



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan

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www.jamapunji.pk

### Today's Daily

#### ■ HUBC: New faces to be revealed

In the latest development, HUBC may witness the exit of Dawood Hercules (DAWH) as its major sponsor offloading 14.91% holding (~172.53mn shares) in the company as per the bourse filing dated Jun 30'17. While the transaction is unlikely to materially impact operations, we highlight the fact that the transfer of ownership would also lead to a reconstituted Board, all the while HUBC finds itself in the midst of major operational developments (financial close on expansion expected by 1QFY18). Additionally, the heightened likelihood of PkR depreciation against the US\$ would trickle down to the company's earnings, where we have already incorporated a 4% weakening of PkR for FY18. Furthermore, observing the current price level, we believe investors have heavily discounted the growth prospects of the company on increasing political noise matched by a status quo on the circular debt front. With fundamentals remaining intact, we stick to our DDM and SOTP based TP of PKR142.7/sh (incorporating CPHGCL), offering a 21.0% return, in addition to FY17/18F D/Y of 7.6/8.3%, **BUY!**

#### KSE100 - Index

Current 44,823.11  
Previous 45,413.42  
Chg. -1.30%

#### Mkt Cap. (PkRbn/US\$bn)

Current 9,207 / 87.11  
Previous 9,304 / 88.02  
Chg. -1.04%

#### Daily Turnover (mn)

Current 146.62  
Previous 204.26  
Chg. -28.2%

#### Value Traded (PkRmn/US\$m)

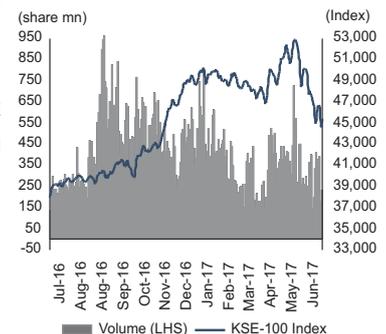
Current 8,397 / 79.45  
Previous 12,504 / 118.30  
Chg. -32.8%

AKD Daily

Friday, Jul 07, 2017

### News and Views

- The PkR/US\$ parity recovered 2.4% to PkR105.5/US\$ up after slumping 3.1% a day earlier. In related news, Ishaq Dar convened a meeting yesterday with heads of commercial banks in the country to discuss the sudden move in currency, following which the FM briefed the media that the plunge in Rupee came on the back of miscommunications between the central bank and other intuitions and that an inquiry regarding the matter will be undertaken
- The GoP is expected to appoint new governor of State Bank of Pakistan (SBP) soon. Names of former Secretaries Finance Tariq Bajwa and Dr. Waqar Masood are under consideration, where news reports indicate that the former has been selected for the position.
- The Asian Development Bank (ADB) has indicated that it could give over US\$6bn in loans to Pakistan over the next 3 years (2018-20), as the GoP has asked for increasing the assistance. The ADB VP is currently visiting Pakistan from July 5-7'17.



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**Bidding farewell to the Dawood group:** Dawood Hercules Corporation (DAWH) intends to sell off its 14.91% ownership in the company in a recent announcement filed with the PSX. Previously, Cyan Ltd, DH Corp and DH Fertilizers combined acquired ~180mn shares of HUBC in 2012 when International Power and Xenel offloaded their 17.4% and 12.1% shareholding, respectively. Following up, while we do not foresee an immediate impact on HUBC, we do highlight that the transfer of ownership would be accompanied by a change of director/chairman as DAWH held the largest portion of outstanding shares. This comes at a time when the company is in the midst of adding more to its power generation capacity by virtue of 1) its investment in CPHGCL (46% stake for 2x660MW coal based power plants), 2) a minority (6%) stake in SECMC, and 3) the 330MW Thar Electric (TEL) on its plate.

**Case for controlling HUBC:** Though it's too early to speculate any names who might takeover, we believe any potential investor would be allured by 1) movement past the trough of the U-shaped tariff for the base plant (unique in the sector), 2) operational expertise in varied projects across the country (hydel with Laraib, FO with base plant and Narowal), 3) land and related assets (base plant has room to expand to 10 X 660MW), which are strategically located (civil works and grid connectivity already in place), and 4) attractive returns (up to 29.5% ROE on local coal) on completion of the Thar coal based power plant under TEL coupled with a risk sharing opportunity as FFC and SECMC have also shown interest for a 40% stake.

**Investment Perspective:** Analyzing price performance for the scrip (down 4.5%CYTD), we believe investors are not giving adequate weight to the

### Current Major Shareholders

DH Corp	14.91%
ABL	9.68%
Committee of Admin. Fauji Found.	8.50%
NBP	4.99%
Individuals	16.13%
Fin. Ins/ Funds/ etc.	38.33%

Source: Company Report & AKD Research

### Major Ownership transfer

Oct'11	Xenel International sold 12.1% shareholding.
Mar'12	National Power International offloads 17.44% ownership.
Mar'12	DH Fertilizers, DH Corp and Cyan Limited acquire 15.6% stake.
Mar'15	DH Corp buys entire 10.8% stake (~125mn shares) of HUBC from DH Fertilizers and also another 7.7mn shares from Patek Ltd.

Source: Company Reports & AKD Research



growth prospects of the company in the wake of political noise matched by a status quo on the circular debt front, which has grown to PkR441bn as per news flows. In this regard, eventual listing of Narowal (demerger completed) combined by divestment of stakes in growth ventures (40% TEL stake sale to FFC and SECMC) can be seen to mitigate possible cash calls arising from hefty upfront equity drawdowns inherent in these projects tariffs. Developments on the expansion front continue to be delayed with foreign financing arranged and financial close expected by September'17. Moreover, we look to higher RFO prices (up 6% CYTD) and continued non-passthrough O&M costs as depleting profitability and straining liquidity. With fundamentals remaining intact, we stick to our DDM and SOTP based TP of PKR142.7/sh (incorporating CPHGCL), which offers a 21.0% return, in addition to FY17/18F D/Y of 7.6/8.3% warranting a BUY stance.



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