

Foundation Alert

HUBC: Withdrawal of encashment notice by CPHGC

Event

- China Power Hub Generation Company (CPHGC) withdraws encashment notice served to the issuing bank on expiry of Standby Letter of Credit in favor of Hub Power Company.

Impact

- China Power Hub Generation Company (CPHGC), in which HUBC holds a 47.5% stake, has withdrawn encashment notice from the issuing bank and the Stand by Letter of Credit has been extended on mutually agreed basis.
- On Nov 23'2022, CPHGC 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 Hub Power Company Limited (HUBC), China Power Holding Limited, Hub Power Holding Limited (HPLL), 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 HPLL) 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 HPLL, a wholly owned subsidiary of HUBC, in CPHGC are pledged in favor of the Security Trustee in order to secure HUBC's and HPLL's obligations under the financing documents of CPHGC.

Outlook

- Extension in SBLC on mutually agreed basis would dispel concerns of any cash outflow in the near term while project completion of 1320MW CPHGC would unleash true reflection of the project in company's share price, in our view.
- Establishment of competitive market would require shifting of current PPA to take and pay basis which would substantially reduce capacity payments amid lower reliance of national grid on FO based generation, in our view.
- Moreover, termination of the base plant take or pay contract even on the Present Value of reduced Capacity payments, ignoring competitive market structure and company's operating cost, would not provide upside to our valuation.

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