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PAKISTAN
POWER

REP-019
MARKET
VISTA

HUBC: 3QFY21 Result Preview

Aailia Naeem
ailia.naeem@akdsecurities.net
111-253-111 Ext: 602

BUY

TARGET PRICE (PkR)*	SHARE PRICE (PkR)
168.0	76.89
UPSIDE/DOWNSIDE	DIV. YIELD
118.5%	9.1%

*TP includes base plant; SOTP excluding base plant estimate at PkR110/sh

- **HUBC's board is scheduled to meet on 30th Apr'21 to announce its 3QFY21 financial result, where we expect the company to post flattish NPAT of PkR7.3bn (EPS: PkR5.65), taking 9MFY21 NPAT to PkR23.67bn (EPS: PkR18.25), up 30%YoY.**
- **HUBC initiated dividends in 1QFY21 after a dry spell of 2 years, as CAPEX for its CPEC projects concluded in FY20, and lower finance cost created room for payouts (1HFY21 DPS: PkR7.0). While the management remains elusive about its payout policy, commencement of dividend from CHPGC could enable HUBC to maintain payouts in 2HFY21.**
- **Meanwhile, the upcoming receivables settlement in the form of Sukuks and PIBs may enable HUBC to meet its debt repayment requirements (expected to peak in FY23), further supporting the liquidity situation for the IPP.**
- **That said, first installment to HUBC may also be accompanied with an update on HUBC base plant sell-off. To recall, HUBC's management had reportedly proposed GoP to buy its base plant at a transaction price of PkR65bn (PkR50/sh), where GoP countered the proposal with the condition of using cash injection for coal conversion of existing Base plant.**
- **While we would continue to incorporate the developments as they happen, our back of the envelop workings suggest HUBC may be able to weather through the current uncertain times. We maintain our Buy call on HUBC.**

Earnings in 3QFY21 expected to clock in at PkR5.65: We expect Hub Power Company Ltd (HUBC) to post 3QFY21 NPAT of PkR7.3bn (EPS: PkR5.65), flattish on YoY basis, but down 11% QoQ. This will take the 9MFY21 NPAT to PkR23.67bn (EPS: PkR18.25), up 30%YoY. For 3QFY21 alone, a steep 39%YoY decline in finance cost amid low interest rates would be offset by higher effective tax rate of 12% vs. 6% in the same period last year (25% WHT on dividend income from 46% owned CHPGC). On a sequential basis, the decline in earnings is due to modest currency appreciation, coupled with lower dispatch from portfolio plants, where Laraib/Narowal operated at 38/19% in 3Q vs. 71/21% in 2QFY21, while CPHGC continued operating at 60%, at par with the dispatch factor in previous quarter. For 9MFY21, the 30%YoY increase in earnings is expected on the back of 40%YoY decline in finance cost, and absence of PkR1.0bn transfer of share of 1.5% stake in CPHGC to GoB recorded in the same period last year.

Receivables settlement expected to support payout situation: HUBC initiated dividends in 1QFY21 after a dry spell of 2 years, as CAPEX for its CPEC projects concluded in FY20, and lower finance cost created room for payouts (1HFY21 DPS: PkR7.0). While the management remains elusive about payout policy, commencement of dividend from CHPGC could enable HUBC to maintain payouts in 2HFY21. The newly appointed Finance Minister has recently deferred the decision on payments to IPPs, yet his tone seems to be encouraging for 1994 and pre-1994 policy power plants (including HUBC base plant). HUBC has overdue receivables of PkR91bn, as opposed to total overdue liabilities of PkR79bn (payables to PSO and short term debt), with net receivable standing at PkR11.5bn. Lastly, the two third of receivable settlement expected in the form of PIBs and Sukuks (coupon payments at ~PkR5bn) would enable the IPP to divert it for partial debt repayments (~PkR8 to 10bn in FY22/23F), further supporting the liquidity situation for the IPP in medium term.

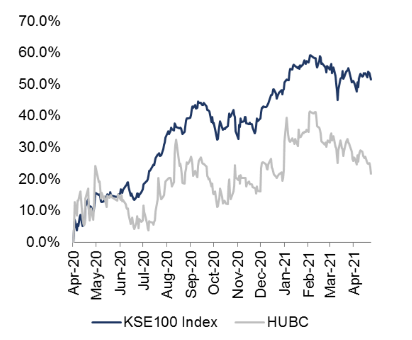
CAPEX plans for Base plant conversion in pipeline: That said, first installment to HUBC may also be accompanied with an update on HUBC base plant sell-off. To recall, HUBC's management had reportedly proposed GoP to buy its base plant at a transaction price of PkR65bn (PkR50/sh), which the GoP countered with the proposal of using the cash injection for coal conversion of base plant and putting up water desalination plant. As per our previous note on same, we believe any cashflows from the sell-off transaction are likely to be diverted towards the CAPEX for aforementioned projects. While we would continue to incorporate the developments as they happen, our back of the envelop workings suggest HUBC may be able to weather through the current uncertain times. We maintain our Buy call on HUBC.

HUBC- Valuations Glance (Consolidated)

(PkRmn)	3QFY21	YoY	QoQ	9MFY21	YoY
Sales	10,614	-10.2%	-3.5%	37,406	2.6%
COGS	3,277	-24.1%	0.6%	14,190	-2.1%
Gross Profit	7,338	-2.2%	-5.2%	23,215	5.6%
Finance Cost	1,900	-38.8%	4.0%	5,631	-39.8%
Share of profit	3,601	-5.4%	-12.7%	11,206	25.1%
PBT	8,615	9.0%	-9.7%	27,536	40.7%
Tax	900	75.5%	-18.0%	2,933	337.2%
Profit attributable	7,329	1.8%	-10.6%	23,671	29.7%
EPS (PkR)	5.65	1.8%	-10.6%	18.25	29.7%
DPS (PkR)	-	-	-	7.0	-

Source: Company Report & AKD Research

KSE100 vs. HUBC



Source: PSX & AKD Research

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- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net