

Earning Review

HUBC: 3QFY22 EPS clocked in at Rs7.1, up 8% YoY

Event

- Hub Power Company (HUBC) profitability clocked in at Rs9.2bn (EPS Rs7.1) in 3QFY22, up 8% YoY, against profitability of Rs8.8bn (EPS Rs6.6) reported in the same period last year.

Impact

- We attribute increase in profitability to (1) higher dollar indexation and (2) increased profit of CPHGC.
- During 3QFY22, dollar indexation went up by ~3.5% YoY for the base plant, however dollar indexation for Narowal Energy Limited, Laraib Power and CPHGC increased by 10.6% 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 94 GWh at a load factor of 3.6% as compared to 0% load factor in the same period last year. Hub Narowal plant dispatched 214 GWh of electricity with a utilization rate of 42.3%. We attribute higher utilization to increased electricity demand growth amid lower availability of RLNG and Hydel generation.
- Laraib generated 73 GWh of electricity, down 24% YoY, compared to generation of 96 GWh due to lower water flows.
- CPHGC generated 2,355 GWh of electricity, up significantly by 37.9% YoY, at load factor of ~59.2% during the quarter. CPHGC contributed profit of ~Rs4.2bn (against profitability contribution of ~Rs4.1bn in 3QFY21), primarily on account of higher dollar indexation, in our view.
- Finance cost of the company increased by 4% YoY due to 325bps increase in KIBOR.

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.

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Fig 1: 3QFY22 Financial highlights

Rs (mn)	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Revenue	18,785	12,023	56%	-6%	65,052	38,815	68%
Cost of Sales	10,137	3,883	161%	-15%	40,597	14,796	174%
Gross profit	8,648	8,141	6%	8%	24,456	24,018	2%
Admin expense	311	332	-6%	34%	768	1,084	-29%
Other operating expenses	227	77	193%	-14%	708	235	201%
Other operating income	98	62	58%	301%	145	299	-51%
Operating profit	8,337	7,809	7%	7%	23,687	22,934	3%
Finance cost	2,000	1,928	4%	15%	5,397	5,659	-5%
Share of associate	4,165	4,078	2%	-385%	4,996	11,683	-57%
PBT	10,631	9,974	7%	121%	23,849	28,895	-17%
Tax	1,168	1,156	1%	-674%	1,670	3,189	-48%
PAT	9,463	8,818	7%	88%	22,179	25,706	-14%
Profit Attributable							
Owners of the company	9,241	8,576	8%	93%	21,453	24,918	-14%
Non-controlling Share	235	242	-3%	5%	739	789	-6%
EPS	7.12	6.61			16.54	19.21	

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

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Recommendations definitions

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