

Sector Update

IGI IPP result previews

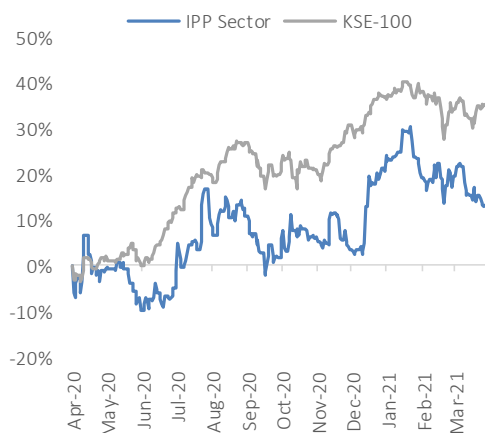
EPS estimate for 3QFY21

	3QFY21E	YoY	9MFY21E	YoY
HUBC	5.8	4%	18.4	31%
KAPCO	5.8	-15%	18.9	-6%
NCPL	1.3	-63%	5.2	-44%

DPS estimate for 3QFY21

	3QFY21E	9MFY21E	9MFY20
HUBC	-	7.0	-
KAPCO	-	1.5	1.5
NCPL	-	-	-

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Analyst

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Power Generation & Distribution

Sector Earnings to drop by 10%y/y during 3QFY21; HUBC to stand out with +4%y/y growth in profitability

- IGI E&P universe earnings are expected to decline by 10% YoY in 3QFY21 to PKR 13.11bn compared to PKR 14.55bn in the same period last year. Earnings attrition is expected on the back of a) drop in earnings for Kot Addu Power Company Limited (KAPCO) on account of lower other income and, b) decline in profitability for Nishat Chunian Power Limited (NCPL) on account of removal of debt component,
- KAPCO's board meeting is scheduled on 23th-Apr-21 to announce financial results for 3QFY21 where we expect the Company to report earnings of PKR 5.14bn (EPS: PKR 5.83) down by 15% YoY,
- We expect HUBC to register earnings of PKR 7.49bn (EPS: PKR 5.77), up by +4% YoY, during 3QFY21. We attribute this incline in earnings to a) higher share of profit from CPHGC, b) drop in penal interest income and, b) decline in finance income on account of drop in interest rates,
- We expect NCPL to post earnings of PKR 0.49bn (EPS: PKR 1.33) down by 63% YoY compared to PKR 1.30bn (EPS: PKR 3.55) in the same period last year on account of removal of debt component from tariff post retirement of debt.

IPP Sector: Earnings to decline by 10%YoY to PKR 13.11bn in 3QFY21

IGI E&P universe earnings are expected to decline by 10% YoY in 3QFY21 to PKR 13.11bn compared to PKR 14.55bn in the same period last year. Earnings attrition is expected on the back of a) drop in earnings for Kot Addu Power Company Limited (KAPCO) on account of lower other income and, b) decline in profitability for Nishat Chunian Power Limited (NCPL) on account of removal of debt component. Decline in earnings is likely to be limited by rise in earnings for Hub Power Company Limited's (HUBC). On sequential basis, earnings growth is expected to come down by 6% QoQ on account of PKR appreciation.

KAPCO: Earnings to decline by 15%YoY during 3QFY21E to PKR 5.83/share

KAPCO's board meeting is scheduled on 23th-Apr-21 to announce financial results for 3QFY21 where we expect the Company to report earnings of PKR 5.14bn (EPS: PKR 5.83) down by 15% YoY compared to PKR 6.05bn (EPS: PKR 6.87) in the same period last year. On a quarterly basis earnings are expected to decline by 3% QoQ.

We attribute the decline in the earnings to a) lower other income on account of decline in true up income and, b) lower penal income. However, decline in earnings is likely to be limited by 58% YoY decrease in finance cost on account of drop in interest rate. This bring total 9MFY21E earnings to PKR 16.63bn (EPS: PKR 18.90) down by 6% YoY.

Exhibit: KAPCO Financial Highlights

PKRmn	3QFY21E	3QFY20	YoY	2QFY21	QoQ	9MFY21E	9MFY20	YoY
Revenue	18,439	11,927	55%	10,677	73%	52,515	56,397	-7%
Operating Costs	13,417	6,357	111%	5,089	164%	36,102	40,721	-11%
Gross Profit	5,022	5,570	-10%	5,588	-10%	16,413	15,676	5%
Admin and Selling	189	197	-4%	441	-57%	853	670	27%
Financial Charges	919	2,179	-58%	735	25%	2,548	6,937	-63%
Other Income	3,319	5,323	-38%	3,045	9%	10,419	16,659	-37%
Pre Tax Profits	7,233	8,517	-15%	7,456	-3%	23,430	24,727	-5%
Post Tax Profits	5,135	6,047	-15%	5,296	-3%	16,633	17,774	-6%
EPS	5.83	6.87	-15%	6.02		18.90	20.19	-6%
DPS	-	1.50		-		1.50	1.50	

Source: IGI Research, Company Financials

No of Shares: 880 mn

HUBC: Earnings to lift by +4% YoY to PKR 5.77/share during 3QFY21

We expect HUBC to register earnings of PKR 7.49bn (EPS: PKR 5.77), up by +4% YoY, during 3QFY21 compared to PKR 7.20bn (EPS: PKR 5.55) in the same period last year. We attribute this incline in earnings to a) higher share of profit from CPHGC, b) drop in penal interest income and, b) decline in finance income on account of drop in interest rates. However, growth in earnings is likely to be limited by higher tax rate on account of WHT payable on dividends from CPHGC. On quarterly basis, earnings are estimated to decline by 9% QoQ on the back of PKR appreciation leading to weak margins. This brings 9MFY21E earning to PKR 23.83bn (EPS: PKR 18.37) up by +31% YoY.

Exhibit: HUBC Financial Highlights (Consolidated)

PKR mn	3QFY21E	3QFY20	YoY	2QFY21	QoQ	9MFY21E	9MFY20	YoY
Turnover	11,026	11,820	-7%	10,997	0%	37,817	36,473	4%
Operating Costs	4,272	4,316	-1%	3,258	31%	15,185	14,498	5%
Gross Profit	6,755	7,504	-10%	7,739	-13%	22,632	21,975	3%
General & Admin expenses	403	343	18%	366	10%	1,156	1,173	-1%
Financing Cost	1,807	3,106	-42%	1,827	-1%	5,538	9,357	-41%
Share of profit/(loss) from associates	4,336	3,807	14%	4,123	5%	11,941	8,960	n/m
Loss on shares transferred to GoB	-	-	n/m	-	n/m	-	(1,009)	n/m
PBT	8,957	7,903	13%	9,545	-6%	27,878	19,571	42%
PAT	7,730	7,390	5%	8,447	-8%	24,618	18,900	30%
PAT - Attributable to HUBC	7,487	7,201	4%	8,198	-9%	23,829	18,253	31%
EPS (PKR) @ 1,297.15mn shares	5.77	5.55	4%	6.32		18.37	14.07	31%
DPS (PKR)	-	-		3.00		7.00	-	

Source: IGI Research, Company Financials

No of Shares: 1,297.15

NCPL: Earnings to drop by 63% YoY to PKR 1.33/share during 3QFY21

We expect NCPL to post earnings of PKR 0.49bn (EPS: PKR 1.33) down by 63% YoY compared to PKR 1.30bn (EPS: PKR 3.55) in the same period last year. On a quarterly basis, earnings are expected to incline by +5% QoQ on the back of higher generation.

We attribute the decline in the earnings to removal of debt component from tariff post retirement of debt. This brings 9MFY21E earnings to PKR 1.91bn (EPS: PKR 5.21) down by 44% YoY.

Exhibit: NCPL Financial Highlights								
PKRmn	3QFY21E	3QFY20	YoY	2QFY21	QoQ	9MFY21E	9MFY20	YoY
Net Sales	2,481	2,807	-12%	1,380	80%	8,285	10,589	-22%
Cost of Sales	1,716	965	78%	641	167%	5,560	5,462	2%
Gross Profit	766	1,841	-58%	738	4%	2,725	5,127	-47%
Admin Expense	38	34	12%	34	11%	102	110	-7%
Other Income	8	7	15%	3	158%	25	30	-16%
EBIT	736	1,814	-59%	707	4%	2,648	5,046	-48%
Finance Cost	248	510	-51%	241	3%	735	1,644	-55%
PBT	488	1,304	-63%	466	5%	1,913	3,402	-44%
PAT	488	1,304	-63%	466	5%	1,913	3,402	-44%
EPS	1.33	3.55	-63%	1.27		5.21	9.26	-44%
DPS	-	-		-		-	-	
Source: IGI Research, Company Financials							No of shares: 367.35mn	

Recommendation

We maintain HUBC as our top pick with our Dec-21 target price of PKR 133/share offering +71% upside from last close. HUBC is trading at FY22 P/E of 2.7x. We maintain our liking for HUBC based on resumption of dividend and completion of financial close of all projects. Furthermore, HUBC is expected to post 5yr CAGR of 7% till FY27 as new projects commence operations.

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Time Horizon: Dec – 2021

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