

Flash Note

Tuesday, 25 February 2020

Power Generation and Distribution Companies

The Hub Power Company Limited (HUBC)

Share of profit from CPHGC and PKR depreciation lifts 2QFY20 EPS to PKR 4.23 despite higher finance costs and loss on shares

- The Hub Power Company Limited (HUBC) announced financial results for 2QFY20 with earnings clocking in at PKR 5.48bn (EPS PKR 4.23) up by +2.2xYoY compared to PKR 2.45bn (fully diluted EPS PKR 1.89) in the same period last year. On a sequential basis, earnings are down by 2% QoQ during 2QFY20. This brings total profitability to PKR 11.05bn (EPS PKR 8.52) for 1HFY20 up by +2.0xYoY compared to PKR 5.41bn (EPS PKR 4.17) in the same period last year.
- The Company did not announce any cash dividend for 1HFY20.
- We attribute this growth in earnings during 2QFY20 primarily on the back of +53% YoY rise in gross profit led by PKR depreciation, higher penal income in our view and PKR 3.28bn share of profit from associate post commencement of operations from China Power Hub Generation Company Limited (CPHGC). However, earnings growth was limited by loss booked on shares to be transferred to Government of Baluchistan (GoB) to the tune of PKR 1.01bn.
- Net Revenues** dropped by 19% YoY to PKR 10.57bn during 2QFY20 compared to PKR 13.07bn in the same period last year likely owing to lower generation from Hub and Narowal plant as according to NEPRA data available for Oct & Nov-2019 there was no generation from both the plants. However, in our view HUBC likely recorded higher penal interest income compared to last year.
- Gross margin** stood at 66% during 2QFY20 compared to 35.0% in the same period last year which in our view mostly relates to lower revenue due to lower generation leading to higher gross margin. However gross profit improved by 53% YoY to PKR 6.98bn during 2QFY20 on account of PKR depreciation and likely higher penal income in our view.
- Finance cost** increased by +98% YoY to PKR 3.19bn during 2QFY20 compared to PKR 1.61bn in the same period last year likely owing to rise in mark up expense amid rise in interest rates, short term borrowings and new loans drawn for new project financing.
- Share of profit from associate** stood at PKR 3.28bn during 2QFY20 as against loss of PKR 0.13bn in the same period last year owing to commencement of operations of CPHGC plant in Aug-19. Share of profit from associates is up by +75% QoQ likely on the back of full quarter impact of profitability from CPHGC plant.
- HUBC recorded loss on share to be transferred to GoB** to the tune of PKR 1.01bn during 2QFY20 which relates to the 1.5% stake in CPHGC to be transferred to GoB.
- Effective tax** stood at 1.4% during 2QFY20 compared to 3.0% (1QFY20: 1.3%) reported in the corresponding period last year bringing total effective tax rate to 1.4% for 1HFY20 compared to 2.5% in the same period last year.
- To note, HUBC has restated its sales and cost of sales figure for 2QFY19 whereas gross profit and profit after tax remains unchanged.

Exhibit: HUBC Financial Highlights (Consolidated)

PKR mn	2QFY20	2QFY19	YoY	1QFY20	QoQ	1HFY20	1HFY19	YoY
Turnover	10,573	13,071	-19%	14,081	-25%	24,654	30,985	-20%
Operating Costs	3,592	8,497	-58%	6,590	-45%	10,182	21,574	-53%
Gross Profit	6,980	4,573	53%	7,491	-7%	14,472	9,411	54%
General & Admin expenses	381	362	5%	449	-15%	830	676	23%
Financing Cost	3,192	1,613	98%	3,059	4%	6,251	2,936	113%
Share of profit/(loss) from associates	3,280	(133)	n/m	1,873	75%	5,153	(193)	n/m
Loss on shares to be transferred to GoB	(1,009)	-	n/m	-	n/m	(1,009)	-	n/m
PBT	5,767	2,635	119%	5,902	-2%	11,669	5,825	100%
PAT	5,687	2,557	122%	5,823	-2%	11,511	5,681	103%
PAT - Attributable to HUBC	5,484	2,447	124%	5,568	-2%	11,052	5,407	104%
EPS (PKR) @ 1,297.15mn shares	4.23	1.89		4.29		8.52	4.17	
DPS (PKR)	-	-		-		-	-	

Source: IGI Research, Company Financials

No of Shares: 1,297.15

*Restated

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