The Pakistan Credit Rating Agency Limited

Rating Report

China Power Hub Generation Company (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Dec-2021	AA+	A1+	Stable	Maintain	-
01-Jan-2021	AA+	A1+	Stable	Upgrade	-
07-Jan-2020	AA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

China Power Hub Generation Company Private Limited (CPHGC) is a coal based 1320MW power plant and jetty (Complex), set up by State Power Investment Corporation (SPIC), one of the top Five State-owned Power Corporations in China along with Hub Power Company of Pakistan. The financial strength and experience in the energy chain of the sponsoring companies – CPIH and HUBCO reflects positively in the ratings. Rating takes comfort from the company's strategic importance to economy through its operations, the strong business profile and from the involvement of Pakistan and Chinese governments, as this project is a priority project under CPEC. Dedicated jetty at plant site and Coal Supply Agreement (CSA) with reputable international coal suppliers ensure the stable performance of the project. New O&M agreement is under negotiation with, a joint venture between Hub Power Holdings Limited and China Power International Maintenance Engineering Company Limited. Management has put forth the requisition for true up tariff to NEPRA, the securitization at NEPRA's end has already made, Company is expecting the finalization of tariff in 2022. The Company has successfully achieved all the performance benchmarks and provided 5,500GWh of electricity to the grid during 9MCY21 against 5,214 Gwh in 9MCY20. The Company recorded a turnover of PKR 80bln during the 9MCY21 (9MCY20: 79bln) and achieved a bottom-line of PKR 22bln in 9MCY21 against PKR 26bln in 9MCY20. DSRA is being funded through operating revenues. Till date the Company has repaid four installments (i.e. ~14%) of its project related long term debt. However the leverage is yet sizeable and will gradually decline along with the life of the project.

Maintaining healthy debt service coverages remain important. Accumulation of circular debt may pose challenge to the cash flow management. However, the management supported by relevant business fundamentals remain committed to sustain timely debt repayments.

Disclosure	
Name of Rated Entity	China Power Hub Generation Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Independent Power Producer Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Power(Jan-21)
Rating Analysts	Bazah Tul Qamar | bazahtul.qamar@pacra.com | +92-42-35869504

Profile

Plant China Power Hub Generation Company (Private) Limited (CPHGC), incorporated in 2015, operating 1320MW Coal-based Power Plant with integrated jetty, located at Hub, Tehsil Gaddani, District Lasbella, Baluchistan. Developed in record time, as per schedule and within projected costs (~USD 2bln), the CPHGC is part of the early harvest energy projects under China Pakistan Economic Corridor (CPEC) framework.

Tariff CPHGC has been provided a reference levelized tariff of 8.3601 US¢ per KWh. Tariff control period is 30 Years from the COD. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate and US and Pakistan CPI inflation. Principal and interest repayments, ROE, Insurance, Fixed and Variable O&M costs are part of the escalable (adjustable) component. Fuel price and all the taxes/levies are completely pass through to power purchaser.

Return On Project The return on equity (ROE) in $ terms as per the tariff determination of the project is at 27.2%, that is of imported coal.

Ownership

Ownership Structure CPHGC has been established as Joint Venture Agreement (JVA) dated April 20, 2015 between China Power International Holding Limited (CPIHL) and the Hub Power Company (HUBCO). As per JVA, CPIHL through its wholly owned subsidiary China Power International (Pakistan) Investment Limited (CPIPI) and HUBCO through its wholly owned subsidiary Hub Power Holdings Limited (HPHL) owns 52.5% and 47.5% respectively.

Stability Company's association with State Power Investment Corporation (SPIC), one of the top Five State-owned Power Corporations in China and HUBCO provide comfort.

Business Acumen Sponsor groups have significant experience development and operation of power projects, including coal-fired, hydro, natural gas, and various of renewable energies such as thermal, hydro, LNG, wind, solar, biomass, waste-to-energy, cogeneration, mine-mouth coal project (with integrated production of coal and power) and so on.

Financial Strength HUBCO has strong financial position. While, total assets of CPIH is about USD 18.45bln. Hence, the financial strength of the sponsors is considered strong.

Governance

Board Structure CPHGC's Board of Directors (BoD) comprises seven members, including the CEO. Four members represent China Power International (Pakistan) Investment Limited, while three represents Hub Power Holdings Limited. The board members have diverse experience from different industries.

Members' Profile Mr. Huang Yuntao is the Chairman of BoD with over two decades of professional experience in different functions and designations related to power generation companies. Besides all the remaining directors also hold senior position in other companies and have sound professional experience in Power and Energy industry.

Board Effectiveness During 9MCY21, CPHGC's board held 4 meetings to address the strategic decision of company. Attendance in the meeting is satisfactory.

Financial Transparency A.F Ferguson & Co. Chartered Accountants, Member of PWC Limited are the external auditor of the company. The auditor has given an unqualified opinion on CY20 and 6MCY21 financial statements.

Management

Organizational Structure IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction and operations of the plant are outsourced. However project company is overseeing EPC and O&M Contractors through renowned foreign independent engineer technical advisor.

Management Team The management team is led Mr. Ren LiHui, CEO, who has been associated with CPHGC for 6 years. The entire operational set-up of the company falls under the purview of CEO, with each department head directly reporting to him.

Effectiveness The management of CPHGC is mostly engaged in the finance and company management related activities. The main operations and maintenance of the plant & jetty have been outsourced to the consortium of O&M contractors i.e. China Energy Engineering Group.

Control Environment The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator. Moreover, the company has inhouse internal audit department to monitor the risk arises from the operations

Operational Risk

Power Purchase Agreement The electricity generated will be sold to Central Power Purchasing Agency (Guarantee) Limited ("CPPA-G") under a 30-year Power Purchase Agreement (PPA).

Operation And Maintenance The operations and maintenance of the plant and jetty have been outsourced to the consortium of O&M contractors i.e. China Energy Engineering Group for a period of 2 years. The O&M operator ensures adherence of the plant to meet minimum performance benchmarks. Thus, the risk of LDs is mitigated. The main plant equipment comprises of Boilers, Turbines & Generators (BTGs) are based on European Design & Technology.

Resource Risk The company has dedicated jetty at plant site. Coal Supply Agreement (CSA) of CPHGC is with reputable international coal suppliers. Power plant will require 3.5mln tones (Mt) of coal annually. In terms of capacity, about three vessels/month on average with the capacity of 160,000 tones per vessel at jetty will be delivered. The payment mechanism is LC at sight.

Insurance Cover CPHGC has adequate insurance coverage for business interruptions, property damages etc. as per PPA and lenders facility agreements.

Performance Risk

Industry Dynamics Installed capacity of electricity increased to 37,261 MW during July-April FY2021 compared to same period last year, showing an addition of 1,289 MW. Likewise, its generation increased to 102,742 GWh showing an additional generation of 6,360 GWh during the period under discussion.

Generation The company achieved COD on 17th August, 2019. The electricity generation stood at 1,708 GWh during 9MCY21. During the period, company successfully generated the electricity on average 90.27% availability factor, with an average efficiency of 39.2%.

Performance Benchmark The required availability for China Power Hub Generation Company Limited under the PPA is 85%. Meanwhile, the required efficiency of the plant is 39.2% on annual basis. The company's required availability and efficiency remained above the required benchmark.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. USD 1,995mln. The 100% project debt of USD 1,496mln was funded by Chinese lenders with the consortium of China Development Bank (CDB), EXIM Bank, CCB and ICBC whereas the CDB is the lead arranger.

Liquidity Profile CPHGC, in its off-take agreement with CPPA-G, will receive capacity payments given the plant meets contract availability, even if no purchase order is placed. In order to comfort the lenders, DSRA will be maintained and fully funded through tariff and capacity payments may be diverted to DSRA, equivalent to debt servicing due for one semi-annual principal and two quarterly interest payments. The leverage is sizeable and will gradually decline along with the life of the project.

Working Capital Financing CPHGC has requirement of 90 days reserve of inventory out of which 45 days reserves shall be at site and 45 days inventory shall be in transit; further 30 days trade debts so it is the total working capital requirement. Company has procured working capital lines of PKR 31.2bln out of which short-term borrowing utilization stood at PKR 18.9bln (61%) during 9MCY20, having an ample cushion available.

Cash Flow Analysis During 9MCY21, free cash flows from operations (FCFO) stood at PKR 40,548mln (9MCY20: PKR 44,567mln). Interest and debt coverage ratio stood at 4x and 1.5x respectively, reflecting company's strong ability to pay its financial obligations.

Capitalization The project was started with the allowed project cost of USD 1,995mln with 75:25 debt to equity ratio. Total project equity of ~USD 499mln has been injected by equity sponsors. Currently debt to equity ratio stood at 66% at end-sept21.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

China Power Hub Generation Company Power	Sep-21 9M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Non-Current Assets	263,505	254,978	251,227	181,094
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	126,685	110,069	70,809	19,912
a Inventories	*10,478*	*10,618*	*12,624*	-
b Trade Receivables	*58,295*	*43,586*	*32,017*	-
5 Total Assets	390,190	365,047	322,036	201,007
6 Current Liabilities	13,229	12,449	29,128	27,997
a Trade Payables	*5,614*	*5,184*	*14,736*	*22,194*
7 Borrowings	250,833	248,525	224,163	133,185
8 Related Party Exposure	337	468	256	219
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	125,791	103,606	68,490	39,606
11 Shareholders' Equity	125,791	103,606	68,490	39,606
B INCOME STATEMENT				
1 Sales	80,162	103,793	36,520	-
a Cost of Good Sold	*(46,897)*	*(51,480)*	*(18,945)*	-
2 Gross Profit	33,265	52,313	17,575	-
a Operating Expenses	(1,920)	(2,852)	(1,799)	(1,384)
3 Operating Profit	31,346	49,461	15,776	(1,384)
a Non Operating Income or (Expense)	*1,196*	*804*	*338*	*(17)*
4 Profit or (Loss) before Interest and Tax	32,541	50,265	16,114	(1,401)
a Total Finance Cost	*(10,202)*	*(14,840)*	*(5,944)*	-
b Taxation	*(153)*	*(310)*	*(124)*	*(10)*
6 Net Income Or (Loss)	22,185	35,116	10,046	(1,411)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*40,548*	*58,957*	*19,456*	*(1,410)*
b Net Cash from Operating Activities before Working Capital Changes	*33,310*	*46,954*	*17,589*	*(1,410)*
c Changes in Working Capital	*(12,817)*	*(41,992)*	*(50,171)*	*(1,390)*
1 Net Cash provided by Operating Activities	20,493	4,962	(32,582)	(2,801)
2 Net Cash (Used in) or Available From Investing Activities	(2,897)	(4,898)	(27,400)	(72,482)
3 Net Cash (Used in) or Available From Financing Activities	(14,496)	15,260	61,007	84,017
4 Net Cash generated or (Used) during the period	3,100	15,324	1,025	8,734
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	3.0%	184.2%	--	N/A
b Gross Profit Margin	41.5%	50.4%	48.1%	N/A
c Net Profit Margin	27.7%	33.8%	27.5%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	34.6%	16.3%	-84.1%	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	24.3%	36.0%	18.1%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	210	174	446	N/A
b Net Working Capital (Average Days)	192	139	262	N/A
c Current Ratio (Current Assets / Current Liabilities)	9.6	8.8	2.4	0.7
3 Coverages				
a EBITDA / Finance Cost	4.0	4.0	3.3	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	1.8	0.9	-0.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	5.7	5.1	15.5	-100.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	66.6%	70.6%	76.6%	77.1%
b Interest or Markup Payable (Days)	62.1	58.2	202.0	N/A
c Entity Average Borrowing Rate	5.4%	5.8%	3.5%	0.0%

Credit Rating

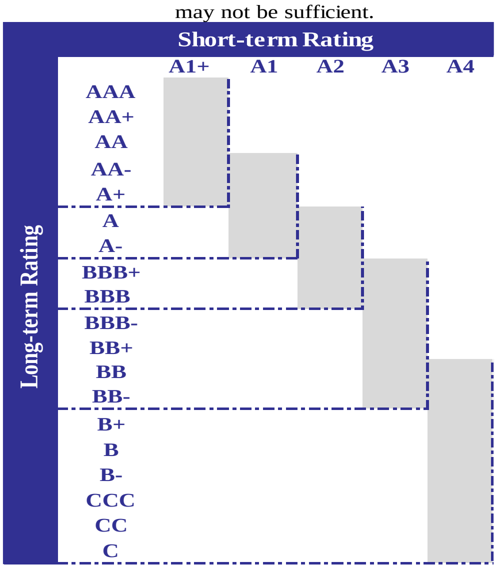
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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.
(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