

# Day Break

Tuesday, 25 October 2016

## Company Update

### Hub Power Company Limited

Power Generation & Distribution

<b>Recommendation</b>	<b>HOLD</b>
Target Price	119.4
Last Closing	113.3
Upside	5%

#### Market Data

Bloomberg Tkr.	HUBC PA
Shares (mn)	1,157.2
Market Cap (PKRbn   USDmn)	131.1   1,251.4
Exchange	KSE 100

<b>Price Info.</b>	90D	180D	365D
Abs. Return	(14.4)	6.1	9.1
Low	111.5	105.5	98.8
High	132.0	132.3	132.3

#### Key Company Financials

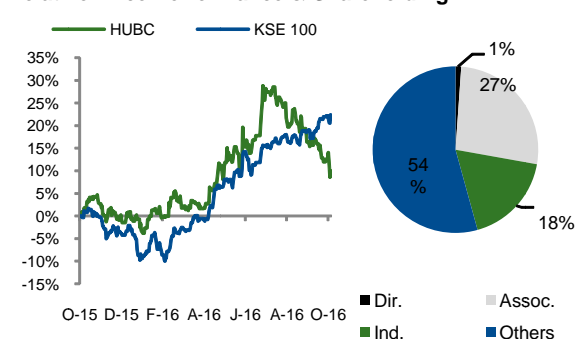
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	86.4	102.1	103.0	104.2
Net Income	11.6	12.7	13.0	13.5
EPS (PKR)	10.0	10.9	11.3	11.7
DPS (PKR)	11.0	10.8	10.8	11.3
Total Assets	120.8	99.1	82.5	70.9
Total Equity	31.4	31.5	32.1	32.8

#### Key Financial Ratios

ROE (%)	37%	40%	41%	41%
P/E (x)	11.3	10.4	10.1	9.7
P/B (x)	4.2	4.2	4.1	4.0
DY (%)	9.7	9.5	9.5	9.9

#### Relative Price Performance & Shareholding



#### About the Company

The Company was incorporated in Pakistan on August 01, 1991 as a public limited company. Its GDR are listed on the Luxembourg Stock Exchange. The principal activities of the Company are to develop, own, operate and maintain power stations.

Source: Bloomberg, KSE 100 & IGI Research

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## Power Generation & Distribution

### HUBC: Potential Removal of Unit-II under 2x660MW Coal Power Project

- Hub Power Company Limited (HUBC) announced in its notice through Pakistan Stock Exchange on 18th Oct-16, that the company is in discussions with the Government regarding improvement in RCOD of its 2x660MW coal power project under China Hub Power Generation Company (CPHGC).
- HUBC's board meeting is scheduled on 26th Oct-16, where we expect company to post earnings of PKR 3.3bn (EPS PKR 2.9) up by +63%YoY in 1QFY17 as compared to PKR 2.0bn (EPS PKR 1.8) in the same period last year.
- The scrip is currently trading at FY17E P/E of 10.4x and offers healthy dividend yield of 9.5%. With our Jun-17 target price of PKR 119/share, the scrip offers +5% upside from its last closing price of PKR 113/share, hence we recommend a 'HOLD' call on HUBC.

#### CPHGC: HUBC in discussion with Government for Improvement in Required Commercial Operation Date (RCOD)

Hub Power Company Limited (HUBC) announced in its notice through Pakistan Stock Exchange on 18<sup>th</sup> Oct-16, that the company is in discussions with the Government regarding improvement in RCOD of its 2x660MW coal power project under China Hub Power Generation Company (CPHGC). HUBC currently holds 26% stake in the company. Due to ongoing discussions, Implementation Agreement (IA) and Power Purchase Agreement (PPA), which were expected to be signed on 11<sup>th</sup> Oct-16, haven't been signed.

#### Early Completion-Unit I while downgrading Unit-II

The Government has placed Unit-I under "early harvest" category under China Pakistan Economic Corridor (CPEC) priority list while downgrading Unit-II to lower priority. This has been done to ensure early completion and Commercial operation of Unit-I by 2018-19. Possible implication of this would be exclusion of Unit-II from coal project. According to our estimates, Unit-I and Unit-II are expected to augment our target price for HUBC by PKR 15.7/share. If exclusion of Unit-II materializes, we calculate coal power plant to contribute PKR 7.9/share (6.6%) to PKR 111.2/share.

However, company's management is actively pursuing for inclusion of Unit II under the ambit of early harvest projects.

## 1QFY17 Result Preview: Earning to clock in at PKR 2.9/share, up by +63%YoY

HUBC's board meeting is scheduled on 26<sup>th</sup> Oct-16, where we expect company to post earnings of PKR 3.3bn (EPS PKR 2.9), up by +63%YoY in 1QFY17 as compared to PKR 2.0bn (EPS PKR 1.8) in the same period last year. We attribute this accretion in profitability to a) 82%YoY fall in repair costs owing to conclusion of repair work on boilers, b) 88%YoY lower other expense as the company wrote off damaged assets at Narowal Plant in the same period last year. We expect the company to announce cash dividend of PKR 2.75/share along with the result.

### Exhibit: Financial Highlights

PKRmn	1QFY17E	1QFY16	YoY	4QFY16	MoM
Revenue	23,774	25,662	-7%	19,949	19%
Operating Costs	19,698	22,167	-11%	15,320	29%
Gross Profit	4,076	3,495	17%	4,629	-12%
General & Admin	252	268	-6%	254	-1%
Other Operating Expenses	45	364	-88%	62	-27%
Financial Charges	466	811	-43%	736	-37%
Other Income	22	7	227%	505	-96%
PAT	3,331	2,042	63%	3,296	1%
EPS	2.88	1.76		2.85	
DPS	2.75	-		3.00	

Source: IGI Research, Company Financials

### Recommendation

The scrip is currently trading at FY17E P/E of 10.4x and offers healthy dividend yield of 9.5%. With our Jun-17 target price of PKR 119/share, the scrip offers +5% upside from its last closing price of PKR 113/share, hence we recommend a **'HOLD'** call on HUBC.

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**Time Horizon:** Jun - 2017

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