

Hub Power Company Limited

Result Review

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

Pakistan Research

HUBC: FY21 EPS clocked in at PKR 25.97, up 35% YoY

- HUBC announced its FY21 financial results today, where the company's EPS came in at PKR 25.97, up 35% YoY. The company's 4QFY21 earnings clocked in at PKR 6.76 (up 29% YoY). The improvement in earnings is primarily driven by the lower effective tax and finance cost.
- Along with the results the company also declared final cash dividend of PKR 5.00/share, taking full year pay out to PKR 12.00 share.
- HUBC's 4QFY21 topline clocked in at PKR 15.8bn up 34% YoY mainly on account of an increase in power generation and higher furnace oil prices. During the quarter Narowal plant produced 147 GWh units (up 2.7x YoY), while the company's base plant was also operational during the quarter and produced 76 GWh units.
- Likewise, in FY21 topline of the company increased 13% YoY to PKR 54.6bn, where the load factor of HUBC's base plant and Narowal clocked in at 1.1% (FY20: 0.3%) and 26% (FY20: 16%) respectively.
- The company's finance cost declined by 34% YoY for 4QFY21, possibly due to lower short-term borrowing during the quarter, while finance cost during FY21 declined 38% YoY to PKR 7.3bn primarily owing to lower interest rate during the year.
- Share of profit from associates clocked in at PKR 3.8bn (PKR 2.94/share) in 4QFY21, taking an annual contribution from the CPHGL to PKR 15.5bn (PKR 11.95/share).
- Tax expense for 4QFY21 was down 41% YoY to PKR 1.9bn, taking FY21 tax expense to PKR 5.1bn.
- We maintain our 'BUY' recommendation on the stock. Our Dec-21 PT of PKR 152/share provides an upside of 98% along with a dividend yield of 15.6%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	152
Current Price (PKR)	77
Upside/ (Downside) (%)	+ 98%
Dividend Yield (%)	15.6%
Total Return (%)	+ 114%
12-month High (PKR)	93
12-month Low (PKR)	74
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	99,686
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Sales	11,848	15,825	34%	48,321	54,639	13%
Cost of Sales	3,333	6,973	109%	17,831	21,769	22%
Other expenses	360	505	40%	2,690	1,888	-30%
Finance cost	2,549	1,682	-34%	11,905	7,341	-38%
Other income	89	561	533%	410	796	94%
Share of from associate	4,740	3,818	-19%	13,700	15,501	13%
Taxation	3,274	1,920	-41%	3,945	5,109	29%
Profit after tax	7,161	9,124	27%	26,061	34,830	34%
Share of NCI	369	353	-4%	1,017	1,142	12%
Share of Parent	6,791	8,770	29%	25,044	33,688	35%
EPS	5.24	6.76		19.31	25.97	
DPS	-	5.00		-	12.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
EPS	9.56	8.84	19.31	25.97	20.91	22.90
EPS Growth	3%	-8%	119%	35%	-19%	10%
DPS	7.40	-	-	12.00	13.50	17.50
PER	8.0	8.7	4.0	3.0	3.7	3.4
Dividend Yield	9.6%	0.0%	0.0%	15.6%	17.6%	22.8%
EV/EBITDA	7.7	7.4	5.7	7.3	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%	37.2%	25.8%	26.0%

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 152/share. Our price target provides an upside of 98% along with a dividend yield of 15.6%. 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	FY21	FY22F	FY23F
Net sales	99,999	58,349	48,321	54,639	44,741	43,460
Cost of sales	81,720	36,640	17,831	21,769	15,998	16,824
Gross Profit	18,279	21,709	30,490	32,871	28,743	26,636
SG & A	1,525	1,606	1,500	1,379	1,129	1,097
Operating Profit	16,754	20,103	28,991	31,492	27,614	25,540
Other income	219	527	410	796	812	828
Other charges	110	128	181	509	403	435
Finance cost	4,432	7,401	11,905	7,341	11,402	7,103
Share from associates	(280)	(434)	13,700	15,501	15,447	16,211
Profit before tax	12,430	13,101	17,314	24,438	32,068	18,829
Taxation	486	517	3,945	5,109	4,102	4,482
Profit after tax	11,665	12,151	27,070	34,830	27,966	30,558
Share of NCI	607	689	1,017	1,142	836	850
Share of Parent	11,057	11,461	25,044	33,688	27,130	29,708

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	128,347	89,813	42,497
Total Assets	186,006	225,268	260,388	271,541	235,759	190,682
Non-Current liabilities	27,522	35,932	53,714	43,711	38,393	28,612
Current liabilities	119,449	131,913	122,743	124,635	83,712	40,581
Total Liabilities	146,972	167,845	176,457	168,345	122,106	69,193
Equity	39,034	57,423	83,931	103,196	113,654	121,489
Total Equity & liabilities	186,006	225,268	260,388	271,541	235,759	190,682

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net Income	11,665	12,151	26,061	34,830	27,966	30,558
Non-cash Charges	4,124	4,669	4,065	4,454	4,562	4,677
Operating Cash flows	10,173	17,631	24,322	(37,881)	77,933	78,645
FCFF	(2,044)	(29,181)	(4,550)	(54,425)	70,620	71,730
Net borrowings	8,079	32,531	(1,606)	68,420	(53,569)	(48,801)
FCFE	6,036	3,350	(6,155)	13,995	17,050	22,929
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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