



The Pakistan Credit Rating Agency Limited

## Rating Report

### China Power Hub Generation Company (Pvt.) 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
07-Jan-2020	AA	A1+	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

State Power Investment Corporation (SPIC), one of the top Five State-owned Power Corporations in China along with Hub Power Company of Pakistan, has set up a coal based 1320MW power plant (Complex) - China Power Hub Generation Company Private Limited (CPHGC). The financial strength and experience in the energy chain of the sponsoring companies – CPHI and HUBCO – is positive to the ratings. The rating incorporates the strong business profile (guaranteed 50% offtake under PPA), timely commissioning of the plant, achieved on 17th August 2019 within the approved tariff limit and commencement of billing/receipts mechanism. Meanwhile, the Implementation Agreement provides sovereign guarantee, given adherence to agreed performance benchmarks. The lenders benefit from ‘Overseas Instrument (Debt) Policy’ issued by Sinosure specifying the lenders as ‘insured’ under the policy. Dedicated jetty at plant site and Coal Supply Agreement (CSA) with reputable international coal suppliers ensure the stable performance of the project. Two years O&M contract has been outsourced to the consortium contractors i.e. China Energy Engineering Group. Comfort is drawn from the experience of these contractors and the involvement of Pakistan and Chinese governments, as this project is a priority project under CPEC. Company’s both units were successfully connected to and are providing electricity to the grid. The company has successfully provided 153GWh of electricity to the grid from COD to end-Oct 2019. DSRA will be fully funded through tariff and capacity payments may be diverted to DSRA account, if required to make balance equivalent to debt servicing due for the upcoming six months. The leverage is sizeable and will gradually decline along with the life of the project.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels, 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. External factors, if any, leading to weakening of financial profile may impact negatively.

#### Disclosure

<b>Name of Rated Entity</b>	China Power Hub Generation Company (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   IPP(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   Power(Jan-19)
<b>Rating Analysts</b>	Arsalan Ahmed   arsalan.ahmed@pacra.com   +92-42-35869504

## The Pakistan Credit Rating Agency Limited

### Profile

**Plant** 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.

**Tariff** CPHGC has been provided a reference leveled tariff of 8.3601 US¢ per KWh. Tariff control period is 30 Years from the COD. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate and US and Pakistan CPI inflation. Principal and interest repayments, ROE, Insurance, 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.

**Return On Project** 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

**Ownership Structure** 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.

**Stability** Company's association with State Power Investment Corporation (SPIC), one of the top Five State-owned Power Corporations in China and HUBCO provide comfort.

**Business Acumen** 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.

**Financial Strength** HUBCO has strong financial position. While, total assets of CPIH is about USD 18.45bln. Hence, the financial strength of the sponsors is considered strong.

### Governance

**Board Structure** 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.

**Members' Profile** Mr. Huang Yuntao 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.

**Board Effectiveness** During FY19, CPHGC's board held 8 meetings to address the strategic decision of company. Attendance in the meeting is satisfactory.

**Financial Transparency** Deloitte Yousuf Adil Chartered Accountants, Member of Deloitte Touche Tohmatsu Limited are the external auditor of the company. The auditor has given an unqualified opinion on CY18 financial statements.

### Management

**Organizational Structure** 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 EPC and O&M Contractors through renowned foreign independent engineer / technical advisor.

**Management Team** The management team is led Mr. Zhao Yonggang, CEO. Mr. Yonggang is associated with CPHGC during 2015. The entire operational set-up of the company falls under the purview of CEO, with each department head directly reporting to him.

**Effectiveness** The management of CPHGC is mostly engaged in the finance and company management related activities. The main operations and maintenance of the plant & jetty have been outsourced to the consortium of O&M contractors i.e. China Energy Engineering Group.

**Control Environment** The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator. Moreover, the company has inhouse internal audit department to monitor the risk arises from the operations.

### Operational Risk

**Power Purchase Agreement** The electricity generated will be sold to Central Power Purchasing Agency (Guarantee) Limited ("CPPA-G") under a 30-year Power Purchase Agreement (PPA). As per the terms of the PPA, power purchaser guaranteed 50% offtake of electricity from CPHGC.

**Operation And Maintenance** The operations and maintenance of the plant and jetty have been outsourced to the consortium of O&M contractors i.e. China Energy Engineering Group for a period of 2 years. 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.

**Resource Risk** 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.

**Insurance Cover** CPHGC has adequate insurance coverage for business interruptions, property damages etc. as per PPA and lenders facility agreements.

### Performance Risk

**Industry Dynamics** Pakistan has total coal reserves of 186bln tones. Pakistan total power generation is increasing on the back of new power projects under CPEC. During 9MFY19, installed capacity of electricity reached 34,282 MW, which was 33,433 MW in SPLY, thus posting a growth of 2.5%. In 2017 first coal-based power plant had come online in Sahiwal.

**Generation** The company achieved COD on 17th August, 2019. The electricity generation stood at 152.93 GWh from COD till October 2019.

**Performance Benchmark** The required availability for China Power Hub Generation Company Limited under the PPA is 85%. Meanwhile, the required efficiency of the plant is 39%. The company's required availability and efficiency remained above the required benchmark.

### Financial Risk

**Financing Structure Analysis** 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 20 semi-annual installments commencing from April 2020.

**Liquidity Profile** 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.

**Working Capital Financing** Company has procured interchangeable working capital lines of PKR 35.1bln (USD 250mln) led by the foreign banks' consortium and local bank. Short-term borrowing utilization stood at PKR 10bln (28.5%) during 9MCY19, having an ample cushion available.

**Cash Flow Analysis** During 9MCY19, free cash flows from operations (FCFO) stood at PKR 5,636mln (CY18: PKR -1,410mln). It is pertinent to mention here that with only 3 months of operations, interest and debt coverage ratio stood at 3.9x and 1.5x respectively, reflecting company's strong ability to pay its financial obligations. CPHGC will meet its debt repayment at 67% of availability, which translates to 3.5 GWh of electricity during (8 months).

**Capitalization** The debt to equity ratio stood at 73% at end-sept19.



The Pakistan Credit Rating Agency Limited

China Power Hub Generation Company (Private) Limited		PKR mln'		
BALANCE SHEET		30-Sep-19	31-Dec-18	31-Dec-17
		9MCY19	CY18	CY17
<b>Non-Current Assets</b>		224,693	181,094	62,129
Investments (Others)		-	-	-
<b>Current Assets</b>		42,980	19,912	5,223
Inventory		5,740	-	-
Trade Receivables		17,864	-	-
Other Current Assets		12,225	8,402	2,447
Cash & Bank Balances		7,151	11,510	2,776
<b>Total Assets</b>		<b>267,673</b>	<b>201,007</b>	<b>67,353</b>
<b>Debt</b>				
Short-term		10,000	-	58,521
Long-term (Incl. Current Maturity of long-term debt)		151,007	133,185	-
Other Short term liabilities (inclusive of trade payables)		45,450	28,216	4,181
Other Long term Liabilities		-	-	-
<b>Shareholder's Equity</b>		<b>61,216</b>	<b>39,606</b>	<b>4,651</b>
<b>Total Liabilities &amp; Equity</b>		<b>267,673</b>	<b>201,007</b>	<b>67,353</b>
<b>INCOME STATEMENT</b>				
<b>Turnover</b>		12,050	-	-
Gross Profit		5,437	-	-
Other Income		235	31	6
Financial Charges		(1,432)	-	-
<b>Net Income</b>		<b>2,773</b>	<b>(1,411)</b>	<b>(739)</b>
<b>Cashflow Statement</b>				
Free Cashflow from Operations (FCFO)		5,636	(1,410)	(700)
Net Cash changes in Working Capital		(24,133)	(1,390)	(4,561)
Net Cash from Operating Activities		(18,722)	(2,801)	(5,261)
Net Cash from Investing Activities		(14,128)	(72,482)	(49,087)
Net Cash from Financing Activities		18,530	84,017	55,762
Net Cash generated during the period		(14,359)	8,734	1,414
<b>Ratio Analysis</b>				
<b>Performance</b>				
Turnover Growth		n/a	n/a	n/a
Gross Margin		45.1%	n/a	n/a
Net Margin		23.0%	n/a	n/a
ROE		6.0%	n/a	n/a
<b>Coverages</b>				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)		1.5	n/a	n/a
Interest Coverage (X) (FCFO/Gross Interest)		3.9	n/a	n/a
FCFO Pre-WC/Gross interest+CMLTD		1.5	n/a	n/a
<b>Liquidity</b>				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term)		-1.0	n.a.	-0.1
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)		-138.2	n/a	n/a
<b>Capital Structure (Total Debt/Total Debt+Equity)</b>		<b>72.5%</b>	<b>77.1%</b>	<b>92.6%</b>

China Power Hub Generation Company (Private) Limited

Dec-19

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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.

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