PAKISTAN April 27, 2023

Earning Review

HUBC: 3QFY23 EPS clocked in at Rs8.67, DPS Rs2.75

Event

- Hub Power Company (HUBC) profitability clocked in at Rs11.2bn (EPS Rs8.67) in 3QFY23, up/down 22%/15% YoY/QoQ, against profitability of Rs9.2bn (EPS Rs7.12) reported in the same period last year. This cumulates into 9MFY23 profitability of Rs33.6bn (EPS Rs25.94), up 57% YoY.
- The result is accompanied with cash payout of Rs2.75/sh, taking 9MFY23 payout to Rs24.00/sh.
- The result is above below expectation given lower 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 3QFY23, dollar indexation went up by ~27.5% YoY for Laraib Power and CPHGC.
- During the quarter, Hub power base plant generated negative 0.3 GWh as compared to 94 GWh in the same period last year. Hub Narowal plant dispatched 93.7 GWh of electricity with a utilization rate of 20.1% against production of 213.9 GWh and utilization of 46.0%. 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 and manage circular debt.
- Laraib generated 65.9 GWh of electricity, down 10% YoY in 3QFY23, compared to generation of 73.0 GWh in 3QFY22 due to lower hydrology.
- CPHGC generated 64.8 GWh of electricity, down by 97% YoY in 3QFY23, at load factor of ~2.3% during the quarter due to higher cost of electricity generation on imported coal. CPHGC contributed profit of ~Rs6.5bn (against contribution of ~Rs4.2bn in 3QFY22), primarily on account of higher dollar indexation, in our view.
- Finance cost of the company increased by 2.4x YoY in 3QFY23 to Rs4.7bn due to 557 bps YoY increase in KIBOR.
- Company reported negative other income of Rs159mn in 3QFY23 against profit of Rs227mn in 2QFY22.

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: 3QFY23 Financial highlights

Rs (mn)	3QFY23	3QFY22	YoY	QoQ	9MFY23	9MFY22	YoY
Revenue	**27,231**	**18,785**	**45%**	**9%**	**81,918**	**65,052**	**26%**
Cost of Sales	14,098	10,137	39%	15%	46,201	40,597	14%
Gross profit	**13,133**	**8,648**	**52%**	**2%**	**35,717**	**24,456**	**46%**
Admin expense	342	311	10%	-3%	974	768	27%
Operating profit	**12,791**	**8,337**	**53%**	**2%**	**34,743**	**23,687**	**47%**
Other operating income	- 159	227	na	na	747	708	6%
Other operating expense	75	98	-23%	-82%	516	145	255%
Finance cost	4,721	2,000	136%	-1%	11,845	5,397	119%
Share of associate	6,476	4,165	55%	-35%	19,553	4,996	291%
PBT	**14,311**	**10,631**	**35%**	**-20%**	**42,682**	**23,849**	**79%**
Tax	2,034	1,168	74%	-35%	6,252	1,670	274%
PAT	**12,277**	**9,463**	**30%**	**-16%**	**36,430**	**22,179**	**64%**
Profit Attributable							
Owners of the company	11,249	9,241	22%	-15%	33,646	21,453	57%
Non-controlling Share	1,027	235	337%	-26%	2,784	739	277%
EPS	**8.67**	**7.12**			**25.94**	**16.54**	

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

Analyst

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

m.awais@fs.com.pk
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Recommendations definitions

If

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