

March 04, 2010

**Pakistan Market****MORNING BRIEFING**
**Hubco: attractive at current levels / 'Buy' maintained** KSE100 Index: Closing 9419.43 ↓ (-129.96)

Post announcement of an impressive result and interim dividend for 1HFY10, Hubco has remained in the limelight as the stock has already gained 2% since its result announcement, out performing the market by 4%. The stock is still well placed as our top defensive pick as still offers an attractive FY10 dividend yield of 13.5% allowing us to reaffirm our 'Buy' call on the stock.

**1HFY10 earnings up 69%**

For 1HFY10, Hubco posted net profit of Rs2.9bn (EPS: Rs2.5) versus Rs1.7bn (EPS: Rs1.5), growth of 69%YoY. The growth in the company's profitability was mainly attributed to up-tick in company's tariff, steep rupee depreciation and higher production bonus recorded by the company.

As per the Power Purchase Agreement (PPA), Hubco is entitled to receive production bonus if it generates electricity above 6,791Gwh in a calendar year. This bonus is awarded at the rate of Rs0.1 per kwh generated up to 7,358Gwh. Beyond this level, bonus is calculated at the rate of Rs0.15 per kwh. In 2009, Hubco maintained a decent load factor of 78.9% and generated 8,278Gwh of electricity, which according to our estimates, led to a production bonus of around Rs200mn in Dec 2007 (EPS impact of Rs0.18). In addition, the company also announced an impressive interim dividend of Rs2.5 per share.

**Narowal Project to commission before Sep10**

After a delay in expected commissioning of Narowal project, the management now expects the project to be commissioned before September 2010. Since the delay has been caused by the EPC contractor, we believe any penalty imposed by the government would be offset by counter guarantees signed between Hubco and EPC contractor. The company has already incurred a Capex of Rs19bn (total estimated project cost of around Rs23bn) with target debt to Equity of 70:30, offering real IRR of 15%. Based on our estimates, the project contributes around Rs3 per share to company's valuation.

**Circular debt: Accumulation has slowed down**

Hubco's first half detailed accounts indicate decline in company's trade payables by Rs4.9 from June 2009 and trade debts by Rs1.4bn, somewhat improving company's cash flows. Going forward, with the consistent rise in power tariffs and government's intention to inject liquidity in the system we believe the circular debt situation is likely to improve going forward.

**'Buy' Maintained**

Currently, the stock offers attractive US\$ IRR of 23% with FY10E dividend yield of 13.5%. At these levels, we maintain our 'Buy' stance on Hubco.

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**Also in focus****Cotton arrival stands put at 12.7mn bales**

According to the latest numbers released by the Pakistan Cotton Ginners Association (PCGA), as of March 1, 2010, this season's cotton arrivals stood at 12.7mn bales versus 11.2mn bales last year, translating to a significant growth of 13%YoY. The fortnightly cotton flows during the same period stood at 39k bales. We believe, these figures are encouraging for Pakistan and are in line with our expectations of total arrivals of 13mn bales during the current season. However, looking at the total cotton demand of ~15mn bales, the country will still have to import around 2.0-2.5mn bales.

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