



The Pakistan Credit Rating Agency Limited

## Rating Report

### Hub Power Holdings Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-May-2024	AA	A1+	Stable	Maintain	-
19-May-2023	AA	A1+	Stable	Maintain	-
20-May-2022	AA	A1+	Stable	Maintain	-
21-May-2021	AA	A1+	Stable	Maintain	-
29-May-2020	AA	A1+	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the Hub Power Holdings Ltd.'s ('the Company') holdco structure, a wholly owned subsidiary of The Hub Power Company Limited (HUBCO), very strong player in Pakistan's energy sector with installed capacity of 3,581MWs, contributing ~17% among total IPPs in terms of capacity generation. HUBCO has other significant power projects under its umbrella, such as Narowal Energy Limited, Laraib Energy Limited, China Power Hub Generation Company, Thar Energy Limited, and ThalNova Power Thar Limited. Hub Power Holdings holds the strategic investment in China Power Hub Generation Co. (Pvt.) Ltd. ('China Power') (~47.5%) and ThalNova Power Thar (Pvt.) Ltd ('ThalNova') (~38.3%). Apart from this, the Company has also entered into a JV agreement (50:50) with Prime International Oil & Gas Co. Ltd. ('Prime International') and acquired all the upstream operations renewable energy assets owned by ENI in Pakistan. The Company also has acquired China Power Hub Operating Co. (Pvt.) Ltd. ('China Power Hub') through a JV agreement with a ~49% stake to operate and maintain China Power's plant. The strategic investments in the associates and joint ventures enable the Company to receive profits. The business risk of the Company derives solely from profit sharing from its associates & joint ventures. During 6MFY24, the Company received major share of profit from its associate i.e. China Power Hub Generation Company (Private) Limited and ThalNova Power Thar (Private) Limited amounting to ~PKR 18.79bln (6MFY23: ~PKR 13.11bln) and ~PKR 2.3bln (6MFY23: ~PKR 32mln). The Company also received a profit of ~PKR 1.56bln from its JV Prime International Oil and Gas Company Limited but received a loss of ~PKR 104mln (6MFY23: Loss of ~PKR 73mln) from China Power Hub operating Company during 6MFY24. As a result during 6MFY24, Hub Power Holdings Ltd's share of profit from associates and joint ventures has increased by ~73% and clocked in at ~PKR 22.57bln (6MFY23: ~PKR 13.07bln). The Company also received dividends from China Power Hub Generation Co. (Pvt.) Ltd. amounting to ~PKR 9.2bln. The Company's other associate ThalNova also achieved its COD in Feb-23 and generated 1,009GWh with a load factor of 76% during 6MFY24. The Company achieved a bottom line of ~PKR 15.27bln during 6MFY24, compared to ~PKR 8.62bln in 6MFY23 due to an increase in share of profits from its associates & JV's. The Company has also issued a PPSTS amounting to PKR 6bln for its working capital requirements. While having low leverage, the Company has room to borrow. Moreover, the demonstrated support of sponsors and their strong acumen of power sector dynamics benefit the ratings.

The ratings depend on timely materialization of projected timelines and generating cashflows. Consolidation of investments at holding company level and formalizing a strong and effective mechanism for monitoring performance will be critical, going forward. Maintaining strong financial profile and creating liquidity cushion remains important. Change in the government policy for payment mechanism of power projects, along with any significant delay in envisaged cashflows due to the current power sector dynamics/constraints would impact ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Hub Power Holdings Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23),Methodology   Holding Company Rating(Jul-23)
<b>Related Research</b>	Sector Study   Holding Company(Aug-23)
<b>Rating Analysts</b>	Muhammad Atif Chaudhry   Atif.Chaudhry@pacra.com   +92-42-35869504



## Profile

**Background** Hub Power Holding Limited (“Hub Power Holding” or “the Company”), is incorporated as a public unlisted Company under the repealed Companies ordinance of 1984. The Company is a wholly owned subsidiary of The Hub Power Company Limited (‘HUBCO’), an established name in the energy sector. The Company operates under a holdco structure with sizeable holding in two coal-fired power generation plants: China Power Hub Generation Company Limited (“China Power Hub”) - 47.5% shareholding and ThalNova Power Thar (Pvt.) Limited (“ThalNova Power”) -38.3% shareholding.

**Structural Analysis** The principal activity of the Company is to invest in new business opportunities. China Power Hub has a combined generation capacity of 1320MW with an ancillary jetty at Hub, Baluchistan . ThalNova Power’s mine-mouth coal fired power plant, having a generation capacity of 330MW, is located at Thar Block II, Sindh. The Company has also entered into a N agreement with EBO Group (Employees of ENI Pakistan) and acquired 50% stake in Prime International Oil & Gas Company Ltd. Lately, the Company has also incorporated China Power Hub Operating Company (Pvt.) Limited (‘CPHO’) through N agreement to maintain and operate China Power Hub’s plant.

## Ownership

**Ownership Structure** Hub Power Holding is the wholly owned by HUBCO. Major shareholding of HUBCO resides with Mega Conglomerate (19.5%), while the other major shareholding of HUBCO resides with Modarabas and Mutual Funds (9.09%), Financial Institutions (12.77%), Associated Companies (20.36%) and Insurance companies (5.61%) and individuals (28.22%).

**Stability** Being a wholly owned subsidiary of HUBCO , ownership of the Company is stable. Moreover, parent company’s association with very strong conglomerates of Pakistan (Mega Group) ensure stability of the ownership structure.

**Business Acumen** Sponsors have significant experience development and operation of power projects, including coal-fired, hydro, natural gas, and various of renewable energy 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** Hub Power Holdings’ parent company, HUBCO has proven track record of raising capital (debt and equity) in Pakistan. As at FY23, HUBCO had a consolidated asset base of ~ PKR 405bln, supported by an equity of PKR ~12bln. HUBCO posted a net profit of PKR ~62bln during FY23

## Governance

**Board Structure** The Company’s Board comprises four members, including the CEO. All three Non-Executive Directors are nominated by HUBCO. The Company’s governance structure lacks independent oversight and gender diversity.

**Members’ Profile** Mr. Aly Khan, who is also on the Board of Hub Power Company, heads the Company’s Board as the Chairman. All Board members have strong professional profile along with diversified experience.

**Board Effectiveness** During FY23, the Board met four times. It lacks presence of sub-committees. However, new investment decisions and performance review of existing investments are made by HUBCO’s Board. Key challenges are identified and way forward is proposed. Outcome of each onshore and offshore projects pursued/considered are discussed and proposed road map is identified.

**Transparency** The Company’s external auditors, A.F. Ferguson Chartered Accountants, expressed an unqualified opinion on the annual financial statements of FY23.

## Management

**Organizational Structure** Structure The Company operates through three functions: HR, New Ventures and Finance. Each function is monitored by the respective director or head of department, who reports to the CEO.

**Management Team** Mr. Kamran Kamal, CEO, is an energy technology and policy specialist. He is accompanied by a team of experienced individuals. Mr. Muhammad Saqib, CFO, has an overall experience of 26 years.

**Management Effectiveness** Strategic decisions are made and monitored by HUBCO. There, detailed processes are in place for investment decision making and monitoring performance of underlying investments.

**Control Environment** Internal audit function is placed at HUBCO and plays a significant role in empowering the organization. Certain functions are centralized to ensure effectiveness and leverage synergies.

## Investment Strategy

**Investment Decision-Making** Making Hub Power Holding is an investment vehicle of HUBCO. Investment opportunities are evaluated by HUBCO’s Board that aims to expand generation capacity to boost the country’s power generation by utilizing indigenous natural resources.

**Investment Policy** Hub Power Holdings has a policy to invest in business opportunities to maximize shareholders wealth. The current investments are mainly in the power sector for which guaranteed returns are received in the form of capacity payments. Furthermore, during the life of project operations, adjustments/indexations for local inflation, foreign inflation, exchange rate variations, and interest rate variations are made on quarterly basis.

**Investment Committee Effectiveness** Strategic decisions are made and monitored by HUBCO. HUBCO 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.

## Business Risk

**Diversification** Diversity in Hub Power Holding’s portfolio can be assessed through Asset and Sectoral Concentration. The Company has three long term investments - China Power, ThalNova Power and Prime International Oil & Gas – on its balance sheet. All three investments are booked at equity method on the Company’s balance sheet. As at Dec-23, out of the total long-term investment portfolio value, Associates including China Power hub Generation (Private) Limited and ThalNova Power Thar (Private) Limited accounts for 94%. Whereas out of investments , Joint Ventures including China Power Hub Operating Company (Private) Limited and Prime International Oil and Gas Company Limited accounts 6% of the total Ling term investments.

**Portfolio Assessment** The Company has invested in four associated companies comprising of 3 private limited companies and I public unlisted company. During CY23, turnover stood at PKR 165bln, resulting in PKR 73bln as net profit. ThalNova Power’s, I x 330 MW mine-mouth coal fired power plant has achieved COD in Feb-23 and has also signed PPA with CPPAG. Prime International signed a Sale and Purchase Agreement to acquire all the upstream operations and renewable energy assets owned by ENI in Pakistan. Moreover, the Company, lately, also executed an agreement for the incorporation of CPHO to provide services to China Power Hub.

**Income Assessment** The Company’s topline is supported by share of profit from its investment in China Power (CY23: PKR 18bln, CY22: PKR 13bln), as the insurance company has principally agreed to the settlement of USD 65mln (PKR 13,831mln) to the damages and business loss caused due to tripping of power plant in Jul-21.

## Financial Risk

**Coverages** Despite receiving dividend payment from its associate, the Company is experiencing stressed coverages -0.5x at 6MFY24 (6MFY23: 0.2x) on the back of higher finance cost and consequently low Total Operating Cash Flows (6MFY24: PKR-731mln, 6MFY23: PKR 94mln). Although, the coverages remain stressed; Projected payments in the form of dividends and interest income are anticipated to ensure that coverage ratios remain robust.

**Capital Structure** The Company has conservative capital structure with low leveraging ratio (6MFY24: ~6.5%, 6MFY23:13.5%) supported by equity base of PKR 100bln as at 6MFY24 (6MFY23: PKR ~67bln). Currently, the Company has total long-term debt of PKR 6.9bln (6MFY23: PKR 10.4bln) comprising the issuance of a privately placed sukuk, syndicated term finance facility.

**Consolidated Position** The Company derives financial strength from its main holding company, HUBCO and associated companies.



The Pakistan Credit Rating Agency Limited

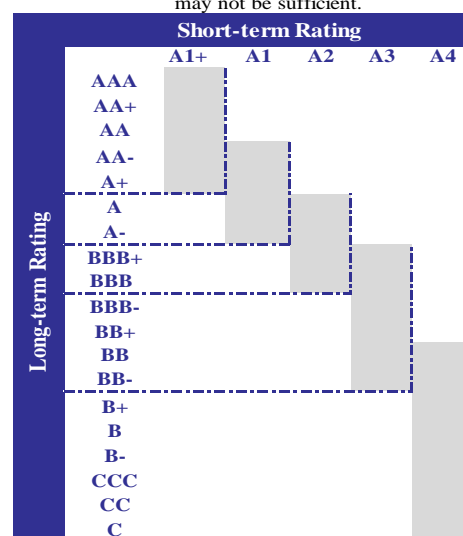
Hub Power Holdings Limited Holding Company	Dec-23	Jun-23	Jun-22	Jun-21
	6M	12M	12M	12M
	Management	Audited	Audited	Audited
<b>A BALANCE SHEET</b>				
1 Investments	-	-	-	-
2 Related Party Investments	131,477	117,502	78,358	67,770
3 Non-Current Assets	11	16	28	44
4 Current Assets	2,670	49	2,533	2,702
5 Total Assets	134,158	117,567	80,919	70,516
6 Current Liabilities	4,040	3,646	2,479	2,069
7 Borrowings	6,971	7,332	7,735	7,575
8 Related Party Exposure	-	3,846	1,489	-
9 Non-Current Liabilities	23,116	17,916	10,849	7,053
10 Net Assets	100,030	84,828	58,368	53,820
11 Shareholders' Equity	100,030	84,828	58,368	53,820
<b>B INCOME STATEMENT</b>				
1 Total Investment Income	22,592	34,508	9,446	15,671
a Cost of Investments	(1,351)	(1,919)	(966)	(589)
2 Net Investment Income	21,241	32,589	8,480	15,082
a Other Income	-	-	-	-
b Operating Expenses	(57)	(59)	(94)	(206)
4 Profit or (Loss) before Interest and Tax	21,184	32,530	8,386	14,875
a Taxation	(5,914)	(6,839)	(3,828)	(3,909)
6 Net Income Or (Loss)	15,270	25,691	4,558	10,967
<b>C CASH FLOW STATEMENT</b>				
a Total Cash Flow	(731)	143	102	(216)
b Net Cash from Operating Activities before Working Capital Changes	(2,267)	(1,301)	(146)	(315)
c Changes in Working Capital	(2,621)	3	(77)	(21)
1 Net Cash provided by Operating Activities	(4,888)	(1,299)	(224)	(336)
2 Net Cash (Used in) or Available From Investing Activities	9,124	(470)	(1,068)	(281)
3 Net increase (decrease) in long term borrowings	(375)	(637)	(399)	4,763
4 Net Cash (Used in) or Available From Financing Activities	(4,221)	1,720	1,090	864
5 Net Cash generated or (Used) during the period	16	(49)	(201)	246
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	84.5%	85.9%	91.5%	91.9%
b Core Investments / Market Value of Equity Investments	0.0%	0.0%	0.0%	0.0%
c Marketable Investments / Total Investments at Market Value	0.0%	0.0%	0.0%	0.0%
2 Coverages				
a TCF / Finance Cost	-0.5	0.1	0.1	-0.4
b TCF / Finance Cost + CMLTB	-0.2	0.0	0.1	-0.2
c Loan to Value (Funding / Market Value of Equity Investments )	0.1	0.1	0.1	0.1
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	6.5%	11.6%	13.6%	12.3%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	7.0%	13.2%	15.8%	14.1%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	
BB	<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.
BB-	
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-	
CCC	
CC	<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.
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.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) 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.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**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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(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)

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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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(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)

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(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 | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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