

Foundation Alert

HUBC: Encashment notice of SBLC in favor of CPHGC

Event

- Hub Power Company (HUBC), as a joint venture partner and Pakistani Sponsor of CPHGC provided security in the form of a Standby Letter of Credit (SBLC) of US\$150mn in favor of CPHGC expiring on Nov'23, 2022. An encashment notice has been served today by CPHGC, under the SBLC, on the issuing bank.

Impact

- China Power Hub Generation Company (CPHGC), in which HUBC holds a 47.5% stake, served an encashment notice to the issuing bank under the SBLC of US\$150mn.
- Pursuant to the Completion Guarantee Agreement dated October 24, 2017 between the Company, China Power Holding Limited, Hub Power Holding Limited (HPHL), China Power International (Pakistan) Investment limited, CPHGC and CPHGC's lenders, the Company is required to provide a SBLC for an aggregate amount of US\$150mn to guarantee an investment in the form of equity or subordinated debt (either directly or through HPHL) to satisfy the funding shortfall, if any, in CPHGC; (a) to achieve completion of the Project to the satisfaction of the lenders; and (b) repay all principal, interest, fees or any other amounts that may fall due by CPHGC under the finance documents to the finance parties.
- HUBC issued Standby Letter of Credit (SBLC) by entering into an agreement with local banks by providing security against all present and future assets of the Company other than current assets. This SBLC expires on November 23, 2022. According to the agreement, if the SBLC is not renewed 15 days prior to the expiry, CPHGC's lenders / CPHGC shall have the right to call upon the SBLC.
- Shares held by HPHL, a wholly owned subsidiary of HUBC, in CPHGC are pledged in favor of the Security Trustee in order to secure HUBC's and HPHL's obligations under the financing documents of CPHGC.
- HUBC through its wholly-owned subsidiary, Hub Power Holdings Limited (HPHL) and its Chinese partner, China Power International Holding Limited (CPIH), through its wholly owned subsidiary China Power International (Pakistan) Investment Limited (CPIPL), formed a Joint Venture Company, China Power Hub Generation Company (Private) Limited (CPHGC) in September, 2015. The principal activities of CPHGC are to develop, own, operate and maintain a 2x660 MW coal fired power plant each within one facility along with a jetty and ancillary facilities at the Hub Plant Site in the province of Balochistan, Pakistan. HPHL owns 47.5% shares in CPHGC of which 1.5% would be transferred to Government of Balochistan, as per the Memorandum of Understanding dated December 23, 2016.

Outlook

- We await further clarity on the transaction before incorporating this in our valuation.

Analyst

Muhammad Awais Ashraf, CFA
+92 21 3561 2290-94

m.awais@fs.com.pk
Ext 338

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.