



The Pakistan Credit Rating Agency Limited

THE HUB POWER COMPANY LIMITED RATING REPORT

	NEW [APR-17]	PREVIOUS [APR-16]
Long-Term	AA+	AA+
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

Profile & Ownership

- The Hub Power Company Limited (Hubco) was incorporated in Pakistan on August 1, 1991 as a public limited company.
- The consolidated generation capacity has reached 1601MW subsequent to setup of 225MW power plant at Narowal, and addition of 84MW New Bong Hydro Power Project.
- The Hub plant commenced commercial operations in March 1997.
- Hubco is majorly owned by Dawood Group (16.9%) out of which the major proportion lies with DH Corporation (14.9%). Other major shareholders are ABL (9.7%), Fauji Foundation (8.5%) and NBP (5%) while the rest is dispersed among Financial Institutions, Joint Stock Companies and Individuals.

Governance

- Overall control of the company vests in the fourteen-member board of directors (BoD), including the CEO – the only executive director on the board.
- Mr. Hussain Dawood – Chairman Hubco, is also the chairman of Dawood Group. He is a well known entrepreneur and also serves as chairman of Engro Corporation Limited, Pakistan poverty alleviation fund and Dawood foundation.
- The board has formed three board committees. (i) Board audit Committee (ii) Board Investment Committee and (iii) Board Compensation Committee.
- The board provides strategic guidance to the management while giving due challenge to management decision making.

Management

- The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, Hubco has a lean organizational structure.
- Mr. Khalid Mansoor, the CEO of the company carries over 3 decades of experience in Energy & Petrochemical Sectors. He is assisted by a team of experience professionals having relevant skills and expertise.

Performance Risk

- Hubco's profitability is a function of its availability, capacity utilization and plant efficiency.
- The company's wholly owned subsidiary has taken over O&M of Hub and Narowal plant which will help the company to improve its performance and profitability.
- The company's generation of Hub plant increased whereas generation of Narowal plant decreased during FY16 due to ongoing major overhaul and maintenance work. Overall generation of the consolidated company increased (FY16: 9,254GWh; FY15: 8,716GWh).
- The company's profitability improved facet of efficiency gains and savings due to in house O&M of the plants (FY16: 11,576mln, FY15: 9,853).
- Going forward, the company is in the process of setting up two new coal power plants. These two new power plants will strengthen the company's position and double its current generation.

Financial Risk

- Continued lag of payments by NTDC led Hubco's receivables to reach PKR 87,065mln at end-Dec16 (Jun16: PKR 77,747mln; Jun15: PKR 72,683mln). Resultantly, receivable days surged upwards (6MFY17: 329days FY16: 318days).
- To bridge the working capital requirements, the company has to finance through a mix of commercial credit and short term borrowings (STB – 1HFY17: PKR 23,637mln, FY16: PKR 16,540mln).
- The coverages of the company witnessed improvement on the back of decreased finance cost. FCFO/Gross Interest + CMLTD (1HFY17: 1.9x; FY16: 2.3x).
- Despite principal repayments of long term debt, Hubco's leverage increased due to increase in short term borrowing and new capex related long term loan of Narowal plant. (Debt: equity; 1HFY17: 62% FY16: 58% FY15: 51%).

RATING RATIONALE

The Hub Power Company Limited (Hubco) is one of the largest power producers in the country contributing ~7% towards the total generation capacity of the country. Hubco aims to significantly expand its generation capacity this would give it a status of a power holdco, wherein, only Hub power plant would directly reside with it while other power plants would be managed through specific purpose, JVs/subsidiaries/associated companies. In this regard, the company has hived down its Narowal Plant into a fully owned subsidiary. The new structure while being transparent, would support financial flexibility. Hubco is in the process of setting up new coal power plants (i) 2x660MW coal fired power plant at Hub and (ii) 330MW mine-mouth coal fired power plant at Thar. Existing capacity of Hubco is expected to be doubled upon completion of these new power plants. Hub coal plants 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. Currently, Hubco has 26% stake in CPHGC. Hubco has incorporated Thar Energy Limited to undertake its 330MW open-mine mouth coal power plant in Thar. Although, currently fully owned, Hubco is in the process of having equity partners. Company's new projects will be financed in debt to equity ratio of 75:25. The company plans to finance equity portion of the project partly through internal cash-flows and by securing new debt. Although this would increase leveraging, matching repayments with project returns should help manage the pressure on financial risk profile.

KEY RATING DRIVERS

Meanwhile, comfort is drawn from Hubco's deleveraged balance sheet and relatively free stable cash flows. Cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to the agreed upon performance benchmarks; this provides comfort to the ratings. Timely completion of new projects and maintaining healthy debt service coverages post acquisition of new debt will remain critical.



The Pakistan Credit Rating Agency Limited

Financials (Summary) Independent Power Producer

The Hub Power Company Limited (Hubco)

BALANCE SHEET	31-Dec-16	30-Jun-16	30-Jun-15	PKR mln 30-Jun-14
	6M	Annual	Annual	Annual
Non-Current Assets	35,785	36,652	38,840	41,319
Investments (Others)	6,582	5,876	4,918	4,674
Current Assets	102,661	91,477	82,191	89,439
Inventory	7,587	5,023	5,580	3,988
Trade Receivables	87,065	77,747	72,683	79,897
Other Current Assets	6,412	5,428	3,444	2,878
Cash & Bank Balances	1,597	3,280	484	2,676
Total Assets	145,028	134,006	125,949	135,432
Debt	42,873	37,621	33,498	40,435
Short-term	23,637	16,540	10,963	16,878
Long-term (Incl. Current Maturity of long-term debt)	19,236	21,081	22,535	23,557
Other Short term liabilities (inclusive of trade payables)	75,579	68,806	60,816	63,952
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	26,577	27,579	31,635	31,045
Total Liabilities & Equity	145,028	134,006	125,949	135,432

INCOME STATEMENT	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
Turnover	45,652	86,415	131,484	161,807
Gross Profit	6,136	14,788	14,391	11,737
Other Operating Expense	(382)	(925)	(921)	(661)
Other Income	26	971	1,081	83
Financial Charges	(1,580)	(3,109)	(4,538)	(4,605)
Taxation	(0)	(149)	(160)	(4)
Net Income	4,200	11,576	9,853	6,549

Cashflow Statement	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
Free Cashflow from Operations (FCFO)	7,199	16,184	15,945	13,676
Net Cash changes in Working Capital	(5,129)	(85)	2,265	(24,970)
Net Cash from Operating Activities	552	12,900	13,463	(15,908)
Net Cash from Investing Activities	(1,289)	(663)	607	(330)
Net Cash from Financing Activities	(946)	(9,441)	(16,262)	1,845
Net Cash generated during the period	(1,683)	2,796	(2,192)	(14,393)

Ratio Analysis	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
Performance				
Turnover Growth	-4.7%	-34.3%	-18.7%	-2.4%
Gross Margin	13.4%	17.1%	10.9%	7.3%
Net Margin	9.2%	13.4%	7.5%	4.0%
ROE	16.5%	43.3%	30.0%	24.3%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.9	2.3	1.8	1.7
Interest Coverage (X) (FCFO/Gross Interest)	4.6	5.2	3.5	3.0
FCFO post WC / Gross Interest +CMLTD	0.6	2.3	2.1	-1.4
Liquidity				
Short Term Borrowings Coverage	0.9	1.0	1.6	1.3
Net Cash Cycle	43.8	18.3	34.8	40.1
Capital Structure (Total Debt*/Total Debt+Equity)	61.7%	57.7%	51.4%	56.6%

* Total Debt includes Short term debt utilized to meet working capital needs

The Hub Power Company Limited (Hubco)

Apr-17

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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
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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.	
BBB	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+	Moderate risk. Possibility of credit risk developing.	
BB	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+	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	Very high credit risk. Substantial credit risk	
CC	“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.	

<p>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’.</p>	<p>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.</p>	<p>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.</p>	<p>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</p>
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Name of Rated Entity
Sector
Type of Relationship

The Hub Power Company Limited
IPP
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Apr-16	AA+	A1+	Stable	Maintain
29-Jun-15	AA+	A1+	Stable	Maintain
27-Jun-14	AA+	A1+	Stable	Maintain
15-May-13	AA+	A1+	Stable	Maintain
15-May-12	AA+	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
Sector Research

IPP's Rating Methodology
Power Generation - Vivewirepoint | Mar-17

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[Rating Team Statement](#)

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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[Probability of Default \(PD\)](#)

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