

# Flash Note

Monday, 01 April 2019

## Power Generation and Distribution Companies

### The Hub Power Company Limited (HUBC)

#### Right issue declared of 12.1% for increase in stake to 47.5% in CPHGC from current 26%

- The Hub Power Company Limited (HUBC) in its notice through Pakistan Stock Exchange (PSX) has announced right issue of 12.1% (140mn shares) or 12.1 share for every right 100 shares held. The ex-right price has been determined at PKR 50/share (which includes a PKR 40/share premium).
- At price of PKR 50/share for 140mn right shares, the Company expects to raise ~ PKR 7bn from right issue which is to be utilized for increasing its share in China Power Hub Generation Company (CPHGC) from current 26% to 47.5% under the Shares Subscription Agreement (SSA).

Exhibit:

#### Right share issued at 12.1% or 140mn shares

Right Issue	mn share	140
Right share price	PKR/share	50
<b>Total Value to be raised</b>	<b>PKRmn</b>	<b>7,000</b>

Current Shares	mn shares	1,157
Shares post right	mn shares	1,297

Source: IGI Research, Company Financials

- To recall, HUBC has already availed financing from various banks worth PKR 21bn to finance equity stake in CPHGC, Sindh Engro Coal Mining Company (SECMC) and Thar Energy Limited (TEL), which assumingly covers the equity requirement for CPHGC at 26% stake. Based on our estimates, total remaining equity requirement for CPHGC stands at PKR 8.2bn for the remaining 22% stake. Thus a further right issue cannot be ruled out as HUBC authorized share capital was increased by 500mn shares and only 140mn has been issued so far.
- Based on our estimates, the total equity requirement for all projects comes at PKR 50.5bn (at 47.5% stake for CPHGC) out of which PKR 26.5bn has been availed. The remaining equity portion investment in all projects comes at PKR 24.0bn out of which PKR 7bn has been raised through right issue so far. The remaining PKR 17.0bn is likely to be financed through dividend curtailment in our view, out of which already PKR 5.4bn has been curtailed in 1HFY19.
- As per 1HFY19 financials, HUBC has already made investment of PKR 10.3bn in CPHGC, PKR 1.1bn in SECMC, PKR 0.69bn in Thal Nova (TNPTL) and PKR 8.4bn in Thar Energy Limited (TEL).
- The following is the financial projection as notified by the management. To note the financial projection in our view is based on unconsolidated earnings from which Narowal had been demerged back in Apr-2017.

Exhibit:

#### Financial Projections given by HUBC's Management

PKRmn	FY19	FY20	FY21	FY22	FY23
Gross Profit	11,500	14,884	15,578	18,730	20,880
Profit after tax	6,996	11,764	24,033	27,813	32,453
EPS (PKR)*	6.05	9.07	18.53	21.44	25.02
Share Capital	12,971	12,971	12,971	12,971	12,971

Source: IGI Research, Company Financials, PSX

\* Based on 1157.15mn Shares

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**Time Horizon:** Dec – 2019

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