Foundation Alert

HUBC: 1HFY23 Analyst Briefing Takeaways

Event

- Hub Power Company (HUBC) held its analyst briefing to discuss 1HFY23 results along with progress on expansion projects.

Impact

- Company attributed increase in profitability on unconsolidated basis to higher dividend from NEL and higher finance cost due to increase in interest rates.
- On consolidated basis management attributed increase in profitability to (1) higher share of profit from China Power Hub Generation (CPHGC) due to recognition of insurance claim against transformer failure from Jul'21 to Jan'22, (2) commencement of profit from Thar Energy Limited and (3) rupee depreciation.
- During 1HFY23, availability of Base Plant, Narowal, Laraib and CPHGC remained at 92%, 86%, 99% and 84% against 90%, 93%, 98% and 45% in 1HFY22, respectively.
- Load factor of the Base, Narowal, Laraib and CPHGC was recorded at 4%, 24%, 43% and 22% in 1HFY23 against 14%, 44%, 56% and 43% in 1HFY22, respectively.
- Post Commercial Operation Date (COD), Thar Energy Limited (TEL) generated ~690 gWh maintaining ~95% availability. HUBC's holds 60% shares with investment of US$79mn which is expected to yield ROE of 30.65% as per Upfront Tariff, subject to tariff true-up.
- Post COD, ThalNova Power generated ~33 gWh maintaining ~99% availability. HUBC's holds 38.3% shares with investment of US$52mn which is expected to yield ROE of 30.65% as per Upfront Tariff, subject to tariff true-up.
- SECMC expansion of capacity from 3.8 MTPA in phase-II to 7.6 MTPA leading to considerable reduction in coal price. In Dec'22, TCEB issued the COD stage tariff for phase-I. HUBC holds 8% stake in SECMC.
- ENI acquisition was concluded on Dec 30'22 following approval from regulatory authorities and completion of other conditions. As per management, the JV will pursue organic growth opportunities in owned assets as well as potential growth opportunities in new fields based on government auctions.
- China Hub Power Generation Company (CPHGC) lenders declared Project Completion under the terms of financing agreements on Feb 23'23. Following the declaration, HUBC's obligation to maintain US$150mn Standby Letter of Credit (SBLC) is released. As per management, PCD of CPHGC will further enable CPGHC to pay dividends to its shareholders subject to availability of distributable profits.
- Moreover, CPHGC insurance claim against property damage and business interruption has been accepted for total amount of US$65mn by the insurer. 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.
- At Dec'22, company total receivables stood at Rs87.9bn against Rs84.8bn at Jun'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 (ROFR) for 35MGD wastewater recycling project at SITE, Karachi. Following award of ROFR, HUBC is looking forward to participate in the competitive bidding phase once announced by Government of Sindh.
- Management stated that it is evaluating multiple opportunities in the renewables space, which are expected to be realized post implementation of CTBCM.

- Moreover, the Company is also actively evaluating opportunities in electric vehicles and its related infrastructure to further diversify portfolio as the government aims to meet the country's carbon reduction targets.

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: 1HFY23 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%
PAT	**14,680**	**5,020**	**192%**	**55%**	**24,153**	**12,716**	**90%**
Profit Attributable							
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%
EPS	**10.25**	**3.70**			**17.27**	**9.41**	

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

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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

Important disclosures:

Recommendations definitions

If

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