



The Pakistan Credit Rating Agency Limited

Rating Report

The Hub Power Company Limited | PPSTS | PKR 6bln | TBI

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Nov-2023	AA+	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating reflects the holding company character of HUBCO with an exclusive focus on the different dimension of the energy sector. HUBCO itself is a 1,292MW RFO based power plant situated at Mouza Kund, Hub in Balochistan. With its investments in Narowal Energy Limited, Laraib Energy Limited, China Power Hub Generation Company, Thar Energy Limited and Thal Nova Power Thar Ltd, the Group has an established footprint in the power generation sector. Hub Power Services Limited is a wholly owned subsidiary of HUBCO that provides Operation and Maintenance (O&M) services to its existing power plants. In addition, the Company also holds 49% stake in China Power Hub Operating Company (Pvt) Limited, a joint venture with China Power International Maintenance Engineering Company Limited, to provide O&M to the Super Critical Coal Power Plant at Hub. The Company also holds a minority stake of 8% in Sindh Engro Coal Mining Company which is establishing a coal mining facility at Thar. Prime international Oil and Gas Company (50% owned by Hub Power Holdings Ltd) has acquired all upstream operations and assets of ENI Pakistan under a J.V with ENI's local employees. The Company reported topline of PKR 9,847mln during the first quarter of FY24 (FY23: PKR 44,516mln). During 1QFY24, there was no generation from the plant. Similarly, during FY23 the generation of the plant declined to 205GWh (FY22: 1,229GWh) due to the governments priority to obtain electricity from plants with lower generation cost. The profitability of the Company is further supplemented by dividend and Income from Management Services received from subsidiaries.

Although HUBCO has a sizeable amount of borrowings to support its working capital needs and growth opportunities. The settlement of outstanding receivables (Sep 2023: PKR 58,673mln) due from CPPA-G remains crucial.

Disclosure

Name of Rated Entity	The Hub Power Company Limited PPSTS PKR 6bln TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Independent Power Producer Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Aug-23)
Related Research	Sector Study Power(Jan-23)
Rating Analysts	Hashim Yazdani hashim.yazdani@pacra.com +92-42-35869504

Issuer Profile

Profile 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. The plant is situated at the Hub River estuary, Baluchistan. The plant achieved its commercial operations in March 1997.

Ownership Mega Conglomerate holds the majority stake in HUBCO of 19.48% while Fauji Foundation holds 8.5%. Both Allied Bank and National bank hold a minor stake of 3.38% and 2.97%. Remaining ownership is owned by General Public, Joint Stock Companies, Financial Institutions, Investment Companies and Insurance Companies.

Governance Overall control of the company vests in a nine-member board of directors (BoD). The BoD comprises 3 nominees from Mega Conglomerate, 1 nominee each of NIT and Fauji Foundation. 1 member represent the Government of Balochistan along with 2 independent directors. Mr. Habibullah Khan is the chairman of the board. Simultaneously, he is also the Founder and Chairman of Mega Conglomerate – Mega & Forbes Group of Companies. Remaining members also hold positions on the board of different companies belonging to diverse sectors including Foods, Cement, Container Terminals and have commendable experience in fields like Investments, Law, Real Estate, Architecture, Infrastructure Project Development and Strategy. For effective oversight of the matters the board has formed two committees. (i) Board Audit Committee (ii) Board Nomination & Compensation Committee. The board and its committees conducts regular meetings throughout the year to fulfill its oversight responsibilities.

Management The Senior Management consists of professionals having experience in the relevant fields. Mr. Kamran Kamal is the CEO of the Company and has been associated with the Group for about eight years. He has experience in several different areas including strategy, wholesale electricity market reforms, electricity derivatives, energy technology evaluation and large-scale infrastructure project structuring. He is simultaneously Chairman and CEO of LEL and NEL along with CEO of HPHL and HPSL. Hub Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Business Risk Hub Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The company had signed a PPA with the government for 30 years that is valid till 2027. Hub Power has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated in 2015 to manage the O&M of the plant. 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. Hub Power has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto USD 1,383.075mln) & business interruption cover (up to USD 310mln). The total generation of the country during 9MFY23 stood at 94,121 GWh with share from Hydel (28.6%), Thermal (46.2%), Nuclear (21.0%) and Renewable (4.2%). The electricity demand is catered through cheaper sources including Renewables, Hydel, Gas and Thar Coal based projects. The remaining demand is met through costly alternatives including RFO and RLNG based plants. During FY23, the HUB plant generated Net Electrical Output of 205GWh (FY22: 1,229GWh) with a Load Factor of 1.95%. The fall in generation represents lower demand from CPPAG as a result of governments shift to purchase electricity from other lower generation cost plants. During FY23, the plant met its performance benchmark of availability and efficiency as agreed in the PPA.

Financial Risk The total project cost of HUBCO plant was USD 1.5bln which was financed with 80% foreign debt and 20% equity injection by the sponsors. The project debt was timely repaid. HUBCO's receivables stood at PKR 58,763mln as at end Sep 2023 (June 2023 : PKR 55,083mln). IPPs in the local market suffer from payment discipline of the power purchaser. This has led to significant volatility in payment to IPPs by the power purchaser resulting in limited cash available for the IPPs to procure fuel for operations. Increased delay in payments by CPPA-G has caused HUBCO's Gross Working Capital Days to clock in at 548 days (June 2023: 501 days). The Company manages its payable days resulting in Net Working Capital Days of 287 days as of Sep 2023. (June 2023: 294 days). The company has been meeting its working capital requirements through internally generated cash and short-term borrowings including Sukuks and running finance facilities. The coverages of the company witnessed stability (FCFO/Finance Cost+CMLTB+Excess STB) : 1QFY24: 1.7x; FY23: 1.6x. The Company's FCFO for 1QFY24 stood at PKR 7,129mln (FY23: PKR 27,579mln). The finance cost relating to working capital financing is met through internal cash generation. Simultaneously, the Company's operating cashflow are further supplemented by Dividend and Income from Management Services received from subsidiaries of PKR 15,160mln during FY23. As of Sep 2023, the Company's leveraging stood at 42.1% (June 2023: 45.0%) which depicts borrowings relating to equity investments made in associates.

Instrument Rating Considerations

About The Instrument HUBCO is in a process of issuing a unsecured, privately placed short term sukuk of PKR 6bln in November 2023 to finance the Company's working capital requirements. The Privately Placed Short Term Sukuk, having a tenor of six months, carries a profit rate of 6M KIBOR + 0.25%. The Interest and principal will be paid in bullet at the time of maturity.

Relative Seniority/Subordination Of Instrument The claims of the PPSTS Certificate holders will rank superior to the claims of ordinary shareholders.

Credit Enhancement The instrument is unsecured.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

The Hub Power Company Limited Power	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	6,315	6,775	8,325	10,285
2 Investments	-	-	-	-
3 Related Party Exposure	73,475	73,670	67,992	62,395
4 Current Assets	75,761	71,378	77,692	87,328
<i>a Inventories</i>	2,272	2,253	1,831	2,806
<i>b Trade Receivables</i>	58,763	55,084	62,919	72,206
5 Total Assets	155,551	151,823	154,008	160,007
6 Current Liabilities	42,260	40,025	34,312	42,722
<i>a Trade Payables</i>	28,887	27,529	22,743	34,496
7 Borrowings	47,695	50,342	58,208	62,360
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	65,596	61,455	61,488	54,924
11 Shareholders' Equity	65,596	61,455	61,488	54,924
B INCOME STATEMENT				
1 Sales	9,847	44,516	62,544	32,292
<i>a Cost of Good Sold</i>	(2,894)	(18,875)	(39,140)	(11,897)
2 Gross Profit	6,953	25,641	23,404	20,395
<i>a Operating Expenses</i>	(195)	(767)	(559)	(789)
3 Operating Profit	6,758	24,874	22,845	19,606
<i>a Non Operating Income or (Expense)</i>	87	15,926	6,429	8,741
4 Profit or (Loss) before Interest and Tax	6,845	40,800	29,275	28,347
<i>a Total Finance Cost</i>	(2,792)	(8,680)	(6,552)	(5,772)
<i>b Taxation</i>	(6)	(1,178)	(1,594)	(1,141)
6 Net Income Or (Loss)	4,047	30,942	21,128	21,434
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	7,129	27,579	28,330	24,738
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	4,319	19,894	22,546	19,298
<i>c Changes in Working Capital</i>	(2,064)	11,744	(1,531)	(12,117)
1 Net Cash provided by Operating Activities	2,255	31,638	21,015	7,181
2 Net Cash (Used in) or Available From Investing Activities	164	8,097	(1,889)	4,223
3 Net Cash (Used in) or Available From Financing Activities	(2,680)	(39,096)	(19,038)	(11,614)
4 Net Cash generated or (Used) during the period	(261)	639	88	(211)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-11.5%	-28.8%	93.7%	N/A
<i>b Gross Profit Margin</i>	70.6%	57.6%	37.4%	63.2%
<i>c Net Profit Margin</i>	41.1%	69.5%	33.8%	66.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	51.4%	88.3%	42.8%	39.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	25.0%	50.0%	33.7%	39.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	548	501	408	848
<i>b Net Working Capital (Average Days)</i>	287	294	241	458
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.8	1.8	2.3	2.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.7	3.4	4.7	4.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.7	1.6	1.8	2.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.1	1.2	1.4	1.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	42.1%	45.0%	48.6%	53.2%
<i>b Interest or Markup Payable (Days)</i>	39.7	58.3	51.5	43.4
<i>c Entity Average Borrowing Rate</i>	20.8%	15.2%	10.1%	8.5%

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+	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	
BBB-	
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	
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	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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.

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Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Book Value of Assets (PKR mln)	Nature of Assets	Lead Advisor
Privately Placed Short Term Sukuk (PPSTS)	PKR 6,000mln	6 months	Unsecured	N/A	N/A	The Bank of Punjab

Name of Issuer	The Hub Power Company Limited
Issue Date	Nov-23
Maturity	May-24
Profit Rate	6M KIBOR + 0.25%

The Hub Power Company Limited | PPSTS | PKR 6bln | TBI

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate 6MK + 0.25%	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR (mln)						
	Issue Date	Nov-23	6,000		-	-	-	6,000
1	May-24	6,000	21.92%	22.17%	697.00	6,000	6,697	-
					697	6,000	6,697	