



Rating Action

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Applicable Criteria and Related Research

- Independent Power Producer-Viewpoint | Feb-16
- IPPs Rating Methodology

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PACRA MAINTAINS ENTITY RATINGS OF HUB POWER COMPANY LIMITED

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of Hub Power Company Limited (Hubco) at **AA+** (Double A plus) and **A1+** (A one plus), respectively. These ratings denote a very low expectation of credit risk and indicate very strong capacity for timely payment of financial commitments.

Hub Power Company Limited (Hubco) is one of the largest power producers in the country. The company maintains a healthy financial profile. To further streamline the operations, the company is in process of demerging Narowal plant. Related assets and liabilities (including debt and working capital) would be transferred to the new entity. This would improve oversight and support financial discipline.

Hubco is in the process of setting up a (2x660MW) coal fired power station at its existing Hub site. This project is being developed under a joint venture with China Power International Holdings (CPIH). A separate JV company has been setup (China Power Hub Generation Company - CPHGC) to undertake this project jointly by CPIH and Hubco. Hubco's equity portion (26%) amounting to ~USD 130mln would be funded through debt and financial close is expected by end-Dec16. Although this would increase leveraging, matching repayments with project returns should help manage the pressure on financial risk profile. Meanwhile, comfort is drawn from approaching long-term debt maturity of Hubco plant (within FY16) and stable free cashflows.

The cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed upon performance benchmarks; this provides comfort to the ratings. Meanwhile, any significant increase in receivables, as a result of rising circular debt may negatively impact the ratings.

About the Company: Hubco, listed on the Pakistan Stock Exchange, was incorporated in 1991. Dawood group is the largest shareholder (16.9%). It exercises significant control through dominant presence on the Board. Other major shareholders include Allied Bank (9.7%), Fauji Foundation (8.5%), and National Bank (5%) while the rest is well dispersed.

Hubco currently operates i) an oil-fired power plant of 1,292MW at Hub site, and ii) a 225MW capacity oil-fired power plant at Narowal. Additionally, Hubco holds a 75% controlling interest in Laraib Energy Limited that operates 84MW hydel power plant. HUBCO has established a wholly owned subsidiary - Hub Power Services Limited (HPSL) - to manage the O&M. Hub plants O&M was taken over in Aug-15 while Narowal's O&M is planned to be taken over in April-16. Hubco has successfully managed to meet performance benchmarks after consistent improvement via maintenance of its plants.

The BoD comprises fifteen-members including the CEO of Hubco. Mr. Khalid Mansoor, the CEO, carries 35 years of experience in Energy & Petrochemical Sectors. He is assisted by a team of experienced professionals.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.