

Pakistan Equity | Power | Company Report

Hub Power Company Limited
Powering Beyond Capacity



7 Sept 2026



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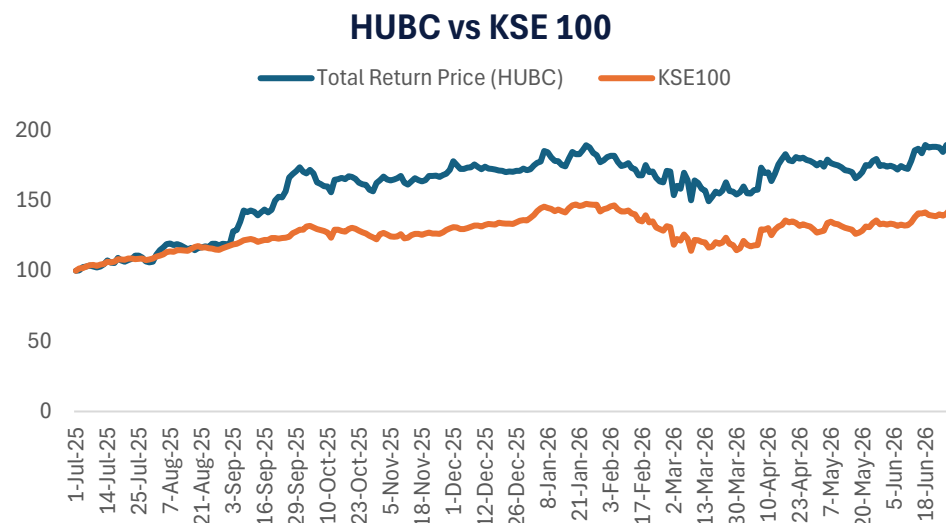
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HUBC TP PKR 233.4/share; Total Upside of 23.2%

Symbol	HUBC
Recommendation	BUY
Current Price	207.4
Target Price	233.6
Potential Upside	12.6%
Potential Upside (+FY27F Div yield)	23.2%
Market Cap	269,030
Shares	1,297.2
Free Float	75.0%

Source: Company Accounts, Growth Securities



Source: PSX, Growth Securities

We initiate coverage on Hub Power Company Limited (HUBC) with a BUY rating and a SOTP based June'27 target price of PKR 233.6/share after applying a discount, implying 12.6% upside from the last closing price of PKR 207.4/share. Including FY27E dividend yield of 10.6%, we see a total return of 23.2%. We expect consolidated EPS to recover from PKR 38.3 in FY26A to PKR 39.8 in FY27F to PKR 43.9 in FY28F. Our investment case rests on the following factors:

1) Contracted, USD Linked Cash Flows Underpin the Power Portfolio. HUBC operates 2,289 MW of net generation capacity under long dated PPAs with a weighted average remaining life of approximately 23 years. Capacity payments are contractually receivable regardless of dispatch due to take or pay arrangements, while USD denominated ROE components provide a natural hedge against PKR depreciation. TEL and TNPTPL rank among Pakistan's lowest cost thermal generators, supporting priority dispatch and payment even during periods of circular debt stress.

2) Diversification Beyond Power Broadens the Earnings Base. HUBC's non power portfolio spans automotive manufacturing (Mega Motor), upstream oil and gas (Prime International) and coal mining (SECMC), contributing PKR 62.1/share of our SOTP. We forecast the segment's earnings contribution to increase from 15% in FY26 to 41% by FY31F, driven primarily by Mega Motor's production ramp following commissioning of the 25,000-unit Gharo CKD assembly plant. The SECMC investment also provides vertical integration across the Thar coal value chain.

3) CPHGC COD Tariff True-Up: An Overhang, Not a Cliff. NEPRA's June 2022 determination cut CPHGC's annual ROE to USD 92.1mn from USD 129.9mn (a 29.1% reduction), but a September 2022 Appellate Tribunal stay has allowed billing under the original upfront tariff pending final adjudication. Our base case assumes CPHGC prevails on the construction period argument, implying a 13.7% ROE cut versus the 29.1% headline the market appears to price in. Cumulative ROE over collections of PKR 45–50bn by FY30E should be substantially offset against CPPA-G's PKR 65bn receivables from CPHGC, rendering the cash impact manageable. We assume crystallisation in FY30E or later.

HUBC TP PKR 233.4/share; Total Upside of 23.2%

Key Ratios

	FY25A	FY26A	FY27F	FY28F	FY29F	FY30F	FY31F
EPS	35.7	38.3	39.8	43.9	47.2	19.1	33.8
EPS YoY	-34.0%	7.3%	4.0%	10.3%	7.5%	-59.6%	77.3%
P/E	3.7x	5.4x	5.2x	4.7x	4.4x	10.9x	6.1x
P/B	0.7x	1.0x	0.9x	0.8x	0.8x	0.7x	0.7x
Dividend Yield	11.2%	9.6%	10.6%	12.5%	14.5%	8.7%	14.5%
Gross Margin	47.8%	41.7%	37.6%	37.0%	35.8%	34.4%	33.0%
EBITDA Margin	52.2%	46.1%	42.8%	42.2%	40.7%	39.1%	37.4%
Net Profit Margin	62.3%	79.1%	82.5%	90.1%	93.9%	43.8%	67.8%
ROE	22.9%	22.4%	21.6%	21.0%	20.3%	9.1%	13.9%
ROA	12.0%	13.4%	13.5%	13.8%	13.7%	6.3%	9.7%

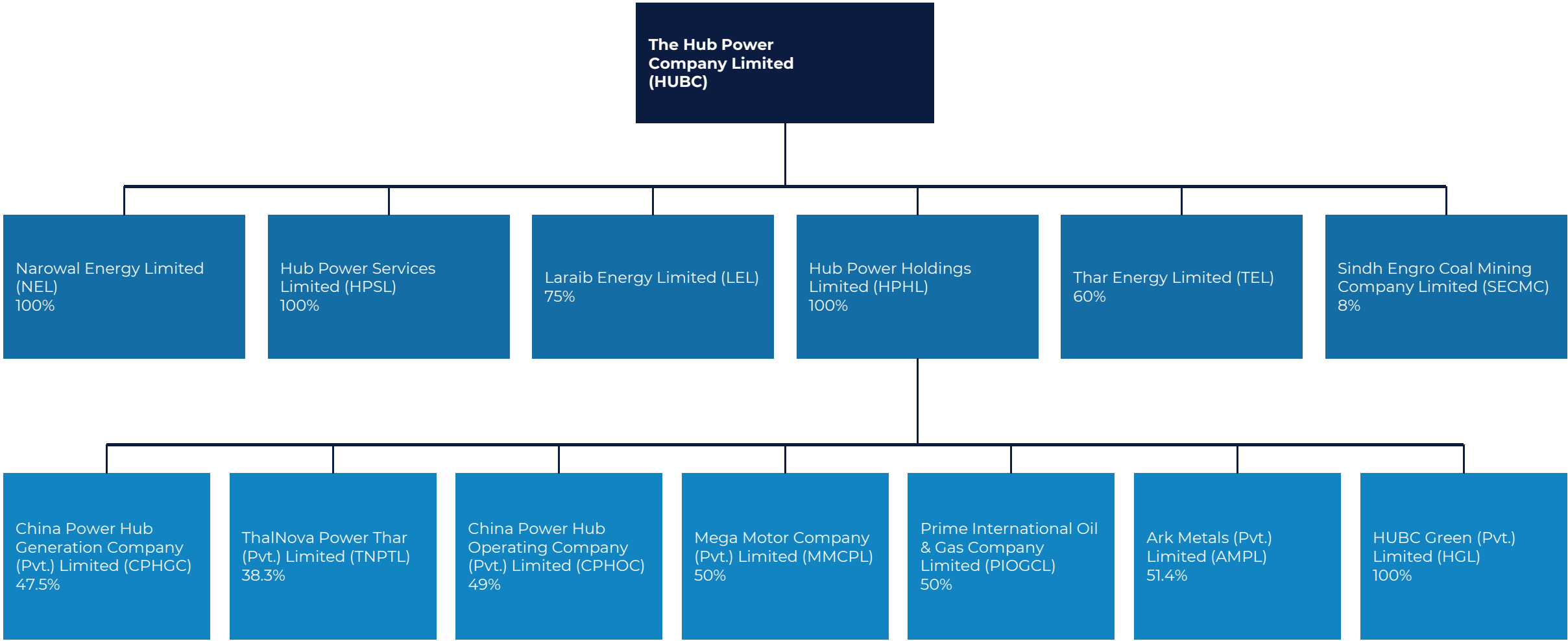
Source: Company Accounts, Growth Securities

4) Investment Cycle Complete; Dividend Harvesting Underway with a One-Year FY30 Reset. All major power projects are now operational, with TEL and TNPTPL achieving Project Completion Date (PCD) in Q2FY26, marking the completion of HUBC's investment cycle. Consolidated finance costs decline from PKR 9.1bn in FY26A to PKR 2.8bn by FY31F as project deleveraging improves distributable cash. We project DPS to rise from PKR 22.0 in FY27F to a peak of PKR 30.0 by FY29F (14.5% yield), before a one-year reset to PKR 18.0 in FY30F (8.7% yield) as the CPHGC COD tariff true-up is expected to crystallise, followed by recovery to PKR 30 in FY31F as run-rate distributable cash normalizes.

5) Valuation asymmetry. At PKR 207.4/share, HUBC trades at just 5.2x FY27E earnings and 0.9x FY26E book value, which we view as an unwarranted discount for a portfolio combining long dated, USD linked contracted cash flows with a growing non power platform. In our view, the market continues to value HUBC primarily on its conventional power business, overlooking key catalysts including the resumption of CPHGC dividends, completion of PCD at TEL and TNPTPL, and the upcoming commissioning of the Gharo CKD assembly plant.

6) Key Risks: Adverse resolution of the CPHGC COD tariff true-up under a bear case where NEPRA's June 2022 determination is upheld in full, implying a 29.1% ROE cut versus our 13.7% base case assumption; pending TEL and TNPTPL COD tariff true-up determinations, which we estimate could reduce allowed annual ROE by approximately 8.8% at each plant (driven by a c. 10.4% lower indexed capital cost under the US PPI Iron & Steel methodology applied to CPHGC), a headwind not currently reflected in our base case; prolonged circular debt delaying dividend repatriation from CPHGC despite the recent PKR 36bn distribution; adverse regulatory actions, including tariff renegotiations or further PPA restructuring; delays in the commissioning of the Gharo CKD assembly plant or weaker than expected vehicle demand at Mega Motor; sustained PKR appreciation limiting the benefit of USD linked tariff indexation.

Organization Structure

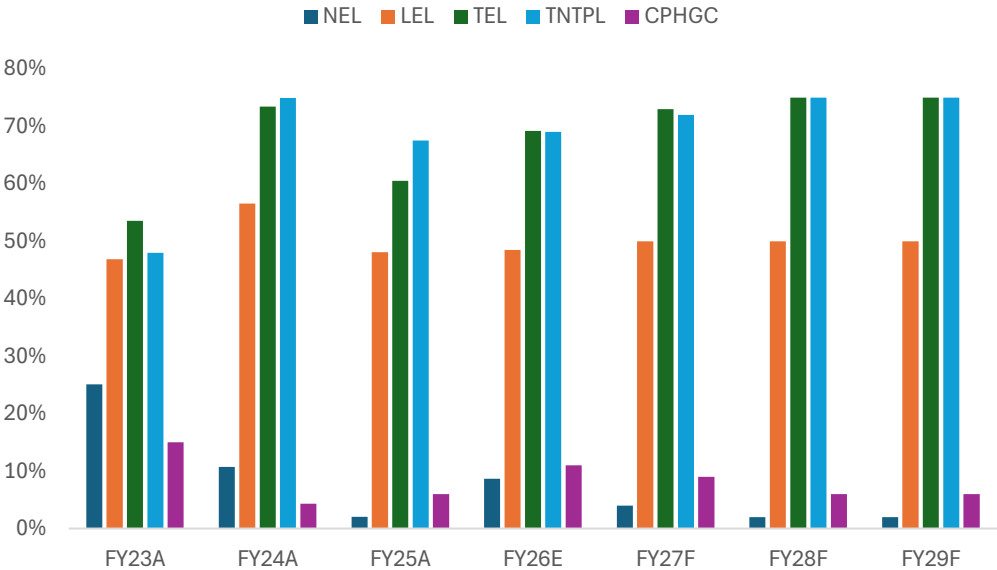


Source: Company Accounts, Growth Securities

The Power Portfolio: 2,289 MW of Contracted, Sovereign-Guaranteed Cash Flow



Plantwise Capacity Utilization



Source: Company Accounts, Growth Securities

HUBC's power generation portfolio comprises five operational plants with a combined net capacity of 2,289 MW, diversified across imported coal, indigenous Thar lignite, run-of-river hydel, and residual furnace oil. The portfolio operates under long-dated Power Purchase Agreements with CPPA-G, backed by Implementation Agreements providing sovereign guarantees on capacity payments. The weighted average remaining PPA life across the portfolio is approximately 23 years.

How the Tariff Structure Works

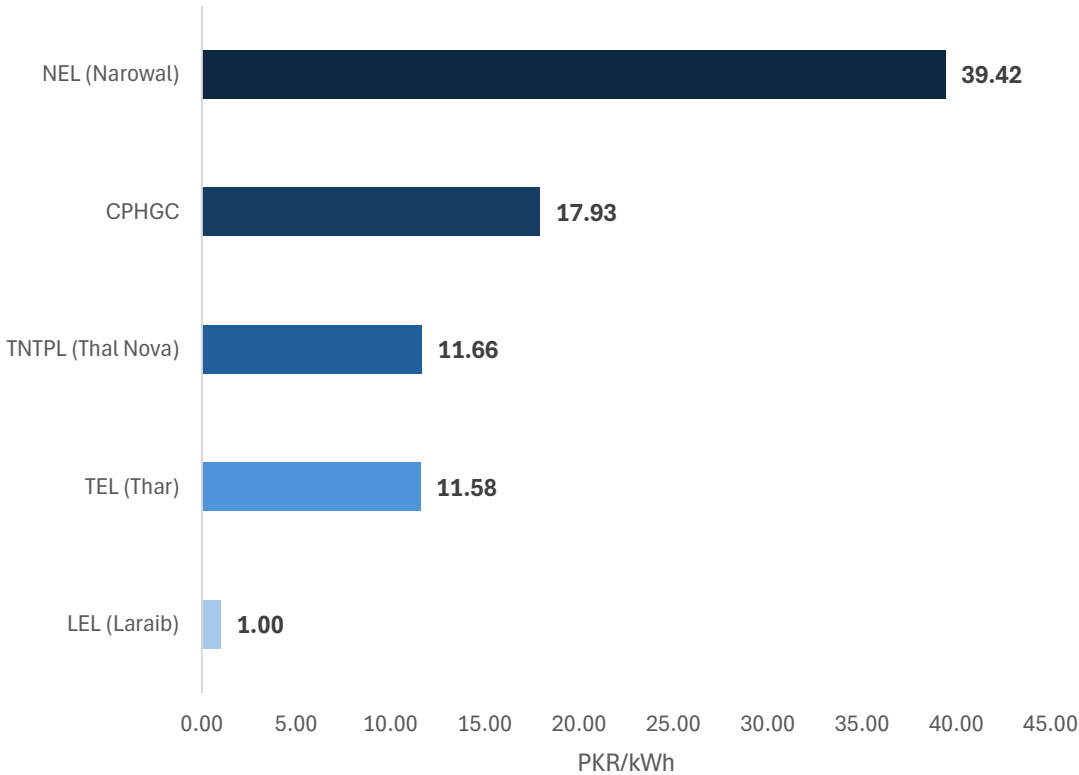
The tariff comprises two components: Capacity Purchase Price (CPP) and Energy Purchase Price (EPP). CPP covers fixed costs, including fixed O&M (indexed to Pakistan and US CPI), insurance, working capital, return on equity (ROE), and debt servicing. Among these, ROE represents the primary source of shareholder returns, while debt servicing and the remaining components are either pass through or cost recovery items. EPP, by contrast, is a variable charge payable only upon dispatch and covers fuel, variable O&M, ash disposal, limestone, and water costs, all of which are recovered on a full pass-through basis with negligible margin. Accordingly, lower plant dispatch primarily reduces EPP revenues, which carry little to no profitability, whereas CPP, the component underpinning the project's earnings and cash flow, remains largely unaffected, resulting in a significantly lower impact on profitability than the headline decline in revenue may suggest.

A similar dynamic applies to the debt service roll off at CPHGC, where project debt is expected to be fully repaid by FY29E. Upon debt retirement, the debt servicing component of the capacity charge falls to zero, mechanically reducing reported revenue without affecting profitability, as these payments are entirely pass through and remitted to lenders. Consequently, the capacity charge declines to approximately PKR 5/kWh from PKR 11.68/kWh, with the residual tariff comprising primarily ROE, fixed O&M, insurance, and working capital. As a result, despite lower reported revenue and tariff, cash flows available for distribution to equity holders improve following debt retirement.

The Power Portfolio: 2,289 MW of Contracted, Sovereign-Guaranteed Cash Flow



HUBC Plants — Energy Purchase Price (FY26)



Source: NEPRA, Growth Securities

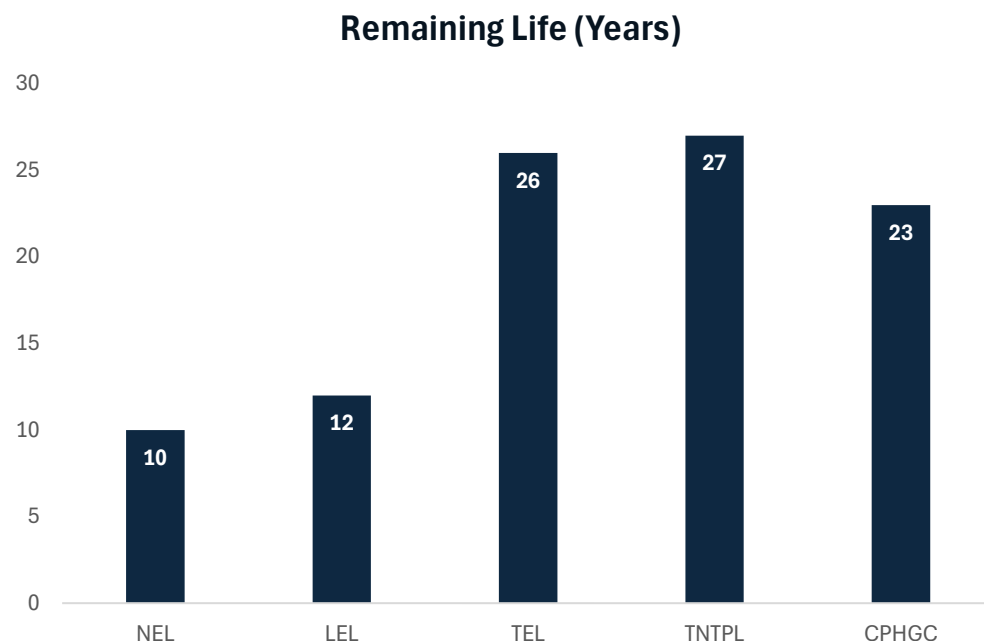
Merit Order Positioning

Pakistan dispatches power plants on the basis of their variable fuel cost, known as the economic merit order. Plants with the lowest energy purchase price are dispatched first and are also prioritised for payment when the government is managing cash constraints. This ranking is one of the most important determinants of asset quality in the Pakistani power sector, as it affects not only dispatch volumes but also the reliability of cash conversion in the context of circular debt.

TEL and TNPTPL are positioned in the top six of the national merit order at an energy purchase price of approximately PKR 11.6/kWh, the lowest cost thermal generation in the country, enabled by their mine-mouth location at Thar Block II and their exclusive coal supply agreements with SECMC. TEL and TNTPL both operated at a 69% load factor in FY26. In an environment where the government struggles to pay generators on time, its response is to prioritise the cheapest plants. TEL and TNPTPL benefit from this, experiencing shorter payment cycles and smaller receivable buildups than plants further down the queue.

Laraib, as a hydel asset, operates at zero fuel cost and remains effectively outside the merit order, with its PPA guaranteeing annual offtake of 470 GWh. The asset has maintained an uninterrupted dividend track record since 2013, distributing a cumulative PKR 21.5bn to HUBC during FY15–25, equivalent to 4.7x the original equity investment. CPHGC, with an energy purchase price of approximately PKR 17.9/kWh, ranks below Thar coal in the merit order, resulting in lower utilisation and slower receivable recovery. However, as earnings are secured through the capacity purchase price, its merit order position is primarily a cash flow timing issue rather than an earnings risk. Narowal, with an energy purchase price of PKR 39.4/kWh, sits at the bottom of the merit order. Following the February 2025 PPA amendment to a hybrid take and pay structure, 35% of its ROE and ROEDC is received as guaranteed capacity payments regardless of dispatch. Given its sub 2% earnings contribution, we view the asset as being in managed rundown.

The Power Portfolio: 2,289 MW of Contracted, Sovereign-Guaranteed Cash Flow



Source: Company Accounts, Growth Securities

USD Indexation and the Currency Hedge

The return on equity components across HUBC's power portfolio are denominated in USD. For CPHGC, the benchmark ROE is 27.2%. For TEL and TNPTPL, it is 30.45%. These returns adjust quarterly to the prevailing PKR/USD exchange rate under the tariff indexation formula. When the PKR depreciates against the dollar, the PKR-equivalent of these USD returns rises proportionally. Over a multi year horizon, during which the rupee has consistently depreciated, this has provided a meaningful and compounding earnings tailwind. In addition, the foreign O&M component, indexed to US CPI, provides a secondary source of real income growth, allowing the portfolio to deliver nominal PKR earnings growth even without operational improvements.

Portfolio Composition and Remaining Life

The portfolio's weighted average remaining PPA life of approximately 23 years is a significant differentiator. CPHGC's PPA extends to August 2049, TEL to September 2052, and TNPTPL to February 2053, each providing over a quarter century of remaining contracted income. Laraib's PPA runs to March 2038, providing twelve more years of clean hydel cash flow before the plant transfers to the Government of AJ&K under its BOOT structure. Narowal's PPA extends to March 2036.

The diversity of fuel types within the portfolio provides a degree of insulation against single-fuel risk. Indigenous Thar coal (TEL, TNPTPL) benefits from the lowest thermal fuel cost. Imported coal (CPHGC) carries higher fuel costs but is backed by a generous ROE benchmark. Hydel (Laraib) has zero fuel cost. RFO (Narowal) is a legacy technology in structural decline but retains contractual protections through its amended PPA.

Operations and maintenance across the portfolio are managed by the wholly owned Hub Power Services Limited (HPSL), which earns USD indexed management fees while incurring primarily PKR denominated costs. This centralised model provides operational control across the fleet and generates an additional FX linked earnings stream embedded within the tariff framework.

Beyond Power: Diversification Into Automotive, Oil & Gas, and Mining



BYD



HUBC has over the past three years assembled a portfolio of non-power assets that repositions the group from a pure-play independent power producer into a broader energy and industrial platform. The non-power portfolio currently comprises three operating businesses: Mega Motor Company (automotive), Prime International Oil & Gas Company (upstream E&P), and Sindh Engro Coal Mining Company (coal mining), alongside two exploration-stage ventures in Ark Metals (mineral exploration) and HUBCO Green (EV charging infrastructure). Non-power assets contribute PKR 62.1/share to our SOTP, accounting for approximately 22% of our target price. We project the segment's share of consolidated earnings to rise from approximately 14.9% in FY26E to 41.8% by FY31F.

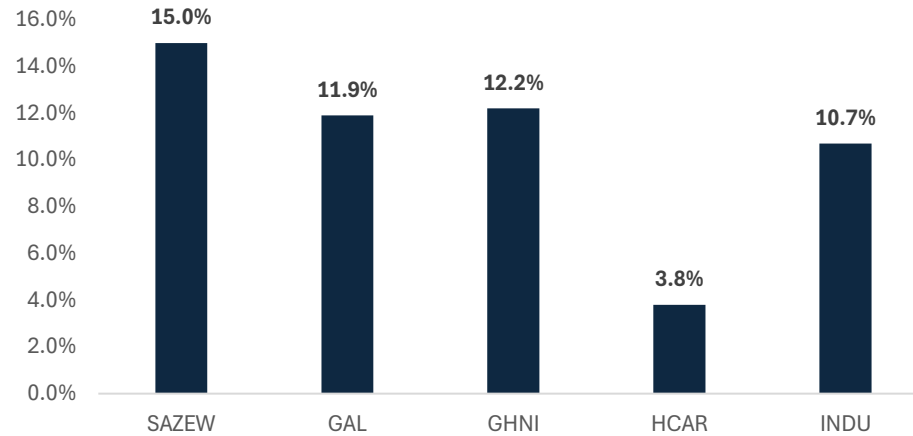
Mega Motor Company Limited (50% Stake, PKR 33.1/share, 12% of SOTP)

Mega Motor Company is a 50:50 joint venture between Hub Power Holdings Limited and Mega Conglomerate (Private) Limited. The company operates as the exclusive distribution and local assembly partner of BYD Auto Industry Company Limited in Pakistan, under a master supply and manufacturing agreement covering the full range of BYD passenger vehicles. The current vehicle portfolio includes the BYD Atto 3, a compact electric SUV priced at PKR 8.99mn; the BYD Seal, an electric sedan priced between PKR 14.79mn and PKR 16.99mn; the BYD Atto 2, a compact urban SUV at PKR 7.29mn; the BYD Sealion 7, an electric SUV at PKR 15.49mn; and the BYD Shark 6, Pakistan's first plug-in hybrid pickup truck priced at PKR 19.95mn. Customer deliveries of the initial models commenced in February 2025, and the company currently has five locations operational across Pakistan, including three experience centres and two care centres in Karachi, Lahore, and Islamabad.

The key driver of our automotive thesis is the Gharo CKD assembly plant, with an annual capacity of 25,000 units, scalable to 50,000 units and COD expected in 1HFY27. The project entails US\$150mn of investment, including US\$90mn of debt. The shift from CBU imports to local assembly is expected to materially reduce import duties and FX exposure, improving affordability and creating a structural cost advantage as localisation deepens.

Beyond Power: Diversification Into Automotive, Oil & Gas, and Mining

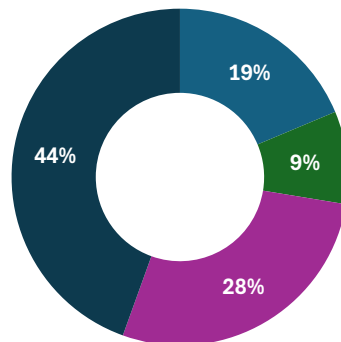
Net Profit Margin (FY25)



Source: Company Accounts, Growth Securities

Market Share Passenger Cars & SUVs (FY26)

■ Sazgar Engg ■ Hyundai Nishat ■ Honda Cars ■ Indus Motor



Source: PAMA, Growth Securities

Competitive Landscape

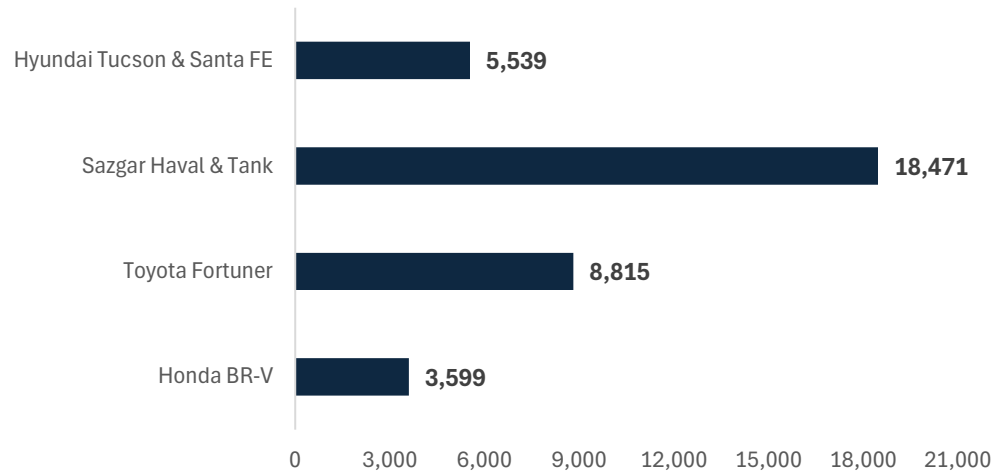
Pakistan's automotive market is in the early stages of a transition to Chinese-branded SUVs and electrified vehicles. Sazgar's partnership with Great Wall Motors (Haval, Tank) has demonstrated the viability of this model, while Lucky Motors (GAC), Master Motors (Changan) and NexGen Autos (Jaecoo) together define the competitive set. BYD brings a differentiated position to this landscape as one of the world's largest electric vehicle manufacturers with established brand recognition across more than 90 markets globally. Management is targeting a 30% share of the combined EV/PHEV market by 2030, supported by BYD's global product breadth and the cost advantage from local assembly, though we acknowledge that brand loyalty in the Chinese SUV segment is still forming in Pakistan and market share shifts can be rapid.

Volume and Revenue Build

We model Mega Motor's volume ramp from 8,000 units in FY26E to 18,000 units by FY31F, with average net selling prices growing at approximately 5% per annum to reflect partial pass-through of inflation and imported kit costs. Our net margin assumption rises from 5.0% in FY26E to 11.0% by FY31F, reflecting the early-stage economics of a new operation and the gradual deepening of localisation over the forecast period. This margin profile is deliberately conservative relative to established Pakistani assemblers such as Sazgar Engineering and Indus Motor, which have reported net margins in the 10-15% range over recent years. At these assumptions, MMCPL's net profit grows from PKR 3.9bn in FY26E to PKR 24.3bn by FY31F, with HUBC's 50% share contributing between PKR 1.5 and PKR 9.4 per share to consolidated EPS across the forecast horizon. We value HUBC's 50% stake at PKR 33.1/share by applying a 10x PE exit multiple to FY28F net profit, representing 12% of our total SOTP. We note potential upside to our estimates if volumes or margins exceed expectations as the Gharo plant ramps, particularly as management has indicated that the locally assembled lineup will be expanded with additional models once the plant comes online, broadening the addressable segment mix beyond the initial vehicle offering.

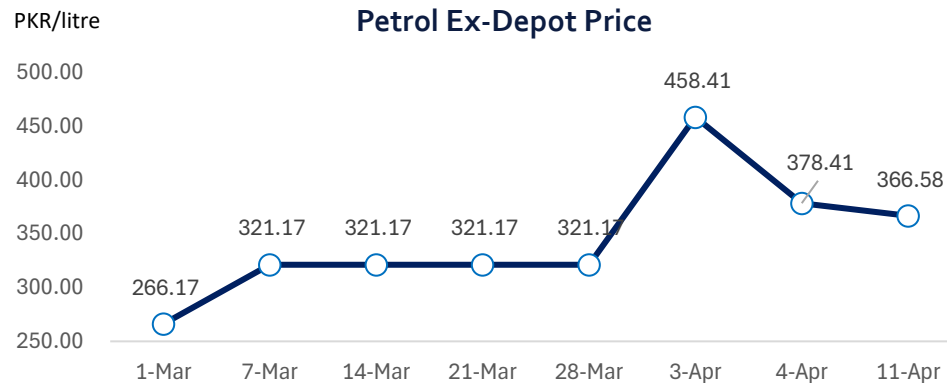
Beyond Power: Diversification Into Automotive, Oil & Gas, and Mining

FY26 Units Sold



Source: PAMA, Growth Securities

Petrol Ex-Depot Price



Source: OGRA, Growth Securities

Policy Environment

The FY27 Federal Budget was broadly supportive of Mega Motor's BYD strategy. Although AIDEP 2021–26 expired on June 30, 2026, the two key incentives for local EV assemblers, the 1% sales tax on locally manufactured EVs and the 1% customs duty on EV specific CKD components, were extended until June 30, 2027, preserving the economics of local assembly ahead of the Gharo CKD plant's expected commissioning in 1HFY27. The budget also introduced a tiered Federal Excise Duty on imported CBU EVs; however, BYD's current Pakistan lineup remains below the PKR 20mn threshold and is therefore unaffected. At the same time, substantially higher taxes on large displacement ICE vehicles further improve the relative competitiveness of electrified vehicles. While the long-term New Energy Vehicle (NEV) policy remains under review, we view the current policy framework as supportive of BYD's planned localization and medium-term growth prospects.

Fuel Price Volatility Reinforces the EV Case

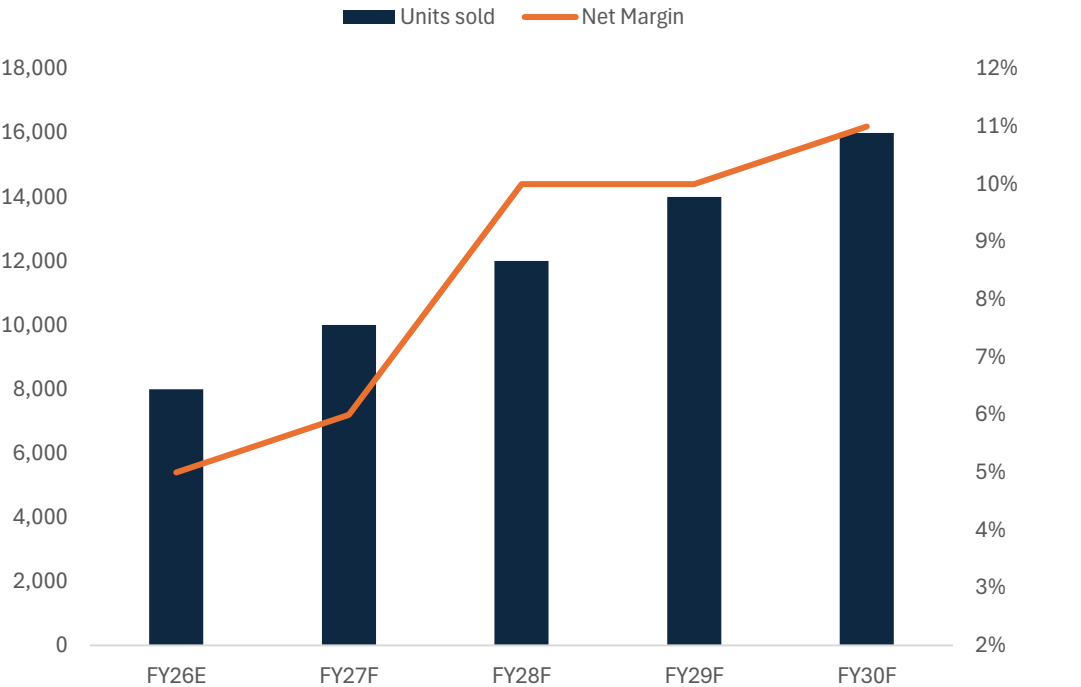
Recent fuel price volatility has reinforced the long-term case for EV adoption in Pakistan. Petrol prices surged from PKR 266/litre in early March 2026 to a high of PKR 458/litre in April amid heightened geopolitical tensions and currently stand at PKR 349/litre. Despite the correction, fuel prices remain above pre-crisis levels, highlighting Pakistan's structural reliance on imported crude and the susceptibility of ICE vehicle operating costs to external shocks.

In contrast, BYD's electric and plug in hybrid vehicles offer materially lower and more predictable running costs, with electricity tariffs adjusting more gradually than international fuel prices. Combined with the FY27 Budget's higher taxation on large displacement ICE vehicles, the widening total cost of ownership advantage provides a supportive backdrop for EV adoption.

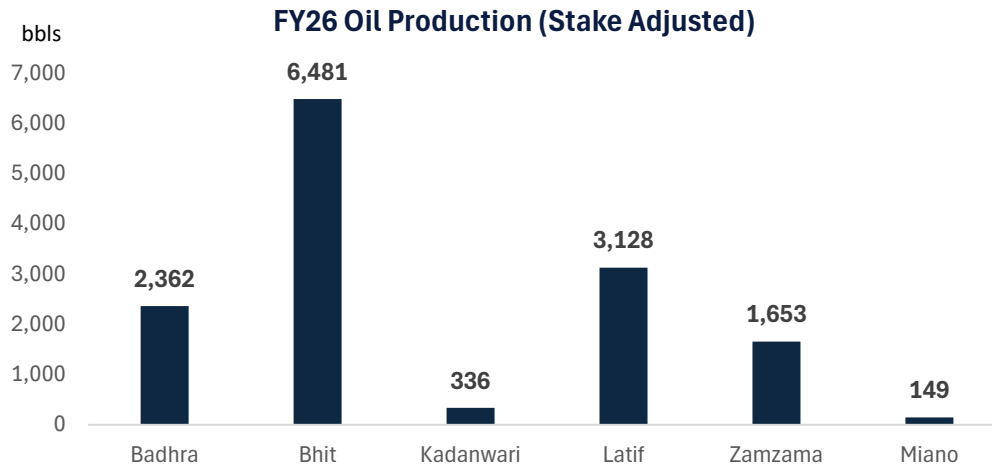
Impact of the Auto Business on FY27 Earnings

Mega Motor represents meaningful upside to our base case without materially increasing downside risk. Under our base case (10,000 units, 6% net margin), the business contributes PKR 2.4/share to FY27F EPS. A stronger volume and margin ramp (12,000 units, 9% margin) increases the contribution to PKR 4.4/share, while a downside scenario (7,000 units, 5% margin) still contributes PKR 1.4/share. The analysis highlights that the power portfolio continues to underpin earnings, while Mega Motor provides incremental growth and re-rating potential.

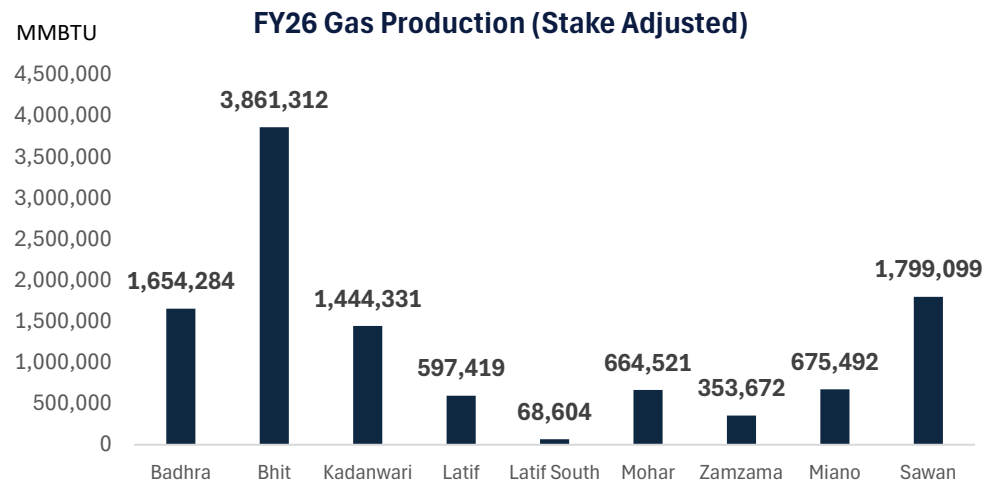
Margin ↓ / Volume → (units)	4,000	6,000	8,000	10,000	12,000
3%	0.47	0.70	0.94	1.17	1.41
4%	0.63	0.94	1.25	1.56	1.88
5%	0.78	1.17	1.56	1.96	2.35
6%	0.94	1.41	1.88	2.35	2.82
7%	1.10	1.64	2.19	2.74	3.29



Beyond Power: Diversification Into Automotive, Oil & Gas, and Mining



Source: PPIS, Company Accounts, Growth Securities



Source: PPIS, Company Accounts, Growth Securities

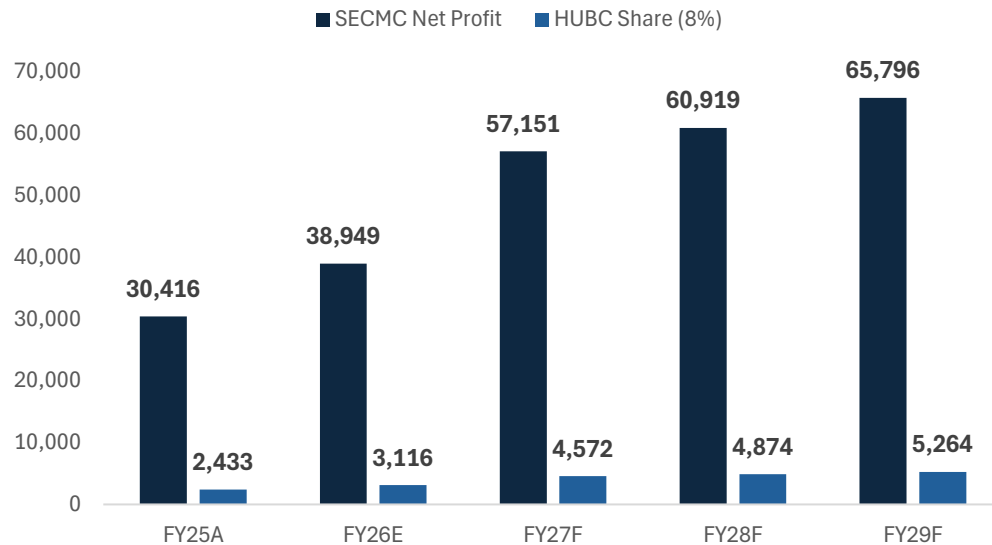
Prime International Oil & Gas Company Limited (50% Stake, PKR 12.7/share, 5% of SOTP)

Prime International is a 50:50 upstream exploration and production joint venture with a diversified portfolio of twelve producing fields across the Lower Indus Basin and a 2P reserve base of approximately 74 MMboe. The portfolio is predominantly gas weighted, providing relatively lower exposure to crude oil price volatility and supporting relatively stable cash flows. Since acquiring Eni's Pakistan upstream portfolio, Prime has established a meaningful production platform spanning key assets including Bhit, Badhra, Kadanwari, Zamzama, Miano, Sawan, and Latif.

Alongside its producing assets, Prime maintains an active exploration portfolio comprising both operated and non operated licences, including Southwest Miano III, Sukhpur II, Naing Sharif, Mubarak, Latif and the Baran Block. Several of these licences are located adjacent to existing production infrastructure, reducing development risk and providing potential for low-cost reserve additions through infrastructure led exploration. We believe this balanced portfolio of mature producing assets and exploration opportunities positions Prime to sustain production and replenish reserves over the medium term.

We forecast Prime's revenue to increase from PKR 14.4bn in FY26E to PKR 17.7bn by FY31E, with HUBC's 50% share of profit rising from PKR 2.9bn in FY26E to PKR 3.6bn by FY31F. We value HUBC's 50% stake at PKR 12.8/share by applying an 8x FY28F PE multiple, reflecting the stable cash flow profile of the existing production base and modest value attributed to future exploration success.

Beyond Power: Diversification Into Automotive, Oil & Gas, and Mining



Source: Company Accounts, Growth Securities

Sindh Engro Coal Mining Company (8% Stake, PKR 16.2/share, 6% of SOTP)

SECMC operates one of the world's largest open-pit lignite mining operations in the Thar Desert, Sindh, with current mining capacity of 7.6 million tons per annum. While HUBC's 8% equity stake is small in isolation, its strategic significance extends beyond the direct financial contribution. SECMC is the exclusive supplier of coal to both TEL and TNPTPL under 30-year Coal Supply Agreements, creating a vertically integrated Thar coal value chain in which HUBC captures value at both the mining and power generation levels. Phase III expansion, targeting an increase in mining capacity to 11.2 Mtpa, is expected to be completed by FY27F, which should unlock higher dividend distributions from the mining company once operationalized. The vertical integration aspect is underappreciated: when SECMC mines coal that is burned by TEL or TNPTPL to generate electricity, HUBC earns a return on its mining stake and on the generation asset simultaneously. We model SECMC's net profit at PKR 38.9bn in FY26E rising to PKR 65.6bn by FY31F, with HUBC's 8% share contributing approximately PKR 3.1-5.2bn annually. We value the stake at PKR 16.2/share using a discounted cash flow methodology, capturing the mine's long-dated production profile and the extended tenor of the underlying coal supply agreements.

Exploration-Stage Assets: Ark Metals and HUBCO Green (Zero in SOTP)

Ark Metals (Private) Limited (51.4% stake via HPHL) is focused on the exploration of copper, gold, iron ore, and associated minerals, with primary activity in Balochistan and secondary interests in Gilgit-Baltistan. Initial findings from the First Resource Report in Balochistan's Chaghi region have been encouraging, with additional drilling underway before determining whether the resource can progress toward a bankable study, though activity has slowed amid the prevailing security environment. Separately, the company's lithium scoping work has yielded promising results, although management is awaiting greater clarity on the country's mining policy before committing further capital. Pakistan's mineral sector, particularly the copper and gold belt in Balochistan, is widely regarded as one of the most underdeveloped large-scale resource opportunities in Asia. We assign zero value in our base case but note that a significant discovery could act as a material catalyst. HUBCO Green (Private) Limited (100% via HPHL) operates 24 DC fast chargers (60kW to 120kW) across the country, with collaborations signed with PSO, PARCO Gunvor, and APL. We view it as a long-duration option on the EV transition that carries negligible incremental capital risk and assign no standalone value at this stage.

The COD Tariff True-Up: An Overhang, Not a Cliff

USD Mn	Upfront	ROEDC won (Base Case)	ROEDC lost	True-up
Capital Cost (Plant + Jetty)	1,536	1,513	1,513	1,513
Custom Duties & Cess	61	85	85	85
Subtotal/Capex	1,597	1,598	1,598	1,598
Financing fees & Charges (Plant)	42	38	38	38
Financing fees & Charges (Jetty)	0	5	5	0
Sinosure fees (Plant)	128	41	41	41
Sinosure fees (Jetty)	0	6	6	0
IDC (Plant)	145	92	92	92
IDC (Plant)	0	13	13	0
Subtotal	314	194	194	170
Total Project Cost	1,911	1,792	1,792	1,768
Debt/Equity (%)	75:25	77:23	77:23	77:23
Debt	1,433	1,380	1,380	1,362
Equity	478	412	412	407
Annual ROE %	27.2%	27.2%	22.7%	22.7%
Adjusted ROE (USD Mn)	129.9	112.1	93.4	92.1
Exchange rate (PKR/USD)	97.1	119.2	119.2	119.2
ROE (PKR Mn)	12,617	13,355	11,124	10,979
Net Capacity (MW)	1,213	1,249	1,249	1,249
ROE (PKR/kWh)	1.1872	1.2205	1.0166	1.0034
% Reduction vs Upfront		13.7%	28.1%	29.1%

Source: NEPRA, Growth Securities

CPHGC operates under an upfront tariff issued by NEPRA on February 12, 2016. Following the plant's COD in August 2019, NEPRA issued its COD adjustment determination on June 30, 2022, reducing annual ROE to USD 92.15mn from USD 129.9mn under the upfront tariff, a 29.1% reduction. The adjustment was primarily driven by a 15-month reduction in the recognized construction period, application of the US PPI Iron & Steel Index for capital cost indexation, and technical adjustments to Sinosure fees, IDC and capital structure. CPHGC appealed the determination before the NEPRA Appellate Tribunal on July 29, 2022. The tribunal subsequently issued a stay order on September 7, 2022, allowing CPHGC to continue collecting revenue provisionally under the original upfront tariff pending final adjudication. The stay has now remained in place for approximately four years, with no substantive resolution to date.

Our View on the Appeal

- We expect the outcome to fall between the upfront tariff and NEPRA's June 2022 determination, with the indexation dispute likely to stay close to NEPRA's position but the construction period more finely balanced. On indexation, CPHGC has limited grounds: it submitted the US PPI Iron & Steel links itself in November 2016, did not contest the index in its review motion, and NEPRA has applied the same method to Sahiwal, Port Qasim and Engro Powergen Thar.
- On the construction period we see a stronger case. NEPRA gives no precedent for this adjustment, which stands out in a determination that points to comparable plants everywhere else. Its own reasoning calls the tariff construction period "a maximum ceiling", a cap that protects consumers if a project runs late, but that does not explain why finishing early should mean losing the allowance. NEPRA also treats CPHGC's agreement to a 33-month Required COD in the PPA as giving up its tariff entitlement, without saying why a schedule commitment to the power purchaser should override what the regulator awarded. The Sahiwal case, where a full 48-month allowance was given against a 27-month build, is not addressed at all. Management has stated that when a developer sought clarification during the upfront regime, NEPRA confirmed the 48-month period would apply regardless of how long construction actually took.

The COD Tariff True-Up: An Overhang, Not a Cliff

- We see room for recovery on the items disallowed for missing paperwork, namely Jetty IDC, financing fees and Sinasure, which NEPRA accepted as "a legitimate cost of CPHGCL" but held back pending evidence. We put these at roughly USD 23mn of project cost. The European boiler is already inside the indexed capital cost of USD 1,332mn, so keeping it protects the existing figure rather than adding to it. We leave out the USD 37.7mn Sinasure savings share, since the tariff sets no sharing mechanism for this item, and any restatement of IDC on a 48-month basis, since IDC is recalculated on borrowing costs actually incurred.
- We do not assume any debt related repayment obligation at crystallisation. The determination assesses debt at USD 1,362mn against USD 1,433mn implied by the upfront tariff, with annual debt service of USD 184.9mn under the attached ten year schedule. We see no basis in the determination for a clawback on this component, and note that project debt is fully amortised by FY29, with debt servicing falling away from FY30.
- Our base case assumes CPHGC wins on the construction period, accepts the indexation and capital structure adjustments, and recovers the Jetty items. That gives an approved project cost of USD 1,792mn, equity of USD 412mn and annual ROE of USD 112mn, a 13.7% cut against the 29.1% headline. If the construction period argument fails, ROE drops to USD 93mn, a 28.1% cut and barely better than NEPRA's determination. At about USD 19mn a year, the construction period is the single largest item in dispute, and the only one where we differ materially from NEPRA.

Timing and Cash Flow Implications

We assume the tariff true up crystallises in FY30E or later, reflecting the prolonged appeal process and potential further recourse to the Islamabad High Court and Supreme Court.

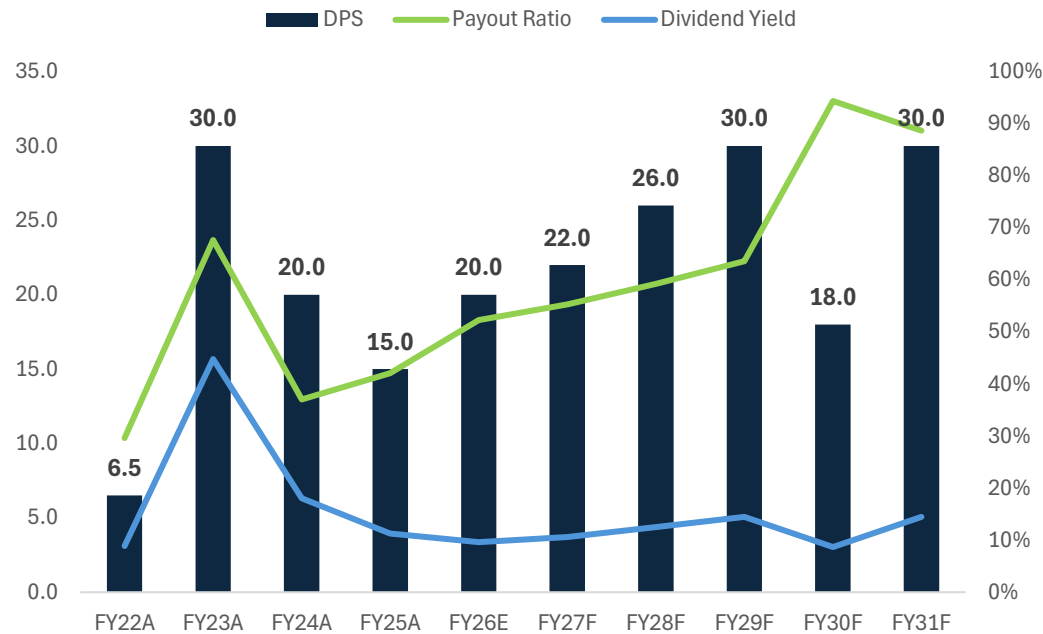
We estimate cumulative ROE over collections of approximately PKR 45-50bn by FY30E. While this would create a repayment obligation upon crystallisation, the amount could be substantially offset against CPPA G's trade receivables from CPHGC, which stand at approximately PKR 65bn as of July 2026. Under our base case, we therefore view the eventual cash impact as manageable within CPHGC's existing liquidity position.

TEL and TNPTPL: Lower Tariff True Up Risk

TEL and TNPTPL will be subject to the same COD tariff true up mechanism as CPHGC once NEPRA issues their pending determinations, nearly four years after COD. Applying the capital cost indexation methodology used for CPHGC and Engro Powergen Thar implies an approximately 10.4% reduction in indexed capital cost, driven by the 19.9% decline in the US PPI Iron & Steel Index between June 2014 and October 2016. This translates into an estimated 8.8% reduction in allowed annual ROE.

Unlike CPHGC, the construction period adjustment does not apply. TEL and TNPTPL exceeded their respective 40-month construction periods, triggering liquidated damages under the PPAs, already recognized as payables of USD 7.6mn for TEL and USD 5.6mn for TNPTPL, while preserving the full ROEDC allowance.

Investment Cycle Concluded; Dividend Harvesting Phase Underway



Source: Company Accounts, Growth Securities

Portfolio Evolution

HUBC's evolution can be characterized in three distinct phases. The first, from incorporation in 1991 to the mid-2000s, was the base plant era, during which the company operated a single 1,200 MW oil fired plant under a 30-year PPA. The second, spanning 2006 to 2022, was the expansion phase, during which HUBC undertook significant equity investments across Laraib Energy, Narowal, CPHGC, SECMC, TEL and TNPTPL, establishing a diversified portfolio spanning hydel, imported coal and indigenous Thar coal assets. Dividend growth remained constrained during this period as operating cash flows were reinvested into project development.

We believe HUBC has now entered its harvesting phase. All major projects have achieved both Commercial Operations Date and Project Completion Date, with TEL and TNPTPL completing PCD in Q2FY26. The Hub base plant PPA was terminated under the Negotiated Settlement Agreement in October 2024, while Narowal's PPA was restructured to a hybrid take and pay model in February 2025.

Dividend Outlook

The completion of the investment cycle materially strengthens cash conversion, driven by dividend commencement at TEL and TNPTPL following PCD, normalization of CPHGC distributions, and the continuation of Laraib's consistent dividend stream. At the same time, consolidated finance costs are projected to decline from PKR 9.1bn in FY26A to PKR 2.8bn by FY31F as project debt amortizes across the portfolio. Accordingly, we forecast DPS of PKR 22.0 in FY27F rising to a peak of PKR 30.0 by FY29F, implying a forward dividend yield expanding from 10.6% to 14.5% based on a payout ratio increasing from 55% to 64% over the same period. We expect a one-year DPS reset to PKR 18.0 in FY30F (8.7% yield) as the CPHGC COD tariff true-up crystallises, before distributions recover to PKR 30.0 in FY31F as run-rate distributable cash normalizes. Our payout assumptions remain conservative through the buildup phase, as HUBC distributed 67.6% of earnings in FY23, demonstrating the portfolio's ability to sustain materially higher distributions under a normalized cash flow environment.

Valuation

HUBC offers a potential upside of 12.6% to our target price of PKR 233.6/share, including FY27E dividend yield of 10.6%, we see a total return of 23.2%. HUBC is currently trading at 5.4x FY26E and 5.2x FY27F earnings, with a dividend yield of 9.6% expanding to 14.5% by FY31F. Our valuation follows a Sum-of-the-Parts methodology, valuing each of HUBC's power and non-power assets separately and aggregating to a consolidated target price. Key assumptions:

- Risk-free rate of 12.0%, Equity risk premium of 6.0%, Beta of 1.09 (calculated via the adjusted beta method)
- Discount rate via CAPM of 18.5%, applied across all power portfolio DCF valuations
- Power portfolio assets and SECMC valued using DCF over remaining PPA life; non-power investments valued using PE-based multiples (Mega Motor at 10x FY28E, Prime O&G at 8x FY28F); Hub Plant valued using NBV and MV of land.

Company	Stake	Value/sh.	Holding Disc.	Adjusted Value/sh.	% of SOTP	Methodology
Hub Plant	100.0%	3.43	20%	2.74	1%	Net Book Value
Hub Plant Land	100.0%	52.73	20%	42.18	16%	Market Value
Narowal	100.0%	8.36	0%	8.36	3%	DCF
Laraib	75.0%	24.98	0%	24.98	7%	DCF
Thar Energy	60.0%	46.15	10%	41.54	14%	DCF
ThalNova	38.3%	27.55	20%	22.04	8%	DCF
China Power Hub	47.5%	93.26	20%	74.61	28%	DCF
Mega Motors (BYD)	50.0%	41.42	20%	33.13	12%	PE
Prime O&G	50.0%	15.93	20%	12.74	5%	PE
SECMC	8.0%	20.26	20%	16.21	6%	DCF
SOTP		334.07		278.54		
SOTP excl. Hub Plant		277.90		233.61		

Potential Upsides and Risks

- **Hub Plant Site Redevelopment.** Management is evaluating alternative uses for the former Hub base-plant site, with two initiatives under active assessment. HUBC is in discussions with multiple Middle Eastern counterparties on a potential oil-storage project, with the existing infrastructure noted as more naturally suited to refined-product storage (crude storage would require a different configuration). Separately, HUBC has engaged an international institution to assess the feasibility of an aluminum smelter, which at a 300,000-tonne scale would require approximately 500MW of continuous power supply, making captive energy availability a central consideration and a potential strategic fit with HUBC's power portfolio. Either development could unlock value from the Hub Plant and could support upward re-rating of the excluded Hub Plant component.
- **DISCO Privatisation Optionality.** HUBC is pursuing utility-sector opportunities through a consortium with Lucky Cement, Kohat Cement and Metro Ventures. The group has cleared prequalification for FESCO and is also evaluating GEPCO. Management has indicated any acquired DISCO would be operated independently, with the value proposition centered on improving collection efficiency, reducing distribution losses and upgrading the existing network. Successful acquisition would represent HUBC's first structural entry into the transmission and distribution segment, offering a materially different earnings profile from the IPP model and potential re-rating optionality if operational turnaround targets are met.

Risks

- **CPHGC COD Tariff True-Up — Bear Case Resolution.** Our base case assumes CPHGC prevails on the construction period argument, implying a 13.7% ROE cut to USD 112mn. Under a bear case where NEPRA's June 2022 determination is upheld in full, allowed annual ROE would compress to USD 92.1mn, a 29.1% cut, and the cumulative ROE over-collection liability at crystallisation would increase materially beyond our base case estimate of PKR 45–50bn, weakening CPHGC's steady-state cash generation beyond the FY30E crystallisation. CPHGC contributes PKR 74.4/share (32%) of our ex-Hub Plant SOTP, making this the primary downside risk to our valuation.
- **TEL and TNPTPL Pending COD Tariff True-Ups.** TEL and TNPTPL remain subject to the same COD tariff true-up mechanism, with NEPRA determinations still pending. Applying the US PPI Iron & Steel Index methodology used for CPHGC would translate into a reduction in allowed annual ROE at each plant. Our current model does not incorporate this adjustment; a full pass-through would reduce our SOTP on a stake-adjusted basis.
- **Circular debt persistence at CPHGC.** Delayed dividend repatriation despite the PKR 36bn distribution during 6MFY26. A prolonged slowdown in distributions would materially reduce cash inflows to HUBC and constrain capital allocation flexibility.
- **Regulatory intervention.** Further tariff renegotiations or PPA restructuring, following the precedents set by the Hub base plant and Narowal, could reduce the contractual ROE embedded within existing PPAs.
- **Mega Motor execution risk.** Delays in commissioning the Ghara CKD assembly plant or weaker than expected vehicle demand could reduce the earnings contribution and valuation of HUBC's automotive business.
- **PKR appreciation.** Sustained PKR appreciation would reduce the benefit of USD linked tariff indexation, with every 5% appreciation in the PKR lowering our consolidated EPS by approximately 3–4%.

Financial Summary

Income Statement

PKRmn	FY25A	FY26A	FY27F	FY28F	FY29F	FY30F
Net sales	83,351	71,126	71,777	72,024	73,849	75,669
Cost of sales	-43,528	-41,438	-44,775	-45,342	-47,424	-49,602
Gross profit	39,825	29,688	27,002	26,681	26,425	26,067
Exploration costs	73	317	317	317	317	317
Administrative expenses	-1,899	-2,323	-2,035	-2,119	-2,247	-2,383
Operating profit	37,998	27,682	25,284	24,879	24,496	24,001
Depreciation & amortisation	5,511	5,091	5,426	5,489	5,542	5,584
EBITDA	43,508	32,774	30,710	30,368	30,038	29,585
Financial charges	-15,230	-9,135	-6,827	-5,741	-4,923	-3,952
Other income	4,037	7,392	6,742	7,014	7,357	7,718
Other charges	-3,846	-1,004	-598	-598	-598	-598
Share of associates' profit/(loss)	41,310	45,316	50,109	56,821	62,041	9,995
Profit before tax	64,268	70,248	74,710	82,375	88,373	37,164
Taxation	-12,496	-13,991	-15,472	-17,468	-19,058	-4,030
Profit after tax	51,892	56,257	59,238	64,907	69,315	33,134
Profit after tax a/t non-controlling interest	5,643	6,627	7,613	7,988	8,132	8,390
Profit after tax a/t company owners	46,249	49,630	51,625	56,919	61,182	24,744
EPS	35.65	38.25	39.80	43.88	47.17	19.08
DPS	15.00	20.00	22.00	26.00	30.00	18.00

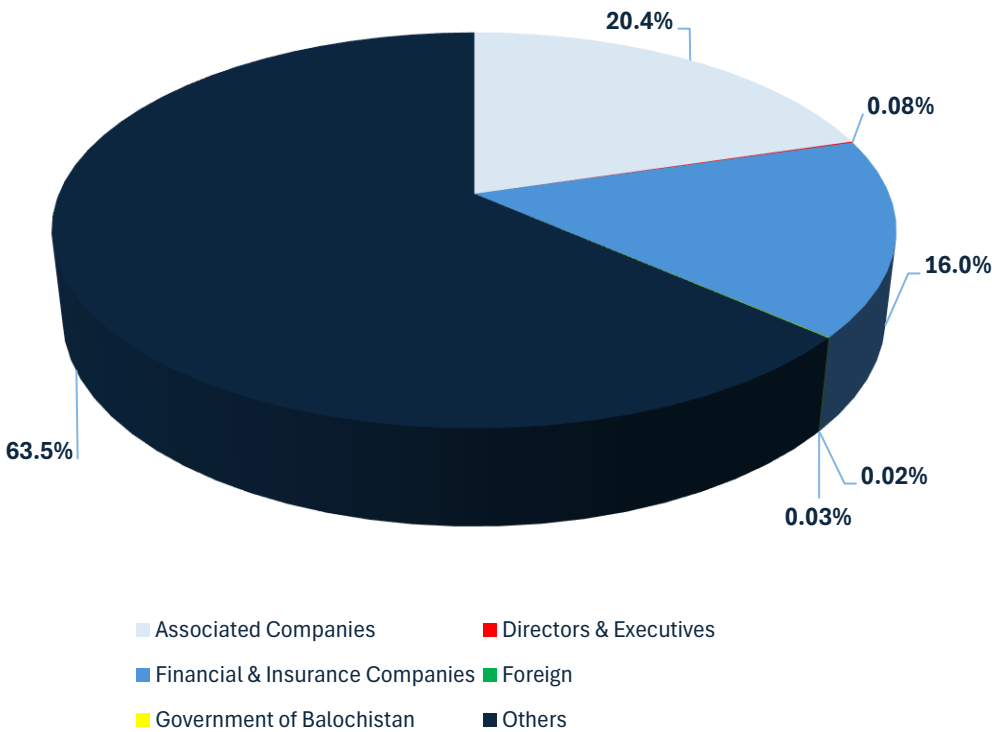
Source: Company Accounts, Growth Securities

Balance Sheet

PKRmn	FY25A	FY26A	FY27F	FY28F	FY29F	FY30F
Non-Current Assets	322,412	328,011	341,633	361,763	381,960	377,129
Current Assets	92,310	94,553	112,355	125,763	139,491	157,837
Total Assets	414,722	422,563	453,987	487,527	521,451	534,966
Equity	243,922	258,008	291,470	325,367	358,331	370,541
Non-Current Liabilities	107,690	97,833	96,421	95,253	94,326	93,638
Current Liabilities	63,110	66,723	66,095	66,904	68,791	70,785
Total Equity & Liabilities	414,722	422,564	453,985	487,525	521,449	534,964

Source: Company Accounts, Growth Securities

Shareholding Pattern



Source: PSX, Growth Securities

Hub Power Company Limited (HUBC), incorporated in August 1991 and listed on the PSX, is Pakistan's largest independent power producer and a diversified energy and industrial holding company. Originally established under Pakistan's 1994 Power Policy to develop and operate the 1,200 MW Hub thermal power plant, the company has since evolved into a diversified platform spanning power generation, automotive, upstream oil and gas, mining and energy infrastructure.

Today, HUBC owns interests in 2,289 MW of net generation capacity across imported coal, indigenous Thar coal, run of river hydel and residual furnace oil technologies. The portfolio comprises CPHGC (47.5%), TEL (60%), TNPTPL (38.3%), Laraib Energy (75%) and Narowal Energy (100%), operating under long dated PPAs with a weighted average remaining life of approximately 23 years. The original Hub base plant PPA was terminated under a Negotiated Settlement Agreement in October 2024, with HUBC receiving PKR 36.5bn in settlement.

Beyond power generation, HUBC has built a portfolio of strategic investments through Hub Power Holdings Limited (HPHL), including Mega Motor Company (50%), the exclusive BYD distribution and CKD assembly partner in Pakistan; Prime International Oil & Gas Company (50%), an upstream E&P joint venture; Sindh Engro Coal Mining Company (8%), the exclusive coal supplier to TEL and TNPTPL; Ark Metals (51.4%), a mineral exploration company; and HUBCO Green (100%), an EV charging infrastructure platform.

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‘Buy’ – Total stock return > 15%

‘Hold’ – Total stock return > 0% and < 15%

‘Sell’ – Total stock return < 0%

Growth Securities (Pvt.) Limited uses different valuation methods such as 1) Discounted Cash Flow, 2) Relative Valuation (PE, PB, PS etc.), 3) Asset Based Valuation etc.

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