

Hub Power Company Limited

Key Takeaways

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

Pakistan Research

HUBC: 1HFY23 Corporate Briefing Key Takeaway

- HUBC held its analyst briefing today, wherein the management discussed its 1HFY23 financial results and status of the ongoing projects. Main points discussed during the call are presented below.
- Just to recall, HUBC posted a consolidated PAT of PKR 22.4bn (EPS of PKR 17.3) during 1HFY23, up 1.8x YoY. The growth in profitability can be credited to higher income from its associates. This increase is primarily attributed to the insurance claims received by CPHGC, which totalled USD 65mn, during the quarter.
- Moreover, the management has expressed optimism regarding the dividend income from CPHGC, which can be attributed to the plant being declared as "Project Completed" by its lender, as well as, the recent development of revolving credit account.
- The load factor for the HUB main plant during the first half of the fiscal year 2023 was 4%. Meanwhile, the load factors for Narowal, Lariab, CPHGC, and TEL were reported as 24%, 43%, 22%, and 79%, respectively. The management stated that, it is anticipated that all three of the newer plants will rank higher on the power merit list.
- At present, the OM efficiency of CPHGC is zero due to overseas labour ; however, the management remains optimistic for the future.
- The management has also reported that the total receivables for HUBCO are estimated to be approximately PKR 88bn as at Dec-22 end.
- The management conveyed that they are quite positive about the Waste Water Recycling project and have had a conversation with companies in the Middle and Far east countries.
- To conclude, the management is optimistic about the future of the company and does not feel threatened by the potential removal of dollar indexation by the government.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	115
Current Price (PKR)	70
Upside/ (Downside) (%)	+ 64%
Dividend Yield (%)	36%
Total Return (%)	+ 100%
12-month High (PKR)	80
12-month Low (PKR)	57
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	90,736
Year End	June

Source: Company Accounts, Akseer 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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 115/share. Our price target provides an upside of 64% along with a dividend yield of 36%. Our investment case on HUBC is based on (1) Return components are linked to US CPI and exchange rate until the exchange rate reaches PKR/USD 168.60 for base plant. (2) No delays in payment of outstanding dues (3) Narowal plant to remain operational throughout its term and, (4) Thar energy return remains linked with exchange rate and US CPI.

Risks

Key downside risks to our investment thesis are: 1) delay in payment of outstanding dues and, 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 plant in Mouza Poong, Punjab. It also operates 84 megawatts of hydel power station at Laraib plant in Azad Kashmir.

Financial Highlights - HUBC

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	48,321	54,639	97,158	116,746	123,834	121,077
Cost of sales	17,831	21,769	64,056	76,382	75,960	75,556
Gross Profit	30,490	32,871	33,103	40,365	47,874	45,522
SG & A	1,500	1,379	1,029	1,236	1,311	1,282
Operating Profit	28,991	31,492	32,074	39,129	46,563	44,240
Other income	410	796	2,124	1,699	1,360	1,088
Other charges	181	509	398	562	723	760
Finance cost	11,905	7,341	7,928	10,109	8,000	4,505
Share from associates	13,700	15,501	9,232	19,978	26,041	29,199
Profit before tax	17,314	24,438	35,105	30,157	39,199	40,063
Taxation	3,945	5,109	5,526	7,893	10,270	10,904
Profit after tax	27,070	34,830	29,579	42,243	54,970	58,359
Share of NCI	1,017	1,142	1,107	896	4,484	6,077
Share of Parent	26,053	33,688	28,472	41,347	50,486	52,282

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	75,601	79,004	108,670	113,880	116,547	117,761
Other LT assets	55,504	71,460	81,687	87,516	93,204	97,872
Non-Current Assets	131,105	150,463	190,357	201,396	209,751	215,632
Current assets	129,284	127,785	124,795	134,256	142,826	143,582
Total Assets	260,388	278,248	315,153	335,652	352,577	359,214
Non-Current liabilities	53,714	55,370	103,890	105,591	88,155	76,115
Current liabilities	122,743	113,212	85,760	94,820	88,913	65,631
Total Liabilities	176,457	168,582	189,022	200,411	177,068	141,746
Equity	83,931	109,666	125,502	135,241	175,510	217,468
Total Equity & liabilities	260,388	278,248	315,153	335,652	352,577	359,214

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	27,070	34,830	29,579	42,243	54,970	58,359
Non-cash Charges	4,065	3,840	4,584	4,677	4,799	4,928
Operating Cash flows	25,331	35,579	24,907	33,047	50,139	67,629
FCFF	(3,541)	12,374	(19,579)	17,332	36,985	56,820
Net borrowings	(1,606)	(3,577)	40,838	9,410	(21,524)	(39,583)
FCFE	(5,146)	8,797	21,259	26,743	15,461	17,237
Net change in cash	(5,594)	(189)	551	704	760	836
Closing cash	6,537	6,349	6,899	8,232	8,364	9,200

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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