

HUBC: Financial deals | 4Q DPS could be noticeable as per our estimates...

Our newest thrust for HUBC based on financial placements...

Friday, 24 May 2024

We present HUBC as a newest 'long term investment' option after looking at various Corporate Briefing Session (CBS) and our thrust of 'dividend outlook'.

HUBC reported consolidated EPS for the period 9MFY24 of PKR 38.2 vs EPS of PKR 25.94 during SPLY. The increase in profit is mainly due to entire period impact of commencement of date of Thar Energy (TEL) and Thar Nova (TNPTL) achieved in Oct 2022 and Feb 2023 respectively. **We expect HUBC to report 4QFY24 DPS of PKR 8.5/sh. This translates into annual D/Y of ~14% & FY24 PE of 2.7x.**

Renewable / Indigenous Power Generation

Wind/Solar Hybrid Project:

HUBC, through its wholly owned subsidiary Hub Power Holdings Limited (HPHL), has been prequalified for K-Electric's (KE) 200MW wind/solar hybrid project.

Sindh Solar Energy Project: HPHL has also been prequalified for 150MW + 120MW of the Sindh Solar Energy Project (SSEP) for power off-take by KE.

Potential conversion of RFO fired plant:

HUBC has signed a MoU with KE for the potential conversion of two units of the RFO-fired Hub Power plant to Thar coal, post-expiry of the existing Power Purchase Agreement (PPA) in March 2027.

Energy Storage System and EV Infrastructure

Battery Energy Storage Solutions (BESS) and Electric Vehicles (EV):

HUBC is actively exploring opportunities in the application of Battery Energy Storage Solutions (BESS) as well as Electric Vehicles (EV) and its related value chain. Earlier, name of Build Your Dreams (BYD), which is China's best EV, name was surfaced in the section of the business media for a collaboration with HUBC.

	1Q	2Q	3Q	4Q	Total
EPS	13.17	11.78	13.25	13.00	51.2
DPS	5.00	4.00	2.50	8.50	20.0
Payout ratio	38%	34%	19%	46%	34%

SOURCE: SCS Research, Company Report

Subsidiaries	Holding	
Laraib Energy	LEL	74.95%
Hub Power Services Ltd	HPSL	100%
Hub Power Holdings Ltd	HPHL	100%
Narowal Energy Ltd	NEL	100%

Thar Energy	TEL	60%
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Associates

China Power Hub Generation co	CPHG	47.50%	via HPHL
ThalNova Power Thar	TNPTL	38.30%	via HPHL

Joint Ventures

Prime Int Oil and Gas co		50%	via HPHL
China Power Hub Operating co	CPHO	49%	via HPHL

SOURCE: SCS Research, Company Report

Dividend Distribution:

HUBC's joint venture, China Power Hub Generation Company (CPHGC), disbursed its first dividend amounting to USD 70 million in November 2023. HUBC has received its share of USD 32 million from this disbursement.

Share Purchase Agreement:

HUBC has entered into a Share Purchase Agreement (SPA) with Habib Bank Limited (HBL) for the acquisition of approximately 9.5% shares in Sindh Engro Coal Mining Company (SECMC).

Loan Repayments:

Following the Commercial Operation Date (COD) of ThalNova Power Thar (TNPTL) and TEL, as well as the commencement of dividends from CPHGC, repayment of loans taken for investments in Thar coal and imported coal projects has accelerated. Total repayments in 1HFY2024 amounted to PKR 2.3 billion, reducing the total outstanding loans to PKR 17.2 billion as of December 31, 2023, from PKR 19.5 billion as of June 30, 2023

Exploration and Production (E&P) Sector

Prime International Oil and Gas co Operations:-

PIOGC is a 50-50 JV between HPHL and ENI's local Employees. Its objective is to expand HUBC's portfolio by including oil and gas exploration. PIOGC owns multiple gas fields situated in zone 2 and 3, Sindh. For instance, in Bhadra Area Kirthar Block drilling operations are ongoing and expected to be completed in May 2024 as per quarterly report.

Kadanwari Block: The last two wells drilled have been successfully brought into production. Civil works have been completed, and the well site is ready for the next Kadanwari well, which will be drilled once the rig becomes available after completing the ongoing Bhadra well.

South West Miano III Block: Legal formalities are being finalized with the Directorate General of Petroleum Concessions (DGPC) before the award of the exploration license.

Consolidated	Share of Profits (Rs 000)	
HUBC	49,924,213	9MFY24

Associates

CPHGC	28,996,930	9MFY24
TNTPL	3,324,438	9MFY24

Joint Venture

Prime Int Oil and Gas co	2,475,494	9MFY24
CPHO	-93,385	9MFY24

SOURCE: SCS Research, Company Report

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- (Target Price, if any/Current Price - 1) < -10% Negative

The time duration is the financial reporting period of Subject Company

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Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple
- Discounted Cash flows or Dividend Discount Model or Enterprise Value