

## Earning Review

### HUBC: 2QFY23 EPS clocked in at Rs10.25, DPS Rs5.75

#### Event

- Hub Power Company (HUBC) profitability clocked in at Rs13.3bn (EPS Rs10.25) in 2QFY23, up 2.8x/46% YoY/QoQ, against profitability of Rs4.8bn (EPS Rs3.70) reported in the same period last year. This cumulates into 1HFY23 profitability of Rs22.4bn (EPS Rs17.27), up 83% YoY.
- The result is accompanied with cash payout of Rs5.75/sh, taking 1HFY23 payout to Rs21.25/sh.
- The result is above our expectation given higher contribution from share of profit from associate.

#### Impact

- We attribute increase in profitability to (1) higher dollar indexation for Laraib and CPHGC, (2) lower operation and maintenance expense, (3) reduced efficiency losses and (4) higher share of profit from share of associate.
- During 2QFY23, dollar indexation went up by ~36% YoY for Laraib Power and CPHGC.
- During the quarter, Hub power base plant generated negative 3.8 GWh as compared to 237 GWh in the same period last year. Hub Narowal plant dispatched 19 GWh of electricity with a utilization rate of 4.1% against production of 152.4 GWh and utilization of 32.8%. 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 111 GWh of electricity, up 3% YoY in 2QFY23, compared to generation of 108 GWh in 2QFY22 due to better hydrology.
- CPHGC generated 306 GWh of electricity, down by 73% YoY in 2QFY23, at load factor of ~11% during the quarter due to 10% YoY increase in cost of electricity generation on coal. CPHGC contributed profit of ~Rs9.9bn (against loss contribution of ~Rs1.4bn in 2QFY22), primarily on account of higher dollar indexation and recovery arrears from insurance company, in our view. Last year Unit-1 of CPHGC remained unavailable from Jul-Dec due to transformer failure.
- Finance cost of the company increased by 2.8x YoY in 2QFY23 to Rs4.8bn due to 652 bps YoY increase in KIBOR.
- Other income of the company increased by 87% YoY to Rs494mn in 2QFY23 on the back of higher income from management services, in our view.

#### Outlook

- We have an “Outperform” stance on the scrip with Dec’23 TP of Rs82.0 given company’s aggressive expansion drive. Moreover, Project completion of CPHGC would improve cash flow position of the company.
- 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, company dividend paying capacity would remain restricted in the short term due to reduced recoveries of base plant on the back of lower utilization and higher debt maturities.

Fig 1: 2QFY23 Financial highlights

Rs (mn)	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Revenue	25,097	19,928	26%	-15%	54,687	46,267	18%
Cost of Sales	12,234	11,918	3%	-38%	32,102	30,460	5%
Gross profit	12,863	8,009	61%	32%	22,585	15,808	43%
Admin expense	351	233	51%	25%	633	457	38%
Operating profit	12,512	7,776	61%	33%	21,952	15,351	43%
Other operating income	494	264	87%	20%	907	481	88%
Other operating expense	410	24	1583%	1231%	441	47	829%
Finance cost	4,788	1,738	176%	105%	7,124	3,397	110%
Share of associate	9,986	(1,462)	na	223%	13,077	831	1474%
PBT	17,794	4,817	269%	68%	28,371	13,218	115%
Tax	3,115	(204)	na	182%	4,218	502	740%
<b>PAT</b>	<b>14,680</b>	<b>5,020</b>	<b>192%</b>	<b>55%</b>	<b>24,153</b>	<b>12,716</b>	<b>90%</b>
<b>Profit Attributable</b>							
Owners of the company	13,298	4,796	177%	46%	22,397	12,212	83%
Non-controlling Share	1,382	225	514%	269%	1,757	504	249%
<b>EPS</b>	<b>10.25</b>	<b>3.70</b>			<b>17.27</b>	<b>9.41</b>	

Source: PSX, Company Reports, Foundation Research, February 2023

**Analyst**

Muhammad Awais Ashraf, CFA  
+92 21 3561 2290-94

m.awais@fs.com.pk  
Ext 338

**Important disclosures:**

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Recommendations definitions**

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