

# The Hub Power Company Limited (HUBC): Returning to its former glory?

September 2, 2021

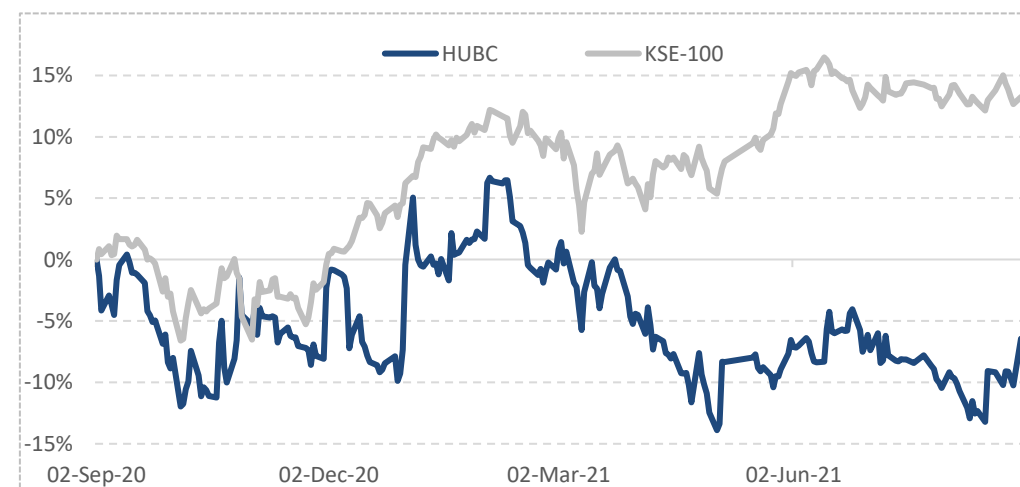
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## Improved cashflows led to dividend resumption

- HUBC reported net earnings of PKR 25.97/ share in FY21, up 35% YoY. Along with the result the company also announced final cash dividend of PKR 5.0/share (higher than market consensus) taking full-year pay-out to PKR 12.0/share, which translates into the dividend yield of 15.1%.
- **Will the payout stream continue in future?**
  - Owing to the severe liquidity crisis in the recent years, HUBC was not able to pay dividends in FY19 and FY20. However, improved cashflow position due to receipt of First Tranche from the government led the company to resume its cash dividends and it paid PKR 12.0/ share in FY21. As per the management, HUBC received PKR 23bn in the first week of June-21, out of which PKR 17.5bn was utilized to settle PSO's payments while the remaining was distributed to investors. With the visibility of receiving the second tranche by Dec-21, we expect a healthy payout to continue in near future with PKR 13.50/share in FY22 and PKR 17.50/ share in FY23.
  - Moreover, the company expects its first dividend from CPHGC by Mar-22 provided that the CPHGC meets certain borrowing covenants and the issue of WHT on profit from associates gets resolved. This will further strengthen the company's dividend stream outlook.
- **New projects financing by HUBC**
  - TEL and Thal Nova projects are progressing well and are expected to achieve commercial operations by 1QCY22 and 2QCY22, respectively. HUBC must inject equity of around USD 40mn (~PKR 6.5bn) in both mentioned projects, which we believe the company will be able to arrange comfortably, as it will receive the second tranche and dividend from CPHGL in due course.

Key Data	
PSX Ticker	<b>HUBC</b>
Target Price (PKR)	152
Current Price (PKR)	80
Upside/(Downside) (%)	91%
Dividend Yield (%)	15.07%
Total Return (%)	107%
12-month High (PKR)	93
12-month Low (PKR)	63
Outstanding Shares (mn)	1,297
Market Cap (PKR mn)	103,306
Year End	June



## Fundamental Outlook - BUY intact with PT of PKR 152/ share

### Operational highlights

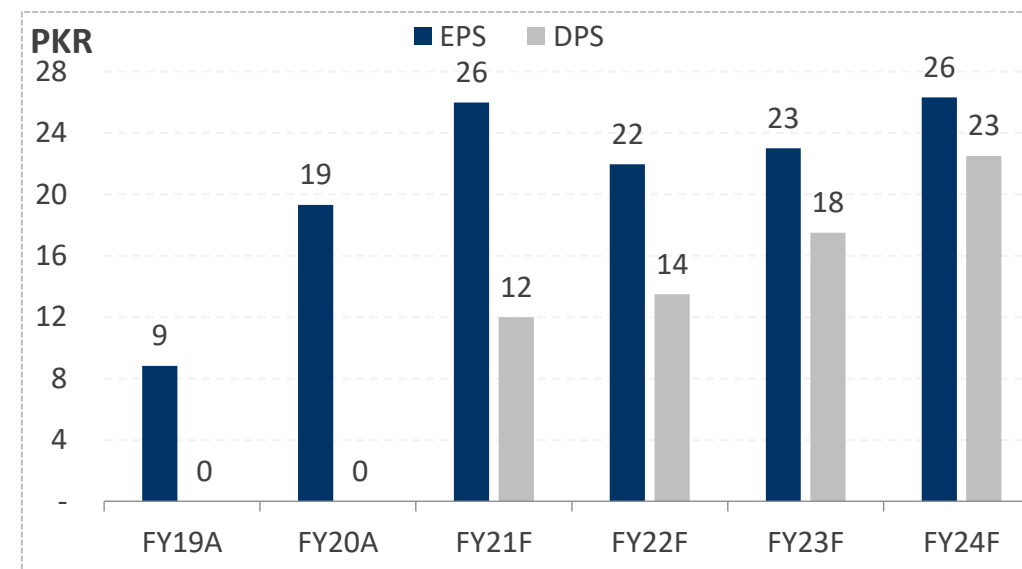
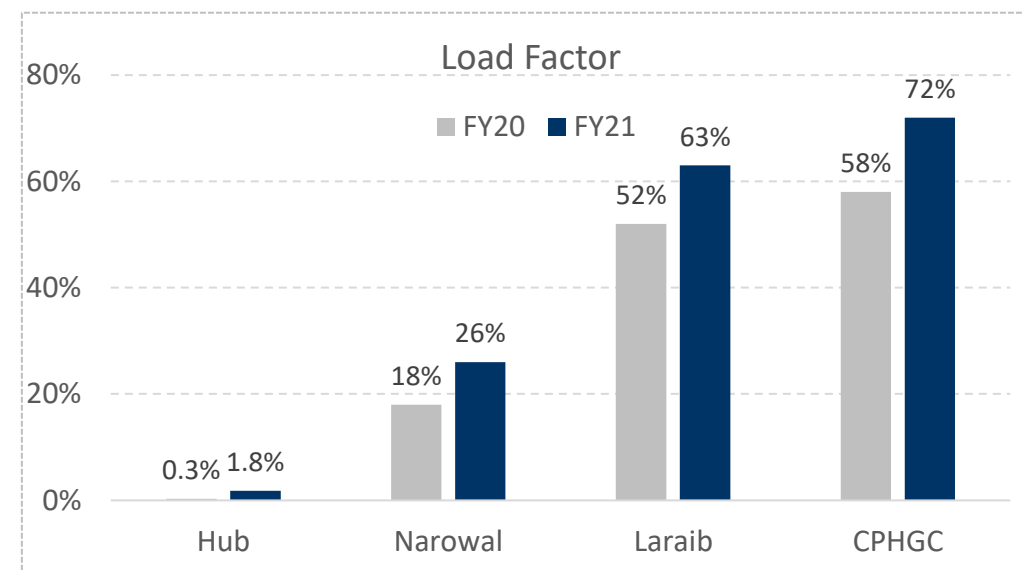
- During FY21 HUBCO's base plant at Hub and Narowal plant maintained complex availability at 92% and 95% , respectively. However, lower generation of RFO based plants kept the load factor for Hub and Narowal plants low. Laraib, on the other hand, achieved availability of 98% and a load factor of 63% due to increase in water level during FY21.
- CPHGC operated at a 72% load factor in FY21 with plant availability at 95%. The application for True-up adjustment of CPHGC's tariff is in the final stages with NEPRA.

### New projects update

- Construction work on TEL and Thal Nova (TNPTL) is progressing at an accelerated rate to achieve timely commercial operations of both projects. By the end of Jun-21, TEL and TNPTL facilities had reached 68% and 46% completion respectively.
- HPHL entered into a joint venture with ENI's local employees to acquire ENI's all upstream and renewable energy assets in Pakistan and signed a share purchase agreement in March-21. The regulatory approval of transfer of shares is expected to be completed by 2QFY22.

### Investment Perspective

- HUBC is currently trading at a 48% discount to our Dec-21 price target of PKR152/share. The company's cashflows are expected to normalize post receipt of pending receivables from the government in Dec-21, which will allow it continue with a healthy dividend stream in future. This translates into very attractive prospective dividend yield of 16.95% and 21.97% for FY22E and FY23E respectively.



Source: Company Accounts & Akseer Research

## Risk - Return Profile

### Valuation Basis

- Our PT of PKR 152/share for Hub Power Company Limited (HUBC) has been computed using Dividend Discount Model (DDM) method. We have used a risk-free rate of 11%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17%.

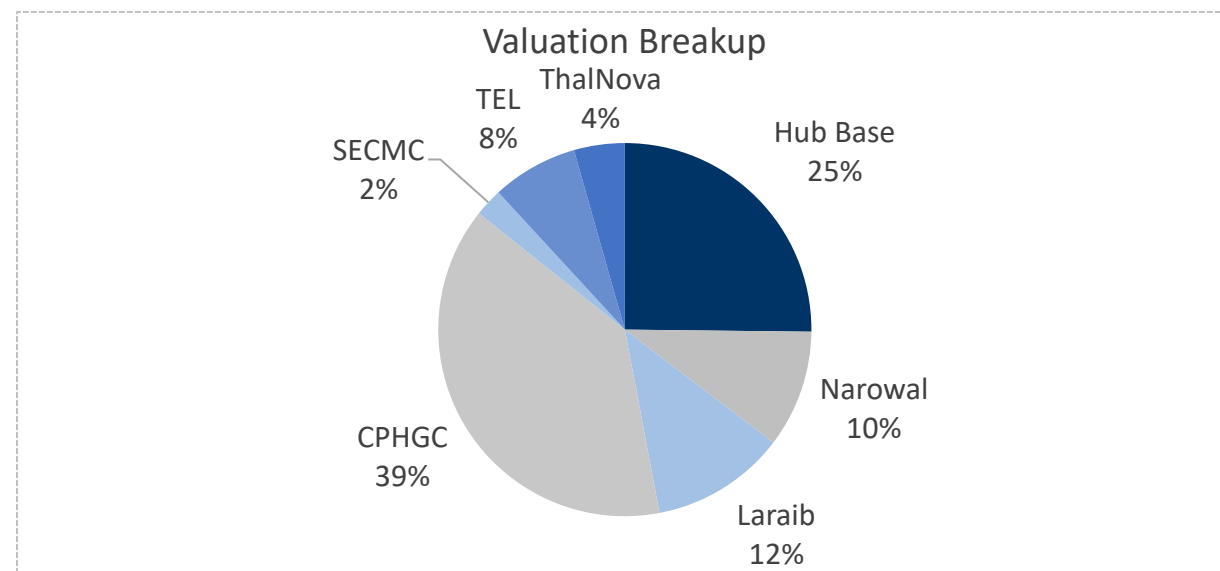
### Investment Thesis

- Our investment case on HUBC is based on:
  - Pending receivables from the government to improve cashflow in Dec-21,
  - Dividends from associates to improve cashflow and
  - Attractive expected dividend yield.

### Risks

- Key downside risks to our investment thesis are
  - Delay in payment of outstanding dues.
  - Less than expected devaluation in currency.

Key Ratios	FY19A	FY20A	FY21F	FY22F	FY23F	FY24F
EPS	8.84	19.31	25.97	21.96	23.01	26.31
EPS Growth	-8%	119%	35%	-15%	5%	14%
DPS	-	-	12.00	13.50	17.50	22.50
PER	9.0	4.1	3.1	3.6	3.5	3.0
Dividend Yield	-	-	15.1%	16.9%	22.0%	28.2%
EV/EBITDA	7.6	5.8	6.4	6.5	5.2	4.8
P/B	1.6	1.2	1.0	0.9	0.8	0.8



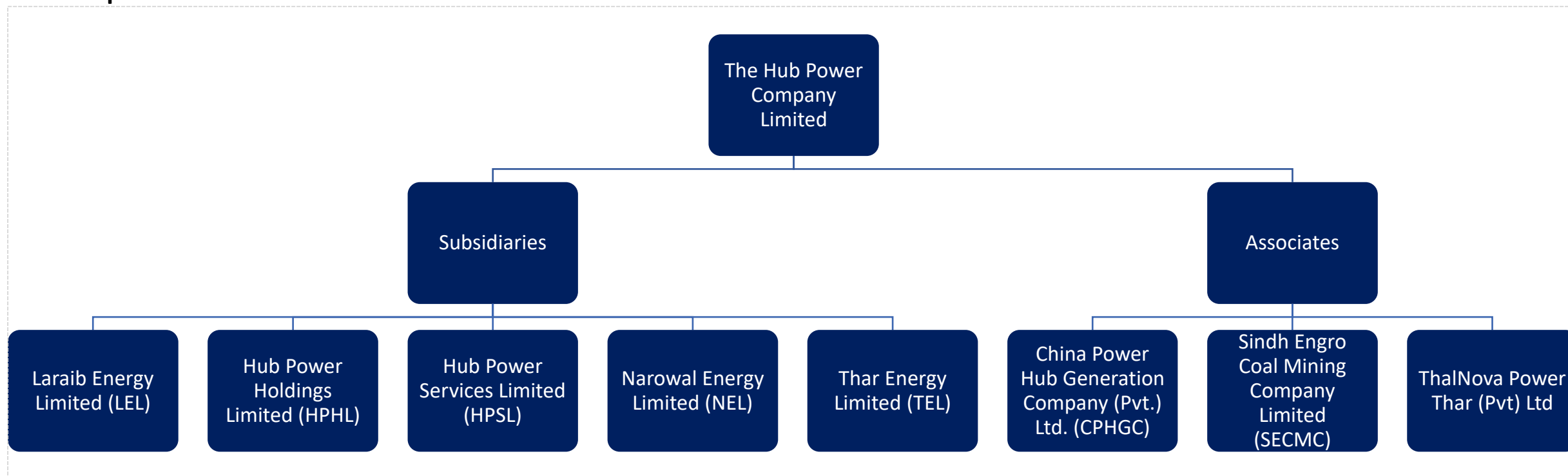
Source: Company Accounts & Akseer Research

## Company Overview

### ■ Company Description

- The Hub Power Company Limited operates as an Independent Power Producer (IPP) in Pakistan and develops, owns, operates, and maintains power stations. The company was incorporated in 1991 and is headquartered in Karachi, Pakistan. The company currently operates four plants: A 1200 MW base plant at Hub, 225 MW RFO fired plant at Narowal, 84 MW run of the river hydro power project (through Laraib Energy) in Azad Kashmir and 1320 MW coal fired plant at Hub. The company is also setting up two 330 MW mine-mouth coal fired power plants (i) Thar Energy Limited (TEL) and (ii) Thalnova and also has an investment in Sindh Engro Coal Mining Company (SECMC). The company through its wholly owned subsidiary Hub Power Holdings Ltd, entered in JV agreement (50:50) with ENI, Pakistan’s employees to form Prime Int. Oil & Gas Co Ltd., to acquire upstream operations and renewable energy assets owned by ENI in Pakistan.

### ■ Group Structure



## Financial Highlights

Income Statement (PKR mn)	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Turnover	58,349	48,321	54,639	44,741	43,460	46,146
Operating costs	36,640	17,831	21,769	15,998	16,824	17,665
<b>Gross profit</b>	<b>21,709</b>	<b>30,490</b>	<b>32,871</b>	<b>28,743</b>	<b>26,636</b>	<b>28,482</b>
Selling General & Admin expense	1,606	1,500	1,379	1,129	1,097	1,165
<b>Operating profit</b>	<b>20,103</b>	<b>28,991</b>	<b>31,492</b>	<b>27,614</b>	<b>25,540</b>	<b>27,317</b>
Depreciation & amortization	4,669	4,065	4,454	4,562	4,677	4,799
<b>EBITDA</b>	<b>24,645</b>	<b>32,874</b>	<b>35,436</b>	<b>31,772</b>	<b>29,781</b>	<b>31,626</b>
Financial charges	7,401	11,905	7,341	11,402	7,103	4,830
Other income	527	410	796	812	828	845
Other charges	128	181	509	403	435	490
Share of associate	-434	13,700	15,501	15,447	16,211	17,059
<b>Pre-tax profit</b>	<b>12,667</b>	<b>31,015</b>	<b>39,939</b>	<b>32,068</b>	<b>35,040</b>	<b>39,901</b>
Tax on company & subsidiaries	517	3,945	5,109	4,102	4,482	5,104
<b>Profit after tax</b>	<b>12,151</b>	<b>27,070</b>	<b>34,830</b>	<b>27,966</b>	<b>30,558</b>	<b>34,798</b>
Minority interests	689	1,017	1,142	836	850	876
<b>Profit Attributable to Parent</b>	<b>11,461</b>	<b>26,053</b>	<b>33,688</b>	<b>27,130</b>	<b>29,708</b>	<b>33,922</b>
<b>Ratios</b>						
EPS	9.81	20.08	25.97	20.91	22.90	26.15
DPS	0.00	0.00	12.00	13.50	17.50	22.75
Payout Ratio	0%	0%	46%	65%	76%	87%

Source: Company Accounts & Akseer Research

## Financial Highlights

Balance Sheet (PKR mn)	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Trade debts	85,647	99,700	110,987	68,643	21,432	22,757
Other working capital assets	21,157	23,046	20,140	17,051	16,740	16,487
Cash	12,132	6,537	4,576	4,119	4,325	4,541
<b>Current assets</b>	<b>118,936</b>	<b>129,284</b>	<b>135,704</b>	<b>89,813</b>	<b>42,497</b>	<b>43,785</b>
Fixed assets	68,487	75,601	72,374	69,053	65,531	61,823
Other assets	37,844	55,504	70,821	76,894	82,654	88,622
Non current assets	106,332	131,105	143,195	145,946	148,185	150,445
<b>Total assets</b>	<b>225,268</b>	<b>260,388</b>	<b>278,898</b>	<b>235,759</b>	<b>190,682</b>	<b>194,231</b>
Creditors	70,530	77,323	43,050	6,327	1,284	1,364
Short-term borrowings	53,478	38,862	81,535	71,838	33,507	38,646
Current maturity of LT loans	6,028	4,429	5,119	3,209	3,431	2,514
Other payables	1,876	2,130	2,288	2,529	2,547	2,806
<b>Current liabilities</b>	<b>131,913</b>	<b>122,743</b>	<b>131,992</b>	<b>83,903</b>	<b>40,770</b>	<b>45,330</b>
Long term loan	35,932	50,543	39,906	33,828	23,133	15,588
Deferred liabilities	0	3,171	3,805	4,566	5,479	6,575
<b>Total liabilities</b>	<b>167,845</b>	<b>176,457</b>	<b>175,703</b>	<b>122,296</b>	<b>69,382</b>	<b>67,492</b>
Shareholders' equity	57,423	83,931	103,196	113,463	121,300	126,738
<b>Total equity and liabilities</b>	<b>225,268</b>	<b>260,388</b>	<b>278,898</b>	<b>235,759</b>	<b>190,682</b>	<b>194,231</b>
<b>Ratios</b>						
BVPS	49.13	64.70	79.56	87.47	93.51	97.71
ROCE	8.9%	15.6%	16.4%	12.4%	14.5%	18.3%
ROA	5.6%	10.7%	12.5%	11.0%	13.9%	17.6%
ROE	23.8%	36.9%	36.0%	26.2%	25.3%	27.3%

Source: Company Accounts & Akseer Research

## Financial Highlights

Cashflow Statement (PKR mn)	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Recurring Net Profit	11,461	26,053	33,688	28,429	29,694	33,908
Depreciation	4,669	4,065	4,454	4,562	4,677	4,799
Working Capital Changes	48	(9,149)	(42,654)	8,710	42,479	(993)
<b>Operating Cash Flows</b>	<b>16,178</b>	<b>20,969</b>	<b>(4,512)</b>	<b>41,701</b>	<b>76,851</b>	<b>37,714</b>
Capex	(46,845)	(28,838)	(16,544)	(7,314)	(6,916)	(7,059)
Add: Interest (after tax)	7,401	11,905	7,341	9,893	7,119	4,846
Others						
<b>FCFF</b>	<b>(23,265)</b>	<b>4,036</b>	<b>(13,715)</b>	<b>44,280</b>	<b>77,054</b>	<b>35,501</b>
Less: Interest (after tax)	(7,401)	(11,905)	(7,341)	(9,893)	(7,119)	(4,846)
Net debt	33,216	(1,351)	32,884	(17,444)	(48,785)	(3,065)
Other liabilities	0	3,171	634	761	913	1,096
<b>FCFE</b>	<b>2,550</b>	<b>(6,050)</b>	<b>12,462</b>	<b>17,704</b>	<b>22,063</b>	<b>28,686</b>
Dividends Paid	0	0	(15,566)	(18,998)	(22,707)	(29,346)
Equity Issued	6,928	455	1,142	836	850	876
<b>Net Cash Flow</b>	<b>9,477</b>	<b>(5,594)</b>	<b>(1,961)</b>	<b>(458)</b>	<b>206</b>	<b>216</b>

Source: Company Accounts & Akseer Research



## Technical Outlook: Buy with an upside potential of 16%; PT - PKR 92.5/sh

- The recent chart pattern suggests that HUB Power Co. (HUBC) is creating higher highs and higher lows, indicating a shift in the trend. Moreover, at demand zone, volumes are increasing, indicating an accumulation of the stock while its RSI is recorded at above 50. Currently, HUBC is trading above its DMA 50, 21 and 9, indicating potential upside of 16.1% to PKR 92.5/share. However, Technical chart is also forming Symmetrical and Descending triangles indicating a resistance at PKR 80. A breakout above its downward sloping resistance line and its DMA 200 (recorded at PKR 81.17) is likely to lead a rally to PKR 86.5



Source: Investing.com

## Technical summary

### Relative Strength Index (RSI)

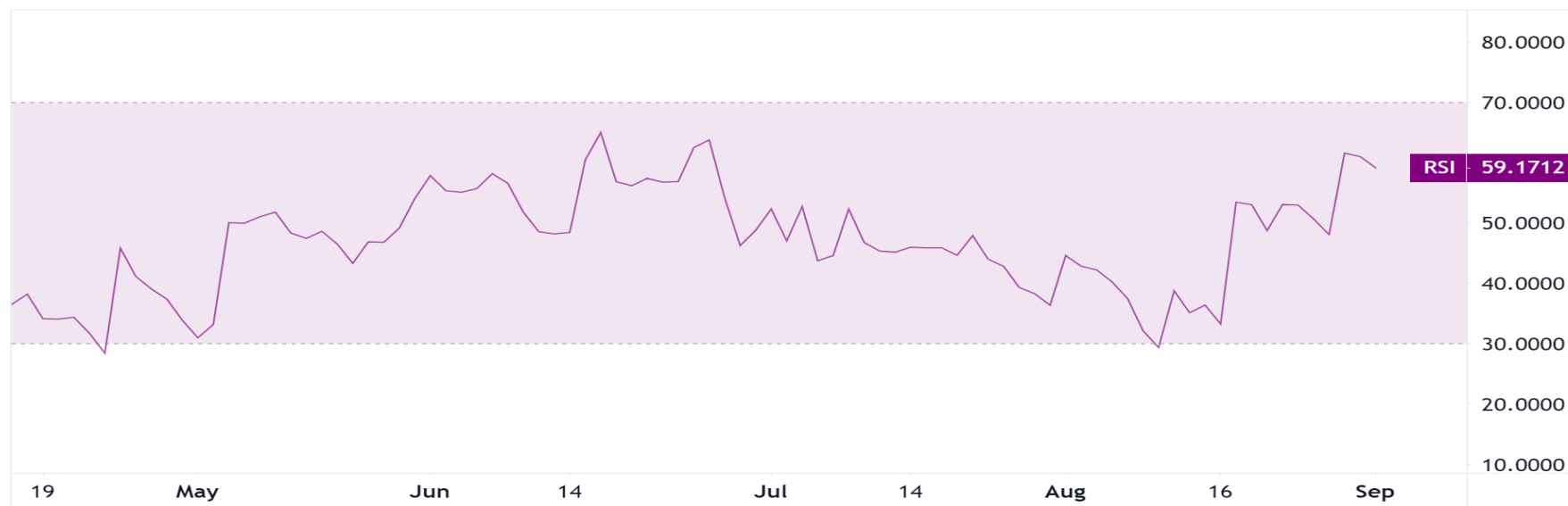
- RSI is trending higher, above the 50 level, allowing room for price surge.
- Formation of higher high and higher low also support the bullish trend.

### Moving Average Convergence/Divergence (MACD)

- MACD, a trend-following momentum indicator, shows that MACD line is above zero.
- MACD line crossing the signal line from its low, further supports the bullish trend.

### Chaikin Money Flow (CMF)

- CMF, an indicator used to measure money flow volume, has been recorded above 0.
- The upward movement in CMF indicates that the correction in the price is over.
- CMF was last recorded at 0.19 up from 0.10, indicating a strong positive trend.



Source: Investing.com

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Rating	Expected Total Return
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