Foundation Securities
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Earning Review

HUBC: 2QFY22 EPS clocked in at Rs3.7, down 42% YoY

Event

- Hub Power Company (HUBC) profitability clocked in at Rs5.0bn (EPS Rs3.70), down 42% YoY, against profitability of Rs8.2bn (EPS Rs6.32) reported in the same period last year.
- The result is below our expectation given loss arising from China Hub Power Generation Company (CPHGC), in our view.

Impact

- We attribute decline in profitability to (1) loss arising from share of profit from associates and joint venture and (2) lower dollar indexation for base plant.
- During 2QFY22, dollar indexation went down by ~4.5% YoY for the base plant, however dollar indexation for Narowal Energy Limited, Laraib Power and CPHGC increased by 2.7% YoY.
- Moreover, Late payment differential on trade receivables and payables decreased during the quarter as Hub Power received ~Rs57.7bn in two installments of receivable to IPP's, in our view.
- During the quarter, Hub power base plant generated 238 GWh at a load factor of 8.4% as compared to 0% load factor in the same period last year. Hub Narowal plant dispatched 238 GWh of electricity with a utilization rate of 32.8%. We attribute higher utilization to increased electricity demand growth amid lower availability of RLNG and Hydel generation.
- Laraib generated 108 GWh of electricity, down 16.7% YoY, compared to generation of 129.2 GWh due to lower water flows.
- CPHGC generated 1,141 GWh of electricity, down significantly by 33.8% YoY, at load factor of ~39.6% during the quarter due to maintenance at one of the units on the back of lightning strike on plant. CPHGC contributed loss of ~Rs1.5bn (against profitability contribution of ~Rs4.1bn in 2QFY21), primarily on account of higher operation and maintenance expense, in our view. However, we await clarity on this front.
- Finance cost of the company reduced by 5% YoY given reduced debt levels.

Outlook

- We have an "Outperform" stance on the scrip with Dec'22 TP of Rs89.0. 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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Fig 1: 2QFY22 Financial highlights

Rs (mn)	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Revenue	19,928	10,997	81%	-24%	46,267	26,791	73%
Cost of Sales	11,918	3,258	266%	-36%	30,460	10,913	179%
Gross profit	8,009	7,739	3%	3%	15,808	15,878	0%
Admin expense	233	366	-36%	4%	457	752	-39%
Other operating expenses	264	101	162%	22%	481	158	204%
Other operating income	24	224	-89%	6%	47	237	-80%
Operating profit	7,776	7,372	5%	3%	15,351	15,126	1%
Finance cost	1,738	1,827	-5%	5%	3,397	3,731	-9%
Share of associate	(1,462)	4,123	na	-164%	831	7,605	-89%
PBT	4,817	9,545	-50%	-43%	13,218	18,921	-30%
Tax	(204)	1,098	na	-129%	502	2,033	-75%
PAT	5,020	8,447	-41%	-35%	12,716	16,888	-25%
Profit Attributable							
Owners of the company	4,796	8,198	-42%	-35%	12,212	16,342	-25%
Non-controlling Share	225	249	-10%	-19%	504	547	-8%
EPS	3.70	6.32			9.41	12.60	

Source: PSX, Company Reports, Foundation Research, February 2022

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Recommendations definitions

If

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