

## Hub Power Company Limited

### Result Preview

PSX: HUBC    Bloomberg: HUBC PA    Reuters: HPWR.PSX

Pakistan Research

## HUBC: 3QFY24 EPS likely to come at PKR 12.74, up 47% YoY, DPS PKR 5.00

- HUBC's board meeting is scheduled on 29<sup>th</sup> April, 2024 to consider 3QFY24 financial results. We expect the company to post an EPS of PKR 12.74, up 47% YoY vs EPS of PKR 8.67 in SPLY. This will take 9MFY24 earnings to PKR 37.68/share, up 45% YoY.
- Along with the result, we expect the company to announce an interim dividend of PKR 5.0/share, taking 9MFY24 payout to PKR 14.0/sh.
- HUBC's sales revenue is likely to increase by 16% YoY to PKR 32bn in 3QFY24, owing to PKR depreciation along with higher production from Thar energy limited (TEL) and Laraib.
- NEPRA provided dollar indexation of PKR 282.4, up 24.5%, in 3QFY24 against PKR 226.9 in 3QFY23.
- We anticipate Hub power base plant, Laraib, Narrowal Energy and Thar Energy to operate at 0%, 51.2%/14.5% and 50.6%, respectively, with generation of -1GWh, 95Gwh, 69GWh and 369GWh.
- Production from Hub power base plant and Narrowal Energy to remain low due to the decreased dependence of grid on FO based plants owing to their higher generation cost (PKR 41.1/unit in 1QFY24 vs PKR 23.9/unit in 1QFY23).
- Moreover, China Hub Power Generation (CPHGC) to remain unutilized in 3QFY24 given lower coal imports, while Thal Nova (TNPTL) is likely to operate at 68% given higher ranking in merit order.
- Finance cost for the 3Q is likely to augment by 53% YoY to PKR 7.2bn, owing to higher interest rates as well as higher borrowings.
- Share of profit from associates is likely to reach PKR 11.5 bn (PKR 8.8/share) up 78% in 3QFY24, attributable to higher contribution from CPHGC and TNPTL, due to PKR devaluation against green back and lower operation and maintenance expense.
- We maintain our 'BUY' recommendation on the stock. Our Dec-24 PT of PKR 139/share provides an upside of 1%, along with a dividend yield of 16%.

### Key Data

PSX Ticker	HUBC
Target Price (PKR)	139
Current Price (PKR)	138
Upside/ (Downside) (%)	+ 1%
Dividend Yield (%)	+16%
Total Return (%)	+ 17%
12-month High (PKR)	64
12-month Low (PKR)	139
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	178,371
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	3QFY23	3QFY24E	YoY	9MFY23	9MFY24E	YoY
Sales	27,231	31,684	16%	81,918	95,327	16%
Cost of Sales	14,098	14,644	4%	46,201	44,800	-3%
Other expenses	417	819	97%	1,491	2,169	46%
Finance cost	4,721	7,243	53%	11,845	21,289	80%
Other income	(159)	926	na	748	2,146	187%
Share from associate	6,476	11,522	78%	19,554	34,122	75%
Taxation	2,034	3,473	71%	6,252	9,883	58%
<b>Profit after tax</b>	<b>12,277</b>	<b>17,952</b>	<b>46%</b>	<b>36,431</b>	<b>53,453</b>	<b>47%</b>
Share of NCI	1,027	1,441	40%	2,784	4,582	65%
<b>Share of Parent</b>	<b>11,249</b>	<b>16,511</b>	<b>47%</b>	<b>33,647</b>	<b>48,871</b>	<b>45%</b>
EPS	8.67	12.73	47%	25.94	37.68	45%
DPS	2.75	5.00	-	24.00	14.00	-

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS	26.0	21.9	44.4	50.5	57.7	56.6
EPS Growth	29.3%	-15.5%	102.1%	13.9%	14.2%	-1.9%
DPS	12.0	6.5	30.0	21.3	23.1	25.0
PER	5.3	6.3	3.1	2.7	2.4	2.4
Dividend Yield	8.7%	4.7%	21.8%	15.5%	16.8%	18.2%
EV/EBITDA	6.8	7.6	5.3	4.1	3.8	3.7
P/B	1.6	1.4	1.1	0.9	0.7	0.6
ROE	36.0%	25.2%	43.7%	40.0%	35.6%	29.8%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Hub Power Company Limited (HUBC) has been computed using Dividend Discount Model (DDM) method. We have used a risk-free rate of 15%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 21%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of 139/share. Our price target provides an upside of 1% along with a dividend yield of 16%. Our investment case on HUBC is based on (1) Return components are linked to US CPI and exchange rate until the exchange rate reaches PKR/USD 168.60 for base plant, (2) Narowal plant to remain operational throughout its term and, (3) Thar energy and CPHGC return remains linked with exchange rate and US CPI.

### Risks

Key downside risks to our investment thesis are: 1) delay in payment of outstanding dues and, 2) Less than expected devaluation in currency.

### Company Description

The Hub Power Company Limited operates as an Independent Power Producer (IPP) in Pakistan. The company operates through three segments: Hub Plant, Narowal Plant and Laraib Plant. It develops, owns, operates, and maintains power stations. The company owns and operates an oil-fired power station with a net installed capacity of 1,292 MW at Hub plant located in Mouza Kund, Balochistan; and a net installed capacity of 225 MW oil-fired power station at Narowal plant in Mouza Poong, Punjab. It also operates 84 megawatts of hydel power station at Laraib plant in Azad Kashmir.

### Financial Highlights - HUBC

Income Statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	54,639	97,158	114,263	127,011	180,332	179,486
Cost of sales	21,769	64,056	61,485	59,311	108,144	108,338
<b>Gross Profit</b>	<b>32,871</b>	<b>33,103</b>	<b>52,778</b>	<b>67,700</b>	<b>72,189</b>	<b>71,148</b>
SG & A	1,379	1,029	1,368	2,423	3,440	3,424
<b>Operating Profit</b>	<b>31,492</b>	<b>32,074</b>	<b>51,410</b>	<b>65,278</b>	<b>68,749</b>	<b>67,725</b>
Other income	796	2,124	4,095	3,072	1,275	1,344
Other charges	509	398	79	566	566	566
Finance cost	7,341	7,928	19,323	28,533	20,256	17,710
Share from associates	15,501	9,232	34,316	45,693	41,032	41,352
<b>Profit before tax</b>	<b>24,438</b>	<b>35,105</b>	<b>36,102</b>	<b>39,251</b>	<b>49,201</b>	<b>50,793</b>
Taxation	5,109	5,526	8,411	13,356	10,258	10,338
<b>Profit after tax</b>	<b>34,830</b>	<b>29,579</b>	<b>62,007</b>	<b>71,588</b>	<b>79,976</b>	<b>81,807</b>
Share of NCI	1,142	1,107	4,453	6,024	5,134	8,405
<b>Share of Parent</b>	<b>33,688</b>	<b>28,472</b>	<b>57,554</b>	<b>65,564</b>	<b>74,842</b>	<b>73,402</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	79,004	108,670	138,977	136,759	140,784	143,606
Other LT assets	71,460	81,687	120,858	125,139	128,829	128,647
Non-Current Assets	150,463	190,357	259,835	261,898	269,612	272,254
Current assets	127,785	124,795	145,730	162,684	196,652	237,249
<b>Total Assets</b>	<b>278,248</b>	<b>315,153</b>	<b>405,566</b>	<b>424,582</b>	<b>466,264</b>	<b>509,503</b>
Non-Current liabilities	55,370	103,890	123,925	110,543	99,531	88,522
Current liabilities	113,212	85,675	123,604	114,520	117,113	122,055
<b>Total Liabilities</b>	<b>168,582</b>	<b>189,566</b>	<b>247,529</b>	<b>225,063</b>	<b>216,645</b>	<b>210,576</b>
Equity	109,666	125,502	158,036	199,520	249,620	298,926
<b>Total Equity &amp; liabilities</b>	<b>278,248</b>	<b>315,068</b>	<b>405,566</b>	<b>424,582</b>	<b>466,264</b>	<b>509,503</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	34,830	29,579	62,007	71,588	79,976	81,807
Non-cash Charges	3,840	4,584	4,677	4,799	4,928	5,064
<b>Operating Cash flows</b>	<b>35,579</b>	<b>24,907</b>	<b>73,640</b>	<b>53,256</b>	<b>49,924</b>	<b>47,806</b>
<b>FCFF</b>	<b>12,374</b>	<b>(19,579)</b>	<b>(514)</b>	<b>46,394</b>	<b>37,282</b>	<b>40,101</b>
Net borrowings	<b>(3,577)</b>	<b>40,838</b>	<b>31,362</b>	<b>(13,921)</b>	<b>(5,695)</b>	<b>(5,718)</b>
<b>FCFE</b>	<b>8,797</b>	<b>21,259</b>	<b>30,849</b>	<b>32,474</b>	<b>31,587</b>	<b>34,382</b>
Net change in cash	(189)	1,094	8,111	1,555	1,711	1,882
<b>Closing cash</b>	<b>6,349</b>	<b>7,443</b>	<b>15,638</b>	<b>17,109</b>	<b>18,820</b>	<b>20,702</b>

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Hold	Between -5% and +15%
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