

# Flash Note

Thursday, October 10, 2024



Power Generation & Distribution Companies

## The Hub Power Generation Company Limited (HUBC)

### HUBC's Board Agrees on Early Termination of Base Plant

**Early termination of base plant:** The Hub Power Generation Company Limited (HUBC) in its notice through PSX has announced that the Company has initiated a Negotiated Settlement Agreement to terminate relevant agreement of Hub Plant (1292MW) upon request of Task Force Constituted under Prime Minister's Office. As per Agreement, Hub Plant's Power Purchase Agreement (PPA) will terminate on 01-Oct-2024, which was due to expire in Mar-2027. Under the terms of Agreement, Government of Pakistan (GoP) and Central Power Purchasing Authority (CPPAG) have agreed to settle outstanding receivables of HUBC up till 01-Oct-2024. The Board has agreed to the terms of the settlement and will execute a definitive agreement.

**Base plant exclusion to take a toll on earnings:** Hub plant contributed PKR 19.0/share or 35% in total consolidated earnings of the Company. Based on our estimates, we expect HUBC earnings to decline by PKR 13.9/share or 27% in FY25 (based on profits from base plant in 9MFY25) and PKR 18.5/share or 35% in FY26. Thus, our estimated impact of present value of cash flow for Hub plant stands at PKR 41/share.

**Settlement of Receivable:** Total receivables of Hub Plant stood excluding Later Payment Interest stood at PKR 37bn as at Jun-24. We estimate total overdue capacity payments to stand around PKR 42bn as at 01-Oct-2024. In our view, HUBC is likely to utilize these proceeds to clear outstanding payables to Pakistan State Oil Company Limited (PSO), reduce its long-term and short-term borrowing and meet cash requirement for investment in projects such as SECMC and BYD.

**Uncertainty on Future dividends:** Based on absence of cash flows from base plant and requirement of funds for investments, we expect availability of cash for distribution to take a hit in FY25. We await further clarity on terms of agreement signed by HUBC for early termination and will update our investment case accordingly. However, considering Thar Energy and Thal Nova are likely to start paying out cash dividend from FY26, we expect some improvement in dividends from FY26 onwards.

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