

Day Break

Monday, 24 February 2020



COMPANY UPDATE

The Hub Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price: Dec/20	139.0
Last Closing: 21-Feb-20	98.3
Upside:	41.4
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	10M

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)	127.5	826.2	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	19.7	57.6	5.9
Lo	82.7	60.7	60.7
Hi	103.2	103.2	103.2

Key Company Financials

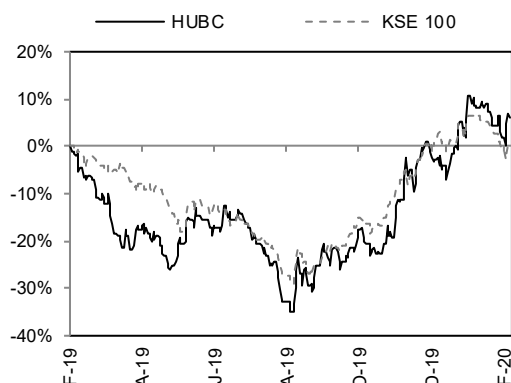
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	58.1	62.6	62.4	89.5
Net Income	11.2	24.7	27.4	37.6
EPS (PKR)	8.7	19.0	21.1	29.0
DPS (PKR)	-	6.0	15.0	16.0
Total Assets	225.3	267.1	316.9	308.3
Total Equity	51.0	68.8	77.8	99.0

Key Financial Ratios

ROE (%)	32.5	26.0	41.2	37.4
P/E (x)	11.3	5.2	4.6	3.4
P/B (x)	3.6	2.5	1.9	1.6
DY (%)	-	6.1	15.3	16.3

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Power Generation & Distribution

HUBC: PKR depreciation and commencement of CPHGC project to lift 2QFY20 EPS to PKR 5.13

- ✓ The Hub Power Company Limited's (HUBC) board meeting is scheduled on 25th Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 6.66bn (EPS PKR 5.13), up by +2.7xYoY,
- ✓ We estimate growth in earnings on the back of a) commencement of China Power Hub Generation Company (CPHGC) plant in Aug-19 and, b) 16%YoY PKR depreciation. Full capacity impact of CPHGC would most likely be visible during this quarter,
- ✓ On a quarterly basis, earnings are expected to lift by +20%QoQ during 2QFY20. We expect the growth in earnings on sequential basis on the back of full quarter impact of CPHGC plant which commenced operation in Aug-19,
- ✓ We recommend a 'BUY' stance on HUBC with our Dec-20 target price of PKR 139.0/share offering 41% upside from last close. The company is currently trading at FY20 P/E of 5.2x.

Earnings to clock in at PKR 5.13/share for 2QFY20, up by +2.7xYoY

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 25th Feb-20 to announce financial result for 2QFY20, where we expect the company to post earnings of PKR 6.66bn (EPS PKR 5.13), up by +2.7xYoY, compared to PKR 2.45bn (EPS PKR 1.89) in the same period last year. We estimate growth in earnings on the back of a) commencement of China Power Hub Generation Company (CPHGC) plant in Aug-19 and, b) 16%YoY PKR depreciation. Full capacity impact of CPHGC would most likely be visible during this quarter. However, growth in earnings is expected to be limited by +97%YoY rise in finance cost on account of higher interest rate and mark up on LT loans for new projects. We foresee HUBC to withhold cash payout during the quarter.

Exhibit: HUBC Financial Highlights (Consolidated)

PKR mn	2QFY20E	2QFY19	YoY	1HFY20E	1HFY19	YoY
Turnover	9,969	12,996	-23%	24,050	30,985	-22%
Operating Costs	6,855	8,423	-19%	13,445	21,574	-38%
Gross Profit	6,855	4,573	50%	14,347	9,411	52%
General & Admin expenses	417	362	15%	866	676	28%
Financing Cost	3,172	1,613	97%	6,231	2,936	112%
Share of P/(L) from associates	3,541	(133)	n/m	5,414	(193)	n/m
PBT	6,875	2,635	161%	12,777	5,825	119%
PAT	6,875	2,557	169%	12,699	5,681	124%
PAT - Attributable to HUBC	6,660	2,447	172%	12,228	5,407	126%
EPS (PKR)	5.13	1.89	172%	9.43	4.17	126%
DPS (PKR)	-	-	-	-	-	-

Source: IGI Research, Company Financials No of Shares: 1,297.15

Full quarter impact of CPHGC to lift EPS by +20%QoQ

On a quarterly basis, earnings are expected to lift by +20%QoQ during 2QFY20. We expect the growth in earnings on sequential basis on the back of full quarter impact of CPHGC plant which commenced operation in Aug-19. However, elevated finance cost is likely to keep earnings growth limited during 2QFY20.

Hub plant and Narowal remained shut due to low demand

Hub plant and Narowal remained shut during Oct-19 and Nov-19 due to low demand while generation from Laraib remained flat during first two months of the quarter. Generation from CPHGC stood at 1,163Gwh during first two months of the 2QFY20 compared to 1,255Gwh during 1QFY20.

Exhibit: Hub, Narowal and Laraib generation (Gwh)

No generation recorded from Hub and Narowal plant during 2MFY20

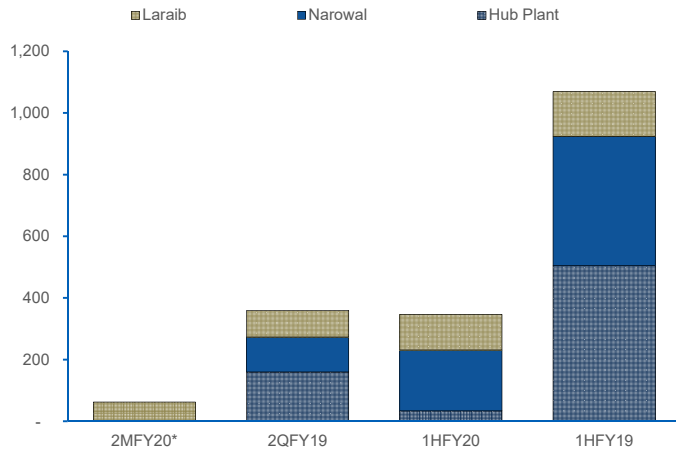
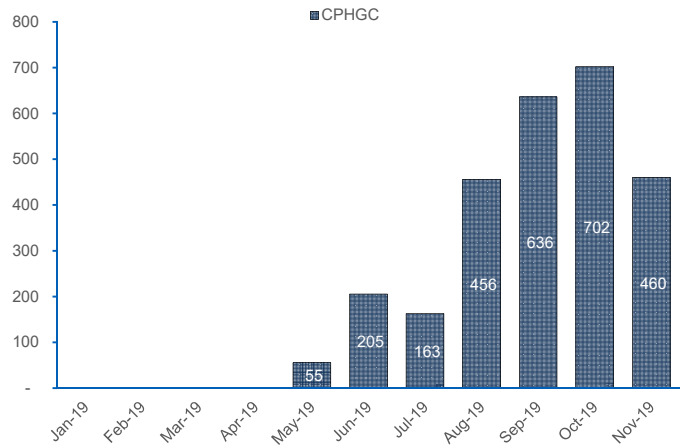


Exhibit: CPHGC monthly generation (Gwh)

Generation from CPHGC picked up post commencement of Unit-II in Aug-19



*Data not available for Dec-19 on NEPRA thus numbers are for Oct-19 & Nov-19

Recommendation

We recommend a ‘BUY’ stance on HUBC with our Dec-20 target price of PKR 139.0/share offering 41% upside from last close. The company is currently trading at FY20 P/E of 5.2x.

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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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