



The Pakistan Credit Rating Agency Limited

Rating Report

The 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
29-Jun-2020	AA+	A1+	Stable	Maintain	-
27-Dec-2019	AA+	A1+	Stable	Maintain	-
27-Jun-2019	AA+	A1+	Stable	Maintain	-
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	-
29-Jun-2015	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

HUBCO is a large RFO based power plant with an installed capacity of 1295MW. The rating reflects the holding company character of HUBCO with an exclusive focus on the different dimension of the energy sector. HUBCO has already expanded generation capacity and aims to further expand generation capacity to boost the country's power generation by utilizing Pakistan's indigenous natural resources. HUBCO through its 100% owned company Hub Power Holding Ltd (HPHL) invested in China Power Hub Generation Company (CPHGC) - A joint venture with China Power International Holdings Ltd (CPIHL): CPHGC (2x660MW coal fired power plant at Hub), achieved COD on 17 August 2019. Hubco is also setting up two more coal power plants (i) Thar Energy Limited (TEL): 330MW mine-mouth coal fired power plant at Thar and (ii) Thalnova Power: 330MW mine-mouth coal fired power plant at Thar. These investments are being funded through Hubco's own cashflows and a mix of long term debt & short term debt. HUBCO has already deployed a sizeable fund in its ongoing projects of Thalnova and Thar Energy Ltd. The overall debt quantum in the wake of fresh investment is huge. HUBCO is redesigning its loan book by converting short term sukus into Long Term Sukus, currently HUBCO has two long term and one short term sukuk. After the COD of CPHGC, HPHL has recognized the share of profit of PKR 8,960mln from CPHGC in its books. Furthermore, the dividend from CPHGC is expected to be materialized in FY21. Receivables keep surging due to circular debt issue.

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, settlement of receivable and payable and maintaining healthy debt service coverages are important for the company.

Disclosure

Name of Rated Entity	The Hub Power Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology IPP(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Power(Jan-20)
Rating Analysts	Saadat Mirza saadat.mirza@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 comprises of 323 MW gross outputs, with an oil-fired single re-heat boiler. Company has submitted a plan in May-19 to the government to convert furnace oil-fired plant into a coal-fired power plant prior to expiry of Power Purchase Agreement (PPA) in 2027.

Tariff The current applicable tariff is US 12.28 cents/KWh. The tariff is adjusted as per PPA.

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

Ownership

Ownership Structure Mega Conglomerate Private Limited (19.5%) is the single largest shareholder, followed by Allied Bank Limited (7.7%), Fauji Foundation (8.5%) and National Bank Pakistan (3.6%). The remaining shareholding is held by various Financial Institutions, Joint Stock Companies and general public.

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

Business Acumen Mega Conglomerate having a diversified experience with presence in shipping, logistics, real estate development, cement, energy and food sector.

Financial Strength Mega Conglomerate has a strong financial position with diversified business portfolio.

Governance

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

Members' Profile Directors having strong professional profile along with diversified experience 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 A.F Ferguson & Co is the external auditor of the company. The auditor has given unqualified opinion on company's financial Statement as at 30th June 2019.

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 is appointed as the CEO of the company, in May 2013 carrying 36 years of experience in Energy & Petrochemical Sectors. He is assisted by a team of experience professionals.

Effectiveness Company's 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 subject to adherence to the agreed upon performance benchmarks, even if no demand 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 1,774mln) & 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. Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/RLNG and coal from Furnace Oil and other expensive sources. Pakistan total power generation is increasing on the back of new power projects under CPEC. As on Sep-19, installed capacity of electricity reached 34,523 MW, which was 32,574 MW at end June-19, thus, posting a growth of 5.98%. Although electricity generation varies due to availability of inputs and other constraints, the generation decreased from 148,042 GWh to 146,231 GWh, posting a decline of 1.2% in FY19 as compared to FY18.

Generation During 9MFY20, electricity generation decreased by ~95% 9MFY20: 34GWh (9MFY19: 682GWh; FY19: 827GWh; FY18: 5,201) with average load factor of 0.4% (9MFY19: 9%). Generation was lower due to the facet of lower power demand on the back of improving energy mix. Hubco is receiving capacity payments despite having zero or minimal generation in 9MFY20.

Performance Benchmark During 9MFY20, net profit has slightly improved owing to lower repair & maintenance, higher income from management services and higher financing cost partly offset by depreciation of Rupee against USD (9MFY20: PKR 6,997mln; 9MFY19: PKR 5,841mln).

Financial Risk

Financing Structure Analysis The total project cost of Hubco 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 project debt has been fully paid by the Company. HPHL is in process of issuing Long Term Sukuk of PKR 15,000mln and as a parent company, HUBCO shall be giving Revolving Cross Corporate guarantee against the instrument, furthermore, HUBCO shall have the step in right to buy back the sukuk from the investors. The proceeds from said Sukuk will be used to deleverage the group and also to make new investments.

Liquidity Profile At 9MFY20, total receivables of the company stood at PKR 70,982mln (FY19: PKR 66,629mln; FY18: PKR 82,684mln). Receivables are not in a better off position due to circular debt of the power sector.

Working Capital Financing Receivable days have reached to 938 days as at 9MFY20 (FY19: 675 days) a facet of delayed payments recovery from CPPA-G. Hubco has used short term debt instruments and intends to raise borrowing through a retail bond. Short term debt instruments would act as bridging short-term facility to cover the timing difference between investments and cashflow from government. As of 9MFY20 company's long term equity investment stood at PKR 56bln (FY19: PKR 48bln), company through its wholly owned subsidiary Hub Power Holdings Limited has made an equity investment of PKR 38.42bln in China Power Hub Generation Company (CPHGC) and Thal Nova Power Ltd.

Cash Flow Analysis During the review period, despite improvement in Free cash flows of the company, the debt coverage ratio has declined slightly (9MFY20: 2.1x; FY19: 2.5x; FY18: 4.7x) on account of increased interest expense. Free cash flows as of 9MFY20 stood at PKR 15,188mln (FY19: PKR 12,545mln; FY18: PKR 10,478mln).

Capitalization Hub Power leveraging is at 62% in 9MFY20 (Debt: equity FY19: 67%; FY18: 65%). Leveraging at HUBCO and group level is being monitored. In case, the deviation from envisaged takes place or funds are deployed in risky or unrelated avenues, this will be considered negative.



The Hub Power Company Limited (Hubco)

PKRmln

BALANCE SHEET	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
	9M	Annual	Annual	Annual
Non-Current Assets	12,665	13,741	15,477	17,440
Investments (Others)	56,277	48,355	20,679	11,174
Current Assets	92,192	91,631	100,462	86,369
Inventory	8,117	6,427	7,643	4,746
Trade Receivables	70,985	66,629	82,684	73,662
Other Current Assets	12,587	11,264	9,708	6,737
Cash & Bank Balances	504	7,312	427	1,223
Total Assets	161,133	153,728	136,617	114,983
Debt	65,042	64,355	36,424	27,867
Short-term	30,222	41,112	21,776	20,091
Long-term (Incl. Current Maturity of long-term debt)	34,820	23,243	14,648	7,777
Other Short term liabilities (inclusive of trade payables)	56,837	57,110	80,367	67,630
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	39,255	32,263	19,827	19,486
Total Liabilities & Equity	161,133	153,728	136,617	114,983

INCOME STATEMENT	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
Turnover	20,755	36,029	76,676	78,590
Gross Profit	13,050	11,733	9,803	9,317
Other Operating Expense	(577)	(872)	(900)	(615)
Other Income	2,403	2,375	2,119	1,480
Financial Charges	(7,365)	(4,961)	(2,248)	(1,784)
Taxation	(514)	(239)	(209)	(142)
Profit from discontinued operations	-	-	-	-
Net Income	6,997	8,037	8,565	8,256

Cashflow Statement	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
Free Cashflow from Operations (FCFO)	15,188	12,545	10,478	13,381
Net Cash changes in Working Capital	(8,414)	(8,129)	(1,385)	(7,321)
Net Cash from Operating Activities	130	117	6,939	3,317
Net Cash from Investing Activities	(7,217)	(24,720)	(7,305)	(224)
Net Cash from Financing Activities	279	31,489	(430)	(8,709)
Cash transferred to NEL	-	-	-	3,558
Net Cash generated during the period	(6,808)	6,885	(796)	(2,058)

Ratio Analysis	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
Performance				
Turnover Growth	-25.7%	-53.0%	-2.4%	-9.1%
Gross Margin	62.9%	32.6%	12.8%	11.9%
Net Margin	33.7%	22.3%	11.2%	10.5%
ROE	23.7%	27.0%	46.9%	39.1%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.9	2.0	2.5	3.2
Interest Coverage (X) (FCFO/Gross Interest)	2.1	2.5	4.7	7.5
FCFO post WC / Gross Interest +CMLTD	0.9	0.7	2.1	1.5
Liquidity				
Short Term Borrowings Coverage	0.7	0.4	0.4	0.6
Net Cash Cycle	-820.7	-101.7	-11.0	22.3
Capital Structure (Total Debt**/Total Debt+Equity)	62.4%	66.6%	64.8%	58.9%

The Hub Power Company Limited (Hubco)

Jun-20

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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)

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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)

Independence & Conflict of interest

- (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)

Monitoring and review

- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent