



## 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
29-May-2020	AA	A1+	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Hub Power Holding Limited's ('Hub Power Holding' or 'the Company') holding company structure with strong focus on expanding energy generation capacity by utilizing indigenous resources and its association with the Hub Power Company Limited (HUBCO). The Company is a wholly owned subsidiary of HUBCO, a very strong player in Pakistan's energy sector with generation capacity of 1292MWs. Hub Power Holding has invested in two power projects - China Hub Power Generation Company (Pvt.) Ltd. (46% stake) and ThalNova Power Thar (Pvt.) Ltd. (38.3% stake). These investments are funded through a combination of equity and debt, as per norm in power sector. However, the debt was raised at the group level and the the Company's capital structure remains predominantly equity financed. China Hub Power became commercially operational in Aug-19 and has started receiving payments for generation, an important development. ThalNova Power is yet to achieve financial close and is expected to become commercially operational in FY22. The Company has a very strong financial profile with majority of its commitments as holding company already met for existing portfolio. Going forward, the Company intends to increase leveraging to settle the debt at Group level and fund new investments. The management has projected sizable dividend income from China Hub Power and profit and principle repayments of Hub Power Holding are aligned with these inflows with sufficient cushion in initial years. Materialization of the same is crucial. These can be impacted by surging receivables in the power due to circular debt and recent government intervention where payment mechanism of power projects is being reviewed. Investment decisions and performance evaluations are undertaken at the parent level (HUBCO), where robust mechanism and governance framework is in place. The same is still evolving at the Company level. The ratings take comfort from demonstrated support of sponsors and their strong acumen of power sector dynamics in Pakistan.

The ratings depend on timely materialization of projected cashflows and meeting project timelines. Consolidation of investments at holding company level and formalizing a strong and effective mechanism for making investment and monitoring performance will be critical, going forward. Maintaining strong financial profile and creating liquidity cushion remains important. Any significant delay in envisaged cashflows due to prevailing power sector dynamics/constraints would impact ratings negatively.

#### Disclosure

<b>Name of Rated Entity</b>	Hub Power Holdings Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-19),PACRA_Methodology_Holding Company_FY19(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   Holding Company(Aug-19)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Hub Power Holding Limited ("Hub Power Holding" or "the Company") is a public unlisted Company formed under the repealed Companies ordinance of 1984.

**Background** Hub Power Holding is a wholly owned subsidiary of the Hub Power Company Limited ("HUBCO"), an established name in the energy sectors. 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") ~ 46% and ThalNova Power Thar (Pvt.) Limited ("ThalNova Power") ~38.3%.

**Operations** The principal activity of the Company is to invest in new business opportunities. Strategic investments in two associated companies stood at PKR 45.3bln (as at Mar-20). China Power became commercially operational in Aug-19 and 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 under construction at Thar Block II, Sindh.

## Ownership

**Ownership Structure** Hub Power Holding is a wholly owned subsidiary of HUBCO. Major shareholding of HUBCO resides with Mega Conglomerate (19.5%), while the remaining shares are held by Modarbas and Mutual Funds (13.5%), Allied Bank (9%), Fauji Foundation (8.5%) and Insurance companies (6.8%).

**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 and Fauji Foundation) provides comfort.

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

**Financial Strength** Hub Power Holding's parent company, HUBCO has proven track record of raising capital (debt and equity) in Pakistan. In FY19, HUBCO had a consolidated asset base of over ~ PKR 225bln, supported by an equity of ~ PKR 57bln. HUBCO generated a consolidated top-line of over PKR 58bln and posted a profit of PKR 12bln in FY19.

## Governance

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

**Members' Profile** Board's Chairman, Mr. Khalid Mansoor has an experience of over 38 years in energy and petrochemical sectors in developing, executing, managing and operating large scale projects. Currently, he is the CEO of HUBCO and Chairman of Laraib Energy Ltd., Narowal Energy Ltd. and Hub Power Services Ltd. He is also on the Board of Thar Energy Ltd. All Board members have strong professional profile along with diversified experience.

**Board Effectiveness** During FY19, the Board met five 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.

**Financial Transparency** Hub Power Holding's external auditors, A.F. Ferguson Chartered Accountants, has expressed an unqualified opinion on the annual financial statements of FY19.

## Management

**Organizational Structure** Hub Power Holding is headed by the CEO. 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** Hub Power Holding's CEO, Mr. Ruhail Muhammad is a seasoned professional with over 30 years of experience in finance and commercial sector. Mr. Abdul Nasir, CFO, has an overall experience of 27 years and has been associated with the group for 25 years.

**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.

**MIS** For monitoring investments, plant generation and other operations, an efficient MIS reporting system is placed at HUBCO. It generates real-time plant production data for efficient monitoring and timely decision making.

**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.

## Business Risk

**Industry Dynamics** Holding companies are an emerging phenomena in Pakistan. Some operating companies that held strategic investments for the purpose of diversification and growth eventually de-merged from their operations and structured into holding companies to concentrate their investments for the purpose of business growth and diversification.

**Relative Position** The Company has invested in two coal fired power plants; China Power ~ PKR 40bln and ThalNova Power ~ PKR 8bln. Pakistan's total power generation capacity from coal-fired plants is 4,520 MW. China Power, commercially operational power plant, has a generation capacity of 1320MW, translating into market share of 29%.

**Revenues** The Company's top-line comprises dividends/interest income received from strategic investments in power sector. It's supported by share of profits from associates, mainly from China Power. On standalone basis, the Company did not receive any dividends in 9MFY20. China Power became commercially operational in Aug-19. It produced 1,629 GWh electricity during 9MFY20 and raised billing of PKR 19.8bln to CPPA. China Power is expected to give PKR 6bln as dividends in FY21. ThalNova Power is yet to achieve financial close. The main contractor, CMEC, declared force majeure in Jan-20 due to COVID-19 outbreak. The management has applied for extension in LOS till Oct-20. The project is now expected to become commercially operational in FY22.

**Margins** The Company's cost structure mainly consists of managerial remuneration and certain shared expenses with HUBCO. During 9MFY20, finance costs increased to PKR 191mln (FY19: PKR 75mln) owing to loan obtained to fund equity injection in ThalNova Power. Bottom-line closed at PKR 7.6bln in 9MFY20 (FY19: PKR 3.9bln).

**Sustainability** Going forward, HUBCO plans to invest in mining, refining & processing, oil and gas (E&P), coal gasification, infrastructure and downstream energy sectors. It can utilize in house technical engineering base for setting up stable footing in these sectors. Power sector investments of HUBCO are expected to be consolidated under Hub Power Holding.

## Financial Risk

**Working Capital** The Company has minimal working capital requirements, being a holdco. A short-term loan could be an interim arrangement until long-term financing is arranged since this creates a mismatch. The management does not intend to borrow short-term loans. Power companies utilize short-term loans to finance receivables mainly emanating from delayed payments from CPPA. China Power manages these on its own.

**Coverages** The Company is experiencing stressed coverage (9MFY20: -0.9x) as it has yet to receive dividends. The Company obtained a long-term loan to fulfill its equity requirement for ThalNova Power. These funds are placed with financial institutions. Liquid nature and accompanying interest income supplement coverages. As projected repayments are aligned with dividends, coverages are expected to remain robust. Materialization of planned dividends remain critical.

**Capitalization** The Company has a low leveraged capital structure (9MFY20: 5%, FY19: 6%) supported by equity base of PKR 45bln in 9MFY20. Currently, the Company has a long-term debt of PKR 2bln. Going forward, the Company intends to increase leveraging to settle the debt at Group level and fund new investments.



The Pakistan Credit Rating Agency Limited

## Hub Power Holding Limited

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<b>BALANCE SHEET</b>	<b>30-Mar-20</b>	<b>31-Dec-19</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
Non- Current Assets	61	63	30	-	-
Investments	45,288	41,481	34,261	7,881	1,318
Current Assets	2,456	2,476	76	56	68
<b>Total Assets</b>	<b>47,805</b>	<b>44,020</b>	<b>34,367</b>	<b>7,937</b>	<b>1,386</b>
Borrowings	2,451	2,446	3,500	-	-
Other Liabilities (Excluding Borrowings)	127	60	114	43	42
<b>Shareholder's Equity</b>	<b>45,227</b>	<b>41,514</b>	<b>30,753</b>	<b>7,894</b>	<b>1,344</b>
<b>Total Liabilities &amp; Equity</b>	<b>47,805</b>	<b>44,020</b>	<b>34,367</b>	<b>7,937</b>	<b>1,386</b>
<b>INCOME STATEMENT</b>					
<b>Turnover</b>	-	-	-	-	-
Operating Profit	(180)	(134)	(127)	-50	(27)
Other Income	8,063	4,181	(407)	-278	(171)
Financial Charges	(191)	(67)	(75)	0	(0)
<b>Net Income</b>	<b>7,692</b>	<b>3,979</b>	<b>(618)</b>	<b>-329</b>	<b>(202)</b>
<b>Cashflow Statement</b>					
Free Cashflow from Operations (FCFO)	(171)	(129)	(133)	-51	(31)
Net Cash from Operating Activities	(232)	(211)	(69)	-50	(32)
Net Cash from Investing Activities	(3,137)	(3,136)	(26,883)	-6859	(1,092)
Net Cash from Financing Activities	9,247	9,247	27,013	6894	1,091
<b>Ratio Analysis</b>					
Gross Margin	N/a	N/a	N/a	N/a	N/a
ROE	17%	10%	-2%	-4%	-15%
FCFO/Gross Interest	-0.9	-1.9	-1.8	-205.5	-153.2
LT Debt/FCFO	-13.0	-17.2	0.0	0.0	0.0
Total Debt/Total Debt+Equity	5%	6%	10%	0%	0%

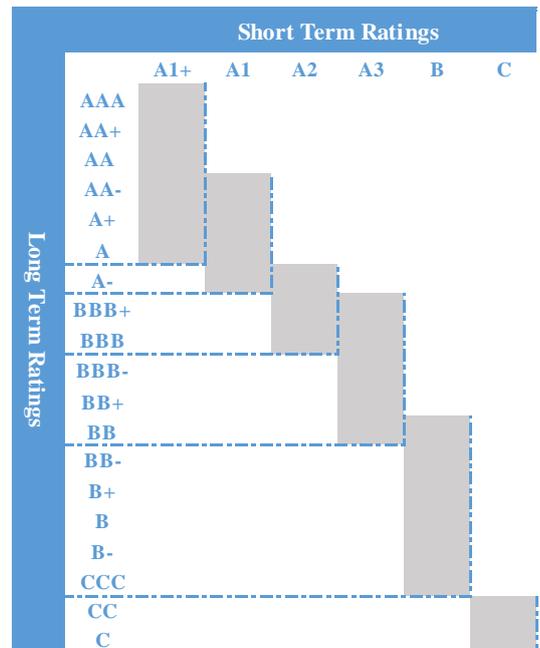
May-20

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## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<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.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<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.		
<b>D</b>	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.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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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)

### **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

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- (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)

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- (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.
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- (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)

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- (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)

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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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