JS Research

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Pakistan Market

MORNING BRIEFING

HUBCO and LUCK: Result previews

KSE100 Index: Closing 10351.72 ↓ (-38.55)

Hub Power Company (HUBCO) and Lucky Cement (LUCK) are scheduled to announce their FY10 results on Aug 9 and Aug 10, respectively. We expect HUBCO's earnings to rise by 50%YoY to Rs4.9 per share. On the contrary, Lucky's earnings are expected to witness a decline of 26%YoY to Rs10.6 per share owing to lower retention prices during the year. We anticipate a final cash dividend of Rs2.25-2.5 and Rs2.5-3 per share from HUBCO and Lucky, respectively.

HUBCO: FY10 EPS likely at Rs4.9

The board of directors of Hub Power Company (HUBCO) is meeting on Aug 9, 2010 to announce the company's FY10 financial result. We expect the company to post a net profit of Rs5.7bn (EPS: Rs4.9) compared to Rs3.8bn (EPS: Rs3.3) last year, a growth of 50%YoY. This growth is mainly attributed to a predetermined up-tick in the company's power tariff which has already entered in the acceleration phase, where the Capacity Payments under the power purchase agreement are set to increase every year for the remaining project life. In addition, higher indexation factor due to Pak Rupee depreciation against the US$ and the US CPI growth are likely to support the company's bottom line. We also expect HUBCO to announce a final cash dividend in the range of Rs2.25-2.5 per share, taking full year cumulative dividend payout to Rs4.75-5 per share.

Result preview - Hubco

(Rs mn)	FY10E	FY09A	Δ%
Sales	97,311	82,784	18%
Operating cost	89,468	76,687	17%
Gross Profit	7,843	6,097	29%
Other Income	39	138	-72%
General & Admin Exp.	371	360	3%
Finance Cost	1,752	2,095	-16%
PAT	5,681	3,781	50%
EPS	4.9	3.3	50%

Source: JS Research & Company Accounts

Currently the stock is trading at an FY11F PE of 6.4x and offers US$ IRR of 23%, hence we maintain our 'Buy' stance on HUBCO.

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Lucky likely to post EPS of Rs10.6 in FY10

Lucky Cement is scheduled to announce its FY10 result on Aug 10, 2010. We expect the company to book profits of Rs3.4bn (EPS: Rs10.6) compared to earnings of Rs4.6bn (EPS: Rs14.21) last year, a decline of 26%YoY. The company is also expected to announce a final cash dividend of Rs2.5-3 per share.

Result preview - LUCK

(Rs mn)	FY10E	FY09A	Δ%
Net sales	24,357	26,330	-7%
Cost of sales	16,278	16,519	-1%
Gross profit	8,513	9,811	-13%
Distribution costs	3,522	2,428	45%
Administrative expenses	302	166	82%
Operating profit	4,689	7,217	-35%
Finance costs	551	1,237	-55%
Other operating income	2	23	-90%
Other charges	293	827	-65%
Profit before taxation	3,847	5,177	-26%
Taxation	423	580	-27%
Profit after taxation	3,424	4,597	-26%
EPS	10.6	14.2	-26%

Source: JS Research & Company accounts

Despite an increase of ~12%YoY in the company's offtake, lower retention prices (down 17%YoY) during the year are likely to drag down net sales by 7%YoY to Rs24.4bn. However, lower cost per ton (down ~12%YoY) owing to the decline in average coal prices (down 28%YoY) should slightly mitigate the negative effect of fall in retention prices. As a result, gross margin is expected to deteriorate by 231bps to 35% from 37.3% earlier. However, lower financial cost (down 55%YoY) because of reduced debt levels and fall in interest rates should provide some support to the bottom-line.

On a QoQ basis, we expect Lucky's profits to witness an improvement of 32% on the back of an average increase of 5% in retention prices and a 3% growth in volumetric sales. Moreover, realization of inland freight subsidy and commencement of the Waste Heat Recovery Project (Karachi plant) should further bolster margins during the 4QFY10.

Lucky is currently trading at an FY11F PE of 4.9x, a discount of 34% to the market's earnings multiple. Moreover, the scrip offers a potential upside of 22% to our target price of Rs84. Hence, we maintain our 'Buy' stance on the scrip.

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Also in focus

Forex Reserves declines to US$16.5bn

The foreign exchange reserves of Pakistan have declined by US$56mn to US$16.5bn for the week ending July 30 2010 as compared to US$16.6bn the week before. Reserves held by the State Bank of Pakistan dropped to US$12.73bn along with those held by the commercial banks that came in at US$3.78bn.

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