Foundation Securities
REP-095

PAKISTAN **August 30, 2021**

Earning Review

HUBC: 4QFY21 EPS clocked in at Rs6.76, DPS Rs5.0

Event

- Hub Power Company (HUBC) profitability clocked in at Rs8.7bn (EPS Rs6.76), up 29% YoY, against profitability of Rs6.8bn (EPS Rs5.24) reported in the same period last year, cumulating into full year profitability of Rs33.7bn (EPS Rs25.97) in FY21 against Rs25.0bn (EPS Rs19.31) in FY20.
- Result is accompanied with dividend of Rs5.0 per share, taking full year payout in FY21 to Rs12.0 per share.

Impact

- We attribute rise in profitability to (1) higher dollar indexation for base plant, (2) reduced finance cost, (3) lower taxation charge, and (4) lower operation and maintenance expense.
- During 4QFY21, dollar indexation went up by ~4.4% YoY for the base plant, however dollar indexation for Narowal Energy Limited, Laraib Power and CPHGC is down by 7.8% YoY.
- Moreover, Late payment differential on trade receivables and payables decreased by ~10% YoY to ~Rs440mn during the quarter as Hub Power received Rs23.1bn in first installment of receivable to IPP's, in our view.
- During the quarter, Hub power base plant generated 78GWh at a load factor of 2.8% as compared to zero load factor in the same period last year. Hub Narowal plant dispatched 147 GWh of electricity, up by 2.6x YoY, with a utilization rate of 31.6%. We attribute higher utilization to increased electricity demand growth amid lower availability of RLNG and Hydel generation.
- CPHGC generated 2,578 GWh of electricity, up significantly by 54% YoY, at load factor of ~90% during the quarter. CPHGC profitability contribution decreased by 19% YoY to clocked in at ~Rs3.8bn.
- Laraib production increased by a mere 0.7% YoY to 144 GWh during 4QFY21, given slightly improved water flow.
- Finance cost of the company reduced by 34% YoY given reduction of 625bps in policy rate amid reduced debt levels.

Outlook

- We have an "Outperform" stance on the scrip with Dec-21 TP of Rs96.1. 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 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 valuations, as per our calculation.

Analyst

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Fig1: 4QFY21 Financial highlights

Rs (mn)	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Revenue	15,825	11,848	34%	32%	54,639	48,321	13%
Cost of Sales	6,973	3,333	109%	80%	21,769	17,831	22%
Gross profit	8,852	8,515	4%	9%	32,871	30,490	8%
Admin expense	295	327	-10%	-11%	1,379	1,500	-8%
Other operating expenses	561	89	533%	625%	796	410	94%
Other operating income	210	33	533%	239%	509	181	181%
Operating profit	8,557	8,188	5%	10%	31,492	28,991	9%
Finance cost	1,682	2,549	-34%	-13%	7,341	11,905	-38%
Share of associate	3,818	4,740	-19%	-6%	15,501	13,700	13%
PBT	11,044	10,435	6%	11%	39,939	30,006	33%
Tax	1,920	3,274	-41%	66%	5,109	3,945	29%
PAT	9,124	7,161	27%	3%	34,830	26,061	34%
Profit Attributable							
Owners of the company	8,770	6,791	29%	2%	33,688	25,044	35%
Non-controlling Share	353	369	-4%	46%	1,142	1,017	12%
EPS	**6.76**	**5.24**			**25.97**	**19.31**	

Source: PSX, Company Reports, Foundation Research, August 2021

Important disclosures:

Recommendations definitions

If

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