

Hub Power Company Limited
Result Preview

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

Pakistan Research

HUBC: 2QFY23 EPS likely to come at PKR 9.4, up 153% YoY

- HUBC's board meeting is scheduled on 16th February, 2023 to consider 2QFY23 financial results. We expect the company to post an EPS of PKR 9.4, up 153% YoY vs EPS of PKR 3.7 in SPLY. This will take 1HFY23 earnings to PKR 16.4/share, up 74% YoY. Along with the result, we anticipate a dividend of PKR 2.0/share, taking cumulative payout to PKR 18.5/share in 1HFY23.
- HUBC's sales revenue is likely to expand by 8% YoY to PKR 21.6bn in 2QFY23, owing to PKR depreciation and commencement of Thar energy limited. We anticipate Thar energy to operate at 75% load factor. On the contrary, Narowal and base plant production is expected to remain 23 GWh and 53 GWh, respectively depicting a decline of 85% and 78% YoY.
- Finance cost for the 2Q is likely to augment by 71% YoY to PKR 2.9bn, primarily owing to higher interest rates amid increased borrowings.
- Share of profit from associates is likely to reach PKR 5.1 bn (PKR 3.9/share) in 2Q, attributable to higher earning from China Hub Coal Power Project on the back of PKR devaluation against green back.
- On Sequential basis, earnings growth is expected at 34% QoQ owing to addition of Thar Energy.
- We maintain our 'BUY' recommendation on the stock. Our Dec-23 PT of PKR 115/share provides an upside of 77%, along with a dividend yield of 36%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	115
Current Price (PKR)	65
Upside/ (Downside) (%)	+ 77%
Dividend Yield (%)	36%
Total Return (%)	+ 113%
12-month High (PKR)	80
12-month Low (PKR)	57
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	84,366
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Sales	19,928	21,565	8%	46,267	51,155	11%
Cost of Sales	11,918	9,057	-24%	30,460	28,926	-5%
Other expenses	257	462	79%	505	774	53%
Finance cost	1,738	2,978	71%	3,397	5,314	56%
Other income	264	914	246%	481	1,327	176%
Share from associate	(1,462)	5,078	NM	831	8,170	883%
Taxation	(204)	1,506	NM	502	2,609	420%
Profit after tax	5,020	13,554	170%	12,716	23,028	81%
Share of NCI	225	1,401	523%	504	1,775	252%
Share of Parent	4,796	12,153	153%	12,212	21,253	74%
EPS	3.7	9.4	153%	9.4	16.4	74%
DPS	6.5	2.0		6.5	18.5	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	20.1	26.0	21.9	34.1	41.1	44.0
EPS Growth	110%	29%	-15%	55%	20%	7%
DPS	0.0	12.0	6.5	23.0	11.5	13.5
PER	3.2	2.5	3.0	1.9	1.6	1.5
Dividend Yield	0%	18%	10%	35%	18%	21%
EV/EBITDA	5.0	4.6	5.5	3.8	3.0	2.3
P/B	1.0	0.8	0.7	0.6	0.4	0.4
ROE	38%	36%	25%	36%	35%	30%

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 77% 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	112,812	124,208	119,509
Cost of sales	17,831	21,769	64,056	63,701	68,435	63,937
Gross Profit	30,490	32,871	33,103	49,111	55,773	55,572
SG & A	1,500	1,379	1,029	1,194	1,315	1,265
Operating Profit	28,991	31,492	32,074	47,917	54,458	54,307
Other income	410	796	2,124	1,699	1,360	1,088
Other charges	181	509	398	651	762	825
Finance cost	11,905	7,341	7,928	11,369	9,839	4,388
Share from associates	13,700	15,501	9,232	20,455	23,533	25,065
Profit before tax	17,314	24,438	35,105	37,596	45,216	50,181
Taxation	3,945	5,109	5,526	9,139	10,823	11,846
Profit after tax	27,070	34,830	29,579	48,913	57,926	63,400
Share of NCI	1,017	1,142	1,107	4,659	4,618	6,337
Share of Parent	26,053	33,688	28,472	44,254	53,308	57,064

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	87,420	92,916	97,384
Non-Current Assets	131,105	150,463	190,357	201,301	209,463	215,145
Current assets	129,284	127,785	124,795	117,954	128,966	127,569
Total Assets	260,388	278,248	315,153	319,255	338,429	342,714
Non-Current liabilities	53,714	55,370	103,890	105,591	88,155	76,115
Current liabilities	122,743	113,212	85,760	69,185	62,627	33,047
Total Liabilities	176,457	168,582	189,650	174,776	150,781	109,162
Equity	83,931	109,666	125,502	144,479	187,648	233,551
Total Equity & liabilities	260,388	278,248	315,153	319,255	338,429	342,714

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	27,070	34,830	29,579	48,913	57,926	63,400
Non-cash Charges	4,065	3,840	4,584	4,677	4,799	4,928
Operating Cash flows	25,331	35,579	24,907	41,672	52,228	70,362
FCFF	(3,541)	12,374	(19,579)	26,052	39,267	59,752
Net borrowings	(1,606)	(3,577)	40,838	(3,481)	(24,210)	(41,940)
FCFE	(5,146)	8,797	21,259	22,571	15,058	17,812
Net change in cash	(5,594)	(189)	1,179	(1,528)	300	315
Closing cash	6,537	6,349	7,528	6,000	6,300	6,615

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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