

Company Update

Hub Power Company Limited. (HUBC)

Target Price: PKR 131/share;

Upside: 79.8%

2022: Dividend yld: 14%, P/E: 3.3x

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Market Price: PKR 72.9

52 weeks: 72.6 — 76.8

Return: (3M) 0.4%, (6M) -3.4%, (12M) -3.9%

Outstanding Shares: 1.3bn (FF%: 75)

Market Capitalisation: PKR 94.2bn, US\$

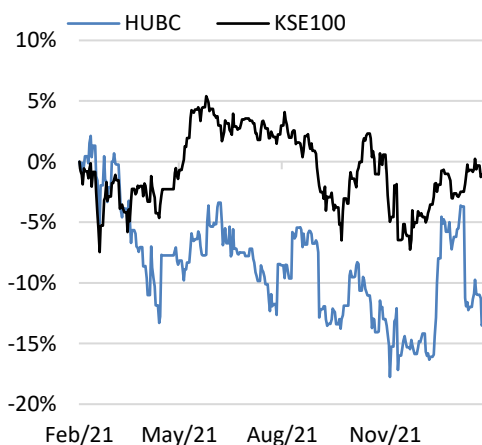
0.53bn

Exchange: KSE100, KSEALL, MSCI FM,

Key Financial Highlights

PKR/ Share	2021a	2022e	2023f
EPS	26.0	22.0	29.8
DPS	12.0	10.0	15.0
BVPS	77.7	90.4	106.4
ROE%	33%	24%	28%
P/E	2.8x	3.3x	2.4x
DY	16.5%	13.7%	20.6%
P/B	0.9x	0.8x	0.7x

Relative Price performance



Source: Company Accounts, PSX

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Power Generation & Distribution

New projects and stable payouts to outweigh near term headwinds; 'BUY' Maintained

- Post 2QFY22 result announcement and management briefing call of The Hub Power Company Limited (HUBC), we have revised down our earnings estimate by 20% for FY22E to Eps PKR 22.04/share.
- This incorporates the loss from China Power Hub Generation Company (CPHGC) incurred during the 2QFY22 by transformer failure and scheduled outage in Jul-21.
- We maintain our 'Buy' rating on HUBC, with a Dec-22 target price of PKR 131/share, offering 79.8% upside from last close. The Company is currently trading at FY22/23F P/E of 3.3x/2.4x

Earnings revised down to reflect outage at CPHGC

We have revised down our earnings estimate by 20% for FY22E to Eps PKR 22.04/share following the 2QFY22 result announcement and recent management briefing call of The Hub Power Company Limited (HUBC).

This incorporates the loss from China Power Hub Generation Company (CPHGC) incurred during the 2QFY22 by transformer failure and scheduled outage in Jul-21. As a result availability stood at 47% during 1HFY22.

However, "Buy" rating maintained

However, we maintain our 'Buy' rating on the scrip with our Dec-22 target price of PKR 131/share offering 79.8% upside from last close. Moreover, we have maintained our dividend assumption as first payout from CPHGC is expected in 1HFY23 which will act as key price catalyst for the stock. The stock is currently trading at FY22/23F P/E of 3.4x/2.9x and offers a dividend yield of 13.7%.

HUBC reported EPS of PKR 3.70 for 2QFY22

To recall, the Company reported 2QFY22 earnings of PKR 4.80bn (EPS PKR 3.7), down by 42%y/y compared to PKR 8.2bn (EPS PKR 6.32) in the similar period last year, bringing total profitability for 1HFY22 to PKR 12.21bn (EPS PKR 9.41), down by 25%y/y, compared to PKR 16.34bn (EPS PKR 12.6) in the corresponding period last year. Hub and Narowal plant load factor stood at 9% and 32% respectively during 2QFY22 compared to no generation from Hub plant and 7% generation from Narowal in the same period last year. The Company did not announce any cash dividend along with the result.

Major drag on earnings emanated from loss from associate to the tune of PKR 1.46bn during 2QFY22 compared to profit of PKR 4.12bn in the same period last year.

Exhibit: Financial Highlights The Hub Power Company Limited (HUBC)								
Latest result published for 1st half 2022								
PKRmn	2QFY22	2QFY21	YoY	1QFY22	QoQ	1HFY22	1HFY21	YoY
Turnover	19,928	10,997	81%	26,340	-24%	46,267	26,791	73%
Operating Costs	11,918	3,258	3.7x	18,541	-36%	30,460	10,913	2.8x
Gross Profit	8,009	7,739	3%	7,798	3%	15,808	15,878	0%
General & Admin expenses	233	366	-36%	224	4%	457	752	-39%
Financing Cost	1,738	1,827	-5%	1,660	5%	3,397	3,731	-9%
Share of profit/(loss) from associates	(1,462)	4,123	n/m	2,293	n/m	831	7,605	-89%
PBT	4,817	9,545	-50%	8,401	-43%	13,218	18,921	-30%
PAT	5,020	8,447	-41%	7,696	-35%	12,716	16,888	-25%
PAT - Attributable to HUBC	4,796	8,198	-42%	7,417	-35%	12,212	16,342	-25%
EPS (PKR)	3.70	6.32		5.72		9.41	12.60	
DPS (PKR)	-	3.00		-		6.50	7.00	
Source: IGI Research, Company Financials						No of Shares: 1,297.15mn		

Key highlights from management conference call

HUBC held an investor briefing session to discuss 2QFY22 financial results. Management also provided further details on key developments.

Loss from associate

Transformer failure at Unit-I of CPHGC and scheduled outage at Unit-II took place in Jul-21. As a result availability dropped to 47% for 1HFY22. Unit-I returned to service on 6th-Jan-22. Losses due to damage are estimated at USD 70-80mn. Nearly USD 50-60mn will be recovered through insurance which will be finalized by Mar-22 and some of receipt from insurance is expected by Jun-22. PKR 1.9bn relates to material loss.

CPHGC

Tariff true up is likely to be finalized and notified post Prime Minister's visit to China which included issues to be resolved such as true up tariff, settlement of receivables, setting up of revolving account and reversal of WHT on dividend to 7.5%. Once true up tariff is notified and revolving account is established along with other conditions, HUBC will most likely announce first dividend from CPHGC.

Thar Coal projects and delay penalties

The penalties relating to delay in COD of Thar Energy Limited (TEL) and Thal Nova Limited (TNTPL) would be finalized post COD (TEL expected in Jun/Jul-22 and TNTPL by Sep/Nov-22). Once commissioned, the penalty would be determined. Capacity underutilization penalty would be applied along with few other penalties. TEL is almost 86% completed while TNTPL is 65% completed. Remaining amount is USD 40mn for all these projects which are fully arranged.

Growth projects

Company is actively pursuing different projects such as waste water recycling project and renewable energy projects. In this regard, OFR has been awarded by Government of Sindh for 35MGD waste water recycling project at S.I.T.E. NOC from FBR and clearance from DG PC is expected shortly for ENI acquisition after which transition would take roughly 4-5 weeks.

Base plant

Hub plant received PKR 57bn in total through 1st and 2nd settlement and paid off PKR 45bn to PSO while Narowal Plant received PKR 6.4bn from its 1st settlement. Hub plant is currently operating at efficiency of 38-39%. For Hub and Narowal, management expects PKR 3-5bn impact on earnings in the next 2 years post discounts applicable on tariff as part of MoU agreement. In FY22 this would narrow down to PKR 1bn.

Competitive Trading Bilateral Contracts Market (CTBCM)

It will take 2-3 years for CTBCM to be implemented. DISCO reforms are critical. All the segments in the power chain need to be reformed especially DISCOS.

Recommendation: Buy

We maintain our 'Buy' rating on HUBC, with a Dec-22 target price of PKR 131/share, offering 79.8% upside from last close. The Company is currently trading at FY22/23F P/E of 3.3x/2.4x.

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Key risks & catalyst:

- Circular debt build up,
- Penalties on delay in COD of new projects,
- Revision in PPA's of coal based IPPs,
- Delays in payment to IPPs under Power Policy 2002 and
- Delays in project COD.

About:

- The principal activities of the Company are to develop, own, operate and maintain power stations. The Company owns an oil-fired power station of 1,200 MW (net) in Balochistan (Hub plant).
- MEGA conglomerate (pvt.) Limited (19%), Insurance Companies (10.7%) and Financial Institutions (15.2%).

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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)

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

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