

November 16, 2009

Pakistan Market**Hubco: Attractive at current levels****MORNING BRIEFING**

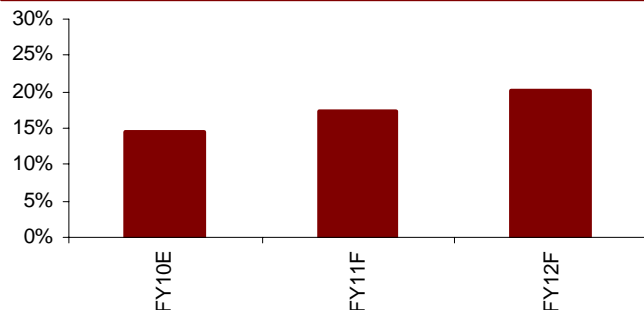
KSE100 Index: Closing 9067.17 ↑ (+142.93)

With positive news flow on Hubco's expansion projects and power tariff hike on the cards, the stock at current level offers an attractive FY10E dividend yield of 15%. In addition, the existing tariff is also set to accelerate the dividend payments to the investors.

Based on these, we remain bullish on the stock and reaffirm our 'Buy' call on Hubco.

Tariff now set to improve dividend payouts

Hubco's Power Purchase Agreement (PPA) was designed in a way that the Project Company Equity (PCE) component of the tariff would accelerate in FY10E and beyond leading to higher returns to the equity investors even in real terms (excluding the indexation factors). As a result, the company would end up having higher cash flows to equity investors (likely to be distributed in the form of dividends). For FY10, we expect the company to announce total dividend payout of Rs4.4 per share versus Rs2.15 and Rs3.35 per share in FY08 and FY09, respectively.

Graph: Hubco's Dividend yield

Source: JS Research

Rise in power tariff to ease WAPDA's financials

As per news reports, GoP and IMF have agreed to further increase the power tariffs in the upcoming tariff revisions in January, April and August to curtail the power subsidy in the vicinity of Rs55bn. In January 2010 alone, the rates are

expected to be revised upwards by around 10%-12%. This would help keeping the aggregate circular debt situation in the country in check and could lead to improvement in mounting receivables situation of the energy companies.

Promising progress on expansion projects

The progress on 225MW Narowal power project is as per schedule and according to management reports, major plant equipment has already arrived at the project site. Company management expects the plant to commence its commercial operations as planned in March 2010.

Recommendation: 'Buy' maintained

At current levels, Hubco offers Rupee and US\$ IRR of 24.0% and 21.5%, respectively with FY10E dividend yield of 15%. Hence, we maintain our 'Buy' stance on the stock.

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Hub Power Company

Market Price: Rs29.91	Kats Code: HUBC
Market Cap: Rs34.6bn (US\$415mn)	Bloomberg Code: HUBC PA
1-yrs Avg. Daily Volume: 2.8mn shares, Rs68mn (US\$0.8mn)	Reuters Code: HPWR.KA
1-year High/Low: Rs34.26/13.38	

Also in focus**Refineries threaten to oil supply to PSO**

According to a news report, the country's oil refineries have threatened to cut oil supply to PSO if the government fails to revise the oil pricing formula and clear overdue payments within one month. According to reports, the management of various refineries has claimed that PSO continues to ignore payments to local refineries and is using any liquidity to fund its increasing imports. As of September 30, 2009, PSO's total payables stood at Rs109bn.

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