

Flash Note

Thursday, 01 February 2018

Power Generation and Distribution Companies

HUBC: Approval by DAWH to divest entire shareholding of 14.91% in HUBC to Mega Conglomerate at a price of PKR 106.50/share

- Dawood Hercules Corporation Limited (DAWH) in its notice through Pakistan Stock Exchange (PSX) has notified that the company pursuant to approval from Board of Directors has accepted the offer from Mega Conglomerate (Private) Limited for sale of entire shareholding of 14.91% (172.58mn shares) in Hub Power Generation Company Limited (HUBC).
- The completion of transaction remains conditional on corporate and regulatory approval.
- The share price of PKR 106.50/share has been finalized with a total purchase price amounting to PKR 18.38bn.
- Investment in HUBC is currently recorded at cost in DAWH's balance sheet at a price of PKR 82.10/share which may lead to a one-time pre-tax gain on sale of investment of PKR 8.75/share (or PKR 4.21bn) at sale price of PKR 106.50/share.
- To recall, Kot Addu Power Company Limited (KAPCO) in its notice through Pakistan Stock Exchange (PSX) had notified earlier that WAPDA had requested the company to suspend its transaction to acquire 17.37% stake in Hub Power Generation Company Limited (HUBC) and subsequently the Board of Directors in their meeting held on 10th Nov-17 postponed the Extraordinary General Meeting (EGM) to a later date. Later the parties involved terminated the contract as conditions were not completed or fulfilled within the time frame stated in the Share Purchase Agreement (SPA).
- KAPCO was acquiring entire shareholding of 14.91% of DAWH along with 2.46% from other shareholders (0.86% from CYAN as well).
- We have a **'BUY'** call on HUBC with our Dec-18 target price of PKR 133.3/share, offering +35% upside from its last close. The company offers a healthy dividend yield of 8.1%.

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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 – 2018

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)

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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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