

Earning Review

HUBC: 1QFY22 EPS clocked in at Rs5.72

Event

- Hub Power Company (HUBC) profitability clocked in at Rs7.4bn (EPS Rs5.72), down 9% YoY, against profitability of Rs8.1bn (EPS Rs6.28) reported in the same period last year.

Impact

- We attribute decline in profitability to (1) lower dollar indexation for base and new plants, and (2) higher fuel losses.
- During 1QFY22, dollar indexation went down by ~4.5% YoY for the base plant, however dollar indexation for Narowal Energy Limited, Laraib Power and CPHGC dropped by 6.1% YoY.
- Moreover, Late payment differential on trade receivables and payables decreased 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 524 GWh at a load factor of 19.8% as compared to 1.4% load factor in the same period last year. Hub Narowal plant dispatched 237 GWh of electricity, up by 5.2% YoY, with a utilization rate of 50.2%. We attribute higher utilization to increased electricity demand growth amid lower availability of RLNG and Hydel generation.
- CPHGC generated 1,198 GWh of electricity, down significantly by 37.4% YoY, at load factor of ~44.5% during the quarter due to lightning strike on plant. CPHGC profitability contribution decreased by 34% YoY to clocked in at ~Rs2.2bn primarily because of lower dollar indexation and higher operation and maintenance expense.
- Laraib's production increased by a 2.1% YoY to 100 GWh during 1QFY22, given slightly improved water flow.
- Finance cost of the company reduced by 13% YoY given reduced debt levels.

Outlook

- We have an "Outperform" stance on the scrip. 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: 1QFY22 Financial highlights

Rs (mn)	1QFY22	1QFY21	YoY	QoQ
Revenue	26,340	15,794	67%	66%
Cost of Sales	18,541	7,655	142%	166%
Gross profit	7,798	8,139	-4%	-12%
Admin expense	224	386	-42%	-24%
Other operating expenses	217	57	278%	-61%
Other operating income	23	13	82%	-89%
Finance cost	1,660	1,904	-13%	-1%
Share of associate	2,293	3,482	-34%	-40%
PBT	8,401	9,376	-10%	-24%
Tax	705	935	-25%	-63%
PAT	7,696	8,441	-9%	-16%
Profit Attributable				
Owners of the company	7,417	8,144	-9%	-15%
Non-controlling Share	279	297	-6%	-21%
EPS	5.72	6.28		

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

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Recommendations definitions

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