

# Day Break

Thursday, 15 December 2016

## Company Update

### Hub Power Company Limited

Power Generation & Distribution

| Recommendation | HOLD  |
|----------------|-------|
| Target Price   | 123.8 |
| Last Closing   | 118.9 |
| Upside         | 4%    |

#### Market Data

|                            |         |         |         |
|----------------------------|---------|---------|---------|
| Bloomberg Tkr.             | HUBC PA |         |         |
| Shares (mn)                | 1,157.2 |         |         |
| Market Cap (PKRbn   USDmn) | 137.6   | 1,313.1 |         |
| Exchange                   | KSE 100 |         |         |
| Price Info.                | 90D     | 180D    | 365D    |
| Abs. Return                | 46.2    | 50.0    | 96.5    |
| Low                        | 931.1   | 871.0   | 575.8   |
| High                       | 1,373.1 | 1,373.1 | 1,373.1 |

#### Key Company Financials

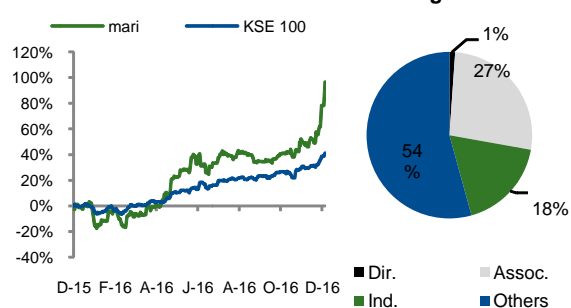
Period End: Jun

| PKRbn         | FY16A | FY17E | FY18F | FY19F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 86.4  | 101.9 | 102.7 | 104.1 |
| Net Income    | 11.6  | 12.4  | 12.9  | 13.3  |
| EPS (PKR)     | 10.0  | 10.7  | 11.1  | 11.5  |
| DPS (PKR)     | 11.0  | 10.5  | 10.8  | 11.3  |
| Total Assets  | 134.0 | 116.9 | 105.2 | 94.9  |
| Total Equity  | 31.4  | 27.6  | 27.5  | 28.0  |

#### Key Financial Ratios

|         |      |      |      |      |
|---------|------|------|------|------|
| ROE (%) | 37%  | 45%  | 47%  | 48%  |
| P/E (x) | 11.9 | 11.1 | 10.7 | 10.3 |
| P/B (x) | 4.4  | 5.0  | 5.0  | 4.9  |
| DY (%)  | 9.2  | 8.8  | 9.1  | 9.5  |

#### Relative Price Performance & Shareholding



#### About the Company

The Company was incorporated in Pakistan on August 01, 1991 as a public limited company. Its GDR are listed on the Luxembourg Stock Exchange. The principal activities of the Company are to develop, own, operate and maintain power stations.

Source: Bloomberg, KSE 100 & IGI Research

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## Power Generation & Distribution

### HUBC: PPIB Approved 330MW Coal-Based Power Project at Thar

- According to notice issued by HUBC on PSX, Pakistan Private Infrastructure Board (PPIB) has approved HUBC's plan to set up 330MW Mine mouth Coal fired Power plant at Thar, through a wholly owned subsidiary of HUBC, Thar Energy Limited (TEL).
- We expect the project to add PKR 11.8/share to HUBC's valuation based on Return on Equity of 30.65% with equity portion financed through long term borrowing. If exclusion of Unit-II materializes, we calculate HUBC target price to come down by PKR 7.5/share to PKR 116/share (down by 6%).
- We maintain a "HOLD" call on HUBC with our Dec-17 target price of PKR 124/share, offering +4% upside from its last closing. The company is currently trading at FY17E P/E of 11.1x and offers a healthy dividend yield of 9%.

#### PPIB gives nod to 330MW coal power project at Thar - Thar Energy Limited (TEL)

According to notice issued by HUBC on PSX, Pakistan Private Infrastructure Board (PPIB) has approved HUBC's plan to set up 330MW Mine mouth Coal fired Power plant at Thar, through a wholly owned subsidiary of HUBC, Thar Energy Limited (TEL). As disclosed in the notice, TEL would have to achieve financial close within 9 months, which we expect should be in Sep-17.

#### Nepra approved upfront tariff for TEL in Oct-16

In Oct-16, NEpra approved upfront tariff for TEL with a return on equity of 30.65% at a levelised tariff of PKR 8.26/Kwh. The construction period is of 40 months and the plant is anticipated to be operational by FY22 (Jan-21). By FY22 SECMC is estimated to mine around 3.8mntons of coal per annum. Total cost of the project is estimated to be around USD 500mn with a 75:25% debt: equity ratio.

#### TEL expected to add PKR 11.8/share to HUBC's Valuation

We expect the project to add PKR 11.8/share to HUBC's valuation based on Return on Equity of 30.65% with equity portion financed through long term borrowing. We await financial close and Power Purchase Agreement of the project for further details and once available we will incorporate it in our valuation for HUBC. Our target price for the company is expected to jack up to PKR 136/share from current PKR 124/share providing an upside of +9%.

#### Clarity awaited on removal of 1x660MW plant from CPHGC

Due to ongoing discussions with the Government over improvement in RCOD of its 2x660MW coal power project under China Hub Power Generation Company (CPHGC), Implementation Agreement (IA) and Power Purchase Agreement (PPA), which were expected to be signed on 11th Oct-16, haven't been signed.

**Value Addition of Projects**

| PKR/share                          | Additions    | Total TP      |
|------------------------------------|--------------|---------------|
| Base Price (Hub, Narowal & Laraib) |              | 108.72        |
| CPHGC Unit-I                       | 7.53         | 116.25        |
| <b>CPHGC Unit-I and Unit-II</b>    | <b>15.06</b> | <b>123.78</b> |
| Thar Energy (TEL) - 330MW          | 11.75        | 135.53        |
| <b>Base + TEL + CPHGC Unit-I</b>   | <b>19.28</b> | <b>128.00</b> |

Possible implication of this would be exclusion of Unit-II from coal project. According to our estimates, Unit-I and Unit-II are expected to augment our target price for HUBC by PKR 15.1/share. If exclusion of Unit-II materializes, we calculate HUBC target price to come down by PKR 7.5/share to PKR 116/share (down by 6%). We await formal notification and further clarity on this regard to remove Unit-II from our valuation and whether the whole project would be scrapped if Unit-I is not feasible for the company.

**Recommendation**

We maintain a "**HOLD**" call on HUBC with our Dec-17 target price of PKR 124/share, offering +4% upside from its last closing. The company is currently trading at FY17E P/E of 11.1x and offers a healthy dividend yield of 9%.

**Project Details - TEL**

|                                |       |        |
|--------------------------------|-------|--------|
| Plant Capacity                 | MW    | 330    |
| Source                         |       | Coal   |
| Project Cost                   | USDmn | 500    |
| HUBC Stake                     | %     | 100    |
| Return on Equity               | %     | 30.65  |
| Debt/Equity                    | %     | 75:25  |
| Financial Cclose expected      |       | Sep-17 |
| Comm. Operations date expected |       | FY22   |

**Levelized Tariff for Thar Energy Limited (TEL)**

|                         |                 |             |
|-------------------------|-----------------|-------------|
| <b>EPP</b>              |                 |             |
| Variable Fuel Cost      |                 | 1.16        |
| Variable O&M - Foreign  |                 | 0.07        |
| Variable O&M - Local    |                 | 0.05        |
| Ash Disposal            |                 | 0.22        |
| Water Charges           |                 | 0.48        |
| Limestone               |                 | 0.09        |
| <b>Total EPP</b>        |                 | <b>2.06</b> |
| <b>CPP</b>              |                 |             |
| Fixed Fuel Cost         | 85% base factor | 2.59        |
| Fixed O&M - Foreign     |                 | 0.15        |
| Fixed O&M - Local       |                 | 0.15        |
| Working Capital Cost    |                 | 0.11        |
| Insurance               |                 | 0.09        |
| ROE                     |                 | 1.41        |
| Debt Repayment          |                 | 0.86        |
| Interest Charges        |                 | 0.28        |
| <b>Total CPP</b>        |                 | <b>3.60</b> |
| <b>Levelized Tariff</b> |                 | <b>8.26</b> |

Source: Bloomberg, KSE 100 & IGI Research

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|----------------|--|
| Buy            | If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)           |
| Hold           | If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s) |
| Sell           | If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)          |

**Time Horizon:** Dec - 2017

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IGI Finex Securities Limited

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