 37 Multinational companies operating with 24 rigs actively deployed for drilling, ~124 active exploration licenses as of 31 December, 2021. Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. Currently, ~1,114 exploration wells and 1,484 appraisal/development well drilled as of Dec'21. 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 require high levels of capital expenditures and is a high-risk venture.

Relative Position At present, there are 14 foreign and 10 local companies operating in Pakistan. Market share is dominated by state-owned Oil and Gas Development Company Limited (OGDCL). The other large-tier competitor companies comprise PPL, MPL, POL and UEPL etc. Mid-tier companies include MOL and OPI.

Revenues During CY21, the Company recorded a revenue amounting to PKR~2,936mln as compared to PKR~2,385 earned in CY20, highlighting a sales growth of 23% on account of increased volume. Sales volume of Petroleum Products and Gas has enhanced by 20% & 15%, respectively. However, production of LPG dipped by 12%. The highest contribution to sales can be attributed to condensate sales, which contributed (38%), followed by gas (35%), LPG (18%) and Oil (9%).

Margins During CY21, gross profit margin has improved to 74% as compared to 67% in CY21. Similarly, the effect has translated into operating profit margin which stood at 30%, however couldn't translate into net profit due to depreciation, amortization, unrealized exchange loss and unwinding of deferred labilities amounting to PKR 591mln, PKR 238mln, PKR 198mln and PKR 298mln respectively being non cash items.

Sustainability OPI has joint ventures with well renowned 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. The Company has maintained its revenues near to PKR~3bln, historically. The strength of the entity lies in minimum risk-adjusted recoverable reserves from their producing & developed assets.

Financial Risk

Working Capital OPI's net & gross working capital days have observed a declining trend since CY19. Net working capital days decreased to 52days (CY20: 77days) while, gross working capital days dipped to 136days (CY20: 155days). Major reason behind was the decrease in trade receivables days to 135days (CY20: 153days). Trade payables were also stretched slightly to 84days (CY20: 78days).

Coverages Internal cash generation, principally from hydrocarbon sales and income from deposits adequately meets the liquidity requirements of the Company. During the year, an amount of PKR~1,869mln was generated from operating activities of the Company. Interest coverage ratio improved and settled at 2.4X (CY20: 1.8X)

Capitalization At the time the Company has significantly improved its leverage structure to 37% as compared to 52% in corresponding period. Long-term borrowing of the Company is PKR~2,642mln (CY20: PKR: ~2,112mln) and Short-term borrowing is PKR~442mln (CY20: PKR~316mln). Equity of the Company stood at PKR~6,560mln.

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Financial Summary
PKR mln

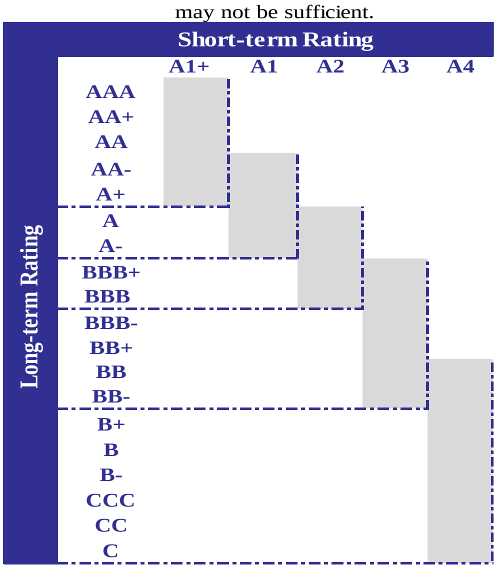
Orient Petroleum Inc.(Pakistan Branch) Oil Exploration & Production	Dec-21 12M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Non-Current Assets	16,131	11,983	11,943	12,664
2 Investments	-	-	-	-
3 Related Party Exposure	1,930	2,190	1,859	2,811
4 Current Assets	4,016	3,518	5,995	4,157
a Inventories	*15*	*6*	*12*	*24*
b Trade Receivables	*1,309*	*866*	*1,138*	*1,650*
5 Total Assets	22,077	17,691	19,797	19,632
6 Current Liabilities	3,465	2,756	2,622	1,853
a Trade Payables	*912*	*444*	*578*	*677*
7 Borrowings	3,804	3,509	4,218	2,784
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	8,247	8,150	7,788	7,139
10 Net Assets	6,560	3,276	5,169	7,856
11 Shareholders' Equity	6,560	3,276	5,169	7,856
B INCOME STATEMENT				
1 Sales	2,936	2,385	3,036	3,929
a Cost of Good Sold	*(758)*	*(782)*	*(1,083)*	*(840)*
2 Gross Profit	2,178	1,602	1,953	3,089
a Operating Expenses	(1,318)	(1,165)	(1,315)	(1,348)
3 Operating Profit	860	438	637	1,741
a Non Operating Income or (Expense)	*(192)*	*(45)*	*(31)*	*(204)*
4 Profit or (Loss) before Interest and Tax	668	393	606	1,537
a Total Finance Cost	*(705)*	*(683)*	*(648)*	*(571)*
b Taxation	*314*	*970*	*6*	*(629)*
6 Net Income Or (Loss)	277	679	(35)	337
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,695*	*1,245*	*1,460*	*2,689*
b Net Cash from Operating Activities before Working Capital Changes	*1,701*	*1,255*	*1,469*	*2,693*
c Changes in Working Capital	*168*	*138*	*2,248*	*(1,952)*
1 Net Cash provided by Operating Activities	1,869	1,393	3,716	741
2 Net Cash (Used in) or Available From Investing Activities	(2,128)	(827)	(54)	(373)
3 Net Cash (Used in) or Available From Financing Activities	20	(2,045)	(1,937)	(114)
4 Net Cash generated or (Used) during the period	(238)	(1,479)	1,724	254
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	23.1%	-21.5%	-22.7%	24.3%
b Gross Profit Margin	74.2%	67.2%	64.3%	78.6%
c Net Profit Margin	9.4%	28.5%	-1.2%	8.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	63.5%	58.0%	122.1%	18.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	5.6%	16.1%	-0.5%	5.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	136	155	170	149
b Net Working Capital (Average Days)	52	77	94	93
c Current Ratio (Current Assets / Current Liabilities)	1.2	1.3	2.3	2.2
3 Coverages				
a EBITDA / Finance Cost	2.4	1.8	2.3	4.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.2	0.7	0.8	1.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.4	5.7	4.1	1.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	36.7%	51.7%	44.9%	26.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	19.3%	17.7%	18.5%	16.2%

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

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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 | Clause 11-(A)(p).
(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