

## Hub Power Company Limited

### Result Review

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

Pakistan Research

## HUBC: 3QFY24 EPS came in at PKR 13.25, up 53% YoY, DPS PKR 2.50

- HUBC announced its 3QFY24 financial results today, where the company reported a consolidated EPS of PKR 13.25, up 53% YoY. This takes 9MFY24 EPS to PKR 38.20, up 47% YoY.
- Along with the result, the company announced an interim DPS of PKR 2.50, which was below our expectations. This takes the cumulative payout to PKR 11.50 in 9MFY24.
- HUBC's sales revenue expanded by 17% YoY to PKR 31.7bn in 3QFY24 owing to PKR depreciation along with higher production from Thar energy limited (TEL) and Laraib.
- To highlight, NEPRA provided dollar indexation of PKR 282.4, up 24.5%, in 3QFY24 against PKR 226.9 in 3QFY23.
- Hub power base plant, Laraib, Narowal Energy and Thar Energy operated 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 Narowal Energy remained low due to the decreased dependence of grid on FO based plants owing to their higher generation cost (up 72% YoY).
- Moreover, China Hub Power Generation (CPHGC) remained unutilized in 3QFY24 given lower coal imports, while Thal Nova (TNPTL) operated at 68% given the higher ranking in merit order.
- Finance cost of the company grew by 40% YoY to PKR 6.6bn, mainly due to elevated interest rates and increased borrowings.
- Share of profit from associates reached PKR 12.1bn (PKR 9.3/share) in 3QFY24, up 87% YoY, attributable to higher contribution from CPHGC, TNPTL and PIOGCL given higher dollar indexation and lower operation and maintenance expense.
- We maintain our 'BUY' recommendation on the stock. Our Dec-24 PT of PKR 140/share provides an upside of 2%, along with a dividend yield of 14%.

### Key Data

PSX Ticker	HUBC
Target Price (PKR)	140
Current Price (PKR)	138
Upside/ (Downside) (%)	+ 2%
Dividend Yield (%)	+14%
Total Return (%)	+ 16%
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 Highlights (PKR mn)						
	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Sales	27,231	31,791	17%	81,918	95,434	16%
Cost of Sales	14,098	15,401	9%	46,201	45,556	-1%
Other expenses	417	624	50%	1,491	1,974	32%
Finance cost	4,721	6,597	40%	11,845	20,643	74%
Other income	(159)	801	na	748	2,020	170%
Share from associate	6,476	12,104	87%	19,554	34,703	77%
Taxation	2,034	3,605	77%	6,252	10,015	60%
<b>Profit after tax</b>	<b>12,277</b>	<b>18,468</b>	<b>50%</b>	<b>36,431</b>	<b>53,970</b>	<b>48%</b>
Share of NCI	1,027	1,282	25%	2,784	4,423	59%
<b>Share of Parent</b>	<b>11,249</b>	<b>17,186</b>	<b>53%</b>	<b>33,647</b>	<b>49,547</b>	<b>47%</b>
EPS	8.67	13.25	53%	25.94	38.20	47%
DPS	2.75	2.50	-	24.00	11.50	-

Source: Company Accounts, Akseer Research

Key Financial Ratios						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS	26.0	21.9	44.4	51.9	58.1	57.0
EPS Growth	29.3%	-15.5%	102.1%	17.0%	11.9%	-1.9%
DPS	12.0	6.5	30.0	19.5	23.7	25.5
PER	5.3	6.3	3.1	2.6	2.4	2.4
Dividend Yield	8.7%	4.7%	21.8%	14.2%	17.2%	18.5%
EV/EBITDA	6.8	7.6	5.3	4.1	3.7	3.7
P/B	1.6	1.4	1.1	0.9	0.7	0.6
ROE	36.0%	25.2%	43.7%	41.0%	35.8%	30.0%

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 140/share. Our price target provides an upside of 2% along with a dividend yield of 14%. 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	127,225	180,332	179,486
Cost of sales	21,769	64,056	61,485	60,076	108,144	108,338
<b>Gross Profit</b>	<b>32,871</b>	<b>33,103</b>	<b>52,778</b>	<b>67,150</b>	<b>72,189</b>	<b>71,148</b>
SG & A	1,379	1,029	1,368	2,186	3,099	3,084
<b>Operating Profit</b>	<b>31,492</b>	<b>32,074</b>	<b>51,410</b>	<b>64,963</b>	<b>69,090</b>	<b>68,064</b>
Other income	796	2,124	4,095	2,821	1,275	1,344
Other charges	509	398	79	412	412	412
Finance cost	7,341	7,928	19,323	27,240	20,234	17,673
Share from associates	15,501	9,232	34,316	46,857	41,032	41,352
<b>Profit before tax</b>	<b>24,438</b>	<b>35,105</b>	<b>36,102</b>	<b>40,132</b>	<b>49,719</b>	<b>51,324</b>
Taxation	5,109	5,526	8,411	13,620	10,258	10,338
<b>Profit after tax</b>	<b>34,830</b>	<b>29,579</b>	<b>62,007</b>	<b>73,369</b>	<b>80,494</b>	<b>82,338</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>67,345</b>	<b>75,360</b>	<b>73,933</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	162,855	196,652	237,249
<b>Total Assets</b>	<b>278,248</b>	<b>315,153</b>	<b>405,566</b>	<b>424,753</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	114,533	116,988	121,824
<b>Total Liabilities</b>	<b>168,582</b>	<b>189,566</b>	<b>247,529</b>	<b>225,076</b>	<b>216,520</b>	<b>210,346</b>
Equity	109,666	125,502	158,036	199,677	249,744	299,157
<b>Total Equity &amp; liabilities</b>	<b>278,248</b>	<b>315,068</b>	<b>405,566</b>	<b>424,753</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	73,369	80,494	82,338
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>54,866</b>	<b>50,613</b>	<b>48,337</b>
<b>FCFF</b>	<b>12,374</b>	<b>(19,579)</b>	<b>(514)</b>	<b>48,005</b>	<b>37,970</b>	<b>40,632</b>
Net borrowings	<b>(3,577)</b>	<b>40,838</b>	<b>31,362</b>	<b>(13,908)</b>	<b>(5,833)</b>	<b>(5,824)</b>
<b>FCFE</b>	<b>8,797</b>	<b>21,259</b>	<b>30,849</b>	<b>34,097</b>	<b>32,137</b>	<b>34,807</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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