

Hub Power Company Limited
Result Review

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

Pakistan Research

HUBC: 3QFY23 EPS came in at PKR 8.67, up 22% YoY

- HUBC announced its 3QFY23 financial results today, where the company reported consolidated EPS of PKR 8.67, up 22% YoY, vs EPS of PKR 7.12. This takes 9MFY23 EPS to PKR 25.93, up 57% YoY. Along with the result, the company announced an interim DPS of PKR 2.75, taking the cumulative payout to PKR 24.0 in 9MFY23.
- HUBC's sales revenue expanded by 45% YoY to PKR 27.2bn 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 load factor to clock in at 18% and 4% respectively.
- Finance cost of the company grew by 136% YoY to PKR 4.7bn, mainly due to elevated interest rates and increased borrowings. The company has recognized the borrowing cost for the Thar Energy project as an expense, whereas it was previously capitalized.
- Share of profit from associates reached PKR 6.5bn (PKR 5.0/share) in 3QFY23, which is likely attributed to higher earnings from China Hub Coal Power Project as well as commencement of ThalNova Power Thar Coal Plant.
- On a sequential basis, earnings declined by 15% QoQ owing to lower share from associates during 3Q. Just to recall, HUBC recorded higher income from associates in 2Q as China Hub Power realized insurance claims.
- We maintain our 'BUY' recommendation on the stock. Our Dec-23 PT of PKR 115/share provides an upside of 62%, along with a dividend yield of 35%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	115
Current Price (PKR)	70
Upside/ (Downside) (%)	+ 62%
Dividend Yield (%)	35%
Total Return (%)	+ 97%
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

Financial Highlights (PKR mn)						
	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Sales	18,785	27,231	45%	65,052	81,918	26%
Cost of Sales	10,137	14,098	39%	40,597	46,201	14%
Other expenses	409	417	2%	914	1,504	65%
Finance cost	2,000	4,721	136%	5,397	11,845	119%
Other income	227	(159)	-170%	708	748	6%
Share from associate	4,165	6,476	55%	4,996	19,554	291%
Taxation	1,168	2,034	74%	1,670	6,252	274%
Profit after tax	9,463	12,277	30%	22,179	36,419	64%
Share of NCI	222	1,027	362%	726	2,784	283%
Share of Parent	9,241	11,249	22%	21,453	33,635	57%
EPS	7.12	8.67	-	16.54	25.93	-
DPS	0.00	2.75	-	6.50	24.00	-

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 62% 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
Gross Profit	30,490	32,871	33,103	41,646	56,618	51,136
SG & A	1,500	1,379	1,029	1,310	1,435	1,362
Operating Profit	28,991	31,492	32,074	40,336	55,183	49,774
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
Profit before tax	17,314	24,438	35,105	26,222	34,742	34,265
Taxation	3,945	5,109	5,526	8,400	9,830	10,046
Profit after tax	27,070	34,830	29,579	44,957	52,612	53,770
Share of NCI	1,017	1,142	1,107	896	4,441	6,076
Share of Parent	26,053	33,688	28,472	44,061	48,172	47,694

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
Total Assets	260,388	278,248	315,153	345,841	368,150	374,817
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
Total Liabilities	176,457	168,582	189,022	207,690	200,392	175,177
Equity	83,931	109,666	125,502	138,151	167,758	199,641
Total Equity & liabilities	260,388	278,248	315,153	345,841	368,150	374,817

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
Operating Cash flows	25,331	35,579	24,907	62,515	43,009	45,621
FCFF	(3,541)	12,374	(19,579)	29,375	27,035	32,001
Net borrowings	(1,606)	(3,577)	40,838	(2,828)	(3,269)	(9,278)
FCFE	(5,146)	8,797	21,259	26,547	23,766	22,724
Net change in cash	(5,594)	(189)	1,094	160	760	836
Closing cash	6,537	6,349	7,443	7,688	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.

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%

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