



The Pakistan Credit Rating Agency Limited

Rating Report

Hub Power Holdings Limited | Sukuk

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Aug-2020	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating reflects Hub Power Holding Limited's ('Hub Power Holding' or 'the Company') holdco structure with focus on expanding energy generation capacity through indigenous resources. The Company is a wholly owned subsidiary of The Hub Power Company Limited (HUBCO), very strong player in Pakistan's energy sector with a generation capacity of 1,292MWs. The Company has invested in China Hub Power Generation Co. (Pvt.) Ltd. (46%) and ThalNova Power Thar (Pvt.) Ltd. (38.3%), funded through a combination of equity and debt, as per sector's norm. However, the debt was raised at the group level and the Company's capital structure remains equity financed. China Hub Power achieved CoD in Aug-19 and has started receiving generation payments. ThalNova Power is yet to achieve financial close and is expected to achieve CoD in FY22. The Company has a strong financial profile with majority of its commitments as holdco already met for existing portfolio. Going forward, the Company intends to settle Group level debt by issuing a Sukuk of PKR 6bln. It will be fully guaranteed, with a step in right, by HUBCO. The management has projected sizable dividends from China Hub Power. Profit and principle repayments are aligned with these inflows with sufficient cushion in initial years. Materialization of the same is crucial. These can be impacted by surging receivables due to circular debt and recent government intervention where payment mechanism of power projects is being reviewed. Investment decisions and performance evaluations are undertaken at HUBCO's level, where robust mechanism and governance framework is in place. The same is still evolving at the Company level. The rating take comfort from demonstrated support of sponsors and their strong acumen.

The rating depends on timely materialization of projected cashflows and strictly following agreed parameters for the instrument. Consolidation of investments at holdco level and formalizing effective mechanism for monitoring investment performance will be critical, going forward. Maintaining strong financial profile and creating liquidity cushion remains important. Any significant delay in envisaged cashflows due to prevailing power sector constraints would impact rating negatively.

Disclosure

Name of Rated Entity	Hub Power Holdings Limited Sukuk
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),PACRA_Methodology_Holding Company_FY19(Jun-19),PACRA_Methodology_Debt Instrument_FY19(Jun-19),Methodology Sukuk(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Holding Company(Aug-19)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure Hub Power Holding Limited ("Hub Power Holding" or "the Company") is a public unlisted Company formed under the repealed Companies ordinance of 1984.

Background Hub Power Holding is a wholly owned subsidiary of the Hub Power Company Limited ("HUBCO"), an established name in the energy sectors. 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") ~ 46% and ThalNova Power Thar (Pvt.) Limited ("ThalNova Power") ~38.3%.

Operations The principal activity of the Company is to invest in new business opportunities. Strategic investments in two associated companies stood at PKR 45.3bln (as at Mar-20). China Power became commercially operational in Aug-19 and 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 under construction at Thar Block II, Sindh.

Ownership

Ownership Structure Hub Power Holding is a wholly owned subsidiary of HUBCO. Major shareholding of HUBCO resides with Mega Conglomerate (19.5%), while the remaining shares are held by Modarbas and Mutual Funds (13.5%), Allied Bank (9%), Fauji Foundation (8.5%) and Insurance companies (6.8%).

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 and Fauji Foundation) provides comfort.

Business Acumen Sponsors have significant experience in developing and operating power projects including thermal, coal-fired, hydro, natural gas, and renewable energy projects. Sponsors intend to focus on expanding power generation capacity by utilising indigenous resources especially mine-mouth coal projects in Thar.

Financial Strength Hub Power Holding's parent company, HUBCO has proven track record of raising capital (debt and equity) in Pakistan. In FY19, HUBCO had a consolidated asset base of over ~ PKR 225bln, supported by an equity of ~ PKR 57bln. HUBCO generated a consolidated top-line of over PKR 58bln and posted a profit of PKR 12bln in FY19.

Governance

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

Members' Profile Board's Chairman, Mr. Khalid Mansoor has an experience of over 38 years in energy and petrochemical sectors in developing, executing, managing and operating large scale projects. Currently, he is the CEO of HUBCO and Chairman of Laraib Energy Ltd., Narowal Energy Ltd. and Hub Power Services Ltd. He is also on the Board of Thar Energy Ltd. All Board members have strong professional profile along with diversified experience.

Board Effectiveness During FY19, the Board met five 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.

Financial Transparency Hub Power Holding's external auditors, A.F. Ferguson Chartered Accountants, has expressed an unqualified opinion on the annual financial statements of FY19.

Management

Organizational Structure Hub Power Holding is headed by the CEO. 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 Hub Power Holding's CEO, Mr. Ruhail Muhammad is a seasoned professional with over 30 years of experience in finance and commercial sector. Mr. Abdul Nasir, CFO, has an overall experience of 27 years and has been associated with the group for 25 years.

Effectiveness Strategic decisions are made and monitored by HUBCO. There, detailed processes are in place for investment decision making and monitor investments.

MIS For monitoring investments, plant generation and other operations, an efficient MIS reporting system is placed at HUBCO. It generates real-time plant production data for efficient monitoring and timely decision making.

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.

Business Risk

Industry Dynamics Holding companies are an emerging phenomena in Pakistan. Some operating companies that held strategic investments for the purpose of diversification and growth eventually de-merged from their operations and structured into holding companies to concentrate their investments for the purpose of business growth.

Relative Position The Company has invested in two coal fired power plants; China Power ~ PKR 40bln and ThalNova Power ~ PKR 8bln. Pakistan's total power generation capacity from coal-fired plants is 4,520 MW. China Power, commercially operational power plant, has a generation capacity of 1320MW, translating into market share of 29%.

Revenues The Company's top-line comprises dividends/interest income received from strategic investments in power sector. It's supported by share of profits from associates, mainly from China Power. On standalone basis, the Company did not receive any dividends in 9MFY20. China Power became commercially operational in Aug-19. It produced 1,629 GWh electricity during 9MFY20 and raised billing of PKR 19.8bln to CPPA. China Power is expected to give PKR 6bln as dividends in FY21. ThalNova Power is yet to achieve financial close. The main contractor, CMEC, declared force majeure in Jan-20 due to COVID-19 outbreak. The management applied and has received extension in LOS till Oct-20. The project is now expected to become commercially operational in FY22.

Margins The Company's cost structure mainly consists of managerial remuneration and certain shared expenses with HUBCO. During 9MFY20, finance costs increased to PKR 191mln (FY19: PKR 75mln) owing to loan obtained to fund equity injection in ThalNova Power. Bottom-line closed at PKR 7.6bln in 9MFY20 (FY19: PKR 3.9bln).

Sustainability Going forward, HUBCO plans to invest in mining, refining & processing, oil and gas (E&P), coal gasification, infrastructure and downstream energy sectors. It can utilize in house technical engineering base for setting up stable footing in these sectors. Power sector investments of HUBCO are expected to be consolidated under Hub Power Holding.

Financial Risk

Working Capital The Company has minimal working capital requirements, being a holdco. A short-term loan could be an interim arrangement until long-term financing is arranged since this creates a mismatch. The management does not intend to borrow short-term loans. Power companies utilize short-term loans to finance receivables mainly emanating from delayed payments from CPPA. China Power manages these on its own.

Coverages The Company is experiencing stressed coverage (9MFY20: -0.9x) as it has yet to receive dividends. The Company obtained a long-term loan to fulfill its equity requirement for ThalNova Power. These funds are placed with financial institutions. Liquid nature and accompanying interest income supplement coverages. As projected repayments are aligned with dividends, coverages are expected to remain robust. Materialisation of planned dividends remain critical.

Capitalization The Company has a low leveraged capital structure (9MFY20: 5%, FY19: 6%) supported by equity base of PKR 45bln in 9MFY20. Currently, the Company has a long-term debt of PKR 2bln. Going forward, the Company intends to issue a Sukuk of PKR 6bln, having a tenor of 5 years (three (3) years grace period). As per PR-6 regulation, the instrument is fully secured, with a step in right, by the Sponsor (HUBCO). The instrument will provide discounted proceeds, for the first two years. The differential profit will be settled either through the issuer, incase the interest rates goes down, or through the investor, incase the interest rate goes up, at the end of the discounting period. Thereafter, repayments will be made on semi-annual basis at the rate of 6M Kibor + 250bps. This will increase the Company's leveraging, going forward.



The Pakistan Credit Rating Agency Limited

Hub Power Holding Limited

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BALANCE SHEET	30-Mar-20	31-Dec-19	30-Jun-19	30-Jun-18	30-Jun-17
Non- Current Assets	61	63	30	-	-
Investments	45,288	41,481	34,261	7,881	1,318
Current Assets	2,456	2,476	76	56	68
Total Assets	47,805	44,020	34,367	7,937	1,386
Borrowings	2,451	2,446	3,500	-	-
Other Liabilities (Excluding Borrowings)	127	60	114	43	42
Shareholder's Equity	45,227	41,514	30,753	7,894	1,344
Total Liabilities & Equity	47,805	44,020	34,367	7,937	1,386
INCOME STATEMENT					
Turnover	-	-	-	-	-
Operating Profit	(180)	(134)	(127)	-50	(27)
Other Income	8,063	4,181	(407)	-278	(171)
Financial Charges	(191)	(67)	(75)	0	(0)
Net Income	7,692	3,979	(618)	-329	(202)
Cashflow Statement					
Free Cashflow from Operations (FCFO)	(171)	(129)	(133)	-51	(31)
Net Cash from Operating Activities	(232)	(211)	(69)	-50	(32)
Net Cash from Investing Activities	(3,137)	(3,136)	(26,883)	-6859	(1,092)
Net Cash from Financing Activities	9,247	9,247	27,013	6894	1,091
Ratio Analysis					
Gross Margin	N/a	N/a	N/a	N/a	N/a
ROE	17%	10%	-2%	-4%	-15%
FCFO/Gross Interest	-0.9	-1.9	-1.8	-205.5	-153.2
LT Debt/FCFO	-13.0	-17.2	0.0	0.0	0.0
Total Debt/Total Debt+Equity	5%	6%	10%	0%	0%

Jun-20

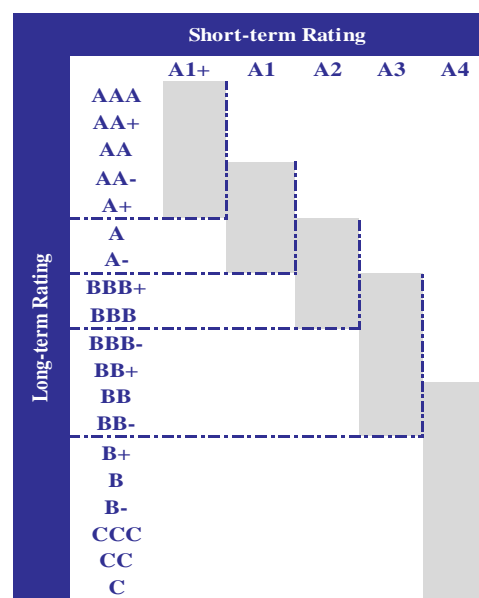
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Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt 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+	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	
AA-	
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	
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+	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	
B-	
CCC	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.
CC	
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 surveill 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 on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. 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.

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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

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Hub Power Holdings Limited Sukuk	
Placement	Unsecured, Rated, Privately Placed, Islamic Certificate ("Sukuk")
Issue size	PKR 6,000mln
Issue date	Preliminary
Maturity date	TBD
Tenor	Five (5) years starting from the date of issue with a three (3) year grace period
Profit Rate	6 months KIBOR+250bps
Principal Repayment	Semi Annual Principal Redemption shall commence from fourth (4th) year of the Issue Date in four equal principal installments of PKR 1,500mln and shall continue till the maturity of the Sukuk
Call Option	The issuer would have an option to prepay the issue amount after the expiry of discounting period with 30 days prior written irrevocable notice to the Trustee. Prepayment options will be subject to following : a) In multiples of PKR 500 mln b) not subject to prepayment penalty
Security	Ranking and subordinated charge over all present and future movable fixed assets of the Sponsor (The Hub Power Company Limited) in the amount to be decided. Ranking and subordinated floating charge over all present and future movable fixed & current assets of Hub Power Holdings Limited in the amount to be decided. Revolving Cross Corporate Guarantee ("RCCG") from the Sponsor (The Hub Power Company Limited) for all principal repayments and profit amounts Liquid Asset (cash, cash equivalent and others) in the amount of the next payment due, inclusive of both the due and payable instalment, to be held under exclusive charge. Such security will be created at least ninety (90) days prior to the Payment Date.
Latest Book Value of Security as of 10-Jun-20	TBD
Latest Market Value of Security as of 10-Jun-20	TBD
Trustee	TBD

Installment	Year	Due Date	Days	Principal	Mark Up	Total Installment	Outstanding Balance
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-----PKR In Million -----							
1	2020	10-Jun	181	-	-	-	6,000
2	2020	7-Dec	184	-	-	-	6,000
2	2021	5-Jun	181	-	-	-	6,000
3	2021	2-Dec	184	-	-	-	6,000
4	2022	30-May	181	-	273	273	6,000
5	2022	26-Nov	184	-	273	273	6,000
6	2023	25-May	181	-	273	273	6,000
7	2023	21-Nov	184	1,500	273	1,773	4,500
8	2024	20-May	181	1,500	205	1,705	3,000
9	2024	16-Nov	184	1,500	137	1,637	1,500
10	2025	15-May	181	1,500	68	1,568	-