JS Research

February 26, 2009

Pakistan Market

Hubco: 1HFY09 result review

MORNING BRIEFING

KSE100 Index Closing 5580.78 ↓ (-294.05)

Yesterday, Hubco announced Rs1.35/share interim cash dividend for 1HFY09. This could have been a positive surprise for the market; however, it fell on deaf ears amid weak broader market sentiments. Nonetheless, Hubco is one stock worth taking some exposure owing to its attractive dividend yield (average 23% for next 2-years) & handsome upside.

The possibility of these dividends is more realistic now as the company has indicated in its Director's report that the 50% of stuck-up amount (Rs27bn) from WAPDA would be received by the end of this month while the remaining balance before June end 2009.

EPS up 26%, Rs1.35/share dividend in 1HFY09

During 1HFY09, earnings stood at Rs1.7bn (EPS Rs1.46) versus Rs1.3bn (EPS Rs1.16) in 1HFY08. This increase was mainly attributed to currency devaluation, generation bonus and lower repair and maintenance. The company also announced Rs1.35 per share cash dividend with the results.

Finance cost rose by 34% to Rs1.2bn due to increase in short term borrowing arising from liquidity crunch led by circular debt in the energy chain. As a result short-term borrowings stood at Rs10.5bn. However, increased markup on WAPDA's overdue receivables somewhat mitigated the impact of high financial charges we believe.

Overdue amount from WAPDA reached at Rs48bn

Though the stuck amount from WAPDA is secured by a government guarantee, the total amount outstanding as at Dec 2008 has risen to Rs53bn out which overdue amount is Rs48bn. However, as of Feb 25, 2008, total outstanding amount has risen to Rs57bn. Moreover, the burden of higher receivables has been shifted to PSO as payable to the largest oil marketing has gone up to Rs42bn as on December 2008.

Update on Narowal and Laraib projects

Company's 225MW oil fired power project is expected to achieve Financial Closure next month while that of Hydro Project i.e Laraib Energy of 84MW (subsidiary of Hubco) is expected in May 2009. According to company estimates, the Naraowal Project is expected to come online by March 31, 2010. The company already entered into Power Purchase Agreement for 25 years on November 20, 2008 with WAPDA. The estimated total project cost of US$300mn with a debt to equity ratio of 70:30. The entire debt amount is expected to be funded locally. The company in its recent accounts notified that the negotiations with financial institutions for long-term loans are underway for this project.

On the other hand, Hubco remaining equity commitment is US$31mn (Rs2.45bn) in Laraib Energy in which Hubco has 75% equity interest. The company is financing the capital injection through bank borrowings and is planning to manage further investment in subsidiary through same means.

Recommendation: 'Buy' at current levels

Owing to its bond like structure, it is now even more attractive when compared with yields currently being offered by PIBs (20- year PIB yield is now 15.2%). Moreover, it is offering Rupee and US$IRR of 34% and 31%, respectively, hence we maintain our 'Buy' stance on Hubco.

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Hub Power Company	
Market Price: Rs16.52	**Kats Code:** HUBC
Market Cap: Rs19.1bn (US$239.3mn)	**Bloomberg Code:** HUBC PA
1-yrs Avg. Daily Volume: 2.6mn shares, Rs67.5mn (US$0.8mn)	**Reuters Code:** HPWR.KA
1-year High/Low: Rs35.05/13.38	

Also in focus

IMF says interest rate cut possible if inflation falls

An International Monetary Fund (IMF) staff mission has completed its first review under Pakistan's standby agreement praising authorities' strong resolve to sustain the wise macroeconomic policies & reforms. The most encouraging aspect for the future economic growth was IMF's view on monetary policy. The fund while deeming the current monetary policy appropriate has stated that there remains room to cut interest rates if inflation falls and international reserves continue to improve. We believe with a declining inflationary trend a 50-100bps rate cut could be carried out in April Monetary Policy Statement.

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