

## Foundation Alert

### HUBC: FY21 Analyst Briefing Takeaways

#### Event

- Hub Power Company (HUBC) held its briefing to discuss FY21 results along with progress on expansion projects and acquisition of ENI.

#### Impact

- Company attributed increase in profitability on unconsolidated basis to (1) higher exchange rate indexation due to rupee depreciation, (2) lower finance cost due to lower interest rates and (3) dividend income from subsidiaries.
- On consolidated basis management attributed increase in profitability to (1) higher exchange rate indexation due to rupee depreciation, (2) lower finance cost due to lower interest rates and (3) higher portion of profits from CPHGC due to full operating quarter as compared to approximately 10.5 months in comparative period.
- During FY21, availability of Base Plant, Narowal and Laraib remained at 92%, 95% and 98% against 92%, 96% and 99% in FY20, respectively.
- China Power Hub Generation (CPHGC) plant availability for FY21 remained at 95% due to scheduled outages in 1Q. However, load factor remained at 72% during the period.
- Load factor of the Base, Narowal, Laraib and CPHGC recorded at 1.8%, 26%, 63% and 72% in FY21 against 0.3%, 18%, 52% and 58% in FY20, respectively.
- CPHGC tariff true up is in final stages with NEPRA.
- On July 14' 2021, the power plant tripped due to transformer failure at Unit-1 caused by strong winds and thunderstorm. As a precaution, Unit-2 was also brought offline temporarily for integrity testing and subsequently resynchronized with the national grid. The losses incurred due to transformer failure are covered by insurance. CPHGC operates at 47% load factor during the whole month of Jul'21.
- On expansion projects, management stated that owing to COVID-19 pandemic, the construction work at Thar projects (TEL, Thal Nova and SECMC) had slowed down.
- Disbursement under Foreign and Local Debt facilities accelerated to make up for the slow progress.
- Shipment of equipment and construction progressing in accordance with accelerated schedule to achieve timely COD of these projects. Till now 68% construction work is completed on Thar Energy project while 46% of Thal Nova work has been completed.
- Subsequently, company expects TEL and Thal Nova to achieve COD by 1QCY22 and 2QCY22 against targeted date of Mar'21.
- The talks regarding the early retirement of Base Plant is in infancy stages and decision would be taken on win-win proposition.
- HUBC is eyeing to explore the E&P sector in Pakistan through Prime International Oil & Gas Company, a 50:50 joint venture of Hub Power Holdings Limited (HPhL), a wholly owned subsidiary of the company, and ENI's local employees. So far, Sale and Purchase Agreements (SPAs) have been executed to acquire all the upstream operations of ENI in Pakistan and renewable energy assets owned by ENI. Management expects regulatory approvals for transfer of ownership and management control to the joint venture are expected to be concluded by 4QCY21. The results of ENI Pakistan operations will be accounted for in HUBC's books post transfer of ownership.

## 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.

**Fig1: FY21 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%
<b>Profit Attributable</b>							
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%
<b>EPS</b>	<b>6.76</b>	<b>5.24</b>			<b>25.97</b>	<b>19.31</b>	

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

### Analyst

Muhammad Awais Ashraf                      m.awais@fs.com.pk  
 +92 21 3561 2290-94                              Ext 338

**Abbreviations**

CPPA	Central Power Purchasing Agency (Market Operator)
CD	Circular Debt
CPP	Capacity Purchase Price
EPP	Energy Purchase Price
GENCO	Generation Company
IPP	Independent Power Producers
IRR	Internal Rate of Return
RoE	Return on Equity
RFO	Residual Furnace Oil
IMO	International Maritime Organization
MoU	Memmorandum of Understanding
MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
NTDC	National Transmission & Dispatch Company (NTDC) Pakistan
PP	Power Policy
WPP	Wind Power Plant

**Important disclosures:**

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Recommendations definitions**

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