

Foundation Alert

HUBC: Diversifying into Exploration and Production business

Event

- Hub Power Company (HUBC), through its joint venture Prime Oil and Gas Company Limited, entered into a sale and purchase agreement with Eni International for purchase of its assets in Pakistan.

Impact

- Prime international Oil and Gas Company Limited (Prime), a 50-50 joint venture between Hub Power Holdings Limited and the Eni's Employee Buy-out Group, entered into for Sale Purchase Agreements with Eni International B.Y., Eni Oil Holdings B.V., Eni UK Limited and Eni ULX Limited for the purpose of acquiring Eni's business in Pakistan.
- Hub Power Holdings Limited is a fully owned subsidiary of The Hub Power Company Limited.
- The Eni Transaction involves Prime purchasing 100% shareholdings of Eni Pakistan Limited, Eni AEP Limited, Eni Pakistan (M) Limited and Eni New Energy Pakistan (Private) Limited from the Selling Entities.
- The transaction has been approved by the Federal Cabinet and the Director General Petroleum Concessions along with other relevant authorities.
- However, completion of the transaction will be achieved pursuant to the requisite regulatory process.
- Eni Pakistan has current production portfolio of 3 operating and 6 non-operating fields.
 - Operating fields: Bhit, Badhra and Kadanwari
 - Non-operating fields: Zamzama, Sawan, Latif, Miano, Tajjal and Mitha
- Eni Pakistan also has an energy business segment comprising of a 10MWp photovoltaic plant developed near the Bhit gas field, which provides power to its upstream operations.
- Besides, Eni owns Bhit processing plant with a capacity of 320mmcf/d against production of ~60mmcf/d from Bhit and Badhra.

Outlook

- We await further clarity on the transaction before incorporating this in our valuation.
- We have an “Outperform” stance on the scrip given company’s aggressive expansion drive and approaching project completion of 1320MW CPHGC. However, establishment of competitive market would require shifting of current PPA to take and pay basis which would substantially reduce capacity payments amid lower reliance of national grid on FO based generation, in our view.
- Moreover, termination of the base plant take or pay contract even on the Present Value of reduced Capacity payments, ignoring competitive market structure and company’s operating cost, would not provide upside to our valuation.

Fig 1: Field location of Eni assets



Source: Foundation Research, November 2022

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Ext 338

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.