

Flash Note

Monday, 24 August 2020



Securities

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Power Generation & Distribution

Hub Power Company Limited (HUBC)

Separate MOU signed with Negotiation Committee for Hub plant; Terms slightly different from MOU signed with plants falling under 1994 Policy

- According to notice issued by HUBC through PSX, the Company has signed a separate MOU for its base plant with the Negotiation Committee wherein the terms of the MOU are slightly different from the changes agreed upon under 1994 policy.
 - **Operations & Maintenance:** As per the terms of the MOU, Hub plant's existing fixed O&M has been agreed to be reduced by 11% as compared to overall 11% reduction in Capacity Purchase Price (CPP) for plants falling under 1994 policy.
 - **Indexation:** Furthermore, existing indexation is to be continued on fixed O&M component of Capacity Purchase Price (CPP) whereas USD /PKR and USD/CPI indexation has been discontinued. The USD exchange rate has been capped at NBP's selling rate prevailing as at 21st-Aug-2020 which is PKR 168.6/USD. We await clarity on US CPI rate which in our view is likely to be capped at Jul-20 index.
- This is different from the 1994 MOU which requires bifurcation of CPP component where 50% of CPP is to be continued as per existing arrangement while the remaining 50% is to be capped at USD exchange.
- As a result, we expect HUBC to witness earnings attrition of PKR0.5-6.9/share or 2-13% from FY21-27 while target price is likely to erode by PKR 12/share or 8%. To summarize, this is a less severe outcome vs. that under the 1994 MOU.

Exhibit: HUBC Revised MOU impact of base plant

	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	TP
HUBCO Consolidated	(0.50)	(1.36)	(2.22)	(3.14)	(4.14)	(5.65)	(6.86)	(12.00)
% of earnings & TP	-2%	-4%	-6%	-8%	-9%	-11%	-13%	-8%

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