

**Hub Power Company Limited**  
Result Preview

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

Pakistan Research

**HUBC: 3QFY23 EPS likely to come at PKR 9.3, up 31% YoY**

- HUBC's board meeting is scheduled on 27<sup>th</sup> April, 2023 to consider 3QFY23 financial results. We expect the company to post an EPS of PKR 9.30, up 31% YoY vs EPS of PKR 7.12 in SPLY. This will take 9MFY23 earnings to PKR 26.56/share, up 61% YoY. On QoQ basis, earnings is expected to decline by 9% due to lower other income which was previously generated from CPHGC insurance claim.
- HUBC's sales revenue is likely to expand by 33% YoY to PKR 25bn in 3QFY23, owing to PKR depreciation and commencement of Thar energy limited. We anticipate Thar energy to operate at 85% load factor. On the contrary, Narowal and base plant production are expected to operate at a load factor of 18% and 3%.
- Finance cost for the 3Q is likely to augment by 1.59x YoY to PKR 5.2bn, primarily owing to higher interest rates as well as higher borrowings. Additionally, the company will recognize the borrowing cost for the Thar Energy project as an expense, whereas it was previously capitalized those borrowing.
- Share of profit from associates is likely to reach PKR 5.2 bn (PKR 4.0/share) in 3Q, attributable to higher earning from China Hub Coal Power Project, due to PKR devaluation against green back, as well as commencement of ThalNova Power Thar(Private) Limited in Feb-2023.
- We maintain our 'BUY' recommendation on the stock. Our Dec-23 PT of PKR 115/share provides an upside of 64%, along with a dividend yield of 35%.

**Key Data**

PSX Ticker	HUBC
Target Price (PKR)	115
Current Price (PKR)	65
Upside/ (Downside) (%)	+ 64%
Dividend Yield (%)	+35%
Total Return (%)	99%
12-month High (PKR)	80
12-month Low (PKR)	57
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	91,825
Year End	June

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	3QFY22	3QFY23E	YoY	9MFY22	9MFY23E	YoY
Sales	18,785	24,992	33%	65,052	79,679	22%
Cost of Sales	10,137	11,306	12%	40,597	43,408	7%
Other expenses	409	552	35%	914	1,634	79%
Finance cost	2,000	5,179	159%	5,397	12,303	128%
Other income	227	454	100%	708	1,361	92%
Share from associate	4,165	5,248	26%	4,996	18,326	267%
Taxation	1,168	1,366	17%	1,670	5,583	234%
<b>Profit after tax</b>	<b>9,463</b>	<b>12,291</b>	<b>30%</b>	<b>22,179</b>	<b>36,437</b>	<b>64%</b>
Share of NCI	222	224	1%	726	1,980	173%
<b>Share of Parent</b>	<b>9,241</b>	<b>12,067</b>	<b>31%</b>	<b>21,453</b>	<b>34,457</b>	<b>61%</b>
EPS	7.12	9.30	-	16.54	26.56	-
DPS	0.00	0.00	-	6.50	21.25	-

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	20.1	26.0	21.9	34.0	37.1	36.8
EPS Growth	127.3%	29.3%	-15.5%	54.8%	9.3%	-1.0%
DPS	0.0	12.0	6.5	25.0	17.8	16.8
PER	3.5	2.7	3.2	2.1	1.9	1.9
Dividend Yield	-	17.0%	9.2%	35.4%	25.1%	23.7%
EV/EBITDA	5.0	4.6	5.5	4.5	3.3	3.4
P/B	1.1	0.8	0.7	0.7	0.5	0.5
ROE	38.3%	36.0%	25.2%	34.1%	34.4%	29.3%

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 35. 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	123,788	135,586	128,669
Cost of sales	17,831	21,769	64,056	82,141	78,968	77,533
<b>Gross Profit</b>	<b>30,490</b>	<b>32,871</b>	<b>33,103</b>	<b>41,646</b>	<b>56,618</b>	<b>51,136</b>
SG & A	1,500	1,379	1,029	1,310	1,435	1,362
<b>Operating Profit</b>	<b>28,991</b>	<b>31,492</b>	<b>32,074</b>	<b>40,336</b>	<b>55,183</b>	<b>49,774</b>
Other income	410	796	2,124	1,699	1,360	1,088
Other charges	181	509	398	897	1,033	1,038
Finance cost	11,905	7,341	7,928	14,916	20,768	15,558
Share from associates	13,700	15,501	9,232	27,134	27,701	29,551
<b>Profit before tax</b>	<b>17,314</b>	<b>24,438</b>	<b>35,105</b>	<b>26,222</b>	<b>34,742</b>	<b>34,265</b>
Taxation	3,945	5,109	5,526	8,400	9,830	10,046
<b>Profit after tax</b>	<b>27,070</b>	<b>34,830</b>	<b>29,579</b>	<b>44,957</b>	<b>52,612</b>	<b>53,770</b>
Share of NCI	1,017	1,142	1,107	896	4,441	6,076
<b>Share of Parent</b>	<b>26,053</b>	<b>33,688</b>	<b>28,472</b>	<b>44,061</b>	<b>48,172</b>	<b>47,694</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	75,601	79,004	108,670	131,272	136,759	140,784
Other LT assets	55,504	71,460	81,687	87,549	93,237	97,905
Non-Current Assets	131,105	150,463	190,357	218,821	229,996	238,688
Current assets	129,284	127,785	124,795	127,019	138,153	136,129
<b>Total Assets</b>	<b>260,388</b>	<b>278,248</b>	<b>315,153</b>	<b>345,841</b>	<b>368,150</b>	<b>374,817</b>
Non-Current liabilities	53,714	55,370	103,890	104,918	92,793	85,533
Current liabilities	122,743	113,212	85,760	102,772	107,599	89,644
<b>Total Liabilities</b>	<b>176,457</b>	<b>168,582</b>	<b>189,022</b>	<b>207,690</b>	<b>200,392</b>	<b>175,177</b>
Equity	83,931	109,666	125,502	138,151	167,758	199,641
<b>Total Equity &amp; liabilities</b>	<b>260,388</b>	<b>278,248</b>	<b>315,153</b>	<b>345,841</b>	<b>368,150</b>	<b>374,817</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	27,070	34,830	29,579	44,957	52,612	53,770
Non-cash Charges	4,065	3,840	4,584	4,677	4,799	4,928
<b>Operating Cash flows</b>	<b>25,331</b>	<b>35,579</b>	<b>24,907</b>	<b>62,515</b>	<b>43,009</b>	<b>45,621</b>
<b>FCFF</b>	<b>(3,541)</b>	<b>12,374</b>	<b>(19,579)</b>	<b>29,375</b>	<b>27,035</b>	<b>32,001</b>
Net borrowings	(1,606)	(3,577)	40,838	(2,828)	(3,269)	(9,278)
<b>FCFE</b>	<b>(5,146)</b>	<b>8,797</b>	<b>21,259</b>	<b>26,547</b>	<b>23,766</b>	<b>22,724</b>
Net change in cash	(5,594)	(189)	1,094	160	760	836
<b>Closing cash</b>	<b>6,537</b>	<b>6,349</b>	<b>7,443</b>	<b>7,688</b>	<b>8,364</b>	<b>9,200</b>

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

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