



The Pakistan Credit Rating Agency Limited

Rating Report

Hub Power Holdings Limited | Sukuk

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-May-2024	AA+	-	Stable	Maintain	-
01-Dec-2023	AA+	-	Stable	Maintain	-
02-Jun-2023	AA+	-	Stable	Maintain	-
03-Jun-2022	AA+	-	Stable	Maintain	-
04-Jun-2021	AA+	-	Stable	Maintain	-
25-Nov-2020	AA+	-	Stable	Initial	-
19-Aug-2020	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating reflects the Hub Power Holdings Ltd.'s ('the Company') holdco structure - wholly owned subsidiary of The Hub Power Company Limited (HUBCO), very strong player in Pakistan's energy sector with installed capacity of 3,581MWs, contributing ~17% among total IPPs in terms of capacity generation. Hub Power Holdings holds the strategic investment in China Power Hub Generation Co. (Pvt.) Ltd. ('China Power') (~47.5%) and ThalNova Power Thar (Pvt.) Ltd ('ThalNova') (~38.3%). The Company has entered into a JV agreement (50:50) with Prime International Oil & Gas Co. Ltd. ('Prime International') and acquired all the upstream operations renewable energy assets owned by ENI in Pakistan. The Company also has acquired China Power Hub Operating Co. (Pvt.) Ltd. ('China Power Hub') (49%) through a JV agreement to operate and maintain China Power's plant. The Company received major share of profit from its associate i.e. China Power Hub Generation Company (Private) Limited and ThalNova Power Thar (Private) Limited amounting to ~PKR 18.79bln (6MFY23: ~PKR 13.11bln) and ~PKR 2.3bln (6MFY23: ~PKR 32mln). The Company also received profit of ~PKR 1.56bln from its JV Prime International Oil and Gas Company Limited but a loss of ~PKR 104mln (6MFY23: Loss of ~PKR 73mln) from China Power Hub operating Company during 6MFY24. The Company received dividends from China Power Hub Generation Co. (Pvt.) Ltd. amounting ~PKR 9.2bln. The Company has also issued a PPSTS amounting PKR 6bln for its working capital requirements. While having low leverage, the Company has room to borrow. Sponsor's support and their strong acumen of power sector dynamics benefit 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 Sukuk
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Dec-23)
Related Research	Sector Study Holding Company(Aug-23)
Rating Analysts	Muhammad Atif Chaudhry Atif.Chaudhry@pacra.com +92-42-35869504



Issuer Profile

Profile 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. The principal activity of the Company is to invest in new business opportunities. 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. 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 Hub Power Holding is the wholly owned by HUBCO. Major shareholding of HUBCO resides with Mega Conglomerate (19.5%), while the other major shareholding of HUBCO resides with Modarabas and Mutual Funds (9.09%), Financial Institutions (12.77%), Associated Companies (20.36%) and Insurance companies (5.61%) and individuals (28.22%). . Being a wholly owned subsidiary of HUBCO, ownership of the Company is stable. Moreover, parent company's association with Mega Conglomerate ensures stability of the ownership structure. 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 minemouth coal projects in Thar. Hub Power Holdings' parent company, HUBCO has proven track record of raising capital (debt and equity) in Pakistan. As at FY23, HUBCO had a consolidated asset base of ~ PKR 405bln, supported by an equity of PKR ~12bln. HUBCO posted a net profit of PKR ~62bln during FY23.

Governance 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. Mr. Aly Khan, who is also on the Board of Hub Power, heads the Company's Board as the Chairman. All Board members have strong professional profile along with diversified experience. During FY23, the Board met four times. It lacks presence of subcommittees. 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. The Company's external auditors, A.F. Ferguson Chartered Accountants, expressed an unqualified opinion on the annual financial statements of FY23.

Management 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. Mr. Kamran Kamal, CEO, is an energy technology and policy specialist. He is accompanied by a team of experienced individuals. Mr. Muhammad Saqib, CFO, has an overall experience of 26 years. Strategic decisions are made and monitored by HUBCO. There, detailed processes are in place for investment decision making and monitoring performance of underlying investments. 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 The Company has primarily invested in the Power sector (~99% of total investments) followed by minor investment (1%) in Oil & Gas sector. As at June23, out of the investment portfolio value, China Power accounts for ~90% of total investments, followed by investment in ThalNova Power which accounts for ~8.1% of the total investments. The remaining two investments (Prime Oil & Gas, and CHPO) only have a nominal share in terms of size of investments. The Company has invested in four associated companies comprising of 3 private limited companies and 1 public unlisted company. During CY23, turnover stood at PKR 165bln, resulting in PKR 73bln as net profit. . 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, also executed an agreement for the incorporation of CPHO to provide services to China Power Hub.

Financial Risk The Company's topline is supported by share of profit from its investment in China Power (CY23: PKR 18bln, CY22: PKR 13bln), as the insurance company has principally agreed to the settlement of USD 65mln (PKR 13,831mln) to the damages and business loss caused due to tripping of power plant in Jul-21. Hub Power Holding is experiencing stressed coverages of -0.5x at 6MFY24 (6MFY23: 0.2x) on the back of no dividend income and consequently low Total Operating Cash Flows (6MFY24: PKR-731mln, 6MFY23: PKR 94mln). Hub Power Holding has a low leveraged capital structure (6MFY24: 6.5%, 6MFY23: 13.5%). The Company's equity base amounts to PKR 100bln as at 6MFY24 (6MFY23: PKR 67bln). Currently, the Company has no short- term debt.

Instrument Rating Considerations

About The Instrument Hub Power Holdings has issued an unsecured, privately placed, Islamic Certificates ("Sukuk") of PKR 6bln to settle debt at group level. The instrument has a tenor of 5 years (grace period 3 years) and is issued at discount, covering profit payments for the first two years. Any decrease/increase in base rate (7.35%) during discounting period shall be subject to a floor equivalent to base rate as set on issue date and to a cap of 30% thereof. The differential profit will be settled through the issuer, subject to the maximum and minimum limits, at the end of the discounting period within 15 working days. Thereafter, profit will be payable semiannually in arrears at the rate of 6MK+250bps. Principle will be paid in 4 equal semi-annual installments. The Company has made its first principal Payment on May 13, 2024.

Relative Seniority/Subordination Of Instrument The rights of the investors will be subordinate to the rights of the senior lenders but will rank above any claims of NEL's unsecured creditors and shareholders.

Credit Enhancement The sukuk is fully secured under PR-6 Regulation of SBP.



The Pakistan Credit Rating Agency Limited

Hub Power Holdings Limited Holding Company	Dec-23	Jun-23	Jun-22	Jun-21
	6M Management	12M Audited	12M Audited	12M Audited
A BALANCE SHEET				
1 Investments	-	-	-	-
2 Related Party Investments	131,477	117,502	78,358	67,770
3 Non-Current Assets	11	16	28	44
4 Current Assets	2,670	49	2,533	2,702
5 Total Assets	134,158	117,567	80,919	70,516
6 Current Liabilities	4,040	3,646	2,479	2,069
7 Borrowings	6,971	7,332	7,735	7,575
8 Related Party Exposure	-	3,846	1,489	-
9 Non-Current Liabilities	23,116	17,916	10,849	7,053
10 Net Assets	100,030	84,828	58,368	53,820
11 Shareholders' Equity	100,030	84,828	58,368	53,820
B INCOME STATEMENT				
1 Total Investment Income	22,592	34,508	9,446	15,671
a Cost of Investments	(1,351)	(1,919)	(966)	(589)
2 Net Investment Income	21,241	32,589	8,480	15,082
a Other Income	-	-	-	-
b Operating Expenses	(57)	(59)	(94)	(206)
4 Profit or (Loss) before Interest and Tax	21,184	32,530	8,386	14,875
a Taxation	(5,914)	(6,839)	(3,828)	(3,909)
6 Net Income Or (Loss)	15,270	25,691	4,558	10,967
C CASH FLOW STATEMENT				
a Total Cash Flow	(731)	143	102	(216)
b Net Cash from Operating Activities before Working Capital Changes	(2,267)	(1,301)	(146)	(315)
c Changes in Working Capital	(2,621)	3	(77)	(21)
1 Net Cash provided by Operating Activities	(4,888)	(1,299)	(224)	(336)
2 Net Cash (Used in) or Available From Investing Activities	9,124	(470)	(1,068)	(281)
3 Net increase (decrease) in long term borrowings	(375)	(637)	(399)	4,763
4 Net Cash (Used in) or Available From Financing Activities	(4,221)	1,720	1,090	864
5 Net Cash generated or (Used) during the period	16	(49)	(201)	246
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	84.5%	85.9%	91.5%	91.9%
b Core Investments / Market Value of Equity Investments	0.0%	0.0%	0.0%	0.0%
c Marketable Investments / Total Investments at Market Value	0.0%	0.0%	0.0%	0.0%
2 Coverages				
a TCF / Finance Cost	-0.5	0.1	0.1	-0.4
b TCF / Finance Cost + CMLTB	-0.2	0.0	0.1	-0.2
c Loan to Value (Funding / Market Value of Equity Investments)	0.1	0.1	0.1	0.1
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	6.5%	11.6%	13.6%	12.3%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	7.0%	13.2%	15.8%	14.1%

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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2) Conflict of Interest

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- 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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- (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).
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- (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)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(d)

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