

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

**Pakistan Research**

## HUBC: 1QFY22 EPS likely to come in at PKR 6.57, up 5% YoY

- HUBC is scheduled to announce 1QFY22 financial result today wherein the IPP is expected to post an EPS of PKR 6.57, up 5% YoY. The expected increase in earnings is mainly attributable to lower finance cost. Along with the result we expect the IPP to declare an interim cash dividend of PKR 2.50/share.
- The topline in 1QFY22 is likely to grow by 55% YoY, owing to increase in power generation. During the quarter the base plant produced 524GWh units as compared to 34GWh in the same period last year. Whereas Narowal plant generated 267GWh units as compared to 226GWh units in the same quarter last year.
- Finance cost for 1QFY22 is expected to decline 7% YoY primarily owing to reduction in interest bearing liabilities.
- Share of profit from associates is likely to clock in at PKR 3.8bn (PKR 2.96/share) in 1QFY22, attributable to positive contribution from CPHGCL.
- We maintain our 'BUY' recommendation on the stock. Our revised and rolled forward Jun-22 PT of PKR 154/share provides an upside of 98% along with a dividend yield of 15.4%.

### Key Data

PSX Ticker	HUBC
Target Price (PKR)	154
Current Price (PKR)	78
Upside/ (Downside) (%)	+ 98%
Dividend Yield (%)	15.42%
Total Return (%)	+ 114%
12-month High (PKR)	93
12-month Low (PKR)	74
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	100,919
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)			
	1QFY21	1QFY22E	YoY
Sales	15,794	24,460	55%
Cost of Sales	7,655	16,585	117%
Other expenses	399	386	-3%
Finance cost	1,904	1,775	-7%
Other income	57	319	456%
Share of from associate	3,482	3,841	10%
Taxation	935	1,144	22%
<b>Profit after tax</b>	<b>8,441</b>	<b>8,730</b>	<b>3%</b>
Share of NCI	297	211	-29%
<b>Share of Parent</b>	<b>8,144</b>	<b>8,518</b>	<b>5%</b>
EPS	6.28	6.57	5%
DPS	4.00	2.50	

Source: Company Accounts, Akseer Research

Key Financial Ratios						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	8.84	19.31	25.97	24.20	24.67	28.14
EPS Growth	-8%	119%	35%	-7%	2%	14%
DPS	-	-	12.00	10.00	17.50	21.50
PER	8.8	4.0	3.0	3.2	3.2	2.8
Dividend Yield	0.0%	0.0%	15.4%	12.9%	22.5%	27.6%
EV/EBITDA	7.5	5.7	5.3	6.0	4.4	3.9
P/B	1.6	1.2	0.9	0.8	0.7	0.7
ROE	25.2%	36.9%	36.0%	27.0%	24.5%	26.0%

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 11%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of 154/share. Our price target provides an upside of 98% along with a dividend yield of 15.4%. Our investment case on HUBC is based on (1) Return components 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.

### 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 1,292MW at Hub plant located in Mouza Kund, Balochistan; and a net installed capacity of 225MW oil-fired power station at Narowal plant in Mouza Poong, Punjab. It also operates 84MW of hydel power station at Laraib plant in Azad Kashmir. The company was incorporated in 1991 and is headquartered in Karachi, Pakistan.

### Financial Highlights - HUBC

Income Statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	58,349	48,321	54,639	50,245	45,074	47,411
Cost of sales	36,640	17,831	21,769	20,824	17,550	18,422
<b>Gross Profit</b>	<b>21,709</b>	<b>30,490</b>	<b>32,871</b>	<b>29,421</b>	<b>27,524</b>	<b>28,989</b>
SG & A	1,606	1,500	1,379	1,268	1,138	1,197
<b>Operating Profit</b>	<b>20,103</b>	<b>28,991</b>	<b>31,492</b>	<b>28,153</b>	<b>26,386</b>	<b>27,793</b>
Other income	527	410	796	812	828	845
Other charges	128	181	509	276	279	315
Finance cost	7,401	11,905	7,341	7,341	5,630	2,700
Share from associates	(434)	13,700	15,501	15,624	16,396	17,254
<b>Profit before tax</b>	<b>13,101</b>	<b>17,314</b>	<b>24,438</b>	<b>36,971</b>	<b>21,305</b>	<b>25,623</b>
Taxation	517	3,945	5,109	4,729	4,822	5,484
<b>Profit after tax</b>	<b>12,151</b>	<b>27,070</b>	<b>34,830</b>	<b>32,242</b>	<b>32,879</b>	<b>37,393</b>
Share of NCI	689	1,017	1,142	846	872	887
<b>Share of Parent</b>	<b>11,461</b>	<b>25,044</b>	<b>33,688</b>	<b>31,397</b>	<b>32,007</b>	<b>36,505</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	68,487	75,601	79,004	69,053	65,531	61,823
Other LT assets	37,844	55,504	71,460	77,510	83,230	89,157
Non-Current Assets	106,332	131,105	150,463	146,563	148,762	150,981
Current assets	118,936	129,284	127,785	102,130	43,109	44,223
<b>Total Assets</b>	<b>225,268</b>	<b>260,388</b>	<b>278,248</b>	<b>248,692</b>	<b>191,871</b>	<b>195,203</b>
Non-Current liabilities	35,932	53,714	55,370	42,291	33,290	27,775
Current liabilities	131,913	122,743	113,212	77,501	19,524	18,954
<b>Total Liabilities</b>	<b>167,845</b>	<b>176,457</b>	<b>168,582</b>	<b>119,793</b>	<b>52,814</b>	<b>46,729</b>
Equity	57,423	83,931	109,666	128,900	139,057	148,474
<b>Total Equity &amp; liabilities</b>	<b>225,268</b>	<b>260,388</b>	<b>278,248</b>	<b>248,692</b>	<b>191,871</b>	<b>195,203</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	12,151	26,061	34,830	32,242	32,879	37,393
Non-cash Charges	4,669	4,065	3,840	4,562	4,677	4,799
<b>Operating Cash flows</b>	<b>17,631</b>	<b>24,322</b>	<b>35,579</b>	<b>4,886</b>	<b>88,799</b>	<b>43,713</b>
<b>FCFF</b>	<b>(29,181)</b>	<b>(4,550)</b>	<b>12,374</b>	<b>4,225</b>	<b>81,923</b>	<b>36,695</b>
Net borrowings	32,531	(1,606)	(3,577)	6,110	(59,043)	(8,552)
<b>FCFE</b>	<b>3,350</b>	<b>(6,155)</b>	<b>8,797</b>	<b>10,335</b>	<b>22,880</b>	<b>28,143</b>
Net change in cash	9,477	(5,594)	(189)	(3,174)	159	167
<b>Closing cash</b>	<b>12,132</b>	<b>6,537</b>	<b>6,349</b>	<b>3,174</b>	<b>3,333</b>	<b>3,500</b>

Source: Company Accounts, Akseer Research

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

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