

Hub Power Company Limited
Result Review

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

Pakistan Research

HUBC: 2QFY23 EPS came in at PKR 10.3, up 177% YoY

- HUBC announced its 2QFY23 financial results today, where the company reported consolidated EPS of PKR 10.25, up 177% YoY, as compared to an EPS of PKR 3.7 in corresponding period last year. This takes 1HFY23 EPS to PKR 17.3, up 83% YoY. Along with the result, the company announced an interim DPS of PKR 5.75, taking the cumulative payout to PKR 21.25 in 1HFY23.
- HUBC's sales revenue expanded by 26% YoY to PKR 25.1 bn in 2QFY23, owing to PKR depreciation and commencement of Thar energy limited. We anticipate Thar energy to have been operated at 75% load factor. On the contrary, Narowal and base plant production possibly declined by 84% and 77% YoY, respectively during the quarter.
- Finance cost of the company grew by 176% YoY to PKR 4.8bn, mainly due to elevated interest rates and increased borrowings. Additionally, it is likely that the company has recognized the borrowing cost for the Thar Energy project as an expense, whereas it was previously capitalized.
- Share of profit from associates reached PKR 10.0bn (PKR 7.70/share) in 2QFY23, which is likely attributed to higher earnings from China Hub Coal Power Project.
- On Sequential basis, earnings grew by 34% QoQ owing to addition of Thar Energy as well as higher earnings from associates.
- We maintain our 'BUY' recommendation on the stock. Our Dec-23 PT of PKR 115/share provides an upside of 64%, along with a dividend yield of 36%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	115
Current Price (PKR)	70
Upside/ (Downside) (%)	+ 64%
Dividend Yield (%)	36%
Total Return (%)	+ 100%
12-month High (PKR)	80
12-month Low (PKR)	57
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	90,736
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Sales	19,928	25,097	26%	46,267	54,687	18%
Cost of Sales	11,918	12,234	3%	30,460	32,102	5%
Other expenses	257	762	196%	505	1,074	113%
Finance cost	1,738	4,788	176%	3,397	7,124	110%
Other income	264	495	87%	481	907	89%
Share from associate	(1,462)	9,986	-783%	831	13,078	1474%
Taxation	(204)	3,115	-1630%	502	4,218	740%
Profit after tax	5,020	14,680	192%	12,716	24,155	90%
Share of NCI	225	1,382	514%	504	1,757	249%
Share of Parent	4,796	13,299	177%	12,212	22,398	83%
EPS	3.7	10.3	177%	9.4	17.3	83%
DPS	6.5	5.8		6.5	21.3	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	20.1	26.0	21.9	31.9	38.9	40.3
EPS Growth	110%	29%	-15%	55%	20%	7%
DPS	0.0	12.0	6.5	25.0	11.3	12.8
PER	3.5	2.7	3.2	2.2	1.8	1.7
Dividend Yield	0%	17%	9%	36%	16%	18%
EV/EBITDA	5.0	4.6	5.5	4.9	3.7	3.0
P/B	1.1	0.8	0.7	0.7	0.5	0.4
ROE	38%	36%	25%	32%	35%	30%

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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 115/share. Our price target provides an upside of 64% along with a dividend yield of 36%. 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 and, (4) Thar energy 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	48,321	54,639	97,158	116,746	123,834	121,077
Cost of sales	17,831	21,769	64,056	76,382	75,960	75,556
Gross Profit	30,490	32,871	33,103	40,365	47,874	45,522
SG & A	1,500	1,379	1,029	1,236	1,311	1,282
Operating Profit	28,991	31,492	32,074	39,129	46,563	44,240
Other income	410	796	2,124	1,699	1,360	1,088
Other charges	181	509	398	562	723	760
Finance cost	11,905	7,341	7,928	10,109	8,000	4,505
Share from associates	13,700	15,501	9,232	19,978	26,041	29,199
Profit before tax	17,314	24,438	35,105	30,157	39,199	40,063
Taxation	3,945	5,109	5,526	7,893	10,270	10,904
Profit after tax	27,070	34,830	29,579	42,243	54,970	58,359
Share of NCI	1,017	1,142	1,107	896	4,484	6,077
Share of Parent	26,053	33,688	28,472	41,347	50,486	52,282

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	75,601	79,004	108,670	113,880	116,547	117,761
Other LT assets	55,504	71,460	81,687	87,516	93,204	97,872
Non-Current Assets	131,105	150,463	190,357	201,396	209,751	215,632
Current assets	129,284	127,785	124,795	134,256	142,826	143,582
Total Assets	260,388	278,248	315,153	335,652	352,577	359,214
Non-Current liabilities	53,714	55,370	103,890	105,591	88,155	76,115
Current liabilities	122,743	113,212	85,760	94,820	88,913	65,631
Total Liabilities	176,457	168,582	189,022	200,411	177,068	141,746
Equity	83,931	109,666	125,502	135,241	175,510	217,468
Total Equity & liabilities	260,388	278,248	315,153	335,652	352,577	359,214

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	27,070	34,830	29,579	42,243	54,970	58,359
Non-cash Charges	4,065	3,840	4,584	4,677	4,799	4,928
Operating Cash flows	25,331	35,579	24,907	33,047	50,139	67,629
FCFF	(3,541)	12,374	(19,579)	17,332	36,985	56,820
Net borrowings	(1,606)	(3,577)	40,838	9,410	(21,524)	(39,583)
FCFE	(5,146)	8,797	21,259	26,743	15,461	17,237
Net change in cash	(5,594)	(189)	551	704	760	836
Closing cash	6,537	6,349	6,899	8,232	8,364	9,200

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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JV 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%

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