

Flash Note

Wednesday, 11 January 2017

Power Generation & Distribution

HUBC to Exercise the Option to Increase its Stake in CPHGC to 47.5% from 26%

- According to notice issued on PSX by Hub Power Company Limited (HUBC), has decided in its board meeting to exercise its option to increase shareholding in China Power Hub Generation Company (CPHGC) to 47.5% from 26% previously.
- To recall, the company held 26% stake in CPHGC and had the option to increase it to 49% before commercial operation date.
- We estimate, 2x660MW coal power plants under CPHGC to add PKR 27.5/share to HUBC's valuation at 47.5% stake as compared to PKR 15.1/share at 26% stake which brings our target price for HUBC at PKR 136/share (up by +10%).
- The company is currently pursuing PPIB to discuss the extension in financial close and signing of Implementation Agreement (IA) for 2x660MW coal fired power plants.
- To highlight, Pakistan Private Infrastructure Board (PPIB) has approved HUBC's plan to set up 330 MW Mine mouth Coal fired Power plant at Thar, through a wholly owned subsidiary of HUBC, Thar Energy Limited (TEL). As disclosed in the notice, TEL would have to achieve financial close within 9 months, which we expect should be in Sep-17. We expect TEL to add PKR 11.8/share to HUBC's valuation but we await financial close to incorporate in our target price for HUBC.

Recommendation

We have revised our Dec-17 target price for HUBC to PKR 136/share from previous PKR 124/share incorporating increased stake in CPHGC and maintain a **"HOLD"** call on the scrip. The company is currently trading at FY17E P/E of 12.4x and offers a healthy dividend yield of 8.8%.

Exhibit:

Value addition of CPHGC at 47.5% stake

HUBC; CPHGC HOLDING	STAKE	VALUE ADDITON TO HUBC PRICE (PKR/SHARE)
CURRENT HOLDING %	26.0%	15.06
ADD. HOLDING %	21.5%	12.46
TOTAL HOLDING	47.5%	27.52

HUBC CURRENT PRICE BREAK-UP

HUB, NAROWAL, LARAIB	109
CPHGC HOLDING	28
NEW TARGET PRICE (DEC-17)	136
OLD TARGET PRICE (DEC-17)	124
REVISION	10%
LAST CLOSING PRICE (PKR)	128.2
UPSIDE	6.3%
RECOMMENDATION	HOLD

Source: IGI Research, PSX

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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