

morning shout

Pakistan Daily Notes

28 July 2010
KASB Research
research@kasb.com
(9221) 111-222-000

Hubco - Estimates tweaked; maintain Buy

- With no clear end in sight to the intercorporate debt issue, we adjust FY10-13E earnings estimates (by +4% to -3%) for Hubco to reflect likely higher Wapda receivables, ST borrowing and interest income.
- Ongoing power shortage suggests that IPPs will remain a key cog in any strategy to tackle energy shortfall. This should (1) keep generation at Hubco's plant high; and (2) reduce risk of the worst case scenario for Pak IPPs (i.e. plant suspension due to non-payment for fuel and/or restrictions on dividend payment).
- With (1) forward D/Y of 14-15% and real DPS growth; (2) well above peers earnings growth; and (3) relatively lower-than-peers earnings sensitivity to intercorporate debt, Hubco remains our preferred pick in Pak IPPs with a revised PO of PRs40/sh.
- We eye Oct-10 expected commercial operation of 6-mths delayed Narowal expansion as a potential upside trigger for the stock, though note that possible liquidated damages associated with the same are the key risk.

No near-term end to circular debt

After gradual improvement in energy sector liquidity & IPPs financial health in 1HFY10 (Jul 09-Jan 10), intercorporate debt numbers have once again swelled in 2HFY10 and we see low likelihood of a near-term solution, particularly due to government financial constraints. Improvement in intercorporate debt numbers in the early part of the previous fiscal year was led by lower furnace oil prices and issuance of two power bonds (in Mar 09 and Sep 09), but progress has since slowed and generation cost is once again rising (albeit at a slower pace). While Wapda (sole buyer of IPP power) continues to make stop-gap arrangements and partial payments, there is as yet no concrete plan to address the outstanding stock of intercorporate debt.

Gap between power cost & tariff is the key issue

Note that with (1) Wapda's power cost (own generation + purchase from IPPs) remaining persistently higher than retail power tariffs; (2) poor bill collection by T&D (transmission & distribution) companies, the state-owned utility is unable to meet more than 50% of IPP dues in cash terms. Resultantly, B/S numbers have swelled, with receivable and payable days back up to a high of 205-210 days for Hubco from a recent (1QFY10) low of 110-120 days.

Estimates tweaked as circular debt lingers...

With no clear end in sight to the intercorporate debt issue, we adjust FY10-13E earnings estimates (by +4% to -3%) for Hubco to reflect likely higher Wapda receivables, ST borrowing and interest income. At the same time, ongoing power shortage suggests that IPPs are likely to remain a key cog in any medium-term government strategy to tackle the country's energy shortfall. From our vantage point, this should result in both (1) continued higher generation at Hubco's plant (we factor the same in via generation bonus in FY11E); and (2) low risk of the worst case scenario for Pak IPPs (i.e. plant suspension due to non-payment for fuel and/or restrictions on dividend payment).

...Hubco remains our top IPP pick - Maintain Buy

With (1) forward D/Y of 14-15% and real DPS growth (i.e. keeping pace with inflation); (2) well above peers earnings growth (17.6% 5-year EPS CAGR led by both structural tariff up tick and return from new projects); and (3) relatively lower-than-peers earnings sensitivity to intercorporate debt, Hubco remains our preferred pick in Pak IPPs with a revised PO of PRs40/sh. While still not the ideal scenario, note that Hubco has been largely financing Wapda payment delay via supplier credit which is allowing the company to lock in a positive interest spread on delayed payments.

Potential risks & triggers

We eye Oct-10 expected commercial operation of 6-mths delayed Narowal expansion as a potential upside trigger for the stock though note that possible liquidated damages (US\$17,800/day of delay) associated with the same are the key risk.

Farrah Marwat
Farrah.marwat@kasb.com
Ph. No. (9221) 263 5501

Current Price PRs35.51
Price Objective PRs40.00

KATS HUBC
Reuters HPWR.KA
Bloomberg HUBC PA

Shares Outstanding
1,157mn

Market Cap
PRs 41,085m (US\$482m)

3m average daily volume
1,463,401 shares

12-month High/Low
36.93 / 28.60

Stock Performance

	1M	3M	12M
Absolute%	10.2	1.0	23.0
Rel Index%	2.8	2.2	-12.4
Abs. (PRs)	3.3	0.3	6.6

Key Changes

(PRsmn)	Previous	Current
Price Obj.	37.00	40.00
2010E EPS (PRs)	4.59	4.80
2011E EPS (PRs)	5.84	5.66
2012E EPS (PRs)	6.75	6.85

Source: KASB Estimates

Hubco Valuation Snapshot

(PRsmn)	2009A	2010E	2011E
Revenues	82,784	100,300	123,280
PAT	3,781	5,556	6,554
% Change	45%	47%	18%
EPS (PRs)	3.27	4.80	5.66
PER (x)	10.87	7.40	6.27
DPS (PRs)	3.35	4.50	5.00
D/Y (%)	9.4%	12.7%	14.1%
ROE (%)	13%	19%	21%
EV/EBITDA	7.38	7.28	5.37

Source: Company Accounts, KASB Estimates

Morning News

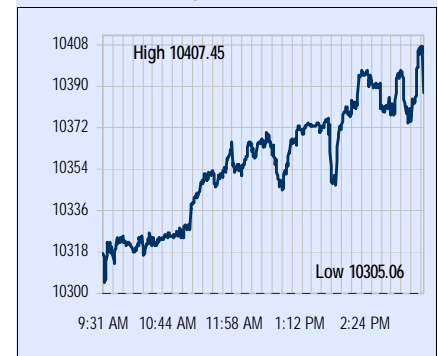
► **FFBL – Robust 2Q10 results led by margins** (Company Notice, Analyst Comment)
 FFBL reported a robust set of 2Q10 results, with earnings up 17% QoQ to PRs1.01/sh on the back of (1) absence of PMP loss (PRs122mn reported as share of associate profit vs broad expectation of a negative number on this score) & (2) lower effective tax rate at 28% in the quarter vs typical 35% rate (due to deferred tax). 1H10 earnings now stand at PRs1.88/sh, significantly higher YoY (PRs0.53/sh in 1H09). While details of volume are unavailable for Jun-10, we estimate a YoY decline in both urea and DAP sales on account of (1) lower year-open inventory vis-à-vis 2009; (2) softer DAP demand in 1H10; (3) increased gas load-shedding in 1H10. Negative fall through of the same was meanwhile offset by higher urea primary margin and very robust DAP primary margin. Overall gross margin for FFBL increased to 32% from 20% YoY in 1H10. Alongside earnings, key excitement factor was the announcement of PRs1.30/sh cash dividend in 2Q which takes 1H payout to PRs1.80/sh. From FFC's perspective, 51% share of FFBL PRs1.30/sh dividend would amount to PRs557mn (after tax) or PRs0.82/sh.

FFBL 2Q & 1H 2010 Results Snapshot

PRsmn)	1Q10	2Q10	QoQ	1H10	1H09	YoY
Sales Revenue	6,566	5,383	-18%	11,949	14,998	-20%
Cost of Sales	4,755	3,326	-30%	8,082	12,049	-33%
Gross Profit	1,811	2,057	14%	3,868	2,949	31%
Operating Expenses	514	785	53%	1,299	1,078	20%
Operating Profit	1,297	1,272	-2%	2,569	1,872	37%
Other Income	227	237	4%	464	412	12%
Share of Ass Profit	(92)	122	-232%	30	(316)	-109%
Other Expenses	95	94	-1%	188	78	143%
EBIT	1,337	1,537	15%	2,874	1,890	52%
Financial Charges	99	233	136%	332	998	-67%
EBT	1,238	1,304	5%	2,542	893	185%
Taxation	428	361	-16%	789	395	100%
Net profit	810	943	17%	1,753	498	252%
EPS	0.87	1.01	17%	1.88	0.53	252%
DPS	0.50	1.30	160%	1.80	0.50	260%
Gross Margin	28%	38%	11%	32%	20%	13%
Operating Margin	20%	24%	4%	21%	12%	9%
Fertilizer earnings/sh	0.72	0.63	-13%	1.35	0.43	214%
Other Income/sh	0.14	0.38	166%	0.53	0.10	413%

Source: Company Notice, KASB Estimates

KSE-100 Intra-day Movement



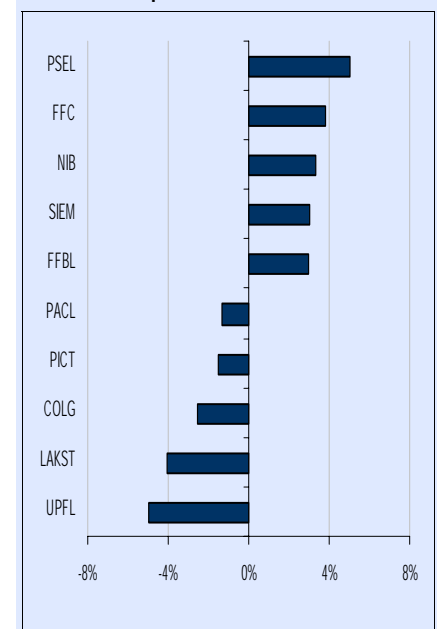
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	10,382.74	1.26%	41.72
KSE100	10,386.82	0.87%	43.56
KSE All Share	7,275.34	1.08%	44.87
ENGRO	191.57	2.31%	4.19
NBP	70.64	2.29%	4.08
FFBL	30.44	2.98%	3.81
FFC	112.87	3.80%	3.51
HUBC	35.51	2.84%	3.38

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,513.90	38.80	0.87
Shanghai Composite	2,575.37	3.34	0.13
Hang Seng	20,973.39	158.06	0.76
BSE 30	18,077.61	-53.37	-0.29
Jakarta Composite	3,041.68	-0.34	-0.01
KLSE Composite	1,352.23	6.55	0.49
Nikkei 225	9,496.85	65.89	0.70
NZSE 50	3,008.43	13.53	0.45
Straits Times	2,979.38	5.91	0.20
Seoul Composite	1,768.31	10.25	0.58
Taiwan Weighted	7,748.01	-13.21	-0.17
KSE-100 Index	10,386.82	90.78	0.88

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,483.29	26.35	1.07
BEL-20	2,557.43	25.68	1.01
CAC 40	3,666.40	30.22	0.83
DAX	6,207.31	13.10	0.21
AEX General	338.08	0.26	0.08
Swiss Market	6,275.19	75.73	1.22
FTSE 100	5,365.67	14.55	0.27
American Markets			
Dow Jones Ind. Average	10,537.69	12.26	0.12
NASDAQ Composite	2,288.25	-8.18	-0.36
NASDAQ -100	1,888.81	-1.59	-0.08
S&P 500 Index, RTH	1,113.84	-1.17	-0.10

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	2.5	2.5	34.1	310.5	221.1%	07-27
India	100.8	100.8	2,443.7	9,143.6	32.8%	07-26
Indonesia	36.0	57.0	382.7	1,239.2	136.9%	07-27
Japan	Na	-345.4	444.1	9016.6	126.0%	07-16
Philippines	-8.3	-24.5	-20.3	358.4	56.5%	07-23
South Korea	503.0	637.9	2,122.6	7,258.5	-36.1%	07-27
Taiwan	207.1	500.2	1,509.2	1,396.9	-79.6%	07-27
Thailand	84.2	84.2	147.6	-391.3	-151.5%	07-27
Vietnam	-0.3	-0.9	24.6	295.6	251.3%	07-27

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	12.39	12.39	0.00
12-M T-Bill (Average)	12.41	12.41	0.00
10- year PIB (Average)	12.98	12.97	0.01
PkR/ US\$	85.58	85.58	0.00

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	77.5	-1.48	-1.87
Gold	1,163.75	-21.70	-1.83
CRB Index (July 23 rd)	429.83	1.56	0.36

Source: Bloomberg

KASB Securities Limited, 5th Floor, Trade Centre, I.I. Chundrigar Road, Karachi

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