

Hub Power Company Limited

Result Review

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

Pakistan Research

1QFY23 EPS settled at PKR 7.01, up 23% YoY

- HUBC announced its 1QFY23 financial results today, where the company's EPS came in at PKR 7.01, up 23% YoY. The improvement in earnings is primarily driven by higher contribution from CPHGL.
- HUBC's 1QFY23 topline stood at PKR 29.6bn up 12% YoY on account of an increase in furnace oil prices.
- The company's finance cost augmented by 41% YoY for 1QFY23, due to higher interest rates along with an increase in long term loan.
- Share of profit from associates clocked in at PKR 3.09bn (PKR 2.38/share) in 1QFY23 vs PKR 2.29bn (PKR 1.77/share) in SPLY. During the 1QFY22, the CPHGL faced high maintenance cost resulting in deterioration in net margins, whereas operation now have normalized.
- The company effective tax rate remained stagnant at 4% taking company's net earnings to 9.1bn.
- We maintain our 'BUY' recommendation on the stock. Our June-23 PT of PKR 138/share provides an upside of 106% along with a dividend yield of 32.6%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	138
Current Price (PKR)	67
Upside/ (Downside) (%)	+ 106%
Dividend Yield (%)	32.6%
Total Return (%)	+ 139%
12-month High (PKR)	83
12-month Low (PKR)	61
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	86,520
Year End	June

Source: Company Accounts, Akseer Research

Financial highlights (PKR mn)

	1QFY22	1QFY23	YoY
Sales	26,340	29,590	12%
Cost of Sales	18,541	19,868	7%
Other expenses	247	313	26%
Finance cost	1,660	2,336	41%
Other income	217	412	90%
Share of from associate	2,293	3,092	35%
Taxation	705	1,103	56%
Profit after tax	7,696	9,474	23%
Share of NCI	279	375	34%
Share of Parent	7,417	9,099	23%
EPS	5.72	7.01	23%
DPS	-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	20.1	26.0	21.9	32.6	29.5	31.3
EPS Growth	110.2%	29.3%	-15.5%	48.3%	-9.4%	6.3%
DPS	-	12.0	6.5	21.8	16.3	24.5
PER	3.3	2.6	3.0	2.0	2.3	2.1
Dividend Yield	0.0%	18.0%	9.7%	32.6%	24.4%	36.7%
EV/EBITDA	5.3	4.9	5.8	5.9	5.7	5.3
P/B	1.0	0.8	0.7	0.6	0.5	0.5
ROE	38.3%	36.0%	25.2%	32.4%	26.2%	25.4%

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 32.6%. 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
Gross Profit	30,490	32,871	33,103	36,689	29,779	29,489
SG & A	1,500	1,379	1,029	750	562	556
Operating Profit	28,991	31,492	32,074	35,939	29,218	28,933
Other income	410	796	2,124	2,167	2,210	2,254
Other charges	181	509	398	574	514	538
Finance cost	11,905	7,341	7,928	8,581	5,859	3,887
Share from associates	13,700	15,501	9,232	22,206	21,340	22,342
Profit before tax	17,314	24,438	35,105	28,951	25,055	26,762
Taxation	3,945	5,109	5,526	8,053	7,304	7,730
Profit after tax	27,070	34,830	29,579	43,104	39,091	41,374
Share of NCI	1,017	1,142	1,107	876	849	709
Share of Parent	26,053	33,688	28,472	42,227	38,242	40,666

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
Total Assets	260,388	278,248	315,153	321,575	293,991	293,430
Non-Current liabilities	53,714	55,370	103,890	107,652	92,710	83,685
Current liabilities	122,743	113,212	85,760	73,626	43,070	41,917
Total Liabilities	176,457	168,582	189,650	181,278	135,780	125,602
Equity	83,931	109,666	125,502	140,297	158,212	167,829
Total Equity & liabilities	260,388	278,248	315,153	321,575	293,991	293,430

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	27,070	34,830	29,579	43,104	39,091	41,374
Non-cash Charges	4,065	3,840	4,534	4,677	4,799	4,928
Operating Cash flows	25,331	35,579	24,857	3,508	72,788	51,473
FCFF	(3,541)	12,374	(19,579)	(3,377)	66,591	45,170
Net borrowings	(1,606)	(3,577)	40,838	26,226	(45,020)	(12,998)
FCFE	(5,146)	8,797	21,259	22,849	21,571	32,172
Net change in cash	(5,594)	(189)	7,644	(6,089)	395	415
Closing cash	6,537	6,349	13,993	1,439	8,300	8,714

Source: Company Accounts, Akseer Research

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Valuation Methodology

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

Ratings Criteria

Akseer Research employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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