

August 13, 2009

Pakistan Market**Hubco: FY09 result review/Buy maintained****MORNING BRIEFING**

KSE100 Index: Closing 8058.46 ↑ (+13.96)

Yesterday, Hubco announced its full year FY09 EPS of Rs3.27, up 45%YoY. The company announced a final cash dividend of Rs2.0/share, which was in addition to Rs1.35 already paid in 1HFY09. We recommend 'Buy' on Hubco owing to its attractive dividend yield (average 15% for next 2-years) and attractive upside of 27% to our fair value of Rs38/share.

Going forward, we expect a fairly stable dividend stream, as the circular debt issue is likely to settle forever by the end of August 2009 due to IMF pressure on government.

EPS up 45%, Rs2.0/share dividend in FY09

During FY09, earnings stood at Rs3.8bn (EPS Rs3.27) versus Rs2.6bn (EPS Rs2.25) in FY08. This increase was mainly attributed to currency devaluation, generation bonus and higher tariff profile. The company also announced Rs2.0 per share cash dividend with the results taking cumulative dividend to Rs3.35/share for FY09 (payout ratio stood at 102%).

Financial expenses rose by 7% to Rs2bn led by higher short-term borrowing. However, markup on WAPDA's overdue receivables somehow mitigated the impact of higher financial charges.

Overdue amount from WAPDA reached Rs38bn

Due to circular debt problem, receivables from WAPDA have risen to Rs43bn as of June 2009 (overdue amount Rs38bn). Consequently, Hubco withheld payment of Rs37bn to PSO, a major oil supplier to the company. During 4QFY09, the company availed a long-term loan of Rs5bn for Narowal project which was partly used to pay off short-term borrowings. We believe, higher dividend payout depicts a management optimism of resolution of circular debt by the end of August 2009.

Update on Narowal and Laraib projects

Company's 220MW Narowal oil fired power project has already achieved Financial Closure in March 2009, while

Hydro Project i.e. Laraib Energy of 84MW (subsidiary of Hubco) is expected to be completed by September 2009. According to company estimates, the Narowal Project is expected to come online by March 31, 2010. The company has already entered into Power Purchase Agreement for 25 years on November 20, 2008 with WAPDA. The estimated total project cost is US\$285mn with a debt to equity ratio of 70:30. The entire debt has been funded locally.

On the other hand, The Power Purchase Agreement (PPA) of Laraib Power plant has been initiated and the amended tariff has been approved by ECC at Rs6.84/kWh. Hubco has 75% equity interest in this project. The company is financing the project injection through local banks and International financial institutions.

Moreover, the company also stated that O&M agreement with International Power Global Development has been renewed for further 12 years.

Recommendation: 'Buy' at current levels

Hubco's FY10E dividend yield of 13.6% is now even more attractive when compared with PIB yields (20-year PIB yield is now 12.70%). Moreover, the scrip is offering Rupee and US\$IRR of 21% and 17.5%, respectively, hence we maintain our 'Buy' stance on Hubco at current levels with a fair value of Rs38 per share.

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Hub Power Company	
Market Price: Rs30.95	Kats Code: HUBC
Market Cap: Rs35.8bn (US\$433mn)	Bloomberg Code: HUBC PA
1-yrs Avg. Daily Volume: 2.5mn shares, Rs55mn (US\$0.7mn)	Reuters Code: HPWR.KA
1-year High/Low: Rs30.95/13.38	

Also in focus**HLB and PPL included in MSCI Frontier Index**

MSCI Inc. in its quarterly index review has included Habib Bank Limited (HBL) and Pakistan Petroleum Limited (PPL) in the MSCI Frontier Market indices. No Pakistani company's have been deleted from the index. Furthermore one company from Tunisia and five companies from Vietnam have been added to the MSCI FM index. These changes will take place as of the close of August 31, 2009.

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