

Day Break

Wednesday, 26 April 2017

COMPANY UPDATE

THE HUB POWER COMPANY LIMITED

POWER GENERATION & DISTRIBUTION

Recommendation	NEUTRAL		
Target Price:	136.2		
Last Closing:	25-Apr-17	130.7	
Upside:	4.3		
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)	151.2	1,442.5	
Exchange	KSE 100		
Price Info.	90D	180D	365D
Abs. Return	6.1	(1.5)	(1.4)
Lo	123.0	128.5	128.5
Hi	145.4	135.8	135.8

Key Company Financials

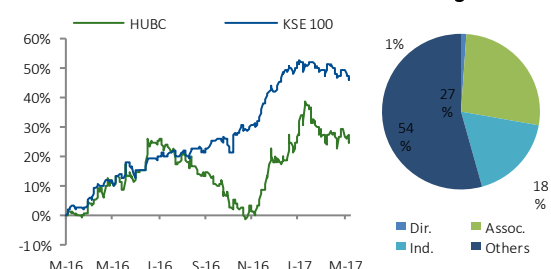
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	86.4	101.9	102.7	104.1
Net Income	11.58	12.4	12.9	13.3
EPS (PKR)	10.0	10.7	11.1	11.5
DPS (PKR)	11.0	10.5	10.8	11.3
Total Assets	134.0	116.9	105.2	94.9
Total Equity	31.4	27.6	27.5	28.0

Key Financial Ratios

ROE (%)	36.8	44.9	46.8	47.6
P/E (x)	13.1	12.2	11.8	11.3
P/B (x)	4.8	5.5	5.5	5.4
DY (%)	8.4	8.0	8.3	8.6

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 Repairs and Maintenance Cost to Drag Earnings down in 3QFY17

- Hub Power Company Limited's (HUBC) board meeting is scheduled on 27th Apr-17 to announce financial result for 3QFY17. We expect the company to report unconsolidated earnings of PKR 2.69bn (EPS PKR 2.32) down by 28%YoY in 3QFY17 as compared to PKR 3.76bn (EPS PKR 3.25)
- We attribute this decline in earnings to a) 95%YoY decline in other income in the absence of dividend income from Laraib Plant and b) gross margins to decline to 12% (down by 889bps) owing to higher repair and maintenance cost incurred at Hub and Narowal plants.
- We maintain our "HOLD" call on HUBC with our Dec-17 target price of PKR 136/share, offering +4% upside from its last closing. The company is currently trading at a FY17E P/E of 12.2x and offers a dividend yield of 8%.

Earnings estimated to clock in at PKR 2.06/share in 3QFY17, down by 37%YoY

Hub Power Company Limited's (HUBC) board meeting is scheduled on 27th Apr-17 to announce financial result for 3QFY17. We expect the company to report unconsolidated earnings of PKR 2.69bn (EPS PKR 2.32) down by 28%YoY in 3QFY17 as compared to PKR 3.76bn (EPS PKR 3.25) in the same period last year. We attribute this decline in earnings to a) 95%YoY decline in other income in the absence of dividend income from Laraib Plant and b) gross margins to decline to 12% (down by 889bps) owing to higher repair and maintenance cost incurred at Hub and Narowal plants. We expect the company to announce cash dividend of PKR 2.50/share along with the result, taking cumulative dividends for 9MFY17 to PKR 5.50/share. Cumulative earnings for 9MFY17 is anticipated to clock in at PKR 6.58bn (EPS PKR 5.69) as compared to PKR 8.28bn (EPS PKR 7.16) in the corresponding period last year.

Recommendation

We maintain our "HOLD" call on HUBC with our Dec-17 target price of PKR 136/share, offering +4% upside from its last closing. The company is currently trading at a FY17E P/E of 12.2x and offers a healthy dividend yield of 8%.

Exhibit:

Financial Highlights

PKRmn	3QFY17E	3QFY16	YoY	9MFY17E	9MFY16	YoY
Revenue	27,688	18,565	49%	73,341	66,466	10%
Operating Costs	24,403	14,712	66%	63,919	55,601	15%
Gross Profit	3,286	3,853	-15%	9,422	10,865	-13%
General & Admin	252	139	82%	635	671	-5%
Other Expenses	-	45	N/A	-	411	-100%
Financial Charges	695	753	-8%	2,275	2,373	-4%
Other Income	41	910	-95%	67	940	-93%
PAT	2,379	3,758	-37%	6,578	8,280	-21%
EPS	2.06	3.25		5.69	7.16	
DPS	2.50	3.50		5.50	8.00	

Source: IGI Research, Company Financials

No of Shares: 1,157.15 mn

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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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