

Day Break

Tuesday, 29 October 2019

COMPANY UPDATE

The Hub Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price: Dec/20	116.0
Last Closing: 28-Oct-19	72.5
Upside:	60.0
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	14M

Market Data

Bloomberg Tkr.	HUBC PA
Shares (mn)	1,297.2
Free Float Shares (mn)	972.9
Free Float Shares (%)	75.0%
Market Cap (PKRbn USDmn)	94.0 605.1
Exchange	KSE ALL
Price Info.	90D 06M 12M
Abs. Return	2.0 (3.9) (16.5)
Lo	60.7 60.7 60.7
Hi	77.1 81.5 95.7

Key Company Financials

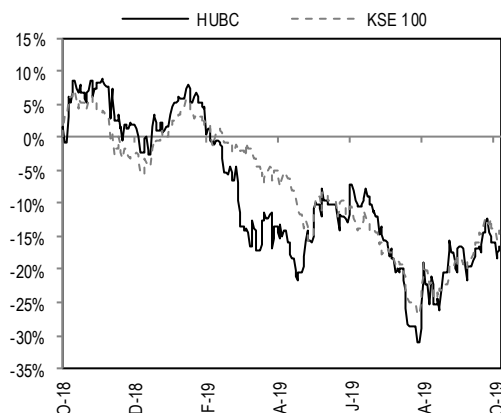
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	58.1	61.2	62.6	92.5
Net Income	11.2	23.4	25.8	36.7
EPS (PKR)	8.7	18.0	19.9	28.3
DPS (PKR)	-	6.0	16.0	16.0
Total Assets	225.3	266.1	308.9	299.7
Total Equity	51.0	70.6	91.6	79.5

Key Financial Ratios

ROE (%)	32.5	26.0	38.4	31.8
P/E (x)	8.4	4.0	3.7	2.6
P/B (x)	2.7	1.8	1.3	1.0
DY (%)	-	8.3	22.1	22.1

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Power Generation & Distribution

HUBC: Weaker PKR and CPHGC project

commencement to lift 1QFY20 EPS by +23%YoY

- The Hub Power Company Limited's (HUBC) board meeting is scheduled on 30th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 3.63bn (EPS PKR 2.80), up by +23% YoY,
- We estimate growth in earnings on the back of a) commencement of China Power Hub Generation Company (CPHGC) plant in Aug-19 and, b) 28% YoY PKR depreciation against greenback. However, growth in earnings is expected to be limited by +2.1xYoY rise in finance cost on account of higher interest rate and mark up on LT loans for new projects
- We have a 'BUY' call on HUBC with our Dec-20 target price of PKR 116.0/share, offering +60% upside from its last close. The company is currently trading at FY20E P/E of 4.0x and offers a dividend yield of 6.4%.

Earnings to clock in at PKR 2.80/share for 1QFY20, up by +23%YoY

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 30th Oct-19 to announce financial result for 1QFY20, where we expect the company to post earnings of PKR 3.63bn (EPS PKR 2.80), up by +23% YoY, compared to PKR 2.96bn (EPS PKR 2.28) in the same period last year. We estimate growth in earnings on the back of a) commencement of China Power Hub Generation Company (CPHGC) plant in Aug-19 and, b) 28% YoY PKR depreciation against greenback. Full capacity impact of CPHGC would most likely be visible in coming quarters as plant commenced operation in Aug-19 only. However, growth in earnings is expected to be limited by +2.1xYoY rise in finance cost on account of higher interest rate and mark up on LT loans for new projects. Load factor stood at 1% and 42% for Hub Plant and Narowal against 13% and 65% respectively during 1QFY19. We foresee HUBC to withhold cash payout during the quarter.

On a quarterly basis, earnings are expected to lift by +36% QoQ during 1QFY20. We expect the growth in earnings on sequential basis on the back of a) PKR depreciation and, b) commencement of CPHGC plant in Aug-19. However, elevated finance cost is likely to keep earnings growth limited during 1QFY20. Load factor for Hub plant (4QFY19: 5%) remained low while Narowal witnessed higher generation (4QFY19: 24%)

Exhibit:

HUBC Financial Highlights (Consolidated)

PKR mn	1QFY20E	1QFY19	YoY	4QFY19	QoQ
Turnover	11,335	17,946	-37%	13,789	-18%
Operating Costs	4,044	13,108	-69%	7,700	-47%
Gross Profit	5,836	4,838	21%	6,089	-4%
General & Admin expenses	641	314	105%	526	22%
Financing Cost	2,825	1,322	114%	2,467	15%
PBT	4,046	3,191	27%	3,152	28%
PAT	3,910	3,124	25%	2,921	34%
PAT - Attributable to HUBC	3,633	2,960	23%	2,673	36%
EPS (PKR)	2.80	2.28	23%	2.06	
DPS (PKR)	-	-		-	

Source: IGI Research, Company Financials

No of Shares: 1,297.15

Recommendation

We have a 'BUY' call on HUBC with our Dec-20 target price of PKR 116.0/share, offering +60% upside from its last close. The company is currently trading at FY20E P/E of 4.0x and offers a dividend yield of 6.4%.

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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)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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Time Horizon: Dec – 2019

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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