



The Pakistan Credit Rating Agency Limited

Rating Report

Hub Power Holdings Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-May-2023	AA	A1+	Stable	Maintain	-
20-May-2022	AA	A1+	Stable	Maintain	-
21-May-2021	AA	A1+	Stable	Maintain	-
29-May-2020	AA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects Hub Power Holdings Ltd.'s ('Hub Power Holdings' or 'the Company') holdco structure with focus on expanding energy generation capacity through indigenous resources. The Company is a wholly owned subsidiary of The Hub Power Company Limited (HUBCO), a very strong player in Pakistan's energy sector with a generation capacity of 1,292MWs. Hub Power Holdings has invested in China Power Hub Generation Co. (Pvt.) Ltd. ('China Power') (~47.5%) and ThalNova Power Thar (Pvt.) Ltd ('ThalNova') (~38.3%). The Company has also entered in a JV agreement to form Prime International Oil & Gas Co. Ltd. ('Prime International') (a 50:50 joint venture company of Hub Power Holdings and ENI's local employees), and has executed definitive agreements to acquire all the upstream operations and renewable energy assets owned by ENI in Pakistan. The investments are funded through a combination of equity and debt, as per sector's norm. However, the debt was raised at the group level and the Company's capital structure remains predominantly equity financed. Lately, the Company has incorporated China Power Hub Operating Co. (Pvt.) Ltd. ('China Power Hub') through a JV agreement with ~49% stake to operate and maintain China Power's plant. Business risk profile of the Company consists solely of profit share from associate, China Power, only; which is constantly receiving generation payments. However, the projected dividend declaration from China Power relies on tariff true-up, which is not yet achieved. Secondly, ThalNova has achieved financial close and became commercially operational in Feb-23. However, ThalNova is yet to announce project completion date (PCD). While, Prime International acquired and took charge of all the upstream operations of ENI in Dec-22. The Company has a strong financial profile with the majority of its commitments, as a holding company, have already been met for its existing portfolio. The Company issued a Sukuk of PKR 6bln on Nov-20 mainly to settle debt at group level and is fully guaranteed by HUBCO. Principle repayments are aligned with dividend inflows with sufficient cushion in initial years. Timely materialization of the same remains crucial. These can be impacted by surging receivables due to circular debt and delay in payments by the government. The ratings draw comfort from investment decisions and performance evaluations undertaken by the parent Co. (HUBCO), where robust mechanism and governance framework is already in place. The same is still evolving at the Company level. Moreover, demonstrated support of sponsors and their strong acumen of power sector dynamics benefits the ratings.

The ratings depend on timely materialization of projected timelines and generating cashflows. Consolidation of investments at holding company level and formalizing a strong and effective mechanism for monitoring performance will be critical, going forward. Maintaining strong financial profile and creating liquidity cushion remains important. Change in the government policy for payment mechanism of power projects, along with any significant delay in envisaged cashflows due to the current power sector dynamics/constraints would impact ratings.

Disclosure

Name of Rated Entity	Hub Power Holdings Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Holding Company Rating(Jun-22)
Related Research	Sector Study Holding Company(Aug-22)
Rating Analysts	Shujat Ehsanullah Wasim Shujat.Ehsan@pacra.com +92-42-35869504



Profile

Background Hub Power Holdings Limited ('Hub Power Holdings' or "the Company"), is incorporated as a public unlisted Company under the repealed Companies ordinance of 1984. The Company is a wholly owned subsidiary of The Hub Power Company Limited ('HUBCO'), an established name in the energy sector. The Company operates under a holdco structure with sizeable holding in two coal-fired power generation plants: China Power Hub Generation Company Limited ("China Power Hub") ~47.5% shareholding and ThalNova Power Thar (Pvt.) Limited ("ThalNova Power") ~38.3% shareholding.

Strategic Analysis The principal activity of the Company is to invest in new business opportunities. Strategic investments in four associated companies stood at ~PKR 92bln (as at Dec-22). China Power Hub has a combined generation capacity of 1320MW with an ancillary jetty at Hub, Baluchistan. ThalNova Power's mine-mouth coal fired power plant, having a generation capacity of 330MW, is located at Thar Block II, Sindh. The Company has also entered into a JV agreement with EBO Group (Employees of ENI Pakistan) and acquired 50% stake in Prime International Oil & Gas Company Ltd. ('Prime International'). Lately, the Company has also incorporated China Power Hub Operating Company (Pvt.) Limited ('CPHO') through JV agreement to maintain and operate China Power Hub's plant.

Ownership

Ownership Structure The Company is a wholly owned subsidiary of The Hub Power Company Limited ('HUBCO'). Major shareholding of HUBCO resides with Mega Conglomerate (~19.5%), while the remaining shareholding of HUBCO resides with Financial Institutions (~12.2%), Modarabas and Mutual Funds (~11.1%), and Individuals (~24.3%).

Stability Being a wholly owned subsidiary of HUBCO, ownership of the Company is stable. Moreover, parent company's association with very strong conglomerates of Pakistan (Mega Group) ensure stability of the ownership structure

Business Acumen The sponsors have significant experience in developing and operating power projects including thermal, coal-fired, hydro, natural gas, and renewable energy projects. The sponsors intend to focus on expanding power generation capacity by utilizing indigenous resources especially mine-mouth coal projects in Thar.

Financial Strength Hub Power Holdings' parent company, HUBCO has proven track record of raising capital (debt and equity) in Pakistan. As at 6MFY23, HUBCO had a consolidated asset base of ~ PKR 356bln, supported by an equity of ~ PKR 130bln. HUBCO generated a consolidated top-line of over PKR 54bln and posted a net profit of PKR 23bln during 6MFY23.

Governance

Board Structure The Company's Board comprises four members, including the CEO. All three Non-Executive Directors are nominated by HUBCO. The Company's governance structure lacks independent oversight and gender diversity.

Members' Profile Mr. Aly Khan, who is also on the Board of Hub Power Company, Chairs the Company's Board. All Board members have strong professional profile along with diversified experience

Board Effectiveness As of Apr-23, the Board met four times. It lacks presence of sub-committees. However, new investment decisions and performance review of existing investments are made by HUBCO's Board. Key challenges are identified and way forward is proposed. Outcome of each onshore and offshore projects pursued/considered are discussed and proposed road map is identified.

Transparency The Company's external auditors, A.F. Ferguson Chartered Accountants, expressed an unqualified opinion on the annual financial statements of FY22.

Management

Organizational Structure The Company operates through three functions: HR, New Ventures and Finance. Each function is monitored by the respective director or head of department, who reports to the CEO

Management Team Mr. Kamran Kamal, the CEO of HUBCO and Hub Power Holdings, is an energy, technology and policy specialist. Mr. Muhammad Saqib, the Company's CFO, has an overall experience of 26 years. The entire management team comprises experienced individuals.

Management Effectiveness Strategic decisions are made and monitored by HUBCO. There, detailed processes are in place for investment decision making and monitoring performance of underlying investments.

Control Environment Internal audit function is placed at HUBCO and plays a significant role in empowering the organization. Certain functions are centralized to ensure effectiveness and leverage synergies.

Investment Strategy

Investment Decision-Making Hub Power Holding is an investment vehicle of HUBCO. Investment opportunities are evaluated by HUBCO's Board that aims to expand generation capacity to boost the country's power generation by utilizing indigenous natural resources.

Investment Policy Hub Power Holdings has a policy to invest in business opportunities to maximize shareholders wealth. The current investments are mainly in the power sector for which guaranteed returns are received in the form of capacity payments. Furthermore, during the life of project operations, adjustments/indexations for local inflation, foreign inflation, exchange rate variations, and interest rate variations are made on quarterly basis.

Investment Committee Effectiveness Strategic decisions are made and monitored by HUBCO. HUBCO has in place an efficient MIS reporting system for its operations. The system generates real-time plant production data, enabling efficient monitoring and timely decision making.

Business Risk

Diversification The Company has primarily invested in the Power sector (~99% of total investments) followed by minor investment (~1%) in Oil & Gas sector. In 6MFY23, China Power accounts for ~92% out of the total investments portfolio, followed by ThalNova Power which accounts for ~7% of the total investments. The remaining two investments (Prime Oil & Gas and CPHO) only have a nominal share in terms of size of investments.

Portfolio Assessment The Company has invested in four associated companies comprising 3 private limited companies and 1 public unlisted company. During CY22, China Power's turnover stood at PKR 190bln, resulting in net profit of PKR 46bln. ThalNova Power's, 1 x 330 MW mine-mouth coal fired power plant has achieved COD in Feb-23 and has also signed PPA with CPPAG. Prime International signed a Sale and Purchase Agreement to acquire all the upstream operations and renewable energy assets owned by ENI in Pakistan. Moreover, the Company, lately, executed a JV agreement for the incorporation of CPHO to provide services to China Power Hub.

Income Assessment The Company's topline comprises dividends/interest income received from strategic investments, currently in power sector only. It's supported by share of profits from associates, mainly from China Power (6MFY23: PKR 13bln). On standalone basis, the Company did not receive any dividends during 6MFY23. The Company's total investment income surged mainly due to China Power share of profits during 6MFY23 (6MFY22: PKR 830mln). Going forward, the Company's total investment is anticipated to increase owing to timely materialization of operational activities.

Financial Risk

Coverages The Company is experiencing stressed coverages as it is yet to receive any dividends. In 6MFY23, the Company's interest coverage witnessed slight improvement and stood at 0.2x (6MFY22: nil) owing to positive total cashflows aided by interest income & adequate profits. Similarly, the Company's debt coverage ratio rose to 0.1x in 6MFY23 (6MFY22: nil). Although, the coverages remain stressed; projected payments in the form of dividends and interest income are anticipated to ensure that coverage ratios remain robust.

Capital Structure The Company has conservative capital structure with low leveraging ratio (6MFY23: ~13%, 6MFY22: ~12%) supported by equity base of PKR 67bln as at 6MFY23 (6MFY22: PKR ~54bln). Currently, the Company has total long-term debt of PKR 10.4bln (6MFY22: PKR 7.7bln) comprising the issuance of a privately placed sukuk, syndicated term finance facility, and related party loan from HUBCO (~PKR 2.7bln) as at 6MFY23. The Company obtained a long-term loan to fulfill its equity requirement for ThalNova Power, and a sukuk to settle debt at Group level.

Consolidated Position The Company derives financial strength from its main holding company, HUBCO and associated companies.



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Financial Summary

PKR mln

Hub Power Holdings Limited Holding Company	Dec-22	Jun-22	Dec-21	Jun-21	Jun-20
	6M	12M	6M	12M	12M
	Unaudited	Audited	Unaudited	Audited	Audited
A BALANCE SHEET					
1 Investments	-	-	-	-	-
2 Related Party Investments	92,634	78,358	68,708	67,770	51,482
3 Non-Current Assets	21	28	36	44	59
4 Current Assets	2,319	2,533	2,705	2,702	2,447
5 Total Assets	94,975	80,919	71,449	70,516	53,989
6 Current Liabilities	2,900	2,479	2,408	2,069	1,587
7 Borrowings	7,694	7,735	7,712	7,575	2,478
8 Related Party Exposure	2,752	1,489	-	-	-
9 Non-Current Liabilities	14,640	10,849	7,262	7,053	3,171
10 Net Assets	66,989	58,368	54,068	53,820	46,753
11 Shareholders' Equity	66,989	58,368	54,068	53,820	46,753
B INCOME STATEMENT					
1 Total Investment Income	13,077	9,446	926	15,671	13,862
a Cost of Investments	(618)	(966)	(392)	(589)	(263)
2 Net Investment Income	12,459	8,480	535	15,082	13,599
a Other Income	-	-	-	-	(1,009)
b Operating Expenses	(46)	(94)	(62)	(206)	(212)
4 Profit or (Loss) before Interest and Tax	12,413	8,386	472	14,875	12,377
a Taxation	(3,791)	(3,828)	(224)	(3,909)	(3,195)
6 Net Income Or (Loss)	8,622	4,558	249	10,967	9,182
C CASH FLOW STATEMENT					
a Total Cash Flow	94	102	17	(216)	(224)
b Net Cash from Operating Activities before Working Capital Changes	(448)	(146)	(90)	(315)	(360)
c Changes in Working Capital	34	(77)	306	(21)	58
1 Net Cash (Used in) or Available From Investing Activities	(414)	(224)	217	(336)	(302)
2 Net increase (decrease) in long term borrowings	(772)	(1,068)	(81)	(281)	(3,137)
3 Net Cash (Used in) or Available From Financing Activities	1,002	1,090	(137)	864	9,309
4 Net Cash generated or (Used) during the period	(185)	(201)	(1)	246	5,870
D RATIO ANALYSIS					
1 Performance					
a Asset Concentration (Market Value of Largest Investment / Market Value o	92.0%	91.5%	91.9%	91.9%	89.8%
b Core Investments / Market Value of Equity Investments	0.0%	0.0%	0.0%	0.0%	0.0%
c Marketable Investments / Total Investments at Market Value	0.0%	0.0%	0.0%	0.0%	0.0%
2 Coverages					
a TCF / Finance Cost	0.2	0.1	0.0	-0.4	-1.0
b TCF / Finance Cost + CMLTB	0.1	0.1	0.0	-0.2	-0.6
c Loan to Value (Funding / Market Value of Equity Investments)	0.1	0.1	0.1	0.1	0.0
3 Capital Structure (Total Debt/Total Debt+Equity)					
a Leveraging [Funding / (Funding + Shareholders' Equity)]	13.5%	13.6%	12.5%	12.3%	5.0%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	15.6%	15.8%	14.3%	14.1%	5.3%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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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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(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)

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(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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