



The Pakistan Credit Rating Agency Limited

Rating Report

China Power Hub Generation Company (Pvt.) Limited | PPSTS-2 | PKR 5bln | Dec-22

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Feb-2023	AA+	A1+	Stable	Initial	-
28-Oct-2022	AA+	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The Ratings take comfort from the fact that this project is a priority project under CPEC and has significant economic and strategic importance. Presence of dedicated jetty at plant site and Coal Supply Agreement (CSA) with reputable international coal suppliers which ensure stable performance of the project provides more cushion to the Ratings. Going forward, due to increase in the international prices of coal the Company is currently in discussion with the GoP for alternate solutions. O&M agreement is with Hub Power Services Ltd. (HPSL) - a joint venture between Hub Power Holdings Limited and China Power International Maintenance Engineering Company Limited. The Company is in process of announcing Project Completion Date (PCD) as all the covenants have been fulfilled except that of revolving fund. In this regard, HUBCO gave a \$150mln SBLC to guarantee an investment in the form of equity or subordinated debt to satisfy the funding shortfall if any, in CPHGC. The guarantee encashment notice which was served earlier has been withdrawn and SBLC has been extended on mutually agreed terms.

The Company reported a turnover of PKR 153bln during 9MCY22 (9MCY21: 80bln) and has attained a bottom line of PKR 24bln in 9MCY22 as opposed to PKR 22bln in 9MCY21. The Company aims to issue a series of commercial paper amounting to PKR ~20bln in total, in order to manage the increasing price of imported coal in the international market. Out of which PKR 13bln has already been issued. This will be in addition to the short-term borrowings already utilized by CPHGC. Till date the Company has repaid six installments 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 PPSTS-2 PKR 5bln Dec-22
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Independent Power Producer Rating(Jun-22)
Related Research	Sector Study Power(Jan-22)
Rating Analysts	Muhammad Atif Chaudhry Atif.Chaudhry@pacra.com +92-42-35869504

Issuer Profile

Profile China Power Hub Generation Company (Private) Limited (CPHGC), incorporated in 2015, operating 1320MW Coal-based Power Plant, 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. 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 various factors including Rupee-US Dollar Exchange Rate and US and Pakistan CPI inflation. Principal and interest repayments, ROE, Insurance, Cost of working capital, 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. 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 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. Company's association with State Power Investment Corporation (SPIC), one of the top Five State-owned Power Corporations in China and HUBCO provide comfort. 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. HUBCO has strong financial position. While, total assets of CPIH are about USD 18.45bln. Hence, the financial strength of the sponsors is considered strong.

Governance 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. Mr. Zhao Yonggang 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. During CY22, CPHGC's board held 4 meetings to address the strategic decision of company. Attendance in the meeting is satisfactory. A.F Ferguson & Co. Chartered Accountants, Member of PWC Limited is the external auditor of the company. The auditor has given an unqualified opinion on CY22 financial statements.

Management 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 O&M Contractors through its internal management team. The management team is led Mr. Ren Lihui CEO. The entire operational set-up of the company falls under the purview of CEO, with each department head directly reporting to him. The management of CPHGC is mostly engaged in the finance and company management related activities. The overall management of operations and maintenance of the plant & jetty is with CPHGC however contractor China Power Hub Operating Company are engaged to carry out the operational activities. The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

Business Risk The electricity generated will be sold to Central Power Purchasing Agency (Guarantee) Limited ("CPPA-G") under a 30-year Power Purchase Agreement (PPA). The operations and maintenance of the plant and jetty have been outsourced to Hub Power Services Ltd. 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. The company has dedicated jetty at plant site. Coal Supply Agreement (CSA) of CPHGC is with reputable international coal suppliers. Power plant will require 5.760mln 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. CPHGC has adequate insurance coverage for business interruptions, property damages etc. as per PPA and lenders facility agreements. Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. The total installed generation capacity was recorded at ~41,394MW as in FY22 (FY21: 39,772MW, FY20: ~38,719MW) up ~3% YoY basis, while actual power generation was recorded at 143,091GWh in FY22 (134,746GWh in FY20), up ~7% YoY basis. The company achieved COD on 17th August, 2019. The electricity generation stood at 5,609GWh during 10CY22. During the period, company successfully generated the electricity on average 92% availability factor. The required availability for China Power Hub Generation Company Limited under the PPA is 85%. The company's required availability and efficiency remained above the required benchmark.

Financial Risk Debt financing constitutes 75% of the allowed project cost i.e. USD 1,995mln. Hence, allowed project debt and equity stood at USD 1,496.25mln (75%) and USD 498.75mln (25%). Total project debt was funded by Chinese lenders with the consortium led by CDB including EXIM Bank, BOC, CCB and ICBC. Project debt has the pricing of 3ML + 3.8% spread p.a. payable quarterly. The principal repayment shall be made in 40 semi-annual installments. 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 capacity payments equivalent to debt servicing due for one semi-annual principal and two quarterly interest payments and requirements as per the financing documents are being complied. Company has procured working capital lines of PKR 66.7bln out of which short-term borrowing utilization stood at PKR 43.7bln (majorly utilized) during 9MCY22. In order to meet the increased working capital needs, the company has approved instruments of PKR 13bln. Free cash flows from operations (FCFO) stood at PKR 60,779mln at end Sep'22 (CY21: PKR 45,174mln). At end Sep'22, interest and debt coverage ratio stood at 4.4x and 1.6x respectively, reflecting company's ability to pay its financial obligations. The debt to equity ratio stood at 78% at end Sep-22.

Instrument Rating Considerations

About The Instrument China Power Hub Generation Company (Pvt.) Limited ("CPHGC") has issued a Rated, Unsecured, Privately Placed, Short-Term Sukuk (PPSTS-2) in Dec 2022. The amount of the instrument is PKR 5,000mln. The purpose of the PPSTS-2 is to finance the company's working capital requirements. The tenor of PPSTS-2 is up to 6 months and carrying a profit rate of 6MK+145bps. Profit and Principal will be paid in bullet at maturity.

Relative Seniority/Subordination Of Instrument The claim of the certificate holders will rank superior to the claim of ordinary shareholders.

Credit Enhancement The instrument is unsecured.



China Power Hub Generation Company Power	Sep-22 9M	Dec-21 12M	Dec-20 12M	Dec-19 12M
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A BALANCE SHEET

1 Non-Current Assets	325,281	270,826	254,978	251,227
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	194,713	126,542	110,069	70,809
<i>a Inventories</i>	23,253	21,089	10,618	12,624
<i>b Trade Receivables</i>	87,060	53,408	43,586	32,017
5 Total Assets	519,995	397,369	365,047	322,036
6 Current Liabilities	39,312	13,645	12,449	29,128
<i>a Trade Payables</i>	12,050	3,327	5,184	14,736
7 Borrowings	333,348	261,099	248,525	224,163
8 Related Party Exposure	470	-	468	256
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	146,865	122,625	103,606	68,490
11 Shareholders' Equity	146,865	122,625	103,606	68,490

B INCOME STATEMENT

1 Sales	153,107	100,017	103,793	36,520
<i>a Cost of Good Sold</i>	(110,489)	(64,933)	(51,480)	(18,945)
2 Gross Profit	42,619	35,083	52,313	17,575
<i>a Operating Expenses</i>	(2,021)	(2,691)	(2,852)	(1,799)
3 Operating Profit	40,598	32,392	49,461	15,776
<i>a Non Operating Income or (Expense)</i>	480	490	804	338
4 Profit or (Loss) before Interest and Tax	41,078	32,883	50,265	16,114
<i>a Total Finance Cost</i>	(16,492)	(13,665)	(14,840)	(5,944)
<i>b Taxation</i>	(346)	(197)	(310)	(124)
6 Net Income Or (Loss)	24,240	19,021	35,116	10,046

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	60,779	45,174	58,957	19,456
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	45,994	34,766	46,954	17,589
<i>c Changes in Working Capital</i>	(35,153)	(21,903)	(41,992)	(50,171)
1 Net Cash provided by Operating Activities	10,840	12,863	4,962	(32,582)
2 Net Cash (Used in) or Available From Investing Activities	629	(3,410)	(4,898)	(27,400)
3 Net Cash (Used in) or Available From Financing Activities	1,156	(14,579)	15,260	61,007
4 Net Cash generated or (Used) during the period	12,625	(5,125)	15,324	1,025

D RATIO ANALYSIS

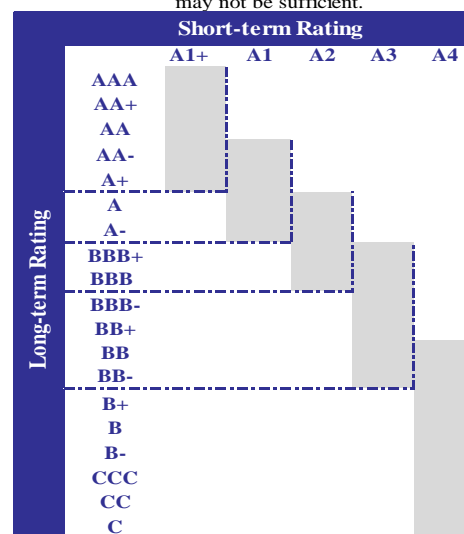
1 Performance				
<i>a Sales Growth (for the period)</i>	104.1%	-3.6%	184.2%	--
<i>b Gross Profit Margin</i>	27.8%	35.1%	50.4%	48.1%
<i>c Net Profit Margin</i>	15.8%	19.0%	33.8%	27.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	16.7%	23.3%	16.3%	-84.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	24.9%	16.2%	36.0%	18.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	165	235	174	446
<i>b Net Working Capital (Average Days)</i>	151	219	139	262
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.0	9.3	8.8	2.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	4.4	3.3	4.0	3.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.6	0.7	1.8	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	4.6	8.3	5.1	15.5
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	69.4%	68.0%	70.6%	76.6%
<i>b Interest or Markup Payable (Days)</i>	105.3	60.0	58.2	202.0
<i>c Entity Average Borrowing Rate</i>	6.5%	5.5%	5.8%	3.5%

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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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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(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 | Clause 11-(A)(p).

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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

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(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)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Book Value of Assets (PKR mln)	Nature of Assets	Lead Advisor
Rated, Privately Placed, Short Term Sukuk (PPSTS-2)	PKR 5,000mln	6 months	Unsecured	NA	N/A	Anif Habib Limited

Name of Issuer	China Power Hub Generation Company (CPHGC)
Issue Date	14-Dec-22
Maturity	14-Jun-23
Profit Rate	6M KIBOR + 1.45%

China Power Hub Generation Company (Pvt.) Limited | PPSTS-2 | PKR 5bln | Dec-22 | Redemption Schedule

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate (6MK + 1.4%)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR (mln)						
Issue Date	Dec-22	5,000			-	-	-	5,000
1	Jun-23	5,000	16.97%	18.42%	406	5,000	5,406	-
					406	5,000	5,406	