

# Flash Note

Wednesday, 15 March 2017

## Power Generation and Distribution Companies

### HUBC to Divest 40% stake in TEL to FFC and CMEC

- Hub Power Company Limited's (HUBC) in its notice through PSX announced its intention to divest 40% stake in Thar Energy Limited (TEL) subject to approval from shareholders and other regulatory approvals.
- The company has intends to sell 30% stake to Fauji Fertilizer Company Limited (FFC) and remaining 10% to China Machinery Engineering Corporation (CMEC), which is the EPC contractor for the project.
- To recall, Pakistan Private Infrastructure Board (PPIB) has approved HUBC's plan to set up 330MW Mine mouth Coal fired Power plant at Thar, through a wholly owned subsidiary of HUBC, Thar Energy Limited (TEL). TEL would have to achieve financial close within 9 months, which we expect should be in Sep-17. Total project cost is estimated to be at USD 500mn, with debt: equity ratio of 75:25 whereas equity portion to be financed through long term borrowing
- We expect the project to add PKR 11.8/share to HUBC's valuation at 100% equity stake for HUBC based on Return on Equity of 30.65%.
- However, with HUBC's stake after divestment at 60%, we estimate value addition of TEL on HUBC's valuation to come down to PKR 7.1/share.
- We await financial close and Power Purchase Agreement of the project for further details and once available we will incorporate it in our valuation for HUBC.

#### Recommendation

We maintain our "BUY" call on HUBC with our Dec-17 target price of PKR 136/share. The company is currently trading at a FY17E P/E of 12.5x and offers a healthy dividend yield of 8%.

#### Analyst

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**Time Horizon:** Dec - 2017

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DDM (Dividend Discount Model)

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