

Day Break

Tuesday, 01 March 2016

Company Update

Hub Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price	123.4
Last Closing	105.8
Upside	17%

Market Data

Bloomberg Tkr.	HUBC PA
Shares (mn)	1,157.2
Market Cap (PKRbn USDmn)	122.4 1,167.6
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	1.2	0.6	20.9
Low	98.8	97.3	81.3
High	104.8	107.5	107.5

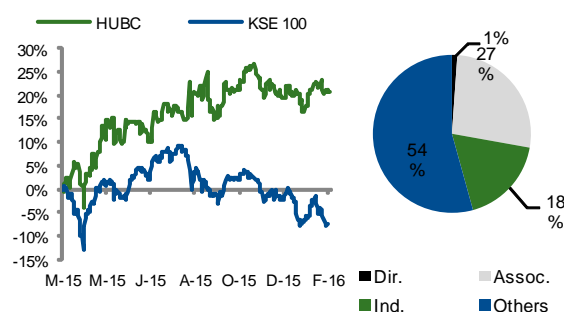
Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	131.5	99.3	102.1	102.9
Net Income	9.9	11.3	12.2	12.0
EPS (PKR)	8.5	9.8	10.6	10.4
DPS (PKR)	9.5	9.6	10.3	10.2
Total Assets	125.9	121.3	100.3	83.2
Total Equity	31.6	31.9	32.6	32.8

Key Financial Ratios

ROE (%)	31%	35%	37%	37%
P/E (x)	12.4	10.8	10.0	10.2
P/B (x)	3.9	3.8	3.7	3.7
DY (%)	9.0	9.1	9.8	9.6

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: Repair Cost Drags Profitability Down 6%YoY in 2QFY16

- Hub Power Company (HUBC)'s earning posted a decline of 6%YoY/5%YoY to PKR 2.5bn/PKR 4.5bn (EPS PKR 2.14/PKR 3.91) in 2QFY16/1HFY16. Along with the result, the company announced cash dividend of PKR 4.50/share for 2QFY16.
- During the quarter the company submitted the application to NEPRA for approval of Upfront Tariff for 2x660MW coal project which was subsequently approved by NEPRA on 12th-Feb-16 in a notice issued on NEPRA's website.
- We maintain a 'BUY' call on HUBC with Dec-16 TP of PKR 123/share, offering +17% upside from its last closing. The company is currently trading at P/E of 10.01x, offering a dividend yield of 9.1%.

Earnings down by 6%YoY to PKR 2.14/share in 2QFY16

Hub Power Company (HUBC)'s earning posted a decline of 6%YoY/5%YoY to PKR 2.5bn/PKR 4.5bn (EPS PKR 2.14/PKR 3.91) in 2QFY16/1HFY16. Along with the result, the company announced cash dividend of PKR 4.50/share for 2QFY16 (payout of 115% for 1HFY16).

Repair Work on Last Boiler Pushes Gross Profit Down

Operating costs witnessed a drop of 34%YoY to PKR 18.7bn in 2QFY16, on the back of 38%YoY and 54%YoY plunge in fuel and O&M cost respectively. However, company's gross profit witnessed a decline of 14%YoY in 2QFY16 owing to 1.8xYoY increase in repair and maintenance cost incurred on last boiler and 2.8xYoY rise in stores and spares cost to PKR 0.8bn and PKR 0.2bn, respectively.

Drop In Finance Cost Owing To Lower Interest Rate

Company's finance cost witnessed a dip of 35%YoY to PKR 0.8bn in 2QFY16 as compared to PKR 1.3bn in the corresponding period last year. Interest on long term loan and short term borrowing decreased by 33%YoY and 41%YoY to PKR 0.5bn and PKR 0.3bn respectively, in 2QFY16 owing to lower interest rate environment. Short term borrowing increased to PKR 14.7bn in 1HFY16, as compared to PKR 10.9bn in FY-15, while long term loan declined to PKR 16.1bn in 1HFY16 as compared to PKR 18.4bn in FY-15.

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2x660MW Coal Power Project

During the quarter HUBCO submitted application to NEPRA for approval of Upfront Tariff for 2x660MW coal power project, which was subsequently approved by NEPRA on 12th Feb-16, with ROE of 27.2%. As per management, China Power Hub Generation Company (CPHGC) has to provide a letter of Support (LoS) guarantee to PPIB within 30 days of the acceptance of tariff. Furthermore, CPHGC is also in process of selecting EPC contractor for the project.

Demerger of Narowal Plant

Board has given approval for incorporating Narowal Energy Limited (NEL) as a separate entity. The company will file Scheme of Arrangement once approval from shareholders has been obtained. Company has served a six month notice to O&M operator at Narowal plant and upon completion HUBCO will hand over O&M to its subsidiary Hub Power Services Limited (HPSL) which is currently handling O&M at Hub Plant. Moreover, the company has obtained approval from ECC for grant of current tax exemption once Narowal Plant is demerged and listed as a separate entity.

Outlook

Going forward, value drivers for the company are a) Demerger and potential listing of Narowal Plant, b) Government's commitment to IMF to cap circular debt and gradually bring it down to PKR 204bn by 2018, c) Development of 2x660MW coal based power plant in partnership with China Power International Holding (CPIH) by 2019 and d) Investment in Thar coal power project through SECMC. Furthermore, PKR depreciation is anticipated to translate into higher profitability in 2QFY16.

Recommendation

We maintain a '**BUY**' call on HUBCO with Dec-16 TP of PKR 123/share, offering +17% upside from its last closing. The company is currently trading at P/E of 10.01x, offering a dividend yield of 9.1%.

Exhibit: Financial Highlights

PKRmn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	QoQ
Revenue	22,239	32,565	-32%	47,901	78,320	-39%
Operating Costs	18,706	28,475	-34%	40,889	70,670	-42%
Gross Profit	3,533	4,091	-14%	7,012	7,650	-8%
General & Admin	264	201	32%	532	365	46%
Other Operating Expenses	2	-	-	366	-	-
Financial Charges	809	1,251	-35%	1,620	2,558	-37%
Other Income	22	13	69%	29	20	47%
Post Tax Profits	2,480	2,651	-6%	4,522	4,745	-5%
EPS	2.14	2.29		3.91	4.10	
DPS	4.50	4.00		4.50	4.00	

Source: IGI Research, Company Financials

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.

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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)

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