

Day Break

Friday, 27 October 2017

COMPANY UPDATE

THE HUB POWER COMPANY LIMITED

POWER GENERATION & DISTRIBUTION

Recommendation	BUY
Target Price:	136.6
Last Closing: 26-Oct-17	108.0
Upside:	26.4
Valuation Methodology:	Dividend Discount Model (DDM)

Time Horizon: Jun-18

Market Data

Bloomberg Tkr.	HUBC PA
Shares (mn)	1,157.2
Free Float Shares (mn)	752.2
Free Float Shares (%)	65.0%
Market Cap (PKRbn USDmn)	125.0 1,186.5
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(11.3) (16.8) (1.1)
Lo	105.3 105.3 103.2
Hi	125.9 135.1 145.4

Key Company Financials

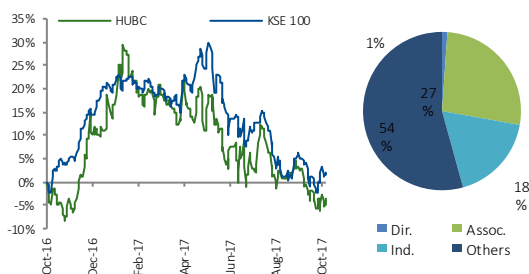
Period End: Jun

PKRbn	FY16A	FY17A	FY18E	FY19F
Total Revenue	91.6	101.2	109.2	113.9
Net Income	11.9	10.7	12.5	13.3
EPS (PKR)	10.3	9.2	10.8	11.5
DPS (PKR)	11.0	7.5	8.0	9.0
Total Assets	153.8	159.6	166.6	146.4
Total Equity	31.2	32.6	33.3	34.1

Key Financial Ratios

ROE (%)	38.1	32.8	37.6	39.1
P/E (x)	10.5	11.7	10.0	9.4
P/B (x)	4.0	3.8	3.7	3.7
DY (%)	10.2	6.9	7.4	8.3

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, PSX & IGI Research

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Power Generation & Distribution

HUBC: Earnings to post +16%YoY to PKR 2.47/share in 1QFY18

- Hub Power Company Limited's (HUBC) board meeting is scheduled on 30th Oct-17 to announce financial result for 1QFY18. We expect company to post earnings of PKR 2.86bn (EPS PKR 2.47) up by +16%YoY compared to PKR 2.47bn (EPS PKR 2.13) in the same period last year;
- Hub, Narowal and Laraib load factor declined during 1QFY18 to 68%, 69% and 51% compared to 71%, 65% and 57% respectively;
- During 1QFY18 circular debt amount has further piled up leading to higher borrowing requirement for IPPs. As a result, we expect HUBC's short term borrowings to further rise in 1QFY18 leading to higher finance cost;
- We maintain our 'BUY' stance on HUBC with our Jun-18 target price of PKR 137/share, offering an upside of +26% from its last close. The company is currently trading at FY18E P/E of 10.0x and offers a healthy dividend yield of 7.4%.

HUBC: Earnings to clock in at PKR 2.47/share in 1QFY18, DPS PKR 1.50/share

Hub Power Company Limited's (HUBC) board meeting is scheduled on 30th Oct-17 to announce financial result for 1QFY18. We expect company to post earnings of PKR 2.86bn (EPS PKR 2.47) up by +16%YoY compared to PKR 2.47bn (EPS PKR 2.13) in the same period last year. We attribute this growth in earnings to devaluation of PKR by nearly 1%YoY. Gross margins are expected to on the lower side owing to maintenance carried out at Narowal plant as 8 out of 11 engines were overhauled in FY17 while 3 are planned for FY18. However, given lower load factor for Narowal we expect some maintenance was carried out during 1QFY18. We estimate finance cost to increase by +5%YoY owing to higher short term borrowings. We expect the company to announce cash dividend of PKR 1.50/share, along with the result.

Exhibit:

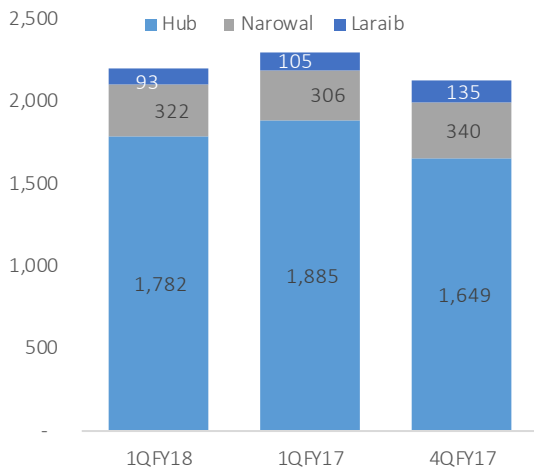
Financial Highlights (Consolidated)

PKR mn	1QFY18E	1QFY17	YoY	4QFY17	QoQ
Turnover	27,054	23,874	13%	27,049	0%
Operating Costs	22,578	19,813	14%	22,220	2%
Gross Profit	4,475	4,061	10%	4,829	-7%
General & Admin expenses	315	351	-10%	385	-18%
Financing Cost	1,056	1,007	5%	998	6%
EBT	3,065	2,696	14%	3,407	-10%
PAT	3,005	2,652	13%	3,284	-9%
PAT - Attributable to HUBC	2,861	2,465	16%	3,120	-8%
EPS (PKR)	2.47	2.13		2.70	
DPS (PKR)	1.50	1.50		2.50	

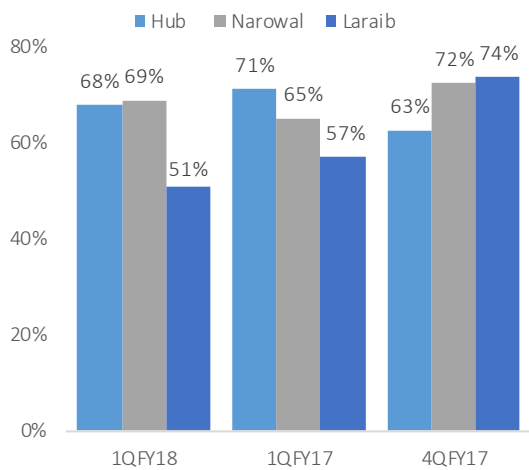
Source: Company Financials & IGI Research

No of Shares: 1,157 mn

Generation Plant-wise for 1QFY18 (Gwh)



Load Factor for 1QFY18 - Plant-wise (%)



Load factor remained on the lower side as new projects commence operations

Hub, Narowal and Laraib load factor declined during 1QFY18 to 68%, 69% and 51% compared to 71%, 65% and 57% respectively, in the same period last year as new power projects commenced operations and maintenance carried out at Narowal plant. Generation from Laraib on quarterly basis remained low owing to slow down in Hydel generation post monsoon season.

Higher finance cost on the back of increased short term borrowings

HUBC's short term borrowings increased by xx% in FY17 to PKR 24.8bn from PKR 16.5bn in FY16 owing to substantial rise in circular debt. During 1QFY18 circular debt amount has further piled up leading to higher borrowing requirement for IPPs. As a result, we expect HUBC's short term borrowings to further rise in 1QFY18 leading to higher finance cost.

Recommendation

We maintain our 'BUY' stance on HUBC with our Jun-18 target price of PKR 137/share, offering an upside of +26% from its last close. The company is currently trading at FY18E P/E of 10.0x and offers a healthy dividend yield of 7.4%.

Source: Company Financials, IGI Research, NEPRA

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Jun – 2018

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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