

# Day Break

Thursday, 13 August 2020

## COMPANY UPDATE

### The Hub Power Company Limited

Power Generation & Distribution

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	147.0
Last Closing: 12-Aug-20	88.8
Upside (%)	65.6
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 5M

#### Market Data

Bloomberg Tkr.	HUBC PA		
Shares (mn)	1,297.2		
Free Float Shares (mn)	972.9		
Free Float Shares (%)	75.0%		
Market Cap (PKRbn   USDmn)	115.1	746.0	
Exchange	KSE 100		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	3.4	(16.1)	26.6
Lo	70.3	57.4	57.4
Hi	81.6	99.8	103.2

#### Key Company Financials

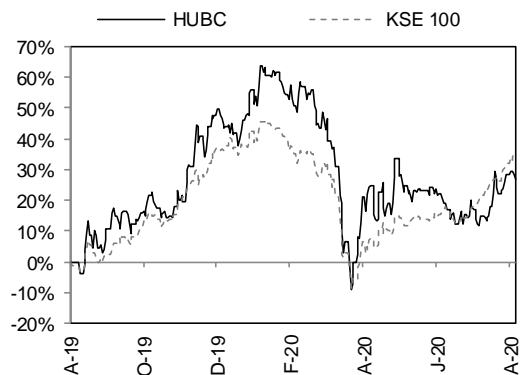
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	58.1	49.2	58.6	86.5
Net Income	11.2	26.6	33.7	43.5
EPS (PKR)	8.7	20.5	26.0	33.6
DPS (PKR)	-	-	4.0	10.0
Total Assets	225.3	293.5	353.2	374.0
Total Equity	51.0	78.6	108.1	143.0

#### Key Financial Ratios

ROE (%)	32.5	26.0	41.0	36.1
P/E (x)	10.2	4.3	3.4	2.6
P/B (x)	3.2	2.3	1.5	1.1
DY (%)	-	-	4.5	11.3

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Power Generation & Distribution

### HUBC: PKR depreciation and share of profit from CPHGC to lift 4QFY20 EPS to PKR 6.43

- ✓ The Hub Power Company Limited's (HUBC) board meeting is scheduled on 19<sup>th</sup> Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 8.34bn (EPS PKR 6.43), up by +3.1xYoY,
- ✓ We estimate growth in earnings on the back of a) contribution of profit from China Power Hub Generation Company (CPHGC) plant and, b) 11% YoY PKR depreciation,
- ✓ On a quarterly basis, earnings are expected to lift by +16% QoQ during 4QFY20. We expect the growth in earnings on sequential basis on the back of 5% QoQ on average PKR depreciation against greenback,
- ✓ We recommend a 'BUY' stance on HUBC with our Dec-20 target price of PKR 147.0/share offering +66% upside from last close. The company is currently trading at FY21 P/E of 3.4x.

### Earnings to clock in at PKR 6.43/share for 4QFY20, up by +3.1xYoY

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 19<sup>th</sup> Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 8.34bn (EPS PKR 6.43), up by +3.1xYoY, compared to PKR 2.67bn (EPS PKR 2.06) in the same period last year. We estimate growth in earnings on the back of a) contribution of profit from China Power Hub Generation Company (CPHGC) plant and, b) +11% YoY PKR depreciation. However, growth in earnings is expected to be limited by +62% YoY rise in finance cost on account of increased borrowings despite substantial drop in interest rates. This brings total profitability to PKR 26.59bn (EPS PKR 20.50) for FY20, up by +2.4xYoY, compared to PKR 11.24bn (EPS PKR 8.67) last year.

We foresee HUBC to withhold cash payout during the quarter, despite having received PKR 2.5bn under EPP payments for Laraib and Narowal from Energy Sukuk-II, as CPP payments received were negligible. Payment received for CPHGC plant is likely to be distributed in FY21 in accordance with conditions mentioned under PPA.

#### Exhibit: HUBC Financial Highlights (Consolidated)

PKR mn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Turnover	12,720	13,705	-7%	49,193	58,129	-15%
Operating Costs	4,820	7,617	-37%	19,318	36,640	-47%
Gross Profit	7,900	6,089	30%	29,876	21,489	39%
General & Admin	391	526	-26%	1,564	1,606	-3%
Financing Cost	2,752	2,467	12%	12,108	7,401	64%
Share of profit/(loss)	3,988	(113)	n/m	12,948	(434)	n/m
Loss on shares transferred	-	-	n/m	(1,009)	-	n/m
PBT	8,869	3,152	181%	28,440	12,447	128%
PAT	8,558	2,921	193%	27,458	11,930	130%
PAT - Attributable to HUBC	8,339	2,673	212%	26,592	11,241	137%
EPS (PKR) @ 1,297.15mn	6.43	2.06		20.50	8.67	
DPS (PKR)	-	-		-	-	

Source: IGI Research, Company Financials

No of Shares: 1,297.15

**EPS to rise by +16%QoQ on account of lower finance cost and PKR depreciation**

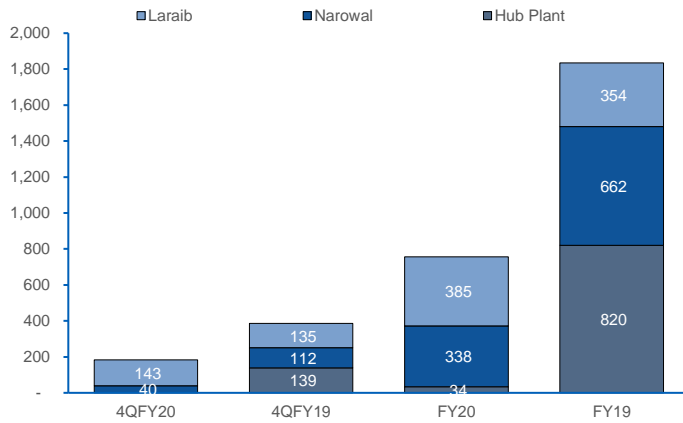
On a quarterly basis, earnings are expected to lift by +16%QoQ during 4QFY20. We expect the growth in earnings on sequential basis on the back of 5%QoQ on average PKR depreciation against greenback. Finance cost is likely to come down on quarterly basis on account of drop in interest rates.

**Generation remained subdued for FO plants during 4QFY20**

Hub plant remained shut during 4QFY20 on account of lower demand whereas Narowal operated at a load factor of 9% compared to 24% in the same period last year. Generation from Laraib remained improved slightly with load factor of 78% during 4QFY20 compared to 73% in the similar period last year.

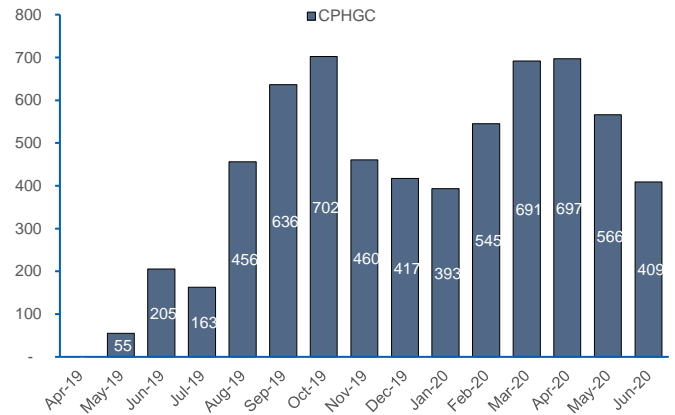
**Exhibit: Generation from Hub, Narowal and Laraib (Gwh)**

Base plant remained shut during 4QFY20 while Laraib operated at higher load factor



**Exhibit: Generation data for CPHGC plant (Gwh)**

Generation from CPHGC plant remained upbeat as cost effective CPEC projects being given preference



**Recommendation**

We recommend a ‘BUY’ stance on HUBC with our Dec-20 target price of PKR 147.0/share offering +66% upside from last close. The company is currently trading at FY21 P/E of 3.4x.

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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:** Dec – 2020

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

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