

Flash Note

Tuesday, 28 April 2020

Power Generation and Distribution Companies

The Hub Power Company Limited (HUBC)

Share of profit from CPHGC and PKR depreciation lifts 3QFY20 EPS to PKR 5.55 despite higher finance costs; Nil cash payout

- ✓ The Hub Power Company Limited (HUBC) announced financial results for 3QFY20 with earnings clocking in at PKR 7.20bn (EPS PKR 5.55) up by +2.3xYoY compared to PKR 3.16bn (fully diluted EPS PKR 2.44) in the same period last year. On a sequential basis, earnings are up by +31%QoQ during 3QFY20. This brings total profitability to PKR 18.25bn (EPS PKR 14.07) for 9MFY20 up by +2.1xYoY compared to PKR 8.58bn (EPS PKR 6.61) in the same period last year.
- ✓ The Company did not announce any cash dividend for 3QFY20 amid substantial rise in receivables, cash requirement for new projects and delays in CPP payments.
- ✓ We attribute this growth in earnings during 3QFY20 primarily on the back of +25%YoY rise in gross profit led by PKR depreciation, higher penal income in our view and PKR 3.81bn share of profit from associate post commencement of operations from China Power Hub Generation Company Limited (CPHGC). However, earnings growth was limited by higher finance cost. On a quarterly basis, earnings are up by +31%QoQ on account of higher profit from CPHGC and absence of one off loss booked last quarter relating to transfer of 1.5% stake to Government of Baluchistan.
- ✓ **Net Revenues** dropped by 12%YoY to PKR 11.82bn during 3QFY20 compared to PKR 13.44bn in the same period last year likely owing to lower generation from Hub and Narowal plant, as according to NEPRA data is only available for Jan-20 where there was no generation from both the plants. However, in our view HUBC likely recorded higher penal interest income compared to last year.
- ✓ **Finance cost** increased by +55%YoY to PKR 3.11bn during 3QFY20 compared to PKR 2.0bn 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. To note lower markup cost due to drop in interest rates will most likely be visible in the coming quarters.
- ✓ **Share of profit from associate** stood at PKR 3.81bn during 3QFY20 as against loss of PKR 0.13bn in the same period last year owing to commencement of operations of CPHGC plant in Aug-19.
- ✓ **Effective tax** stood at 6.5% during 3QFY20 compared to 4.1% (2QFY20: 1.4%) reported in the corresponding period last year bringing total effective tax rate to 3.4% for 9MFY20 compared to 3.1% 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	3QFY20	3QFY19*	YoY	2QFY20	QoQ	9MFY20	9MFY19*	YoY
Turnover	11,820	13,439	-12%	10,573	12%	36,473	44,498	-18%
Operating Costs	4,316	7,450	-42%	3,592	20%	14,498	29,098	-50%
Gross Profit	7,504	5,989	25%	6,980	8%	21,975	15,400	43%
General & Admin expenses	343	405	-15%	381	-10%	1,173	1,080	9%
Financing Cost	3,106	1,998	55%	3,192	-3%	9,357	4,934	90%
Share of profit/(loss) from associates	3,807	(128)	n/m	3,280	16%	8,960	(321)	n/m
Loss on shares transferred to GoB	-	-	n/a	(1,009)	n/m	(1,009)	-	n/m
PBT	7,903	3,469	128%	5,767	37%	19,571	9,295	111%
PAT	7,390	3,329	122%	5,687	30%	18,900	9,009	110%
PAT - Attributable to HUBC	7,201	3,161	128%	5,484	31%	18,253	8,578	113%
EPS (PKR) @ 1,297.15mn shares	5.55	2.44	128%	4.23		14.07	6.61	113%
DPS (PKR)	-	-		-		-	-	
Source: IGI Research, Company Financials						No of Shares: 1,297.15		

*Restated

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