

Flash Note

Friday, 16 December 2016

Power Generation & Distribution

HUBC: PPIB to Discuss Extension in Financial Close for 2x660MW Coal Power Project for CPHGC

- According to notice issued on PSX by Hub Power Company Limited (HUBC), Pakistan Power Infrastructure Board (PPIB) has called a meeting with HUBC to discuss the extension in financial close and signing of Implementation Agreement (IA) for 2x660MW coal fired power plants under its subsidiary China Power Hub Generation Company (CPHGC) at Hub.
- To recall, the company was in discussion with Government for improvement in the Required Commercial Operation date (RCOD) for the two plants. As a result, the financial close and signing of IA was delayed which was due to be signed on 11th Oct-16.
- Due to improvement in RCOD desired by the Government, possible implication included exclusion of 1x660MW plant from the project. However, as PPIB has taken up the matter to sign IA and extend financial close date for both the plants, we anticipate less likelihood of exclusion of 1x660MW plant from the project.
- The company currently holds 26% stake in CPHGC and has the option to increase it to 49% before commercial operation date.
- We estimate, 2x660MW coal power plants under CPHGC to add PKR 15.1/share to HUBC's valuation while 1x660MW plant is expected to add PKR 7.5/share. Our target price for the company already includes value addition from 2x660MW coal power plants.

Recommendation

We maintain a "HOLD" call on HUBC with our Dec-17 target price of PKR 124/share, offering +3% upside from its last closing. The company is currently trading at FY17E P/E of 11.2x and offers a healthy dividend yield of 9%.

Exhibit: Value addition to HUBC from current projects

Project	Value addition from Project	Total Target Price
Hub, Narowal & Laraib		108.72
CPHGC - Unit-I	7.53	116.25
Base Case - CPHGC - Unit-I & II	15.06	123.78
Thar Energy Limited (TEL) - 330MW	11.75	135.53
Hub, Narowal & Laraib + CPHGC - Unit-I + TEL	19.28	128.00

Source: IGI Research

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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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