TAUROS
SECURITIES LIMITED
A Subsidiary of National Bank of Pakistan

HUBC initials agreement with CPPA-G in furtherance of MoU

Tuesday, February 2, 2021

Flashnote: Power – Company Update

Current Price: PKR 91.7

- According to the notice by Hub Power Company Limited (HUBC) to the PSX, CPPA-G and HUBC have initialed an agreement in furtherance of the MoU signed on August 21, 2020, where the CPPA-G is expected to pay HUBC's overdue receivables in two installments of 40% and 60% respectively, within 30 business days.
- The initial 40% settlement of which is expected to take place in the form of: 1/3rd in upfront cash and the remaining 2/3rd in the form of financial instruments i.e. Pakistan Investment Bonds (PIBs) & Sukuk.
- Similarly, the second installment (60%) is expected to be cleared after 6 months in the same proportion as the first installment.
- Moreover, HUBC has agreed to reduce Fixed Operating Costs by 11% whilst keeping the existing arrangement of indexations. Nevertheless, for Project Company Equity, the PKR/USD exchange rate and US CPI have been fixed at PKR 168.6/USD & US CPI for the month of August 2020, respectively.
- However, the existing arrangement under the current Power Purchase Agreement (PPA) will apply for future billing until PKR/USD exchange rate goes above PKR 168.6/USD.
- In addition, HUBC and the Government of Pakistan (GoP) will use their best efforts to achieve pre-mature termination of the PPA of HUBC's base plant; GoP will save on capacity payments which have to be paid to HUBC for the remaining period of the PPA while HUBC will get monetary benefit and get rid of the plant which is no longer required in the National Grid.
- Furthermore, last week Narowal Energy Limited (a wholly owned subsidiary of HUBC) also initialed an agreement with the CPPA-G, agreeing that the ROE/ROEDC rate shall be changed from the current rate of 15% in USD to 17% in PKR, with no future USD indexation and the USD equity shall be converted to PKR using exchange rate PKR/USD of 148. The plant will move to the "Take & Pay" basis after implementation of Competitive Trading Arrangement.
- Finally, the draft agreements will be presented before the Federal Cabinet soon. The terms of the agreement are subject to approval by the Federal Cabinet and the Board of Directors of HUBC.

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SECP Research Entity Notification Number: REP-040

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- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: www.JamaPunji.pk

Frequently Used Acronyms

TP	Target Price	**DDM**	Dividend Discount Model	**FCF**	Free Cash Flows
FCFE	Free Cash Flows to Equity	**FCFF**	Free Cash Flows to Firm	**DCF**	Discounted Cash Flows
PE	Price to Earnings ratio	**PB**	Price to Book ratio	**BVPS**	Book Value per Share
EPS	Earnings per Share	**DPS**	Dividend per Share	**ROE**	Return on Equity
ROA	Return on Assets	**SOTP**	Sum of the Parts	**JPB**	Justified Price to Book