

Flash Note

Monday, 20 August 2018

Power Generation and Distribution Companies

The Hub Power Company Limited (HUBC)

Higher administrative, tax and finance cost drag 4QFY18 EPS down by 11%YoY to PKR 2.41; DPS PKR 2.80

- The Hub Power Company Limited (HUBC) announced financial results for 4QFY18 with earnings clocking in at PKR 2.78bn (EPS PKR 2.41) down by 11%YoY compared to PKR 3.12bn (EPS PKR 2.70) in the same period last year. The company announced cash dividend of PKR 2.80/share, bringing total cash payout for FY18 to PKR 7.10/share. This brings FY18 earnings to PKR 11.06bn (EPS: PKR 9.56) up by +3%YoY compared to PKR 10.69bn (EPS: PKR 9.24) in the similar period last year.
- We attribute this decline in earnings during 4QFY18 on the back of higher finance costs, share of loss from associates, tax and administrative costs. However, growth in earnings in FY18 is attributable to PKR depreciation despite lower generation from Hub and Narowal plants.
- Net Revenues dropped by 3%YoY to PKR 26.21bn, likely on the back of lower generation from Hub and Laraib despite PKR depreciation against greenback and higher fuel prices. As a result of lower generation from Hub plant, total revenues are down by 1%YoY to PKR 99.99bn in FY18.
- Gross profit increased by +1%YoY to PKR 4.89bn during 4QFY18 as against PKR 4.83bn in similar period last year likely owing to PKR depreciation and lower maintenance cost leading to gross margins of 18.7% during 4QFY18 compared to 17.9% in the same period last year. As a result of weak PKR and lower maintenance cost, gross margins are up 122bps to 18.3% in FY18.
- Finance costs leaped up by +19%YoY to PKR 1.19bn during 4QFY18 compared to PKR 1.00bn in the corresponding period last year likely owing to higher interest cost on inflated short term borrowings, taking total finance costs for FY18 to PKR 4.43bn up by +9%YoY.
- Effective tax rate stood at 6.9% during 4QFY18 compared to 3.6% reported in the corresponding period last year likely due to higher income from Hub Power Services Limited (HPSL), bringing total effective tax rate for FY18 to 4.0% compared to 3.1% last year.
- Dividend payout for FY18 stood at 77% compared to 81% last year likely owing to equity financing of upcoming coal power projects (SECMC, CPHGC and TEL). In our view, HUBC is likely to restrict payout to 72%-76% in the next two years till the coal projects commence operations.

Exhibit:

HUBC Financial Highlights (Consolidated)

PKR mn	4QFY18	4QFY17	YoY	3QFY18	QoQ	FY18	FY17	YoY
Turnover	26,213	27,049	-3%	19,495	34%	99,999	101,188	-1%
Operating Costs	21,325	22,220	-4%	14,871	43%	81,720	83,929	-3%
Gross Profit	4,889	4,829	1%	4,624	6%	18,279	17,260	6%
General & Admin expenses	412	385	7%	325	27%	1,525	1,365	12%
Other Income	98	14	608%	38	155%	219	156	40%
Financing Cost	1,185	998	19%	1,091	9%	4,432	4,081	9%
PBT	3,246	3,407	-5%	3,149	3%	12,150	11,708	4%
PAT	3,022	3,284	-8%	3,081	-2%	11,665	11,348	3%
PAT - Attributable to HUBC	2,779	3,120	-11%	2,981	-7%	11,057	10,689	3%
EPS (PKR)	2.41	2.70		2.58		9.56	9.24	
DPS (PKR)	2.80	2.50		1.60		7.40	7.50	

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

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