



The Pakistan Credit Rating Agency Limited

THE HUB POWER COMPANY LIMITED RATING REPORT

	NEW [DEC-17]	PREVIOUS [APR-17]
Long-Term	AA+	AA+
Short-Term	A1+	A1+
Outlook	Stable	Stable
Action	Maintain	Maintain

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1. RATING ANALYSES
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DECEMBER 2017

Profile & Ownership

- The Hub Power Company Limited (Hubco) was incorporated in Pakistan on August 1, 1991 as a public limited company.
- The consolidated generation capacity has reached 1601MW subsequent to setup of 225MW power plant at Narowal, and addition of 84MW New Bong Hydro Power Project.
- The Hub plant commenced commercial operations in March 1997.
- Hubco is majorly owned by Dawood Group (17.38%) out of which the major proportion lies with DH Corporation (14.9%). Other major shareholders are ABL (9.7%), Fauji Foundation (8.5%) and NBP (5%) while the rest is dispersed among Financial Institutions, Joint Stock Companies and Individuals.

Governance

- Overall control of the company vests in the fourteen-member board of directors (BoD), including the CEO – the only executive director on the board.
- Mr. Hussain Dawood – Chairman Hubco, is also the chairman of Dawood Group. He is a well known entrepreneur and also serves as chairman of Engro Corporation Limited, Pakistan poverty alleviation fund and Dawood foundation.
- The board has formed three board committees. (i) Board audit Committee (ii) Board Investment Committee and (iii) Board Compensation Committee.

Management

- The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, Hubco has a lean organizational structure.
- Mr. Khalid Mansoor, the CEO of the company carries over 3 decades of experience in Energy & Petrochemical Sectors. He is assisted by a team of experience professionals having relevant skills and expertise.

Performance Risk

- Hubco's profitability is a function of its availability, capacity utilization and plant efficiency.
- The company's wholly owned subsidiary has taken over O&M of Hub and its newly created subsidiary which owns Narowal plant which will help the company to improve its performance and profitability.
- The company's generation of Hub plant decreased (FY17: 6,793Gwh, FY16: 7,547Gwh) due to lower demand by the power purchaser. Overall generation of the consolidated company decreased (FY17: 8,590GWh; FY16: 9,254GWh).
- The company's profitability decreased facet of lower efficiency gains and higher finance cost (FY17: 9,600mln, FY16: 11,576mln).
- During the year company demerged its Narowal plant and net income includes profit from Narowal Plant as discontinued operations.
- Going forward, the company is in the process of setting up two new coal power plants. These two new power plants will strengthen the company's position and double its current generation.

Financial Risk

- Continued lag of payments by NTDC led Hubco's receivables to reach PKR 73,662mln at year ended Jun17 (Jun16: PKR 77,747mln). Resultantly, receivable days surged upwards (FY17: 342days FY16: 329days).
- To bridge the working capital requirements, the company has to finance through a mix of commercial credit and short term borrowings (STB – FY17: PKR 20,091mln, FY16: PKR 16,540mln).
- The coverages of the company witnessed improvement on the back of decreased finance cost due to demerger of Narowal plant. FCFO/Gross Interest + CMLTD (FY17: 4.5x; FY16: 2.3x).
- Despite principal repayments of long term debt and hiving down of Narowal Plant, Hubco's leverage increased due to increase in short term borrowing and new capex related long term loan for Equity investment in TEL CPHGC & SECMEC. (Debt: equity; FY17: 59%). During the year Hubco availed new facility of PKR 21bln of which it has withdrawn PKR 1.575bln at year ended Jun17.

RATING RATIONALE

The Hub Power Company Limited (Hubco) is one of the largest power producers in the country contributing ~7% towards the total generation of the country in FY17. Hubco aims to significantly expand its generation capacity. Hubco aims to boost the country's energy security by utilising Pakistan's indigenous natural resources. In this regard, the company has hived down its Narowal Plant into a fully owned subsidiary which resulted in partial deleveraging of the company. Hubco is in the process of setting up new coal power plants (i) 2x660MW coal fired power plant at Hub and (ii) 330MW mine-mouth coal fired power plant at Thar. Hub coal plants project is being developed under a joint venture with China Power International Holdings (CPIH). A separate JV company has been setup (China Power Hub Generation Company - CPHGC) to undertake this project. Currently Hubco has 26% stake in CPHGC. Hubco has incorporated Thar Energy Limited to undertake its 330 MW open-mine mouth coal power plant in Thar. Although, currently fully owned, Hubco is in the process of having equity partners. Company's new projects will be financed in debt to equity ratio of 75:25. The company plans to finance equity portion of the project partly through internal cash-flows and by securing new debt. Although this would increase leveraging, matching repayments with project returns should help manage the financial risk profile.

KEY RATING DRIVERS

Meanwhile, comfort is drawn from Hubco's deleveraged balance sheet and relatively free stable cash flows. Cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to the agreed upon performance benchmarks; this provides comfort to the ratings. Timely completion of new projects and maintaining healthy debt service coverages post acquisition of new debt will remain critical.



The Pakistan Credit Rating Agency Limited

Financials (Summary)

Independent Power Producer

The Hub Power Company Limited (Hubco)

PKR mln

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual*	Annual*
Non-Current Assets	17,440	36,652	38,840
Investments (Others)	11,174	5,876	4,918
Current Assets	86,369	91,477	82,191
Inventory	4,746	5,023	5,580
Trade Receivables	73,662	77,747	72,683
Other Current Assets	6,737	5,428	3,444
Cash & Bank Balances	1,223	3,280	484
Total Assets	114,983	134,006	125,949
Debt	27,867	37,621	33,498
Short-term	20,091	16,540	10,963
Long-term (Incl. Current Maturity of long-term debt)	7,777	21,081	22,535
Other Short term liabilities (inclusive of trade payables)	67,630	68,806	60,816
Other Long term Liabilities	-	-	-
Shareholder's Equity	19,486	27,579	31,635
Total Liabilities & Equity	114,983	134,006	125,949

INCOME STATEMENT

	30-Jun-17	30-Jun-16	30-Jun-15
Turnover	78,590	86,415	131,484
Gross Profit	9,317	14,788	14,391
Other Operating Expense	(615)	(925)	(921)
Other Income	1,480	971	1,081
Financial Charges	(1,784)	(3,109)	(4,538)
Taxation	(142)	(149)	(160)
Profit from discontinued operations	1,354	-	-
Net Income	9,600	11,576	9,853

Cashflow Statement

	30-Jun-17	30-Jun-16	30-Jun-15
Free Cashflow from Operations (FCFO)	13,381	16,184	15,945
Net Cash changes in Working Capital	(7,321)	(85)	2,265
Net Cash from Operating Activities	3,317	12,900	13,463
Net Cash from Investing Activities	(224)	(663)	607
Net Cash from Financing Activities	(8,709)	(9,441)	(16,262)
Cash transferred to NEL	3,558	-	-
Net Cash generated during the period	(2,058)	2,796	(2,192)

Ratio Analysis

	30-Jun-17	30-Jun-16	30-Jun-15
Performance			
Turnover Growth	9.3%	-34.3%	-18.7%
Gross Margin	11.9%	17.1%	10.9%
Net Margin	10.5%	13.4%	7.5%
ROE	22.7%	43.3%	30.0%
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	3.2	2.3	1.8
Interest Coverage (X) (FCFO/Gross Interest)	7.5	5.2	3.5
FCFO post WC / Gross Interest +CMLTD	1.5	2.3	2.1
Liquidity			
Short Term Borrowings Coverage	0.6	1.0	1.6
Net Cash Cycle	18.3	18.3	34.8
Capital Structure (Total Debt**/Total Debt+Equity)	58.9%	57.7%	51.4%

* Annual numbers of FY16 include Narowal Plant as continuing operations

** Total Debt includes Short term debt utilized to meet working capital needs

The Hub Power Company Limited (Hubco)

Dec-17

CREDIT RATING SCALE & DEFINITIONS

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 RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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+	Moderate risk. Possibility of credit risk developing.	
BB	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-		
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	Very high credit risk. Substantial credit risk	
CC	“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.	

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

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Name of Rated Entity Sector
Type of Relationship
Purpose of the Rating

The Hub Power Company Limited
 IPP
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Apr-17	AA+	A1+	Stable	Maintain
20-Apr-16	AA+	A1+	Stable	Maintain
29-Jun-15	AA+	A1+	Stable	Maintain
27-Jun-14	AA+	A1+	Stable	Maintain
15-May-13	AA+	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

IPP's Rating Methodology
 Power Generation - Viwepoint | Mar-17

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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Rating Shopping

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 PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
 PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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