

# The Hub Power Company

KATS: HUBC  
Bloomberg: HUBC PA

Price: PKR 111  
Fair Value: PKR 149

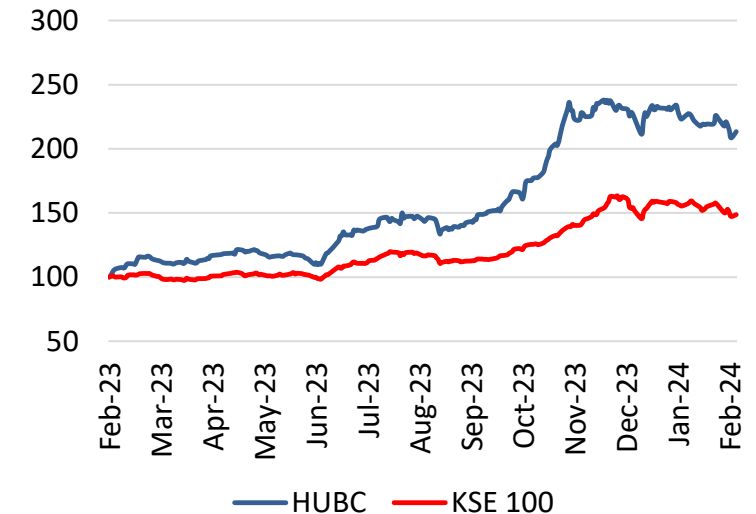
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## Corporate Briefing Session 1HFY24 – Key Takeaways

20 February 2024

- **1HFY24 Result.** EPS: PKR 24.95 (+44% Y/Y) | DPS: PKR 9.00 (PKR 21.25 SPLY)
- **New projects started reaping rewards.** On a standalone/consol basis, 1HFY24 earnings increased by -5/44% Y/Y. The decrease in standalone profit is primarily due to higher finance costs resulting from higher interest rates. However, on a consolidated basis, the increase in earnings was driven by 1) COD of TEL and TNPTL in Oct-22 and Feb-23, respectively, and 2) higher share of profit from associates due to PKR/USD depreciation, partially offset by higher finance costs due to higher interest rates.
- **Power evacuation constraints pushed load factor down.** CPHGC's load factor remained low, as a result of power evacuation constraints from south to north (7% in 1HFY24 vs 22% in 1HFY23), whereas, TEL/LEL's load factor remained stable at 88/52% in 1HFY24 (79/43% in 1HFY23).
- **SECMC acquisition.** The additional acquisition of 9.5% of SECMC shares from HBL is subject to obtaining corporate and regulatory approvals. According to management, this acquisition will be financed using the company's own sources, although the price cannot be disclosed at this time.
- **Conversion of HUB base plant.** An MOU has been signed with KE for the potential conversion of two units of RFO-fired base plant to thar coal following PPA expiry in Mar-27. However, significant regulatory approvals are needed, and the tariff determination process is expected to take 2-2.5 years. Nonetheless, the management believes this plan aligns with the PPA's expiry.
- **Payments to PSO.** As per the company, part of the overdue receivables of PKR 53 BN as at Dec-23 on a standalone basis are being financed through non-payment to PSO.

### Total Return Comparison



Source: Zakheera, Optimus Research

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- **Dividends from CPHGC commenced.** CPHGC distributed its inaugural dividend of USD 70 MN in Nov-23, with HUBC receiving its portion of USD 32 MN. However, this dividend was utilized to repay HPHL loans that were obtained for investments in TEL and TNPTL.
- **True-up status of CPHGC.** According to management, the case is still under review by the tribunal, making it difficult to predict how much longer it will take. However, the company is confident that their applications in the court will be approved in their favor.
- **First fill dispute.** First fill arbitration has been concluded and the decision has been awarded in favor of HUBC, where the next step is the order of the court. The arbitration amount of PKR 11.5 BN has already been accounted for in the earnings, as the company had a strong case. However, according to management, there will be a positive cash flow impact.
- **Dividends from TEL/TNPTL.** Providing a timeline is challenging, as the lender's turnaround time for Chinese differs significantly from what we are accustomed to here, as per the management's view.
- **Overdue trade debts position.** Overdue receivables of base plant, NEL, LEL, CPHGC, TEL and TNPTL are ~ PKR 53.0, 8.5, 7.5, 93.0, 10.7 and 10.1 BN respectively as at Dec-23, according to the management.
- **Future growth.** HUBC is actively involved in pursuing the wastewater treatment plant project in SITE, which is currently undergoing a competitive bidding process led by govt. of Sindh. The company is also exploring opportunities in new sectors of interest, such as renewable energy, battery energy storage solutions (BESS), as well as EV's and their associated value chain.

## Earnings Snapshot

PKR MN (Consolidated)	2QFY24	1QFY24	4QFY23	3QFY23	2QFY23	Q/Q	Y/Y	1HFY24	1HFY23	Y/Y
<b>Sales</b>	<b>29,913</b>	<b>33,730</b>	<b>32,345</b>	<b>27,231</b>	<b>25,097</b>	<b>-11%</b>	<b>19%</b>	<b>63,643</b>	<b>54,687</b>	<b>16%</b>
Cost of Sales	13,162	16,994	15,284	14,098	12,234	-23%	8%	30,156	32,102	-6%
<b>Gross Profit</b>	<b>16,751</b>	<b>16,736</b>	<b>17,061</b>	<b>13,133</b>	<b>12,863</b>	<b>0%</b>	<b>30%</b>	<b>33,488</b>	<b>22,585</b>	<b>48%</b>
General and Admin Expenses	692	346	394	342	351	100%	97%	1,038	633	64%
<b>Operating Profit</b>	<b>16,059</b>	<b>16,390</b>	<b>16,667</b>	<b>12,791</b>	<b>12,512</b>	<b>-2%</b>	<b>28%</b>	<b>32,449</b>	<b>21,952</b>	<b>48%</b>
Finance Costs	6,977	7,069	7,479	4,721	4,788	-1%	46%	14,046	7,124	97%
Other Income	900	281	2,838	(159)	495	221%	82%	1,181	907	30%
Other Operating Expenses	162	150	(437)	75	410	8%	-61%	312	441	-29%
Insurance Claim	-	38	510	-	-	-100%	n.m	38	-	n.m
<b>Share of Associates' Profit</b>	<b>10,565</b>	<b>12,035</b>	<b>14,763</b>	<b>6,476</b>	<b>9,986</b>	<b>-12%</b>	<b>6%</b>	<b>22,600</b>	<b>13,077</b>	<b>73%</b>
Profit Before Tax	20,386	21,525	27,736	14,311	17,795	-5%	15%	41,911	28,372	48%
<b>Taxation</b>	<b>3,203</b>	<b>3,207</b>	<b>2,159</b>	<b>2,034</b>	<b>3,115</b>	<b>0%</b>	<b>3%</b>	<b>6,410</b>	<b>4,218</b>	<b>52%</b>
Profit for the Year	17,183	18,318	25,576	12,277	14,680	-6%	17%	35,501	24,154	47%
Profit to Minority Interest	1,905	1,237	1,669	1,027	1,382	54%	38%	3,141	1,757	79%
<b>Profit to the Company Shareholders</b>	<b>15,278</b>	<b>17,082</b>	<b>23,907</b>	<b>11,249</b>	<b>13,299</b>	<b>-11%</b>	<b>15%</b>	<b>32,360</b>	<b>22,398</b>	<b>44%</b>
<b>EPS</b>	<b>11.78</b>	<b>13.17</b>	<b>18.43</b>	<b>8.67</b>	<b>10.25</b>			<b>24.95</b>	<b>17.27</b>	
<b>DPS</b>	<b>4.00</b>	<b>5.00</b>	<b>6.00</b>	<b>2.75</b>	<b>5.75</b>			<b>9.00</b>	<b>21.25</b>	

Source: Company Accounts, Optimus Research

## Analyst Certification

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