

Hub Power Company Limited

Result Review

PSX: HUBC Bloomberg: HUBC PA Reuters: HPWR.PSX

Pakistan Research

2QFY24 EPS clocks in at PKR 11.78, up 15% YoY, DPS PKR 4.00

- HUBC announced its 2QFY24 financial results today, wherein the company reported an EPS of PKR 11.8, up 15% YoY compared to PKR 10.3 during 2QFY23. This takes 1HFY24 EPS to PKR 25.0, up 44% YoY. Additionally, HUBC announced an interim dividend of PKR 4.0 final dividend, thus taking its 1HFY24 payout to PKR 9.0/share.
- We attribute increase in profitability to COD of ThalNova Power Thar Private Limited (TNPTL) and higher dollar indexation.
- During the quarter, Hub power base plant remained non-operational while Narowal plant produced a mere 7 GWh units (down 62.7% YoY) owing to lower generation from RFO on higher electricity generation cost. CPHGC production declined 72.7% YoY in 2QFY24 due to lower reliance on imported fuel.
- However, Laraib production increased by 17.1% in 2QFY24 due to better water flows. Moreover, TEL produced 8.6% more units during the quarter given higher ranking in merit order list due to cheaper generation cost.
- The company's finance cost went up by 46% YoY to PKR 7.0bn owing to higher interest rates during the quarter.
- Share of profit from associates increased to PKR 10.6bn as compared to PKR 10.0bn during SPLY, depicting a increase of 6% YoY. This is mainly attributable to COD of TNPTL achieved on February 17th 2023.
- Effective tax rate reduced to 15.7% during 2QFY24 as compared to 17.5% in SPLY given lower contribution of Share of Income from associate in bottom-line.
- We maintain our 'BUY' recommendation on the stock. Our Dec-24 PT of PKR 125/share provides an upside of 9% along with a dividend yield of 22%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	125
Current Price (PKR)	115
Upside/ (Downside) (%)	9%
Dividend Yield (%)	22%
Total Return (%)	31%
12-month High (PKR)	124
12-month Low (PKR)	64
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	149,043
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY23	2QFY24	YoY	1HFY23	1HFY24	YoY
Sales	25,097	29,913	19%	54,687	63,643	16%
Cost of Sales	12,234	13,162	8%	32,102	30,156	-6%
Other expenses	762	854	12%	1,074	1,350	26%
Finance cost	4,788	6,977	46%	7,124	14,046	97%
Other income	495	900	82%	907	1,219	34%
Share from associate	9,986	10,565	6%	13,078	22,600	73%
Taxation	3,115	3,203	3%	4,218	6,410	52%
Profit after tax	14,680	17,183	17%	24,155	35,501	47%
Share of NCI	1,382	1,905	38%	1,757	3,141	79%
Share of Parent	13,299	15,278	15%	22,398	32,360	44%
EPS	10.25	11.78		17.27	24.95	
DPS	5.75	4.00		21.25	9.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS	26.0	21.9	44.4	51.4	53.2	58.0
EPS Growth	29.3%	-15.5%	102.1%	16.0%	3.5%	8.9%
DPS	12.0	6.5	30.0	25.5	20.0	22.5
PER	4.6	5.5	2.7	2.3	2.3	2.1
Dividend Yield	10.0%	5.4%	25.0%	21.3%	16.7%	18.8%
EV/EBITDA	6.8	7.6	5.3	4.2	4.2	3.7
P/B	1.4	1.2	1.0	0.8	0.7	0.5
ROE	36.0%	25.2%	43.7%	40.7%	35.0%	31.9%

Source: Company Accounts, Akseer Research

Research

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Valuation Basis

Our PT for Hub Power Company Limited (HUBC) has been computed using Dividend Discount Model (DDM) method. We have used a risk-free rate of 15%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of 125/share. Our price target provides an upside of 9% along with a dividend yield of 22.2%. Our investment case on HUBC is based on (1) dividend commencement from CPHGC, (2) No delays in payment of outstanding dues (3) continuation of current tariffs on "Take or Pay" basis.

Risks

Key downside risks to our investment thesis are: 1) delay in payment of outstanding dues. 2) Less than expected devaluation in currency.

Company Description

The Hub Power Company Limited operates as an Independent Power Producer (IPP) in Pakistan. The company operates through three segments: Hub Plant, Narowal Plant and Laraib Plant. It develops, owns, operates, and maintains power stations. The company owns and operates an oil-fired power station with a net installed capacity of 1,292 MW at Hub plant located in Mouza Kund, Balochistan; and a net installed capacity of 225 MW oil-fired power station at Narowal. It also operates 84 megawatts of hydel power station at Laraib plant in Azad Kashmir. The company also holds 60% in Thar Energy, a 330MW coal-based power plant. Moreover, it has 47.5%/38.3%/50% stake in CPHGC (1,320MW)/TNPTL (330 MW) /Prime Int'l Oil & Gas Company (PIOGCL).

Financial Highlights - HUBC

Income Statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	54,639	97,158	114,263	175,393	168,453	174,473
Cost of sales	21,769	64,056	61,485	109,358	107,581	111,945
Gross Profit	32,871	33,103	52,778	66,035	60,872	62,527
SG & A	1,379	1,029	1,368	2,100	2,017	2,089
Operating Profit	31,492	32,074	51,410	63,935	58,855	60,438
Other income	796	2,124	4,095	1,211	1,275	1,344
Other charges	509	398	79	329	329	329
Finance cost	7,341	7,928	19,323	22,928	14,862	10,774
Share from associates	15,501	9,232	34,316	39,294	40,731	43,473
Profit before tax	24,438	35,105	36,102	41,889	44,939	50,680
Taxation	5,109	5,526	8,411	9,823	10,183	10,868
Profit after tax	34,830	29,579	62,007	71,360	75,487	83,285
Share of NCI	1,142	1,107	4,453	4,626	6,447	8,106
Share of Parent	33,688	28,472	57,554	66,734	69,040	75,179

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	79,004	108,670	138,977	136,759	140,784	143,606
Other LT assets	71,460	81,687	120,858	125,363	129,053	128,092
Non-current assets	150,463	190,357	259,835	262,122	269,836	271,698
Current assets	127,785	124,795	145,730	163,145	164,365	174,032
Total Assets	278,248	315,153	405,566	425,267	434,201	445,730
Non-Current liabilities	55,370	103,890	123,925	110,543	99,531	88,522
Current liabilities	113,212	85,675	123,604	121,784	96,844	72,671
Total Liabilities	168,582	189,566	247,529	232,327	196,376	161,193
Equity	109,666	125,502	158,036	192,941	237,825	284,537
Total Equity & liabilities	278,248	315,068	405,566	425,267	434,201	445,730

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net income	34,830	29,579	62,007	71,360	75,487	83,285
Non-cash Charges	3,840	4,584	4,677	4,799	4,928	5,064
Operating Cash flows	35,579	24,907	73,640	57,224	62,909	69,586
FCFF	12,374	(19,579)	(514)	50,138	50,267	62,660
Net borrowings	(3,577)	40,838	31,362	(11,314)	(17,952)	(24,206)
FCFE	8,797	21,259	30,849	38,824	32,314	38,454
Net change in cash	(189)	1,094	8,111	1,555	1,711	1,882
Closing cash	6,349	7,443	15,638	17,109	18,820	20,702

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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