

Hub Power Company Limited

Result Review

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

Pakistan Research

HUBC: 1QFY22 EPS come in at PKR 5.72, down 9% YoY

- HUBC announced 1QFY22 financial result today wherein the IPP reported an EPS of PKR 5.72, down 9% YoY. The main deviation came from lower-than-expected contribution from CHPGCL. And in contrast to our expectations the IPP did not declare any interim cash dividend.
- The topline in 1QFY22 grew by 67% 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 was down 13% YoY possibly due to decline in interest bearing liabilities.
- Share of profit from associates clocked in at PKR 2.3bn (PKR 1.77/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	1QFY22	YoY
Sales	15,794	26,340	67%
Cost of Sales	7,655	18,541	142%
Other expenses	399	247	-38%
Finance cost	1,904	1,660	-13%
Other income	57	217	278%
Share of from associate	3,482	2,293	-34%
Taxation	935	705	-25%
Profit after tax	8,441	7,696	-9%
Share of NCI	297	279	-6%
Share of Parent	8,144	7,417	-9%
EPS	6.28	5.72	
DPS	4.00	-	

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

Saad Nandia
saad.nandia@akseerresearch.com

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
Gross Profit	21,709	30,490	32,871	29,421	27,524	28,989
SG & A	1,606	1,500	1,379	1,268	1,138	1,197
Operating Profit	20,103	28,991	31,492	28,153	26,386	27,793
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
Profit before tax	13,101	17,314	24,438	36,971	21,305	25,623
Taxation	517	3,945	5,109	4,729	4,822	5,484
Profit after tax	12,151	27,070	34,830	32,242	32,879	37,393
Share of NCI	689	1,017	1,142	846	872	887
Share of Parent	11,461	25,044	33,688	31,397	32,007	36,505

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
Total Assets	225,268	260,388	278,248	248,692	191,871	195,203
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
Total Liabilities	167,845	176,457	168,582	119,793	52,814	46,729
Equity	57,423	83,931	109,666	128,900	139,057	148,474
Total Equity & liabilities	225,268	260,388	278,248	248,692	191,871	195,203

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
Operating Cash flows	17,631	24,322	35,579	4,886	88,799	43,713
FCFF	(29,181)	(4,550)	12,374	4,225	81,923	36,695
Net borrowings	32,531	(1,606)	(3,577)	6,110	(59,043)	(8,552)
FCFE	3,350	(6,155)	8,797	10,335	22,880	28,143
Net change in cash	9,477	(5,594)	(189)	(3,174)	159	167
Closing cash	12,132	6,537	6,349	3,174	3,333	3,500

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH
 Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net