

Flash Note

Thursday, 27 April 2017

Power Generation and Distribution Companies

HUBC: Higher Maintenance Cost at Hub and Narowal Plant Drag Earnings Down by 9%YoY to PKR 2.97/share in 3QFY17

- Hub Power Company Limited (HUBC) announced financial results for 3QFY17 with unconsolidated earnings clocking in at PKR 3.44bn (EPS PKR 2.97) down by 9%YoY as compared to PKR 3.76bn (EPS PKR 3.24) in the same period last year. Cumulative earnings for 9MFY17 stand at PKR 7.64bn (EPS PKR 6.60) as compared to PKR 8.28bn (EPS PKR 7.15) in the corresponding period last year.
- The company announced cash dividend of PKR 2.0/share along with the result, taking cumulative dividend for 9MFY17 to PKR 5.0/share.
- Revenues for 3QFY17 increased by +29%YoY to PKR 19.98bn as compared to PKR 15.45bn in the corresponding period last year owing to +79%YoY rise in FO prices.
- Gross margins declined by 725bps to 11.5% during 3QFY17 as compared to 18.7% in the corresponding period last year likely owing to higher repairs and maintenance cost incurred at Hub and Narowal plant.
- Other income increased by +29%YoY to PKR 1.18bn in 3QFY17 as compared PKR 0.91bn in the same period last year owing to higher dividend income from Laraib Energy.
- Finance costs leaped up by +35%YoY to PKR 461mn during 3QFY17 as compared to PKR 342mn in the corresponding period last year likely owing to increased short term borrowing leading to higher interest cost.

Recommendation

We maintain a 'HOLD' call on HUBC with Dec-17 TP of PKR 136/share offering an upside of +4% from its last close. The company is currently trading at FY17E P/E of 12.2x and dividend yield of 8%.

Exhibit:

Financial Highlights

PKRmn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Revenue	19,978	15,450	29%	57,830	63,352	-9%
Operating Costs	17,684	12,556	41%	50,778	53,445	-5%
Gross Profit	2,294	2,894	-21%	7,052	9,907	-29%
General & Admin	154	93	66%	474	625	-24%
Other Operating Expenses	59	45	30%	59	411	-86%
Financial Charges	461	342	35%	1,355	1,962	-31%
Other Income	1,175	910	29%	1,201	940	28%
PAT (Continuing Operations)	2,722	3,257	-16%	6,291	6,707	-6%
PAT (Discontinuing Operations) *	713	501	42%	1,344	1,573	-15%
Total PAT	3,435	3,758	-9%	7,635	8,280	-8%
EPS	2.97	3.24		6.60	7.15	
DPS	2.00	3.50		5.00	8.00	

Source: IGI Research, Company Financials

No of Shares: 1,157.15 mn

* Discontinuing operations include Narowal Plant earnings

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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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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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Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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