

Day Break

Friday, 12 May 2017

COMPANY UPDATE

THE HUB POWER COMPANY LIMITED

POWER GENERATION & DISTRIBUTION

Recommendation	NEUTRAL
Target Price:	137.3
Last Closing: 11-May-17	132.7
Upside:	3.5
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	Dec-17

Market Data

Bloomberg Tkr.	HUBC PA
Shares (mn)	1,157.2
Free Float Shares (mn)	752.2
Free Float Shares (%)	65.0%
Market Cap (PKRbn USDmn)	153.5 1,466.3
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(3.7) 23.5 15.6
Lo	126.1 103.2 103.2
Hi	138.9 145.4 145.4

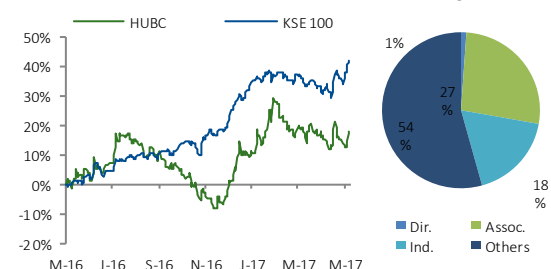
Key Company Financials

Period End: Jun				
PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	91.6	104.9	124.9	130.5
Net Income	11.90	10.2	12.7	12.6
EPS (PKR)	10.3	8.8	11.0	10.9
DPS (PKR)	11.0	9.0	10.0	10.5
Total Assets	153.8	153.6	178.1	160.0
Total Equity	31.2	31.7	32.4	33.0

Key Financial Ratios

ROE (%)	38.1	32.1	39.2	38.3
P/E (x)	12.9	15.1	12.1	12.2
P/B (x)	4.9	4.8	4.7	4.7
DY (%)	8.3	6.8	7.5	7.9

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: High Maintenance Cost Dragged Earnings down in 3QFY17, Upcoming Projects to Provide Some Respite

- Hub Power Company Limited's (HUBC) reported consolidated earnings (attributable to holding company) of PKR 2.69bn (EPS PKR 2.21) down by 13%YoY in 3QFY17 compared to PKR 3.10bn (EPS PKR 2.62)
- CPHGC financial close is expected before 7th Jun-17 and COD is now estimated to be achieved by Aug-17. EPC contract has been signed for TEL with China Machinery and Engineering Corporation (CMEC) and is expected to start construction between Apr-Jun 2017. SECMC is expected to start commercial operations by Jun-19 (financial close was achieved in Apr-16). Narawal demerger has been approved by the Sindh High Court and effective from 1st Apr-17
- We have revised our target price for HUBC based on early COD for CPHGC however, divestment of 40% stake in TEL will partially negate upside arising from early COD. We maintain our "HOLD" call on the company with our revised Dec-17 target price of PKR 137/share (up by +1% from previous PKR 136.2/share), offering +4% upside from its last closing

Earnings reported at PKR 2.21/share, down 13%YoY during 3QFY17

Hub Power Company Limited's (HUBC) reported consolidated earnings (holding company) of PKR 2.69bn (EPS PKR 2.21) down by 13%YoY in 3QFY17 compared to PKR 3.10bn (EPS PKR 2.62) in the same period last year. Cumulative earnings for 9MFY17 stand at PKR 8.06bn (EPS PKR 6.59) compared to PKR 8.68bn (EPS PKR 7.21) in the corresponding period last year. The company announced a cash dividend of PKR 2.0/share along with the result, taking the total payout for 9MFY17 to PKR 5.0/share.

We attribute decline in company's earnings to higher repair and maintenance cost incurred at Hub and Narawal plants along with elevated stores and spares cost. In addition higher effective tax rate of 4.5% compared to 3.1% in 3QFY16 also strained quarterly earnings.

Exhibit:

Financial Highlights (Consolidated)

PKR mn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Turnover	25,912	19,471	33%	74,140	69,752	6%
Operating Costs	21,648	14,996	44%	61,709	56,505	9%
Gross Profit	4,264	4,475	-5%	12,431	13,246	-6%
General & Admin expenses	340	204	67%	980	875	12%
Other Income	29	40	-27%	143	131	9%
Other expenses	59	47	25%	59	415	-86%
Financing Cost	1,021	1,003	2%	3,083	3,148	-2%
Share of Profit from associate	(53)	(58)	-8%	(151)	(111)	36%
EBT	2,821	3,204	-12%	8,301	8,829	-6%
PAT	2,694	3,103	-13%	8,064	8,676	-7%
PAT - Attributable to Owners	2,559	3,035	-16%	7,628	8,343	-9%
EPS (PKR)	2.21	2.62		6.59	7.21	
DPS (PKR)	2.00	3.50		5.00	8.00	

Source: Company Financials & IGI Research

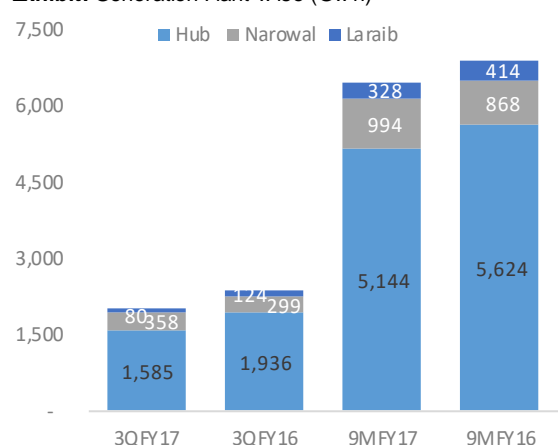
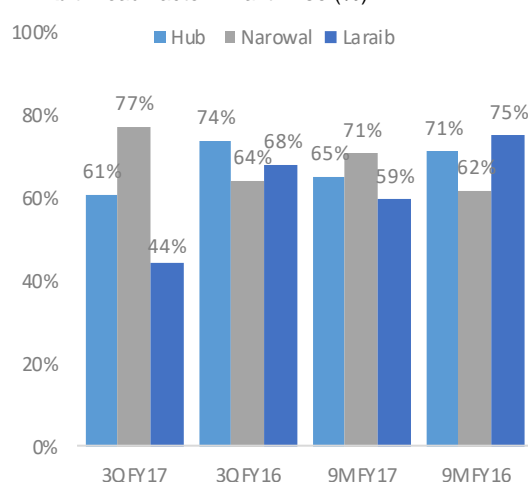
No of Shares: 1,157.15 mn

Exhibit: Time line of Projects

Project	Financial close	Commerical Operation
CPHGC	Jun-17	Aug-19
TEL	Construction to start between Apr-Jun 2017	
SECMC	Apr-16	Jun-19

Exhibit: Segment-wise Profitability (PKR/share)

Segment	3QFY17	3QFY16	9MFY17	9MFY16
Hub Plant	2.38	2.87	5.55	5.99
Narowal Plant	0.62	0.43	1.16	1.36
Laraib	0.35	0.18	1.13	0.86
HPSL	0.01	0.03	0.08	0.10
Elimination/Unallocated	1.15	0.88	1.33	1.10
HUBC Earnings	2.21	2.62	6.59	7.21

Exhibit: Generation Plant-wise (Gwh)**Exhibit: Load Factor - Plant-wise (%)****Power Generation down by 14%YoY at Hub and Laraib plant**

The company's total power production dropped by 14%YoY to 2,023Gwh during 3QFY17 as generation from Hub Plant and Laraib Energy Plant dropped. Key reasons for lower generation during the quarter is curtailment by WAPDA, scheduled period of annual maintenance and lower water availability.

Hub plant unit-3 was offline due to rotor replacement between 26th Jan-17 to 23rd Mar-17. Hub plant generation stood at 1,585Gwh (3QFY16; 1,936Gwh) down by 18%YoY, Laraib Energy plant generation dropped by 35%YoY to 80Gwh (3QFY16; 124Gwh), while Narowal Plant's production increased by +20%YoY to 358Gwh (3QFY16; 299Gwh).

Key projects updates;

The Management disclosed key information regarding upcoming projects in which HUBC has invested. They include;

- CPHGC financial close is expected before 7th Jun-17 as LOS will expire on this date and COD is now estimated to be achieved by Aug-17.
- EPC contract has been signed for TEL with China Machinery and Engineering Corporation (CMEC) and is expected to start construction between Apr-Jun 2017.
- SECMC is expected to start commercial operations by Jun-19 in which HUBC holds 8% stake (financial close was achieved in Apr-16).
- Narowal demerger has been approved by the Sindh High Court and effective from 1st Apr-17. As a result company reported Narowal under discontinuing operations in unconsolidated financial statements for 3QFY17.

Narowal Demerger effective post approval from Sindh High Court

The management Sindh High Court (SHC) on 29th Mar-17 (effective from 1st Apr-17) has granted the approval of Scheme of Arrangement for demerger of Narowal. Thus Narowal Plant will be separated and will be incorporated as a separate entity (wholly-owned subsidiary of HUBC) under the name of Narowal Energy Limited (NEL).

Divestment of 40% stake in wholly-owned subsidiary TEL

Further the management has decided to divest 40% stake in Thar Energy Limited TEL of which, Fauji Fertiliser Company Limited (FFC) will acquire 30% and the remaining 10% will be purchased by CMEC, EPC Contractor for the project. We expect value addition from TEL in HUBC to come down to PKR 9.03/share (PKR 15.05/share on 100% stake) as a result of reduced stake of 60%.

Recommendation

We have revised our target price for HUBC based on early COD for CPHGC however, divestment of 40% stake in TEL will partially negate upside arising from early COD. We maintain our "HOLD" call on the company with our revised Dec-17 target price of PKR 137/share (up by +1% from previous PKR 136.2/share), offering +4% upside from its last closing. The company is currently trading at a FY17E P/E of 15.1x and offers a healthy dividend yield of 6.8%.

Source: Company Financials, IGI Research

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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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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

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)

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