

## Hub Power Company Limited

### Result Preview

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

Pakistan Research

## 1QFY23 EPS likely to come at PKR 7.46, up 30% YoY

- HUBC's board meeting is scheduled on October 27, 2022 to consider 1QFY23 financial results. We expect the company to post an EPS of PKR 7.46, up 30% YoY on the back of higher contribution from CPHGL.
- The topline of the company is likely to contract by 8% YoY in 1QFY23, on account of expected 70% YoY decline in power generation in HUB main plant. During the quarter Narowal plant is expected to produce 207 GWh units as compared to 267 GWh units in the same period last year, while the company's base plant is expected to produce 154 GWh units.
- Finance cost for 1QFY23 is expected to increase by 16% YoY to PKR 1.924bn primarily owing to elevated borrowings and higher interest rates.
- Share of profit from associate is likely to reach PKR 4.62bn (PKR 3.6/share) in 1QFY23, attributable to positive contribution from CPHGCL.
- We maintain our 'BUY' recommendation on the stock. Our June-23 PT of PKR 138/share provides an upside of 104% along with a dividend yield of 39.6%.

### Key Data

|                         |        |
|-------------------------|--------|
| PSX Ticker              | HUBC   |
| Target Price (PKR)      | 138    |
| Current Price (PKR)     | 67.5   |
| Upside/ (Downside) (%)  | + 104% |
| Dividend Yield (%)      | 39.6%  |
| Total Return (%)        | + 144% |
| 12-month High (PKR)     | 82.8   |
| 12-month Low (PKR)      | 61.0   |
| Outstanding Shares (mn) | 1,297  |
| Market Cap (PKR mn)     | 87,558 |
| Year End                | June   |

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

|                         | 1QFY22       | 1QFY23E      | YoY        |
|-------------------------|--------------|--------------|------------|
| Sales                   | 26,340       | 24,353       | -8%        |
| Cost of Sales           | 18,541       | 16,547       | -11%       |
| Other expenses          | 247          | 330          | 34%        |
| Finance cost            | 1,660        | 1,924        | 16%        |
| Other income            | 217          | 822          | 279%       |
| Share from associate    | 2,293        | 4,620        | 102%       |
| Taxation                | 705          | 1,099        | 56%        |
| <b>Profit after tax</b> | <b>7,696</b> | <b>9,894</b> | <b>29%</b> |
| Share of NCI            | 279          | 219          | -21%       |
| <b>Share of Parent</b>  | <b>7,417</b> | <b>9,675</b> | <b>30%</b> |
| EPS                     | 5.72         | 7.46         | 30%        |
| DPS                     | -            | -            |            |

Source: Company Accounts, Akseer Research

### Key Financial Ratios

|                | FY20A  | FY21A | FY22A  | FY23E | FY24F  | FY25F |
|----------------|--------|-------|--------|-------|--------|-------|
| EPS            | 19.3   | 26.0  | 21.95  | 32.38 | 29.14  | 31.02 |
| EPS Growth     | 102.0% | 34.5% | -15.5% | 47.5% | -10.0% | 6.4%  |
| DPS            | -      | 12.0  | 6.50   | 26.75 | 16.00  | 24.00 |
| PER            | 3.5    | 2.6   | 3.1    | 2.1   | 2.3    | 2.2   |
| Dividend Yield | -      | 17.8% | 9.6%   | 39.6% | 23.7%  | 35.6% |
| EV/EBITDA      | 5.3    | 4.9   | 5.8    | 6.1   | 5.9    | 5.5   |
| P/B            | 1.0    | 0.8   | 0.70   | 0.65  | 0.58   | 0.54  |
| ROE            | 36.9%  | 36.0% | 25.2%  | 33.1% | 27.1%  | 26.1% |

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 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our June-23 PT of 138/share. Our price target provides an upside of 104% along with a dividend yield of 39.6%. 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) No delays in payment of outstanding dues (3) Narowal plant to remain operational throughout its term.

### Risks

Key downside risks to our investment thesis are: 1) delay in payment of outstanding dues. 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. The company was incorporated in 1991 and is headquartered in Karachi, Pakistan.

### Financial Highlights - HUBC

| Income Statement (PKR mn) |               |               |               |               |               |               |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                           | FY20A         | FY21A         | FY22A         | FY23E         | FY24F         | FY25F         |
| Net sales                 | 48,321        | 54,639        | 97,158        | 70,802        | 53,073        | 52,530        |
| Cost of sales             | 17,831        | 21,769        | 64,056        | 34,114        | 23,293        | 23,041        |
| <b>Gross Profit</b>       | <b>30,490</b> | <b>32,871</b> | <b>33,103</b> | <b>36,689</b> | <b>29,779</b> | <b>29,489</b> |
| SG & A                    | 1,500         | 1,379         | 1,029         | 750           | 562           | 556           |
| <b>Operating Profit</b>   | <b>28,991</b> | <b>31,492</b> | <b>32,074</b> | <b>35,939</b> | <b>29,218</b> | <b>28,933</b> |
| Other income              | 410           | 796           | 2,124         | 2,167         | 2,210         | 2,254         |
| Other charges             | 181           | 509           | 398           | 571           | 509           | 533           |
| Finance cost              | 11,905        | 7,341         | 7,928         | 8,845         | 6,383         | 4,405         |
| Share from associates     | 13,700        | 15,501        | 9,232         | 22,206        | 21,340        | 22,342        |
| <b>Profit before tax</b>  | <b>17,314</b> | <b>24,438</b> | <b>35,105</b> | <b>28,690</b> | <b>24,536</b> | <b>26,250</b> |
| Taxation                  | 3,945         | 5,109         | 5,526         | 8,012         | 7,222         | 7,650         |
| <b>Profit after tax</b>   | <b>27,070</b> | <b>34,830</b> | <b>29,579</b> | <b>42,884</b> | <b>38,654</b> | <b>40,942</b> |
| Share of NCI              | 1,017         | 1,142         | 1,107         | 876           | 849           | 709           |
| <b>Share of Parent</b>    | <b>26,053</b> | <b>33,688</b> | <b>28,472</b> | <b>42,007</b> | <b>37,804</b> | <b>40,234</b> |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn)                |                |                |                |                |                |                |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                       | FY20A          | FY21A          | FY22A          | FY23E          | FY24F          | FY25F          |
| PPE                                   | 75,601         | 79,004         | 108,670        | 105,862        | 102,154        | 98,269         |
| Other LT assets                       | 55,504         | 71,460         | 81,687         | 86,703         | 91,809         | 97,070         |
| Non-Current Assets                    | 131,105        | 150,463        | 190,357        | 192,565        | 193,963        | 195,339        |
| Current assets                        | 129,284        | 127,785        | 124,795        | 129,010        | 100,028        | 98,092         |
| <b>Total Assets</b>                   | <b>260,388</b> | <b>278,248</b> | <b>315,153</b> | <b>321,575</b> | <b>293,991</b> | <b>293,430</b> |
| Non-Current liabilities               | 53,714         | 55,370         | 103,890        | 107,652        | 92,710         | 83,685         |
| Current liabilities                   | 122,743        | 113,212        | 85,760         | 80,085         | 49,447         | 48,214         |
| <b>Total Liabilities</b>              | <b>176,457</b> | <b>168,582</b> | <b>189,650</b> | <b>187,737</b> | <b>142,157</b> | <b>131,898</b> |
| Equity                                | 83,931         | 109,666        | 125,502        | 133,838        | 151,834        | 161,532        |
| <b>Total Equity &amp; liabilities</b> | <b>260,388</b> | <b>278,248</b> | <b>315,153</b> | <b>321,575</b> | <b>293,991</b> | <b>293,430</b> |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) |                |               |                 |                |               |               |
|-----------------------------|----------------|---------------|-----------------|----------------|---------------|---------------|
|                             | FY20A          | FY21A         | FY22A           | FY23E          | FY24F         | FY25F         |
| Net Income                  | 27,070         | 34,830        | 29,579          | 42,884         | 38,654        | 40,942        |
| Non-cash Charges            | 4,065          | 3,840         | 4,534           | 4,677          | 4,799         | 4,928         |
| <b>Operating Cash flows</b> | <b>25,331</b>  | <b>35,579</b> | <b>24,857</b>   | <b>3,288</b>   | <b>72,351</b> | <b>51,041</b> |
| <b>FCFF</b>                 | <b>(3,541)</b> | <b>12,374</b> | <b>(19,579)</b> | <b>(3,597)</b> | <b>66,154</b> | <b>44,738</b> |
| Net borrowings              | (1,606)        | (3,577)       | 40,838          | 32,684         | (45,101)      | (13,079)      |
| <b>FCFE</b>                 | <b>(5,146)</b> | <b>8,797</b>  | <b>21,259</b>   | <b>29,087</b>  | <b>21,052</b> | <b>31,660</b> |
| Net change in cash          | (5,594)        | (189)         | 7,644           | (6,089)        | 395           | 415           |
| <b>Closing cash</b>         | <b>6,537</b>   | <b>6,349</b>  | <b>13,993</b>   | <b>1,439</b>   | <b>8,300</b>  | <b>8,714</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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| Rating | Expected Total Return         |
|--------|-------------------------------|
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| Hold   | Between -5% and +15%          |
| Sell   | Less than or equal to -5%     |

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