

Foundation Alert

HUBC: 1HFY22 Analyst Briefing Takeaways

Event

- Hub Power Company (HUBC) held its analyst briefing to discuss 1HFY22 results along with progress on expansion projects.

Impact

- Company attributed decline in profitability on unconsolidated basis to lower dividend from Hub Power Holding Limited (HPHL).
- On consolidated basis management attributed decrease in profitability to (1) lower share of profit from China Power Hub Generation (CPHGC) due to transformer failure from Jul'21 to Jan'22, (2) no principal debt servicing revenue from NEL as per tariff profile.
- During 1HFY22, availability of Base Plant, Narowal, Laraib and CPHGC remained at 90%, 93%, 100% and 47% against 91%, 92%, 100% and 91% in 1HFY21, respectively.
- Load factor of the Base, Narowal, Laraib and CPHGC recorded at 14%, 44%, 56% and 42% in 1HFY22 against 2%, 24%, 61% and 68% in 1HFY21, respectively.
- Based on the revised PPA amendment agreements, HUBC received Rs57.9bn of overdue receivables (40% in Jun'21 and 60% in Nov'21) which was 1/3rd in cash and 2/3rd in PIB/Govt Ijara Sukuk.
- Similarly, 1st installment of 40% for Narowal Energy Limited was also received in Jan'21. Remaining 60% is expected in next 6 months.
- CPHGC tariff true up expected by 2HFY22.
- 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 (company has filed insurance claim for US\$50-55mn which should be received by 2HFY22). CPHGC operated at 42% load factor during 1HFY22.
- FBR has allowed exemption to CPHGC from duty on re-import of CTS fleet after periodic inspection.
- Effective Feb'1, 2022, HUBC JV has been appointed as O&M contractor for CPHGC's 1320MW power station, making HUBC the largest O&M contractor in Pakistan. This will pave way for localization of coal plants O&M, previously dominated by foreign operators.
- On expansion projects, management stated that:
 1. SECMC construction work for expansion of mine to 7.6mtpa is underway. SECMC Board has also approved the plan of mine expansion up to 12.2mtpa.
 2. ENI Pakistan acquisition thru Prime International Oil and Gas (a 50:50 joint venture of Hub Power Holdings Limited (HPHL), a wholly owned subsidiary of the company, and ENI's local employees) - NOC from FBR and clearance from DG PC is expected to be received shortly. Results of ENI operations will be accounted for in HUBC's financial statements post transfer of ownership.
 3. Thar Energy Limited is 86% complete and COD is expected by Jun-Jul'22 (On Jan'6, 2022 plant received back feed energization for TEL 500kV transmission line).
 4. ThalNova Power Thar (Pvt) Ltd is 65% complete and COD is expected by Sept-Oct'22.
- HUBC plans to shift its portfolio's focus from fossil fuel-based power generation to renewable energy and sustainable infrastructure.

- Company has been awarded right of first refusal (OFR) for 35MGD wastewater recycling project at SITE, Karachi.
- Management stated that it is evaluating multiple opportunities in the renewables space, which are expected to be realized post implementation of CTBCM.

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.

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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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

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Recommendations definitions

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