

Day Break

Thursday, 25 October 2018

COMPANY UPDATE

The Hub Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price:	130.9
Last Closing: 24-Oct-18	87.9
Upside:	48.9
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	Jun-19

Market Data

Bloomberg Tkr.	HUBC PA		
Shares (mn)	1,157.2		
Free Float Shares (mn)	694.3		
Free Float Shares (%)	60.0%		
Market Cap (PKRbn USDmn)	101.7	776.0	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(1.7)	(16.9)	(19.9)
Lo	84.4	84.4	84.4
Hi	98.1	104.9	109.0

Key Company Financials

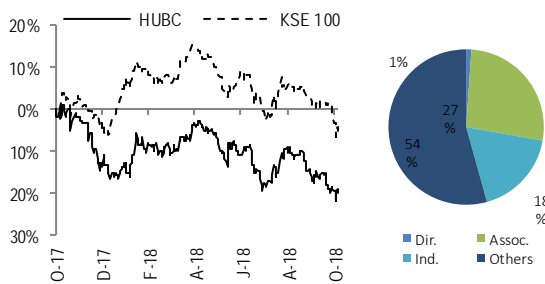
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	100.0	85.3	80.4	84.3
Net Income	11.1	12.9	19.4	19.9
EPS (PKR)	9.6	11.2	16.7	17.2
DPS (PKR)	7.4	8.0	12.0	14.0
Total Assets	159.6	186.0	158.3	127.8
Total Equity	35.4	36.4	37.2	38.0

Key Financial Ratios

ROE (%)	31.2	35.5	52.1	52.3
P/E (x)	9.2	7.9	5.3	5.1
P/B (x)	1.4	2.9	2.8	2.7
DY (%)	8.4	9.1	13.6	15.9

Relative Price Performance



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, PSX & IGI Research

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Power Generation & Distribution

HUBC: Weak PKR against greenback to lift profitability by +38%YoY during 1QFY19

- The Hub Power Company Limited's (HUBC) board meeting is scheduled on 26th Oct-18 to announce financial results for 1QFY19 where we expect the Company to post earnings of PKR 3.29bn (EPS PKR 2.84) compared to PKR 2.38bn (EPS PKR 2.06) in the same period last year.
- We attribute the growth in earnings to a) PKR depreciation of +17%YoY leading to higher returns, b) lower load factor of Hub plant leading to mere +2%YoY rise in finance costs, and c) higher contribution from Laraib. Due to substantial rise in circular debt and equity financing needs for upcoming projects, we expect HUBC to announce cash dividend between PKR 1.5-2.0/share for 1QFY19,
- We maintain a 'BUY' stance on HUBC with our Jun-19 target price of PKR 130.9/share offering +49% upside from last close. The company is currently trading at FY19/20F P/E of 7.9x/5.3x and offers a healthy dividend yield of 9.1%.

Earnings to grow by +38%YoY during 1QFY19 to PKR 2.84/share, DPS PKR 1.5

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 26th Oct-18 to announce financial results for 1QFY19 where we expect the Company to post earnings of PKR 3.29bn (EPS PKR 2.84) compared to PKR 2.38bn (EPS PKR 2.06) in the same period last year. We attribute the growth in earnings to a) PKR depreciation of +17%YoY leading to higher returns, b) lower load factor of Hub plant leading to mere +2%YoY rise in finance costs, and c) higher contribution from Laraib. Due to substantial rise in circular debt and equity financing needs for upcoming projects, we expect HUBC to announce cash dividend between PKR 1.5-2.0/share for 1QFY19.

On quarterly basis, profitability is expected to rise by +18%QoQ during 1QFY19 likely on the back of +6%QoQ depreciation of PKR against greenback and lower finance cost owing to lower load factor of 13% against 40% in 4QFY18. Furthermore, we expect maintenance cost to remain on the lower side due to lower generation as demand of FO based power plants remained low.

Exhibit:

Financial Highlights (Consolidated)

PKR mn	1QFY19E	1QFY18	YoY	4QFY18	QoQ
Turnover	17,516	27,340	-36%	26,213	-33%
Operating Costs	11,494	23,162	-50%	21,325	-46%
Gross Profit	6,021	4,178	44%	4,889	23%
General & Admin expenses	328	438	-25%	412	-20%
Other Income	65	34	91%	98	-34%
Financing Cost	1,034	1,017	2%	1,185	-13%
PBT	3,575	2,671	34%	3,246	10%
PAT	3,502	2,549	37%	3,022	16%
PAT - Attributable to HUBC	3,288	2,384	38%	2,779	18%
EPS (PKR)	2.84	2.06		2.40	
DPS (PKR)	1.50	1.50		2.20	

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

Base plant generation remained below par during 1QFY19

Total generation from base plant stood at 343Gwh during 1QFY19 at a load factor of 13% against 1,782Gwh or 68% load factor in the same period last year. Generation from Narowal stood at 305Gwh down by mere 5%YoY at a load factor of 65% during 1QFY19 against 322Gwh or 69% load factor in the corresponding period last year.

Recommendation

We maintain a **'BUY'** stance on HUBC with our Jun-19 target price of PKR 130.9/share offering +49% upside from last close. The company is currently trading at FY19/20F P/E of 7.9x/5.3x and offers a healthy dividend yield of 9.1%.

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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)
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Time Horizon: Jun – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DDM (Dividend Discount Model)

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