



The Pakistan Credit Rating Agency Limited

Rating Report

Hub Power Company Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	AA+	A1+	Stable	Maintain	-
29-Jun-2018	AA+	A1+	Stable	Maintain	-
22-Dec-2017	AA+	A1+	Stable	Maintain	-
20-Apr-2017	AA+	A1+	Stable	Maintain	-
20-Apr-2016	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The Hub Power Company Limited (Hubco) is one of the largest power producers in the country contributing ~3.5% towards the total generation of the country in FY18. Hubco aims to significantly expand its generation capacity. Hubco aims to boost the country's energy security by utilising Pakistan's indigenous natural resources. Hubco is in the process of setting up new coal power plants (i) 2x660MW coal fired power plant at Hub and (ii) 330MW mine-mouth coal fired power plant at Thar. Hubco's 2x660MW coal fired power project is being developed under a joint venture with China Power International Holdings (CPIH). A separate JV company has been setup (China Power Hub Generation Company - CPHGC) to undertake this project. Currently Hubco has 26% stake in CPHGC and it is planning to increase its shareholding upto 46%. Hubco has incorporated Thar Energy Limited to undertake its 330 MW open-mine mouth coal power plant in Thar. Company's new projects will be financed in debt to equity ratio of 75:25. The company plans to finance equity portion of the projects by securing new debt. For this purpose it has availed long term debt facility of PKR ~21bln. Although this would increase leveraging, matching repayments with project returns should help manage the financial risk profile.

Comfort can be drawn from Hubco's moderately leveraged balance sheet and relatively free stable cash flows. Cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to the agreed upon performance benchmarks; this provides comfort to the ratings. Timely completion of new projects and maintaining healthy debt service coverages post acquisition of new debt will remain challenging.

Disclosure

Name of Rated Entity	Hub Power Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology IPP (Jun-18)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Plant The Hub Power Company Limited (Hub Power) consists of four generating units, each rated at 323 MW gross outputs, with an oil-fired single re-heat boiler.

Tariff The Company negotiated revision in generation tariff with National Electric Power Regulatory Authority (NEPRA) at the commercial operations date in June 2012. Generation reference tariff (levelized tariff for years 1-25) is US 18.6-cents/ KWh as approved by NEPRA.

Return On Project The dollar IRR of Hub Power, as agreed with NEPRA is 12%.

Ownership

Ownership Structure Mega Conglomerate Private Limited (19%) is the single largest shareholder, followed by Allied Bank Limited (10%), Fauji Foundation (9%) and National Bank Pakistan (5%). The remaining shareholding is held by various Financial Institutions, Joint Stock Companies and Individuals respectively.

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Fauji Foundation group and Asian Development Bank will continue to provide comfort.

Business Acumen Mega Conglomerate Private Limited (MCPL) is a diversified conglomerate with business holdings including the country's largest container terminal, third largest dairy producer, top tier cement manufacturing company, vertically integrated shipping and power sector.

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure The Company's Board of Directors comprises of eleven Directors, The Board's efficacy is strengthened by the presence of only one executive director, the CEO.

Members' Profile Mega Conglomerate strong professional profile assists the management in terms of strategic guidance and implementation of strong control framework.

Board Effectiveness For effective oversight of the matters the board has formed three board committees. (i) Board audit Committee (ii) Board Investment Committee and (iii) Board Compensation Committee. The company displays relevant information on website, stock exchange and financial reports in proper way.

Financial Transparency Ernst & Young Ford Rhodes Sidat Hyder is the external auditor of the company. The auditor has given unqualified opinion on company's financial statement as at 30th June 2018.

Management

Organizational Structure Hub Power deploys a lean organizational structure. Six functions including Finance, Corporate services, Operations, and Audit report directly to CEO. The Company's department – Manufacturing Excellence (MAX) – is responsible for improving the efficiency of the organization.

Management Team Mr. Khalid Mansoor was appointed as the CEO of the company in May 2013. Mr. Mansoor carries 36 years of experience in Energy & Petrochemical Sectors. He is assisted by a team of experience professionals.

Effectiveness Hub Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Control Environment Hub Power 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.

Operational Risk

Power Purchase Agreement Hub Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by Power Purchaser.

Operation And Maintenance Hub Power has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated to manage the O&M in 2015.

Resource Risk Pakistan State Oil (PSO) is responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 30 years. HUBCO is protected from fuel transportation issues as the Company receives fuel directly from PSO.

Insurance Cover Hub Power has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto USD 1,733mln) & business interruption cover (up to USD 398mln).

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~18% in the installed capacity as at end-Jun18 to 32,613MW (FY17: 27,703MW).

Generation During FY18, electricity generation decreased by 23% (FY18: 5,201GWH, FY17: 6,793GWH). During 3MFY19, Company has generated 345GWh (3MFY18: 1,783GWh) of electricity with average capacity factor of 84% (3MFY18: 80%). Generation was lower due to the facet of lower power demand and plant shut down on September -18. As PSO has stopped the oil supplies because of circular debt which were resumed on October 13, 2018.

Performance Benchmark During FY18, net profit has been decreased on account of lower generation, higher administrative expenses and higher financing costs. (FY18: PKR 8,565mln; FY17: PKR 9,600mln). Company's bottom line as of 3MFY19 stood at PKR 1,493mln (3MFY18: PKR 2,181mln). Going forward, the Company is in the process of setting up two new coal power plants. These two new power plants will strengthen the company's position and double its current generation. Expected COD's for the two respective plants are June & August 2019.

Financial Risk

Financing Structure Analysis The total Hub Power project cost was \$1.5bln; with US \$175mln from international and local equity investors, US \$689mln from international banks, and the bulk of the rest coming via US \$589mln subordinated loan provided by the World Bank, JEXIM and ECAs. The debt remained fully paid by the Company.

Liquidity Profile At 3MFY19, total receivables of the company stood at PKR 76,098mln (FY18: PKR 78,562mln; FY17: PKR 73,662mln). As circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing Receivable days have surged to 394 days in FY18 (FY17: 342 days) a facet of delayed payments recovery from CPPA-G. Receivables days as of 3MFY19 stood at 682 days. To bridge the working capital requirements, the Company has to finance through a mix of commercial credit and short term borrowings (STB – 3MFY19, PKR 30,000mln; FY18: PKR 29,600mln; FY17: PKR 25,550mln). Utilization of short term borrowings as of 3MFY19 stood at 71% (FY18: 73%).

Cash Flow Analysis On account of increase in FCFO and lower interest expense, improvement in interest coverage can also be seen on YoY basis (FCFO / Gross interest: FY18: 2.1x; FY17: 1.5x). Free cash flows as of 3MFY19 stood at PKR 1,178mln with interest coverage (FCFO / Gross interest) standing at 1.1x.

Capitalization Hub Power leverage increased on the back of increase in short term borrowing and new long term loan to finance boiler rehabilitation works at Hub plant (Debt: Equity; FY18: 65% FY17: 59% FY16: 57%). Further drawdown from availed facility to invest equity in its subsidiary may cause leveraging to increase further.



The Pakistan Credit Rating Agency Limited

PKR mln

The Hub Power Company Limited (Hubco)

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	IQ	Annual	Annual	Annual*
Non-Current Assets	15,023	15,477	17,440	36,652
Investments (Others)	21,639	20,679	11,174	5,876
Current Assets	93,639	100,462	86,369	91,477
Inventory	2,204	7,643	4,746	5,023
Trade Receivables	79,848	82,684	73,662	77,747
Other Current Assets	11,292	9,708	6,737	5,428
Cash & Bank Balances	295	427	1,223	3,280
Total Assets	130,301	136,617	114,983	134,006
Debt	36,668	36,424	27,867	37,621
Short-term	21,428	21,776	20,091	16,540
Long-term (Incl. Current Maturity of long-term debt)	15,240	14,648	7,777	21,081
Other Short term liabilities (inclusive of trade payables)	72,314	80,367	67,630	68,806
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	21,318	19,827	19,486	27,579
Total Liabilities & Equity	130,301	136,617	114,983	134,006

INCOME STATEMENT	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
Turnover	10,690	76,676	78,590	86,415
Gross Profit	2,408	9,803	9,317	14,788
Other Operating Expense	(179)	(900)	(615)	(925)
Other Income	10	2,119	1,480	971
Financial Charges	(739)	(2,248)	(1,784)	(3,109)
Taxation	(6)	(209)	(142)	(149)
Profit from discontinued operations	-	-	-	-
Net Income	1,493	8,565	8,256	11,576

Cashflow Statement	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
Free Cashflow from Operations (FCFO)	1,763	10,478	13,381	16,184
Net Cash changes in Working Capital	(370)	(1,385)	(7,321)	(85)
Net Cash from Operating Activities	731	6,939	3,317	12,900
Net Cash from Investing Activities	(994)	(7,305)	(224)	(663)
Net Cash from Financing Activities	131	(430)	(8,709)	(9,441)
Cash transferred to NEL	-	-	3,558	-
Net Cash generated during the period	(132)	(796)	(2,058)	2,796

Ratio Analysis	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
Performance				
Turnover Growth	-50.4%	6.6%	-9.1%	-34.3%
Gross Margin	22.5%	12.8%	11.9%	17.1%
Net Margin	14.0%	11.2%	10.5%	13.4%
ROE	27.4%	46.9%	39.1%	43.3%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.4	2.5	3.2	2.3
Interest Coverage (X) (FCFO/Gross Interest)	2.4	4.7	7.5	5.2
FCFO post WC / Gross Interest +CMLTD	1.1	2.1	1.5	2.3
Liquidity				
Short Term Borrowings Coverage	0.5	0.4	0.6	1.0
Net Cash Cycle	-107.2	-11.0	22.3	18.3
Capital Structure (Total Debt**/Total Debt+Equity)	63.2%	64.8%	58.9%	57.7%

* Annual numbers of FY16 include Narowal Plant as continuing operations

** Total Debt includes Short term debt utilized to meet working capital needs

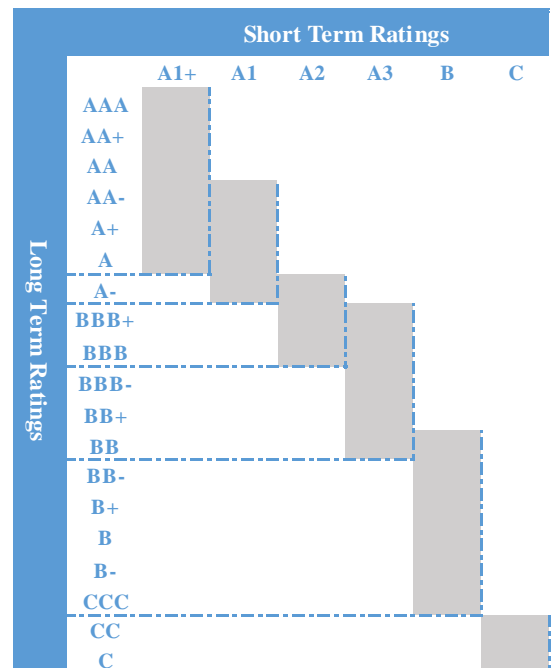
The Hub Power Company Limited (Hubco)

Dec-18

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

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

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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)
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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.
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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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- (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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