

FY22 EPS likely to settle at PKR 21.7, down 17% YoY, DPS at 5.25

- HUBC's board meeting is scheduled on 25th August, 2022 to consider FY22 financial results. We expect the company to post an EPS of PKR 5.14, down 24% YoY for the 4QFY22, taking FY22 EPS to PKR 21.68. Along with the result we expect the IPP to declare final cash dividend of PKR 5.25/share in addition to PKR 6.50/ share already announced during the year.
- The topline in 4QFY22 is likely to increase 104% YoY to PKR 32.33bn, owing to increase in power generation and FO prices. During the quarter Narowal plant produced 283 GWh units as compared to 147 GWh units in the same period last year, while the company's base plant was also operational during the quarter and produced 364 GWh units. Capacity payments, on the other hand, are expected to increase 6% YoY on account of 20% YoY PKR depreciation against the USD.
- Finance cost for 4QFY22 is expected to increase by 94% YoY to PKR 3.26bn primarily owing to elevated borrowings and higher interest rates.
- Share of profit from associates is likely to clock in at PKR 3.99bn (PKR 3.07/share) in 4QFY22, attributable to positive contribution from CPHGCL.
- We maintain our 'BUY' recommendation on the stock. Our Dec-22 PT of PKR 138/share provides an upside of 94% along with a dividend yield of 16.4%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	138
Current Price (PKR)	72
Upside/ (Downside) (%)	+ 94%
Dividend Yield (%)	16.4%
Total Return (%)	+ 110%
12-month High (PKR)	115
12-month Low (PKR)	52
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	92,760
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Sales	15,825	32,329	104%	54,639	97,381	78%
Cost of Sales	6,973	24,806	256%	21,769	65,403	200%
Other expenses	505	712	41%	1,888	1,626	-14%
Finance cost	1,682	3,261	94%	7,341	8,658	18%
Other income	561	246	-56%	796	953	20%
Share from associate	3,818	3,988	4%	15,501	8,984	-42%
Taxation	1,920	902	-53%	5,109	2,572	-50%
Profit after tax	9,124	6,882	-25%	34,830	29,061	-17%
Share of NCI	353	210	-41%	1,142	936	-18%
Share of Parent	8,770	6,672	-24%	33,688	28,125	-17%
EPS	6.76	5.14	-24%	25.97	21.68	-17%
DPS	5.00	5.25		12.00	11.75	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	9.6	19.3	26.0	21.7	27.3	30.1
EPS Growth	8.1%	102.0%	34.5%	-16.4%	25.9%	10.2%
DPS	-	-	12.0	11.8	12.5	20.3
PER	7.5	3.7	2.8	3.3	2.6	2.4
Dividend Yield	0.0%	0.0%	16.8%	16.4%	17.5%	28.3%
EV/EBITDA	7.1	5.5	5.1	6.5	4.8	4.4
P/B	1.5	1.1	0.8	0.8	0.6	0.6
ROE	25.2%	36.9%	36.0%	24.9%	27.2%	26.5%

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 Dec-22 PT of 138/share. Our price target provides an upside of 94% along with a dividend yield of 16.4%. 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)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	58,349	48,321	54,639	97,381	53,999	55,218
Cost of sales	36,640	17,831	21,769	65,403	22,100	23,315
Gross Profit	21,709	30,490	32,871	31,978	31,899	31,903
SG & A	1,606	1,500	1,379	1,350	749	765
Operating Profit	20,103	28,991	31,492	30,628	31,151	31,137
Other income	527	410	796	953	972	992
Other charges	128	181	509	276	342	372
Finance cost	7,401	11,905	7,341	8,658	9,717	6,572
Share from associates	(434)	13,700	15,501	8,984	17,423	18,210
Profit before tax	13,101	17,314	24,438	31,632	22,064	25,185
Taxation	517	3,945	5,109	2,572	3,210	3,528
Profit after tax	12,151	27,070	34,830	29,061	36,277	39,867
Share of NCI	689	1,017	1,142	936	869	850
Share of Parent	11,461	25,044	33,688	28,125	35,408	39,017

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	68,487	75,601	79,004	82,426	78,905	75,197
Other LT assets	37,844	55,504	71,460	70,817	76,332	82,068
Non-Current Assets	106,332	131,105	150,463	153,243	155,237	157,265
Current assets	118,936	129,284	127,785	167,406	89,143	90,792
Total Assets	225,268	260,388	278,248	320,649	244,380	248,056
Non-Current liabilities	35,932	53,714	55,370	47,291	33,290	27,775
Current liabilities	131,913	122,743	113,212	149,863	67,376	63,032
Total Liabilities	167,845	176,457	168,582	197,155	100,666	90,807
Equity	57,423	83,931	109,666	123,494	143,714	157,249
Total Equity & liabilities	225,268	260,388	278,248	320,649	244,380	248,056

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	12,151	26,061	34,830	29,061	36,277	39,867
Non-cash Charges	4,669	4,065	3,840	4,534	4,677	4,799
Operating Cash flows	17,631	24,322	35,579	(26,571)	80,047	46,019
FCFF	(29,181)	(4,550)	12,374	(33,884)	73,376	39,192
Net borrowings	32,531	(1,606)	(3,577)	49,935	(56,986)	(12,510)
FCFE	3,350	(6,155)	8,797	16,051	16,390	26,682
Net change in cash	9,477	(5,594)	(189)	317	333	350
Closing cash	12,132	6,537	6,349	6,666	7,000	7,350

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
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Hold	Between -5% and +15%
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