

FY22 EPS clocks in at PKR 21.95, down 15% YoY

- HUBC announced its FY22 financial results today, wherein the company's reported an EPS of PKR 21.9, down 15% YoY compared to PKR 25.9 during FY21. This decline in earnings is primarily driven by lower share of profit from associate and higher effective tax rate. HUBC skipped the final dividend, thus taking its total payout during FY22 to PKR 6.5/share.
- Topline clocked in at PKR 97.2bn up 78% YoY mainly on account of an increase in power generation and higher furnace oil prices. During the quarter Narowal plant produced 283 GWh units (up 92.5% YoY), while the company's base plant was also operational during the quarter and produced 364 GWh units.
- The company's operating expenses went down by 24% YoY to PKR 1.4bn however, finance cost went up by 8% YoY to PKR 7.9bn owing to higher interest rates during the year.
- Share of profit from associates declined to PKR 9.2bn as compared to PKR 15.5bn during SPLY, depicting a decline of 40% YoY. This is mainly attributable to impairment loss related to CPHGC's equipment booked during the year.
- Effective tax rate came in higher at 15.7% during FY22 as compared to 12.5% in SPLY which restricted the bottomline growth.
- On quarterly basis, HUBC reported an EPS of PKR 5.4, down 20% YoY during 4QFY22. This is mainly due to higher effective tax rate of 34% as compared to 17% in SPLY. Other income increased by 1.5x to 1.4bn, however finance cost also went up by 50% to PKR 2.5bn during 4Q.
- We maintain our 'BUY' recommendation on the stock. Our Dec-22 PT of PKR 138/share provides an upside of 93% along with a dividend yield of 19.6%.

Key Data

PSX Ticker	HUBC
Target Price (PKR)	138
Current Price (PKR)	72
Upside/ (Downside) (%)	+ 93%
Dividend Yield (%)	19.6%
Total Return (%)	+ 113%
12-month High (PKR)	115
12-month Low (PKR)	52
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	92,760
Year End	138

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Sales	15,825	32,106	103%	54,639	97,158	78%
Cost of Sales	6,973	23,459	236%	21,769	64,056	194%
Other expenses	505	513	2%	1,888	1,427	-24%
Finance cost	1,682	2,531	50%	7,341	7,928	8%
Other income	561	1,417	153%	796	2,124	167%
Share from associate	3,818	4,236	11%	15,501	9,232	-40%
Taxation	1,920	3,857	101%	5,109	5,526	8%
Profit after tax	9,124	7,399	-19%	34,830	29,579	-15%
Share of NCI	353	381	8%	1,142	1,107	-3%
Share of Parent	8,770	7,019	-20%	33,688	28,472	-15%
EPS	6.76	5.41	-20%	25.97	21.95	-15%
DPS	5.00	0.00		12.00	6.50	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	9.6	19.3	26.0	21.9	25.5	27.8
EPS Growth	8.1%	102.0%	34.5%	-15.5%	16.0%	9.1%
DPS	-	-	12.0	6.5	14.0	21.5
PER	7.5	3.7	2.8	3.3	2.8	2.6
Dividend Yield	0.0%	0.0%	16.8%	9.1%	19.6%	30.1%
EV/EBITDA	7.1	5.5	5.1	6.4	5.0	4.7
P/B	1.5	1.1	0.8	0.8	0.7	0.6
ROE	25.2%	36.9%	36.0%	25.8%	26.6%	26.4%

Source: Company Accounts, Akseer Research

Altamash Hemani
altamash.hemani@alphacapital.com

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 93% along with a dividend yield of 19.6%. 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)						
	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
Net sales	58,349	48,321	54,639	97,158	53,999	55,218
Cost of sales	36,640	17,831	21,769	64,056	22,100	23,315
Gross Profit	21,709	30,490	32,871	33,103	31,899	31,903
SG & A	1,606	1,500	1,379	1,029	572	585
Operating Profit	20,103	28,991	31,492	32,074	31,328	31,318
Other income	527	410	796	2,124	2,167	2,210
Other charges	128	181	509	398	451	486
Finance cost	7,401	11,905	7,341	7,928	10,220	7,450
Share from associates	(434)	13,700	15,501	9,232	17,423	18,210
Profit before tax	13,101	17,314	24,438	35,105	22,823	25,593
Taxation	517	3,945	5,109	5,526	6,336	6,896
Profit after tax	12,151	27,070	34,830	29,579	33,910	36,907
Share of NCI	689	1,017	1,142	1,107	869	850
Share of Parent	11,461	25,044	33,688	28,472	33,042	36,057

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	167,137	89,143	90,792
Total Assets	225,268	260,388	278,248	320,380	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	153,721	75,822	76,064
Total Liabilities	167,845	176,457	168,582	201,012	109,112	103,839
Equity	57,423	83,931	109,666	119,368	135,268	144,217
Total Equity & liabilities	225,268	260,388	278,248	320,380	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	29,579	33,910	36,907
Non-cash Charges	4,669	4,065	3,840	4,534	4,677	4,799
Operating Cash flows	17,631	24,322	35,579	(25,784)	77,411	43,059
FCFF	(29,181)	(4,550)	12,374	(33,098)	70,741	36,232
Net borrowings	32,531	(1,606)	(3,577)	53,792	(52,397)	(7,924)
FCFE	3,350	(6,155)	8,797	20,695	18,343	28,308
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
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net