

Day Break

Wednesday, 16 August 2017

Sector Update

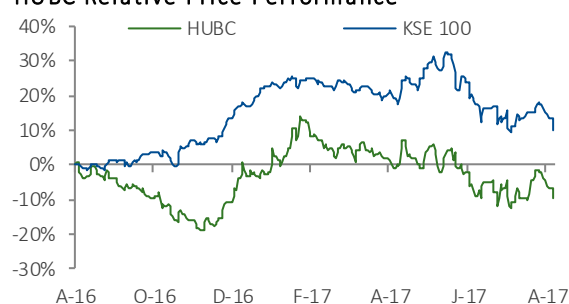
Hub Power Company Limited (HUBC)

Recommendation	BUY
Target Price:	137.30
Last Closing:	15-Aug-17
Upside:	19.1%

Key Company Financials

PKR/share	FY16A	FY17E	FY18F	FY19F
EPS (PKR)	10.29	9.15	10.96	10.91
DPS (PKR)	11.00	8.00	10.00	10.50
P/E (x)	11.21	13.12	10.52	10.57
DY (%)	9.54	6.94	8.67	9.11

HUBC Relative Price Performance



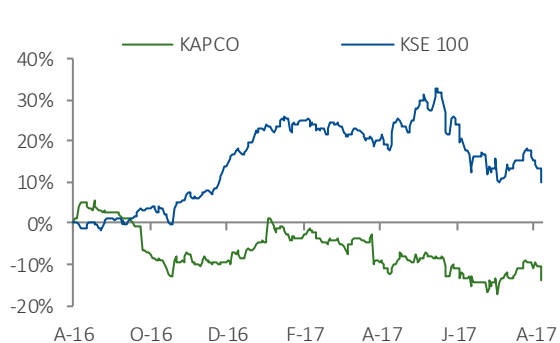
Kot Addu Power Company Limited (KAPCO)

Recommendation	NEUTRAL
Target Price:	77.75
Last Closing:	15-Aug-17
Upside:	7.3%

Key Company Financials

PKR/share	FY16A	FY17E	FY18F	FY19F
EPS (PKR)	10.31	10.22	12.08	12.84
DPS (PKR)	9.00	8.80	11.00	12.00
P/E (x)	7.03	7.21	6.00	5.64
DY (%)	12.42	12.84	15.18	16.56

KAPCO Relative Price Performance



Source: NEPRA & IGI Research

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Power Generation & Distribution

HUBC & KAPCO; Result Previews for 4QFY17

- We expect HUBC to post earnings of PKR 2.9bn (EPS PKR 2.50) down by 19%YoY compared to PKR 3.6bn bringing FY17 earnings at PKR 10.5bn (EPS PKR 9.10) down by 11%YoY. We expect the company to announce cash dividend of PKR 2.50/share, taking cumulative dividend for FY17 to PKR 8.0/share.
- We estimate KAPCO to post earnings of PKR 2.2bn (EPS PKR 2.54) down by 22%YoY compared to PKR 2.9bn (EPS PKR 3.26) bringing FY17 earnings at PKR 8.9bn (EPS PKR 10.22) down by 1%YoY compared to PKR 9.1bn (EPS PKR 10.31). We expect the company to announce cash dividend of PKR 4.50/share, taking cumulative dividend for FY17 to PKR 8.8/share.
- We have "BUY" call on HUBC and "HOLD" call on KAPCO with our Dec-17 Target Price of PKR 137/share and PKR 78/share offering +19.1% and +7.3% upside, respectively.

HUBC: Earnings to clock in at PKR 9.15/share in FY17, DPS PKR 8.0/share

Hub Power Company Limited's (HUBC) board meeting is scheduled on 17th Aug-17 to announce financial result for 4QFY17. We expect company to post earnings of PKR 2.9bn (EPS PKR 2.56) down by 19%YoY compared to PKR 3.6bn (EPS PKR 3.08) in the same period last year. We attribute this decline in earnings to higher maintenance cost incurred at Hub and Narowal Plant. We expect the company to announce cash dividend of PKR 2.50/share, taking cumulative dividend for FY17 to PKR 8.0/share. Non-controlling interest (NCI) is estimated to lower owing to lower profitability from Laraib Energy.

As a result earnings for FY17 is estimated to clock in at PKR 10.5bn (EPS PKR 9.15) down by 11%YoY compared to PKR 11.9bn (EPS PKR 10.29). Revenues are expected to increase by +24%YoY owing to +36%YoY rise in RFO prices. However, earnings are expected to decline due to higher profit contribution from Laraib Energy as compared to last year.

Exhibit:

HUBC Financial Highlights (Consolidated)

PKR mn	4QFY17E	4QFY16	YoY	FY17E	FY16	YoY
Turnover	27,077	21,843	24%	101,217	91,595	11%
Operating Costs	22,473	16,507	36%	84,181	73,013	15%
Gross Profit	5,594	5,336	5%	18,025	18,582	-3%
Admin expenses	302	388	-22%	1,282	1,262	2%
Other Income	25	36	-31%	168	167	0%
Finance Cost	1,101	987	12%	4,184	4,135	1%
PBT	3,177	3,942	-19%	11,478	12,771	-10%
PAT	3,113	3,825	-19%	11,178	12,501	-11%
PAT - Attributable to HUBC	2,957	3,560		10,586	11,903	
EPS (PKR)	2.56	3.08		9.15	10.29	
DPS (PKR)	2.50	3.00		8.00	11.00	

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

KAPCO: Earnings to clock in at PKR 9.10/share in FY17, DPS PKR 8.0/share

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 22ndAug-17 to announce financial result for 4QFY17. We forecast company to post earnings of PKR 2.2bn (EPS PKR 2.54) down by 22%YoY compared to PKR 2.9bn (EPS PKR 3.26) in the same period last year. We attribute this decline in earnings to higher maintenance cost and higher fuel cost. We expect the company to announce cash dividend of PKR 4.50/share, taking cumulative dividend for FY17 to PKR 8.8/share.

As a result earnings for FY17 is estimated to clock in at PKR 8.9bn (EPS PKR 10.22) down by 1%YoY compared to PKR 9.1bn (EPS PKR 10.31) in the same period last year. Revenues are expected to increase by +21%YoY owing to +36%YoY rise in RFO prices. Furthermore, continuation of super-tax is expected to dilute earnings in FY17.

Exhibit:

KAPCO Financial Highlights

PKRmn	4QFY17E	4QFY16	YoY	FY17E	FY16	YoY
Turnover	23,767	16,241	46%	77,968	64,178	21%
Operating Costs	20,658	11,738	76%	65,236	50,770	28%
Gross Profit	3,109	4,504	-31%	12,732	13,408	-5%
Admin expenses	101	160	-37%	405	529	-23%
Finance Cost	1,055	790	33%	4,114	3,237	27%
Other Income	1,378	1,082	27%	5,514	4,041	36%
PBT	3,332	4,636	-28%	13,727	13,683	0%
PAT	2,232	2,867	-22%	8,993	9,071	-1%
EPS	2.54	3.26		10.22	10.31	
DPS	4.50	4.75		8.80	9.00	

Source: IGI Research, Company Financials

No of Shares: 880 mn

Recommendation

We have **"BUY"** call on HUBC and **"HOLD"** call on KAPCO with our Dec-17 Target Price of PKR 137/share and PKR 78/share offering +19.1% and +7.3% upside, respectively. HUBC and KAPCO offer a healthy dividend yield of 8.7% and 15.2%, respectively.

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Time Horizon: Dec - 2017

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