

Flash Note

Thursday, 21 February 2019

Power Generation and Distribution Companies

The Hub Power Company Limited (HUBC)

Rise in finance cost drags 2QFY19 EPS down to PKR 2.11; No dividend announced

- The Hub Power Company Limited (HUBC) announced financial results for 2QFY19 with earnings clocking in at PKR 2.45bn (EPS PKR 2.11) down by 16%YoY compared to PKR 2.91bn (EPS PKR 2.52) in the same period last year. On sequential basis, earnings are down by 17%QoQ during 2QFY19. This brings total profitability to PKR 5.41bn (EPS PKR 4.67) for 1HFY19, up by +2.0%YoY, compared to PKR 5.30bn (EPS PKR 4.58) in the corresponding period last year.
- Following the pattern of other IPPs, HUBC did not announce any cash dividend for 2QFY19 despite a change in payout policy to half year from previously every quarter. This in our view is primarily due to surge in receivables and short term borrowings due to substantial rise in circular debt along with a) equity requirement of upcoming projects and, b) rise in finance cost due higher short term borrowing and rise in interest rates.
- Net Revenues dropped by 52%YoY to PKR 13.00bn during 2QFY19, likely on the back of lower generation as both Narowal and Hub plant remained closed in Nov-18 with overall load factor of 24% and 6% during 2QFY19 compared to 57% and 71% respectively in the same period last year.
- Gross margins improved by 18.2ppts to 35.19% during 2QFY19 as against 17.03% in similar period last year likely owing to PKR depreciation and lower generation.
- Other income leaped up by +3.7xYoY to PKR 179mn during 2QFY19 compared to PKR 49mn in the corresponding period last year likely owing to increase in markup income due to rise in interest rates.
- Finance cost increased by +42%YoY to PKR 1.61bn during 2QFY19 likely owing to rise in short term borrowings and higher mark up on overdue payments amid rise in interest rates.
- Effective tax stood at 2.96% during 2QFY19 compared to 2.34% (1QFY19: 2.09%) reported in the corresponding period last year.

Exhibit:

HUBC Financial Highlights (Consolidated)

PKR mn	2QFY19	2QFY18	YoY	1HFY19	1HFY18	YoY
Turnover	12,996	26,951	-52%	30,942	54,291	-43%
Operating Costs	8,423	22,363	-62%	21,531	45,525	-53%
Gross Profit	4,573	4,589	0%	9,411	8,766	7%
General & Admin expenses	362	351	3%	676	788	-14%
Other Income	179	49	267%	230	83	179%
Financing Cost	1,613	1,139	42%	2,936	2,156	36%
PBT	2,635	3,085	-15%	5,825	5,756	1%
PAT	2,557	3,013	-15%	5,681	5,562	2%
PAT - Attributable to HUBC	2,447	2,914	-16%	5,407	5,298	2%
EPS (PKR)	2.11	2.52		4.67	4.58	
DPS (PKR)	-	1.50		-	3.00	

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. ROE: Return on equity is the amount of net income returned as a percentage of shareholders' equity. P/E: Price to Earnings ratio of a company's share price to its per-share earnings. P/B: Price to Book ratio used to compare a stock's market value to its book value. DY: The dividend yield is dividend per share, divided by the price per share. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tr: Thousands/Million/Billion/Trillion.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Saddar Cantt.
Tel: (92-91) 5273035, 5223882

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258028

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited