

Day Break

Tuesday, 03 May 2016

Company Update

Hub Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price	119.4
Last Closing	108.5
Upside	10%

Market Data

Bloomberg Tkr.	HUBC PA
Shares (mn)	1,157.2
Market Cap (PKRbn USDmn)	125.6 1,198.4
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	5.8	2.5	11.6
Low	102.3	98.8	93.0
High	109.3	109.3	109.3

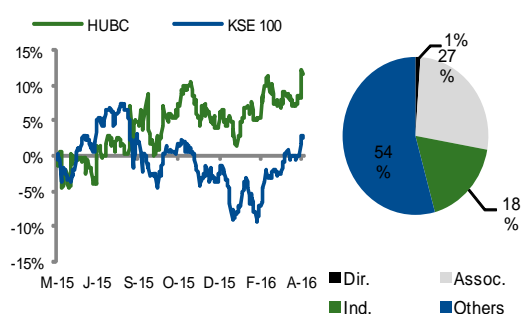
Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	131.5	99.2	102.0	102.8
Net Income	9.9	11.0	12.6	12.8
EPS (PKR)	8.5	9.5	10.9	11.1
DPS (PKR)	9.5	9.5	10.7	10.8
Total Assets	125.9	121.0	100.3	83.4
Total Equity	31.6	31.6	32.6	33.0

Key Financial Ratios

ROE (%)	31%	35%	39%	39%
P/E (x)	12.7	11.4	9.9	9.8
P/B (x)	4.0	4.0	3.8	3.8
DY (%)	8.8	8.8	9.9	10.0

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: Dividend from Laraib hikes up Earnings by 1.1xYoY in 3QFY16

- Hub Power Company's (HUBC) earning depicted a massive jump of +1.1xYoY to PKR 3.8bn (EPS PKR 3.25) in 3QFY16/, taking 9MFY16 earnings to PKR 8.3bn (EPS PKR 7.16) posting a +26%YoY growth. Along with the result, the company announced cash dividend of PKR 3.50/share for 3QFY16 taking 9MFY16 cumulative dividend to PKR 8.0/share
- Along with result, the company announced the retirement of its long-term loan which was obtained to finance Hub Plant project in 1993 and furthermore HUBC is mulling over about setting up a 330MW mine mouth coal power plant at Thar.
- We maintain a 'BUY' call on HUBC with Dec-16 TP of PKR 119/share, offering +10% upside from its last closing. The company is currently trading at P/E of 11.4x, offering a dividend yield of 8.8%.

Earnings Soar by massive 1.1xYoY to PKR 3.25/share in 3QFY16

Hub Power Company's (HUBC) earnings depicted a massive jump of +1.1xYoY to PKR 3.8bn (EPS PKR 3.25) in 3QFY16, taking 9MFY16 earnings to PKR 8.3bn (EPS PKR 7.16) rising by +26%YoY. The growth in earning in 3QFY16 is primarily attributable to dividend income from Laraib Energy Limited (LEL) to the tune of PKR 904mn (PKR 0.78/share) and 88%YoY drop in other operating expense in the absence of damaged asset write off at Narowal Plant. Along with the result, company announced cash dividend of PKR 3.50/share for 3QFY16 taking 9MFY16 cumulative dividend to PKR 8.0/share.

Dividend Income from Laraib Leaps up profitability

During 3QFY16, HUBC received cash dividend of PKR 904mn from Laraib Energy pushing up earnings by massive +1.1xYoY. LEL paid out a healthy cash dividend despite fall in earnings by 83%YoY in 3QFY16 to PKR 260mn, owing to final tariff approval from NEPRA. LEL has filled a review petition for the tariff approved by NEPRA.

Retirement of Loan; HUBC to Payout Dividend on Quarterly Basis

Company retired its long-term loan which was obtained to finance Hub Plant project in 1993, which has led to lifting up of covenant regarding restrictions over quarterly dividend payments. The company has guaranteed cash dividend of PKR 1.5/share on quarterly basis, which can further go up at the end of every third quarter after considering cash flow requirements.

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HUBC Considering a 330MW Plant at Thar

HUBC is mulling over about setting up a 330MW mine mouth coal power plant at Tharat an estimated cost of USD 500mn (USD 1.52mn/MW). Company has applied for a LOI and seeks approval from PPIB for setting up the project.

Outlook

Going forward, value drivers for the company are a) Demerger and potential listing of Narowal Plant, b) Government's commitment to IMF to cap circular debt and gradually bring it down to PKR 204bn by 2018, c) Development of 2x660MW coal based power plant in partnership with China Power International Holding (CPIH) by 2019 and d) Investment in Thar coal power project. In the short-term, any further depreciation of PKR against USD is anticipated to translate into higher profitability in 4QFY16.

Recommendation

We maintain a 'BUY' call on HUBC with Dec-16 TP of PKR 119/share, offering +10% upside from its last closing. The company is currently trading at P/E of 11.4x, offering a dividend yield of 8.8%. HUBC has outperformed KSE-100 index by 14% in FY16TD.

Exhibit: Financial Highlights

PKRmn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Revenue	18,565	25,801	-28%	66,466	104,121	-36%
Operating Costs	14,712	22,340	-34%	55,601	93,010	-40%
Gross Profit	3,853	3,461	11%	10,865	11,111	-2%
General & Admin	139	251	-45%	671	617	9%
Other Operating Expenses	45	382	-88%	411	382	8%
Financial Charges	753	1,020	-26%	2,373	3,577	-34%
Other Income	910	8	113x	940	28	32x
PAT	3,758	1,816	107%	8,280	6,561	26%
EPS	3.25	1.57		7.16	5.67	
DPS	3.50	-		8.00	4.00	

Source: IGI Research, Company Financials

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DDM (Dividend Discount Model)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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