Earning Review

HUBC: 1QFY23 EPS clocked in at Rs7.01, up 23% YoY

Event

- Hub Power Company (HUBC) profitability clocked in at Rs9.0bn (EPS Rs7.01) in 1QFY23, up 23% YoY, against profitability of Rs7.4bn (EPS Rs5.72) reported in the same period last year.
- The result is slightly below our expectation given lower contribution from share of associate.

Impact

- We attribute increase in profitability to (1) higher dollar indexation for Laraib and CPHGC, (2) lower operation and maintenance expense of base plant and (3) reduced efficiency losses.
- During 1QFY23, dollar indexation went up by ~30% YoY for Laraib Power and CPHGC.
- Moreover, late payment differential on trade receivables and payables increased during the quarter as company diverted received amount of ~Rs73.9bn in two installments of receivable to IPP's for clearance of payables and short term borrowings, in our view. To highlight, Hub Power Base plant (1,200 MW RFO based plnat) and Narowal Energy Limited (220 MW RFO based plant) received an amount of ~Rs57.9bn and ~Rs16.2bn during this year.
- During the quarter, Hub power base plant generated 200 GWh at a load factor of 7.5% as compared to 19.7% load factor in the same period last year. Hub Narowal plant dispatched 208 GWh of electricity with a utilization rate of 44.8% against production of 237 GWh and utilization of 51.0%. We attribute lower utilization to elevated electricity cost of generation on Furnace Oil despite lower availability of RLNG in a deliberate move by the government to manage forex reserves of the country.
- Laraib generated 47 GWh of electricity, down 54% YoY in 1QFY23, compared to generation of 100 GWh in 1QFY22.
- CPHGC generated 902 GWh of electricity, down by 26% YoY in 1QFY23, at load factor of ~31% during the quarter due to 115% YoY increase in cost of electricity generation on coal. CPHGC contributed profit of ~Rs3.0bn (against profitability contribution of ~Rs2.3bn in 1QFY22), primarily on account of higher dollar indexation, in our view. However, contribution from CPHGC is below our expectation due to higher operation and maintenance expense, we believe.
- Finance cost of the company increased by 41% YoY in 1QFY23 to Rs2.3bn due to 687 bps YoY increase in KIBOR.
- Other income of the company increased by 90% YoY to Rs412mn in 1QFY23 on the back of higher income from management services, in our view.

Outlook

- We have an "Outperform" stance on the scrip with Dec'22 TP of Rs89.0 given company's aggressive expansion drive. 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: 1QFY23 Financial highlights

Rs (mn)	1QFY23	1QFY22	YoY	QoQ
Revenue	29,590	26,340	12%	-8%
Cost of Sales	19,868	18,541	7%	-15%
Gross profit	9,722	7,798	25%	12%
Admin expense	282	224	26%	8%
Operating profit	9,440	7,574	25%	13%
Other operating income	412	217	90%	-71%
Other operating expense	31	23	34%	-88%
Finance cost	2,336	1,660	41%	-8%
Share of associate	3,091	2,293	35%	-27%
PBT	10,577	8,401	26%	-6%
Tax	1,103	705	56%	-71%
PAT	9,474	7,696	23%	28%
Profit Attributable				
Owners of the company	9,099	7,417	23%	30%
Non-controlling Share	375	279	34%	-2%
EPS	7.01	5.72		

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

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Recommendations definitions

If

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