



RATINGS (MARCH 2009)

HUB POWER COMPANY LIMITED (HUBCO)

	Initial
Entity	
Long-Term	AA+
Short-Term	A1+

FINANCIAL DATA

PKR (mln)

	1H09*	Jun-08	Jun-07
Total Assets	91,621.4	28,747.1	44,993.5
Equity	29,004.7	28,470.6	29,052.2
Net Turnover	49,699.4	62,434.5	44,130.9
Net Income	1,691.2	2,600.5	2,654.2
EBITDA	3,716.3	6,143.5	5,517.2
Net Debt / EBITDA (x)	4.7	3.4	1.9
EBITDA Net Interest Cover (x)	2.3	3.2	4.3
Net Debt/Equity (%)	60.5	73.5	36.4

* Based on unaudited accounts for the period ended December 31, 2008.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the company's experienced management, established operating track record and association with a major international private power producer (IPP) - International Power Plc. The ratings also take into account the company's strategic importance in the power sector, hence ensuring favorable treatment from the power purchaser and fuel supplier in the present liquidity constrained conditions in the sector. Meanwhile, the weak financial discipline of the sole customer, Water and Development Authority (WAPDA), is a key consideration.
- Ratings depend upon the management's ability to effectively manage the operating risks, especially those emanating from the Operations & Maintenance (O&M) contractor's performance and ability to maintain agreed benchmarks. Meanwhile, any material deterioration in power sector fundamentals leading to increased pressure on the buyer's financial profile has negative implications for the ratings.

ASSESSMENT

- HUBCO, one of the largest and the first thermal IPP, was established as a power generation project in Pakistan under the Power Policy 1984-85 for the primary objective of electricity generation, distribution and sale to WAPDA. The company has a thermal power plant, based on residual fuel power (RFO) with an installed capacity of 1,292 MW, located at the estuary of Hub River in Balochistan. The project has a remaining contractual life of 18 years.
- HUBCO has an established operating track record of 12 years. International Power Plc (IPPLC), the O&M Operator, has extensive global IPP experience. The operator has maintained good performance and strong systems and controls are in place to maintain agreed performance benchmarks.
- HUBCO's fuel supplier is Pakistan State Oil (PSO), the leading local oil marketing company. The Fuel Supply Agreement (FSA) is backed by a government guarantee. Furthermore, HUBCO has an advantage over most other IPPs as RFO is pumped from the port to the plant through a dedicated, underground pipeline ensuring relatively smooth supply.
- In order to broaden its operations, HUBCO has undertaken two new debt-financed projects: 1) Narowal, a 225 MW combined cycle thermal Power Project, and 2) Laraib, a 84MW hydropower Project - the first IPP led hydel project in Pakistan.
- An IPP's revenues constitute the generation tariff comprising of a capacity charge and an energy charge. The capacity charge covers the fixed O&M costs, insurance charges, debt funding costs and return on equity, whereas, the energy charge is made up of variable O&M and fuel charges. These charges, with the exception of agreed return to project shareholders with adjustment for performance achievements, are pass through having no bearing on the IPP's core profitability. Currently, HUBCO's reported bottomline, in addition to net return to shareholders, includes debt repayment (1H09:PKR 490mln, FY08: PKR 979mln) as it still has outstanding project loan.
- Lately, the quality of the company's balance sheet deteriorated due to circular debt issue in the country's oil chain. As at end-Dec08, HUBCO's accumulated receivables (mainly, overdues from the power purchaser) increased to PKR 53bln. Concurrently, payables to fuel supplier increased to PKR 43bln in the same period, hence, deteriorating the working capital situation. However, the stability and adequacy of cash flows is ensured through the minimum guaranteed capacity charge. Furthermore, HUBCO has arranged working capital lines to provide it with sufficient cushion for liquidity management.
- HUBCO has a moderately leveraged capital structure. The debt-to-equity ratio has increased significantly during 2008 mainly on account of increased short-term borrowing to bridge the working capital gap. With the company's foreign senior debt repaid fully in Jul05, the company would fully redeem the remaining local debt of PKR 7.2bln by Mar16. Going forward, the company's overall leveraging is expected to come down with resolution of 'circular debt' issue. However, HUBCO would assume fresh debt for financing new projects.

PROFILE

- Hub Power Company Limited (HUBCO), incorporated in 1991, is listed on all three stock exchanges and its Global Depository Receipts are listed on Luxembourg Stock Exchange. HUBCO began commercial operations in Mar97.
- The shareholding structure of HUBCO is diverse. The principal sponsors are International Power Plc (17%), followed by Xenel Industries Limited (12%), and Fauji Foundation (9%). The company's diverse ownership structure has implications for sponsor support at the time of need. The board of directors (BoD) comprises fifteen-members including the Chief Executive Officer (CEO) of HUBCO.
- The CEO, Mr. Javed Mehmood, associated with HUBCO for more than three years, possesses over 40 years of diverse experience, mainly in the financial sector.