

Hub Power Company Limited

Result Preview

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

Pakistan Research

HUBC: FY21 EPS likely to settle at PKR 24.9, up 29% YoY

- HUBC is scheduled to announce FY21 financial results on 30th August 2021. The IPP is expected to post an EPS of PKR 5.69, up 9% YoY for the 4QFY21, taking FY21 EPS to PKR 24.90. The expected increase in earnings is mainly attributable to lower finance cost. Along with the result we expect the IPP to declare final cash dividend of PKR 2.50/share in addition to PKR 7.00/ share already announced during the year.
- The topline in 4QFY21 is likely to increase 23% YoY, owing to increase in power generation. During the quarter Narowal plant produced 147 GWh units as compared to 40 GWh units in the same quarter last year, while the company's base plant was also operational during the quarter and produced 76 GWh units. Capacity payments, on the other hand, are expected to increase 4% YoY on account of 5% YoY PKR depreciation against the USD.
- Finance cost for 4QFY21 is expected to decline 18% YoY primarily owing to lower interest rates during the period as the debt level is expected to remain at the previous quarter's level.
- Share of profit from associates is likely to clock in at PKR 3.7bn (PKR 2.87/share) in 4QFY21, attributable to positive contribution from CPHGCL.
- We maintain our 'BUY' recommendation on the stock. Our Dec-21 PT of PKR 151/share provides an upside of 94% along with a dividend yield of 12.2%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	151
Current Price (PKR)	78
Upside/ (Downside) (%)	+ 94%
Dividend Yield (%)	12.2%
Total Return (%)	+ 106%
12-month High (PKR)	93
12-month Low (PKR)	74
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	100,945
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Sales	11,848	14,537	23%	48,321	53,352	10%
Cost of Sales	3,333	7,200	116%	17,831	21,996	23%
Other expenses	360	461	28%	2,690	1,844	-31%
Finance cost	2,549	2,089	-18%	11,905	7,747	-35%
Other income	89	78	-11%	410	314	-23%
Share of from associate	4,740	3,729	-21%	13,700	15,412	12%
Taxation	3,274	996	-70%	3,945	4,185	6%
Profit after tax	7,161	7,599	6%	26,061	33,306	28%
Share of NCI	369	218	-41%	1,017	1,007	-1%
Share of Parent	6,791	7,381	9%	25,044	32,299	29%
EPS	5.24	5.69	9%	19.31	24.90	29%
DPS	-	2.50	-	-	9.50	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
EPS	9.56	8.84	19.31	24.90	22.96	22.99
EPS Growth	3%	-8%	119%	29%	-8%	0%
DPS	7.40	-	-	9.50	15.00	18.00
PER	8.1	8.8	4.0	3.1	3.4	3.4
Dividend Yield	9.5%	0.0%	0.0%	12.2%	19.3%	23.1%
EV/EBITDA	7.8	7.5	5.7	5.7	6.4	5.2
P/B	2.3	1.6	1.2	1.0	0.9	0.8
ROE	31.5%	25.2%	36.9%	35.3%	27.7%	25.6%

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 Dec-21 PT of 151/share. Our price target provides an upside of 94% along with a dividend yield of 12.2%. 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.

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 1,292 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. The company was incorporated in 1991 and is headquartered in Karachi, Pakistan.

Financial Highlights - HUBC

Income Statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net sales	99,999	58,349	48,321	53,352	44,741	43,248
Cost of sales	81,720	36,640	17,831	21,996	15,998	16,814
Gross Profit	18,279	21,709	30,490	31,356	28,743	26,434
SG & A	1,525	1,606	1,500	1,446	1,212	1,172
Operating Profit	16,754	20,103	28,991	29,910	27,531	25,262
Other income	219	527	410	314	320	327
Other charges	110	128	181	398	362	359
Finance cost	4,432	7,401	11,905	7,747	8,474	6,918
Share from associates	(280)	(434)	13,700	15,412	15,447	16,211
Profit before tax	12,430	13,101	17,314	22,079	34,462	18,312
Taxation	486	517	3,945	4,185	3,847	3,853
Profit after tax	11,665	12,151	27,070	33,306	30,615	30,669
Share of NCI	607	689	1,017	1,007	836	845
Share of Parent	11,057	11,461	25,044	32,299	29,779	29,824

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
PPE	53,818	68,487	75,601	72,374	69,053	65,531
Other LT assets	10,338	37,844	55,504	70,821	76,894	82,654
Non-Current Assets	64,156	106,332	131,105	143,195	145,946	148,185
Current assets	121,849	118,936	129,284	138,594	89,813	42,392
Total Assets	186,006	225,268	260,388	281,789	235,759	190,577
Non-Current liabilities	27,522	35,932	53,714	43,711	38,393	28,612
Current liabilities	119,449	131,913	122,743	133,279	81,362	38,496
Total Liabilities	146,972	167,845	176,457	176,990	119,756	67,108
Equity	39,034	57,423	83,931	104,799	116,004	123,469
Total Equity & liabilities	186,006	225,268	260,388	281,789	235,759	190,577

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net Income	11,665	12,151	26,061	33,306	30,615	30,669
Non-cash Charges	4,124	4,669	4,065	4,454	4,562	4,677
Operating Cash flows	10,173	17,631	24,322	25,613	15,478	78,946
FCFF	(2,044)	(29,181)	(4,550)	9,070	8,164	72,031
Net borrowings	8,079	32,531	(1,606)	1,797	10,788	(48,621)
FCFE	6,036	3,350	(6,155)	10,867	18,953	23,410
Net change in cash	(1,206)	9,477	(5,594)	(1,961)	(458)	206
Closing cash	2,654	12,132	6,537	4,576	4,119	4,325

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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