

Flash Note

Wednesday, 24 August 2016

Power Generation & Distribution

HUBC: Favorable Exchange Rate and Lower Maintenance lifts Profitability to PKR 10/share in FY16

- Hub Power Company Limited's (HUBC) earnings surged by +17%YoY to PKR 11.6bn (EPS PKR 10) in FY16 as compared to PKR 9.9bn (EPS PKR 8.57) in the corresponding period last year. Earnings for 4QFY16 reported a slight drop of 2%YoY to PKR 3.3bn (EPS PKR 2.84).
- Along with the result company announced cash dividend of PKR 3.0/share, taking FY16 cumulative dividend to PKR 11.0/share.
- Revenues declined by 34%YoY to PKR 86.4bn in FY16 owing to 42%YoY plunge in FO prices.
- Operating costs plummeted by 40%YoY to PKR 71.6bn in FY16 on the back of lower maintenance cost as repair work on last boiler concluded in 2QFY16.
- Finance cost decreased by 35%YoY to PKR 2.9bn driven by lower markup on short term borrowings and long term loans in FY16.
- Other income dropped by 6%YoY in FY16 owing to lesser dividend income from Laraib Energy amounting to PKR 910mn as compared to 1.5bn in the same period last year.

Recommendation

We currently have a '**Hold**' call on HUBC with our Dec-16 TP of PKR 119/share, offering 3% downside from its last closing of PKR 123/share. The company is currently trading at a FY17F P/E of 11.3x and offers a dividend yield of 8.7%.

Exhibit: Financial Highlights

PKRmn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Revenue	19,949	27,363	-27%	86,415	131,484	-34%
Operating Costs	16,049	24,075	-33%	71,627	119,123	-40%
Gross Profit	3,900	3,288	19%	14,788	12,361	20%
General & Admin	254	304	-16%	925	921	1%
Other Operating Expenses	62	69	-10%	473	451	5%
Financial Charges	581	961	-40%	2,954	4,538	-35%
Other Income	505	1,504	-66%	1,444	1,532	-6%
PAT	3,296	3,362	-2%	11,576	9,922	17%
EPS	2.84	2.90		10.00	8.57	
DPS	3.00	5.50		11.00	9.50	

Source: IGI Research, Company Financials

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer

This document has been prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose.

Rating system

IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DDM (Dividend Discount Model)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20, Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road, Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651