

COMPANY UPDATE

The Hub Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price: Dec-21	133.0
Last Closing: 3-May-21	73.7
Upside (%):	80.4
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	8M

Market Data

Bloomberg Tkr.	HUBC PA		
Shares (mn)	1,297.2		
Free Float Shares (mn)	972.9		
Free Float Shares (%)	75.0%		
Market Cap (PKRbn USDmn)	95.6	573	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(17.6)	(7.5)	(11.0)
Lo	75.0	75.0	70.3
Hi	91.3	91.3	91.3

Key Company Financials

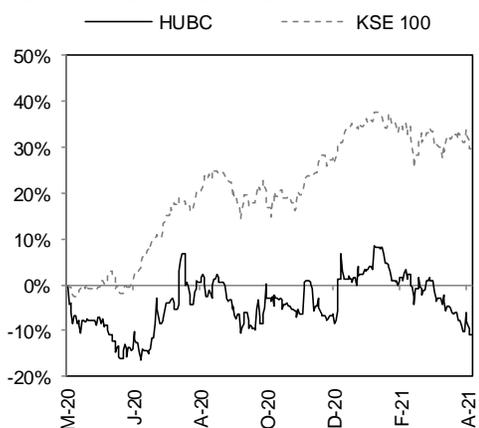
Period End: Jun

PKRbn	2020a	2021f	2022f	2023f
Total Revenue	48.3	60.3	83.3	89.4
Net Income	25.0	32.6	37.6	40.4
EPS (PKR)	19.3	25.1	29.0	31.1
DPS (PKR)	-	8.0	12.0	10.0
Total Assets	260.4	326.2	376.8	365.6
Total Equity	76.3	98.8	122.1	150.9

Key Financial Ratios

ROE (%)	39.4	37.2	34.1	29.6
P/E (x)	3.8	2.9	2.5	2.4
P/B (x)	1.3	1.0	0.8	0.6
DY (%)	-	10.9	16.3	13.6

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Power Generation & Distribution

HUBC: 3QFY21 Management call takeaways; Project delays to keep cashflows in check

- HUBC held an investor briefing session to discuss 3QFY21 financial results. Management also provided further details on key developments. HUBC reported consolidated earnings of PKR 8.58bn (EPS PKR 6.61) during 3QFY21, up by 19%y/y, compared to PKR 7.20bn (EPS PKR 5.55) in the same period last year.
- The Company did not announce cash dividend for 3QFY21. Going forward the Company will assess the cash position every quarter and depending on cash position, HUBC shall payout cash dividend.
- The first installment of for HUBC was due within 30 business days from signing (end-March 2021) while first instalment for Narowal was due upon notification of the revised Tariff – yet to be notified by NEPRA. Both timelines have lapsed due to complications arising from NAB's ongoing investigation. This affected HUBC's cashflows and restricted it from announcing dividends in 3QFY21
- We maintain our 'Buy' rating on HUBC, with a Dec-21 target price of PKR 133/share, offering ~80% upside from last close. The Company is currently trading at FY21/22F P/E of 2.9x/2.5x.

HUBC reported EPS of PKR 6.61 for 3QFY21...

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The Company did not announce cash dividend for 3QFY21. The management elaborated about the dividend payout policy that due to anticipation of payments to be received as per MoU signed with Government and better cash position, the Company paid out cash dividend in last quarters, however, as the payments have not come through yet, the company skipped dividend during 3QFY21. Similarly, going forward the Company will assess the cash position every quarter and depending on cash position, HUBC shall payout cash dividend.

Higher CPHGC contribution and lower finance cost lifted earnings during 3QFY21

We attribute this growth in earnings during 3QFY21 primarily on the back of a) +8%y/y rise in gross profit led by weaker PKR and lower depreciation cost, b) PKR 4.08bn share of profit from associate and c) lower finance cost. However, earnings growth was limited by higher taxation on account of withholding tax recorded on share of profit from CPHGC.

Exhibit: HUBC Financial Highlights (Consolidated)

PKR mn	3QFY21	3QFY20	y/y	2QFY21	q/q	9MFY21	9MFY20	y/y
Turnover	12,023	11,820	2%	10,997	9%	38,815	36,473	6%
Operating Costs	3,883	4,316	-10%	3,258	19%	14,796	14,498	2%
Gross Profit	8,141	7,504	8%	7,739	5%	24,018	21,975	9%
General & Admin expenses	332	343	-3%	366	-9%	1,084	1,173	-8%
Financing Cost	1,928	3,106	-38%	1,827	6%	5,659	9,357	-40%
Share of profit/(loss) from associates	4,078	3,807	7%	4,123	-1%	11,683	8,960	30%
Loss on shares transferred to GoB	-	-	n/m	-	n/m	-	(1,009)	n/m
PBT	9,974	7,903	26%	9,545	4%	28,895	19,571	48%
PAT	8,818	7,390	19%	8,447	4%	25,706	18,900	36%
PAT - Attributable to HUBC	8,576	7,201	19%	8,198	5%	24,918	18,253	37%
EPS (PKR) @ 1,297.15mn shares	6.61	5.55		6.32		19.21	14.07	
DPS (PKR)	-	-		3.00		7.00	-	

Source: IGI Research, Company Financials

No of Shares: 1,297.15

Key highlights from management conference call

- Delayed payments from GoP affecting cashflows:** The first installment of for HUBC was due within 30 business days from signing (end-March 2021) while first instalment for Narowal was due upon notification of the revised Tariff – yet to be notified by NEPRA. Both timelines have lapsed due to complications arising from NAB’s ongoing investigation. This affected HUBC’s cashflows and restricted it from announcing dividends in 3QFY21.
- Expansion projects remain on track:** Application for CPHGC’s Tariff True-up is in final stages with NEPRA. CPHGC has not paid out dividends as yet due to liquidity constraints as the company shores up coal reserves in anticipation of the monsoon season. Among HUBC’s other growth projects, construction for Thar Energy is 60% complete and is expected to come online by Mar-22 while construction work for ThalNova Power is 37% complete with COD targeted by 2QCY22.
- Developments on water projects are slow:** HUBC is facing delays with the contractor for the waste water projects where HUBC will submit a revised USP which could take 2-3 months. The award is likely to be granted by year end while construction time could take up to 2-years. DHA Cogen’s core management has changed which has led to delays in reassessing the project. HUBC will submit a proposal in the next few weeks.
- Conversion of base plant:** HUBC has applied for an NOC in order for NEPRA to admit a petition on the tariff. This would help determine the viability for partial coal conversion of HUBC’s base plant. HUBC has given two options to the Govt. (a) for early termination or (b) through simple carving out of two units which would remove the Govt.’s liability to pay any further capacity payments. The Govt. is yet to approve the NOC, after which HUBC will look for financing.

- Regarding ENI, HUBC will be picking up certain liabilities in terms of decommissioning of wells and taxation on acquisition. The detail will be disclosed post Sep-21.

Recommendation

We maintain our 'Buy' rating on HUBC, with a Dec-21 target price of PKR 133/share, offering ~80% upside from last close. The Company is currently trading at FY21/22F P/E of 2.9x/2.5x.

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