

# Day Break

Tuesday, 02 March 2021

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## COMPANY UPDATE

### The Hub Power Company Limited

Power Generation & Distribution

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec-21	133.0
Last Closing: 1-Mar-21	84.9
Upside (%):	56.6
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	10M

#### 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)	110.2   660
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	8.2 1.0 (5.4)
Lo	77.2 75.4 57.4
Hi	91.3 91.3 93.8

#### Key Company Financials

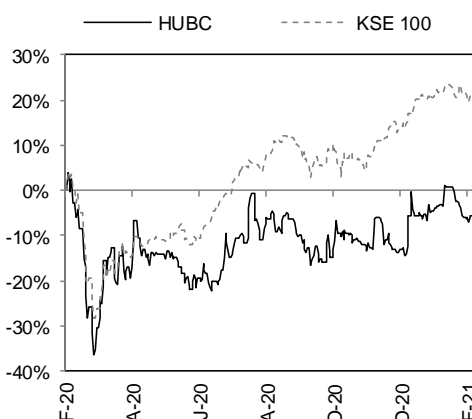
Period End: Jun

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	361.8	365.6
Total Equity	76.3	98.8	122.1	150.9

#### Key Financial Ratios

ROE (%)	32.5	26.0	39.4	37.2
P/E (x)	4.4	3.4	2.9	2.7
P/B (x)	3.1	2.2	1.4	1.1
DY (%)	-	9.4	14.1	11.8

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Power Generation & Distribution

### HUBC: Growth Intact, Clarity on Payouts Reaffirms Our 'Buy' Stance

- We maintain our 'Buy' rating on HUBC with our Dec-21 target price of PKR 133/share offering 57% upside from last close.
- We have revised our earnings up by +12% for FY21 to reflect continuation of previous tariff as revised tariff would take affect once exchange rate hits 168.6. We have maintained our dividend assumption post clarity by management on payout policy which will act as key price catalyst for the stock.
- HUBC reported consolidated earnings of PKR 8.20bn (EPS PKR 6.32) for 2QFY21 up by +49%y/y compared to PKR 5.48bn (EPS PKR 4.23) in the same period last year. On a sequential basis, earnings are up by +1%q/q during 2QFY21. The Company announced surprise cash dividend for 2QFY21 of PKR 3.0/share, bringing total cash payout to PKR 7.0/share for 1HFY21
- HPHL received dividend from CPHGC which is why HUBC paid out PKR 3/share cash dividend. Also management elaborated that financial close for all coal projects has been completed and there is not financial risk, along with improvement in cash position. Thus, depending on cash position the Company may keep payouts steady.

#### Maintain our BUY stance post 2QFY21 management conference call

We maintain our 'Buy' rating on HUBC with our Dec-21 target price of PKR 133/share offering 57% upside from last close.

We have revised our earnings up by +12% for FY21 to reflect continuation of previous tariff as revised tariff would take affect once exchange rate hits 168.6. We have maintained our dividend assumption post clarity by management on payout policy which will act as key price catalyst for the stock.

The Company is currently trading at FY21/22F P/E of 3.4x/2.9x and offers a dividend yield of 9.4%/14.1%.

#### HUBC reported EPS of PKR 6.32 for 2QFY21...

HUBC reported consolidated earnings of PKR 8.20bn (EPS PKR 6.32) for 2QFY21 up by +49%y/y compared to PKR 5.48bn (EPS PKR 4.23) in the same period last year. On a sequential basis, earnings are up by +1%q/q during 2QFY21. This brings total profitability for 1HFY21 to PKR 16.34bn (EPS PKR 12.60) against PKR 11.05bn (EPS PKR 8.52) reported in the corresponding period last year.

The Company announced surprise cash dividend for 2QFY21 of PKR 3.0/share, bringing total cash payout to PKR 7.0/share for 1HFY21. Dividend was paid out as the Hub Power Holding Limited (HPHL) received first dividend from China Power Hub Generation Company Limited (CPHGC).

### ...as lower finance cost and higher CPHGC profits lifted earnings

We attribute this growth in earnings during 2QFY21 primarily on the back of a) +11% y/y rise in gross profit led by PKR depreciation, b) PKR 4.12bn share of profit from CPHGC post COD in Aug-19 and, c) lower finance cost. Earnings were also higher as loss on share transfer to Government of Balochistan (GoB) was recorded in 2QFY20. 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	2QFY21	2QFY20	y/y	1QFY21	q/q	1HFY21	1HFY20	y/y
Turnover	10,997	10,573	4%	15,794	-30%	26,791	24,654	9%
Operating Costs	3,258	3,592	-9%	7,655	-57%	10,913	10,182	7%
Gross Profit	7,739	6,980	11%	8,139	-5%	15,878	14,472	10%
General & Admin expenses	366	381	-4%	386	-5%	752	830	-9%
Financing Cost	1,827	3,192	-43%	1,904	-4%	3,731	6,251	-40%
Share of profit/(loss) from associates	4,123	3,280	26%	4,336	-5%	8,458	5,153	n/m
Loss on shares transferred to GoB	-	(1,009)	n/m	-	n/m	-	(1,009)	n/m
PBT	9,545	5,767	66%	10,230	-7%	19,775	11,669	69%
PAT	8,447	5,687	49%	9,295	-9%	17,742	11,511	54%
PAT - Attributable to HUBC	8,198	5,484	49%	8,144	1%	16,342	11,052	48%
EPS (PKR)	6.32	4.23		6.28		12.60	8.52	
DPS (PKR)	3.00	-		4.00		7.00	-	

Source: IGI Research, Company Financials

No of Shares: 1,297.15

## Key highlights from management conference call

HUBC held an investor briefing session to discuss 2QFY21 financial results. Management also provided further details on key developments.

- **Dividend received from CPHGC:** HPHL received dividend from CPHGC which led to HUBC paying out PKR 3.0/share cash dividend. Management further elaborated that financial close for all coal projects has been completed and there is no significant financial risk, along with improvement in cash position. Thus, depending on cash position the Company may keep payouts steady.
- **WHT on dividends 2015 power plants:** The matter is under discussion and the Company has taken up the matter with Ministry of Finance (MoF) and NEPRA and also discussed with Ministry of Energy (MoE).
- **Conversion of MoUs in to agreement:** One of the major clause in the final agreement which was not part of MoU is that until the exchange rate hits 168.6, the current USD indexation will continue and only after when the USD rate hits 168.6 the amended tariff as per the MoUs signed would come into effect. Thus, the management expects minimal impact on earnings for FY21 and FY22.
- **Payment of first tranche:** The Company expects first tranche for Hub plant to be disbursed in the next 1-2 weeks (starting 1<sup>st</sup> March, 2021) as the agreement was signed on 12<sup>th</sup>-Feb-2021 which as per the PPA payments have to be

disbursed within 30 days. However, for Narowal NEPRA's approval is awaited and once that is obtained payment will be disbursed.

- ***Litigation and damages proceedings are on track:*** HUBC's ongoing dispute settlement for Narowal (on the withheld portion of the CPP) is underway where under the LCIA award IPPs will be compensated through certain components of the tariff. There are two different liquidated damages for both TEL and TNTPL, (i) the RCOD for both projects was March 2021, however force majeure due to Covid-19 and GoP staggering the capacity payments led this date to be extended to Jun-22 where PPA related LDs may be avoided. (ii) Second LDs are on the HVDC transmission line which was also due to be completed in March 2021 but has been agreed with the Chinese party to be delayed till Sep-21. The related LDs however, will still be paid on both projects (US\$1.8mn per month for each projects) from Sep-21 till the extended RCOD date of Jun-22. On litigation of PKR 11.5bn from WAPDA for RFO, both parties have mutually decided to refer to arbitration. Parties will file application before SHC
- ***'Take and pay' basis:*** Management is of the view that none of its RFO based plants (Hub & Narowal) will move to Take and Pay basis as under their respective generation licenses both the plants have the option to decide whether to opt for it or not.
- ***Tariff negotiation for CPHGC, TEL and Thal Nova:*** All these plants are CPEC based and negotiations on are being conducted on a government-to-government basis for concessions on Chinese debt component of project costs. So far the Pakistani authorities have forwarded their request and now decision is awaited from Chinese authorities however as of right now there is no formal agreement.
- ***Conversion of base plant:*** HUBC is currently considering two major projects for base plant which could be implemented if early termination of base plant is called for. This includes conversion of 2x300MW units of the base plant to coal and subsequent supply of power to K-Electric for which tariff is to be worked out. However, cost of conversion would be significantly lower than setting a new plant as only boiler would need to be replaced. Second project includes water desalination plants and revival of DHA Cogen project. Estimated cost of water project could be USD 100-150mn while for DHA Cogen it will take 1-2 months to sort out technical issues after which financial close would take place.

### Recommendation

We maintain our '**Buy**' rating on HUBC, with a Dec-21 target price of PKR 133/share, offering 57% upside from last close. The Company is currently trading at FY21/22F P/E of 3.4x/2.9x.

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