



Today's Daily

■ HUBC: FY17 Result Preview

The BoD of HUBC meets tomorrow (17th August) to approve its FY17 results, where we anticipate the holding company to post profit attributable of PkR10.95bn (EPS: PkR9.47), cumulative of 4Q income of PkR3.46bn (EPS: PkR2.87). The downtick of 8%YoY in profitability is mainly on the back of shrinking gross margins (17.51% vs. 20.29% for FY16), largely caused by heavy maintenance and non-pass through O&M expenditures (up 92%YoY). Along with this, a slight increase is witnessed in the finance cost as the company remains under the burden of outstanding payables (8.5x of monthly revenue) despite its quarterly flow of fuel payments perfectly tallying (as shown in PSO's analysts' briefing), which we believe is financed through increasing reliance on expensive short term borrowings. We hold on to our TP of PkR146/sh incorporating the potential impact of CPHGC and TEL though being cognizant of the fact that its financial close has been delayed passed its Jun'17 deadline.

KSE100 - Index

Current	43,899.45
Previous	45,288.49
Chg.	-3.07%

Mkt Cap. (PkRbn/US\$bn)

Current	9,138 / 86.70
Previous	9,421 / 89.39
Chg.	-3.01%

Daily Turnover (mn)

Current	191.37
Previous	113.81
Chg.	68.2%

Value Traded (PkRmn/US\$m)

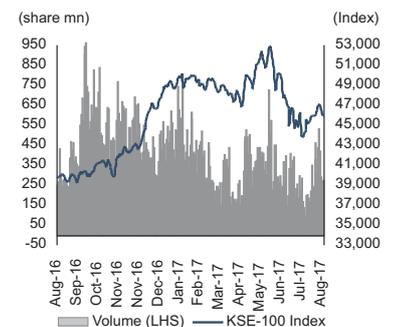
Current	9,101 / 86.35
Previous	6,046 / 57.37
Chg.	50.5%

AKD Daily

Wednesday, Aug 16, 2017

News and Views

- Former Prime Minister Muhammad Nawaz Sharif has filed a review petition against the Jul'28 verdict of the Supreme Court in the Panama leaks case that disqualified him as an MNA for being dishonest by hiding salary from the Dubai-based company, Capital FZE.
- OGRA has opposed the proposed deregulation of profit margins of OMCs and petroleum dealers, fearing that the move will encourage them to form a cartel and fix retail prices at the expense of consumers.
- As per recent data released by SBP, country's service exports grew by 1.76%YoY to US\$5.55bn in FY17, while imports also jumped 2.96%YoY to US\$9.12bn.

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4QFY17E earnings preview: We forecast the power producer to publish earnings of PkR3.46bn (attributable to the Holding company) in the final quarter (EPS:PkR2.87), lower by 9.5%YoY as compared with PkR3.83bn (EPS:PkR3.08) in 4QFY16. Although the company's revenue during the quarter is expected to go up by 17%YoY on the back of higher RFO cost (up by more than 30%YoY), expenses due to overhauls and maintenance of engines would squeeze gross margins to 19.68% as opposed to 24.43% for 4QFY16. Moreover, the bottom-line suffers due to increased reliance on short-term borrowings pushing finance cost to PkR1.21bn, a 23%YoY jump. We expect the result to accompany a PkR1.5/sh. dividend in accordance with management's payout policy outlined at the end of FY16. Lastly, we highlight that post approval of Narowal demerger, discontinued operations are reported separately in unconsolidated accounts.

HUBC: Income Statement

(PkR mn)	4QFY17E	4QFY16	YoY	QoQ	3QFY17	FY17	FY16	YoY
Turnover - net	25,563	21,843	17.0%	-1.3%	25,912	99,702	91,595	8.9%
Operating Costs	20,532	16,507	24.4%	-5.2%	21,648	82,241	73,013	12.6%
Gross Profit	5,031	5,336	-5.7%	18.0%	4,264	17,462	18,582	-6.0%
SG&A expenses	331	387	-14.4%	-2.5%	340	1,312	1,262	3.9%
EBIT	4,699	4,949	-5.0%	19.7%	3,924	16,150	17,320	-6.8%
Financing cost	1,213	987	22.8%	18.7%	1,021	4,296	4,135	3.9%
Other income	(71)	92	-177.5%	-13.6%	(82)	(138)	(414)	-66.8%
EBT	3,526	4,053	-13.0%	25.0%	2,821	11,827	12,771	-7.4%
Taxation	66	117	-44.0%	-48.2%	127	302	271	11.8%
Net Income	3,460	3,825	-9.5%	28.4%	2,694	11,524	12,501	-7.8%
Attributable to Owners	3,325	3,560	-6.6%	29.9%	2,559	10,953	11,903	-8.0%
Non-controlling interests	135	265	-49.2%	0.0%	135	571	598	-4.6%
EPS (PkR)	2.87	3.08	-	-	2.21	9.47	10.29	-
DPS (PkR)	1.5	3	-	-	-	6.50	11	-

Source: Company Report & AKD Research



Investment Perspective: HUBC has largely been successful in containing its trade payables to PSO, as the overall FY17 position stands at a meagre deficit of PkR3bn, though raising concerns about its short-term borrowings which have ballooned to PkR23bn as of Mar'17, rising by ~PkR7bn (44%YoY increase) during the year. Though the financial close of upcoming CPHGC is still not completed (LOI for TEL extended to Dec'17 and ground breaking of CHPGC on Mar'17), we remain sanguine on the nature of the projects (included in CPEC energy priority projects) and HUBC's ability to execute them in conjunction with equity partners (CPIH and CMEC being state owned conglomerates). Our combined TP of PkR146/sh incorporates the potential impact of the project at their ROE income based DDM fair value of PkR32/sh assuming 4%YoY PkR depreciation versus the Greenback. Along with this, reconstitution of the board post 17.39% sell-off by Dawood Hercules (DAWH) and other shareholders might lead to renewed impetus in securing modes of equity financing aiding in project execution in-line with planned COD.



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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