

Day Break

Monday, 27 April 2020

COMPANY UPDATE

The Hub Power Company Limited

Power Generation & Distribution

Recommendation	BUY		
Target Price: Dec/20	151.0		
Last Closing: 24-Apr-20	75.0		
Upside (%)	101.3		
Valuation Methodology:	Dividend Discount Model (DDM)		
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)	97.3	630.4	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(22.0)	6.2	3.5
Lo	57.4	57.4	57.4
Hi	102.1	103.2	103.2

Key Company Financials

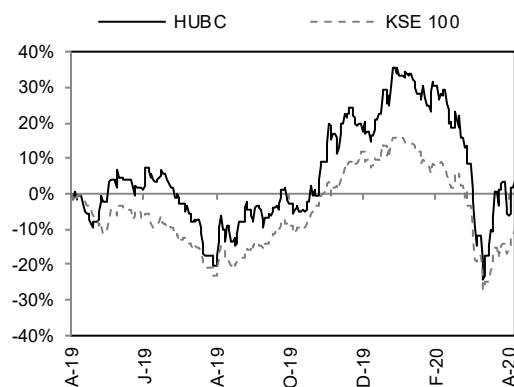
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	58.1	51.7	58.2	87.1
Net Income	11.2	23.9	31.1	42.4
EPS (PKR)	8.7	18.4	24.0	32.7
DPS (PKR)	-	-	13.0	8.0
Total Assets	225.3	297.7	355.4	357.8
Total Equity	51.0	73.1	88.4	124.8

Key Financial Ratios

ROE (%)	32.5	26.0	38.5	38.5
P/E (x)	8.7	4.1	3.1	2.3
P/B (x)	2.7	1.9	1.3	1.1
DY (%)	-	-	17.3	10.7

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Power Generation & Distribution

HUBC: PKR depreciation and higher share of profit from CPHGC to lift 3QFY20 EPS to PKR 5.43

- ✓ The Hub Power Company Limited's (HUBC) board meeting is scheduled on 28th Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 7.04bn (EPS PKR 5.43), up by +2.2xYoY,
- ✓ We estimate growth in earnings on the back of a) contribution of profit from China Power Hub Generation Company (CPHGC) plant and, b) 11%YoY PKR depreciation,
- ✓ On a quarterly basis, earnings are expected to lift by +28%QoQ during 3QFY20 on the back of one-off expense booked in 2QFY20 relating to loss on share transfer to Government of Baluchistan in respect of 1.5% stake in CPHGC,
- ✓ We recommend a 'BUY' stance on HUBC with our Dec-20 target price of PKR 151.0/share offering 101% upside from last close. The company is currently trading at FY21 P/E of 3.1x.

Earnings to clock in at PKR 5.43/share for 3QFY20, up by +2.2xYoY

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 28th Apr-20 to announce financial result for 3QFY20, where we expect the company to post earnings of PKR 7.04bn (EPS PKR 5.43), up by +2.2xYoY, compared to PKR 3.16bn (EPS PKR 2.44) in the same period last year. We estimate growth in earnings on the back of a) contribution of profit from China Power Hub Generation Company (CPHGC) plant and, b) 11%YoY PKR depreciation. However, growth in earnings is expected to be limited by +62%YoY rise in finance cost on account of higher interest rate and mark up on LT loans for new projects. We foresee HUBC to withhold cash payout during the quarter.

Exhibit: HUBC Financial Highlights (Consolidated)

PKR mn	3QFY20E	3QFY19	YoY	9MFY20E	9MFY19	YoY
Turnover	10,955	13,398	-18%	35,609	44,383	-20%
Operating Costs	3,727	7,409	-50%	13,909	28,983	-52%
Gross Profit	7,228	5,989	21%	21,700	15,400	41%
General & Admin expenses	422	405	4%	1,252	1,080	16%
Financing Cost	3,241	1,998	62%	9,492	4,934	92%
Share of profit/(loss)	3,741	(128)	n/m	8,894	(321)	n/m
Loss on share transfer to GoB	-	-	n/m	(1,009)	-	n/m
PBT	7,374	3,469	113%	19,043	9,295	105%
PAT	7,257	3,329	118%	18,767	9,009	108%
PAT - Attributable to HUBC	7,041	3,161	123%	18,093	8,568	111%
EPS (PKR)	5.43	2.44	123%	13.95	6.61	111%
DPS (PKR)	-	-	-	-	-	-

Source: IGI Research, Company Financials

No of Shares: 1,297.15

EPS to rise by +28%QoQ in absence of one-off share transfer cost

On a quarterly basis, earnings are expected to lift by +28%QoQ during 3QFY20. We expect the growth in earnings on sequential basis on the back of one-off expense booked in 2QFY20 relating to loss on share transfer to Government of Baluchistan in respect of 1.5% stake in CPHGC.

Recommendation

We recommend a 'BUY' stance on HUBC with our Dec-20 target price of PKR 151.0/share offering 101% upside from last close. The company is currently trading at FY21 P/E of 3.1x.

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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)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2019

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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