

Hub Power Company (HUBC)

3QFY18 EPS Rs2.6, +16% YoY (+2%QoQ); 9MFY18 EPS 7.2, +9% YoY

Cash Dividend Rs 1.6/share

In-line with expectations

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Lower fuel losses improved profitability

HUBC Financial highlights (Consolidated)

Rsmn	3QFY18	3QFY17	YoY	QoQ	9MFY18	9MFY17	YoY
Revenue	19,495	25,912	-25%	-28%	73,786	74,140	0%
Operating cost	14,871	21,648	-31%	-34%	60,396	61,709	-2%
Gross profits	4,624	4,264	8%	1%	13,390	12,431	8%
General, admin & other expense	335	399	-16%	-4%	1357	1191	14%
Other income	38	29	32%	-22%	118	143	-17%
Operating Profit	4,327	3,895	11%	2%	12,151	11,383	7%
Finance cost	1,091	1,021	7%	-9%	3,247	3,083	5%
Share of loss from associate	87	53	65%	40%	194	152	28%
Profit / (loss) before tax	3,149	2,821	12%	2%	8,711	8,148	7%
Tax	68	127	-46%	-6%	262	237	11%
Profit / (loss) after tax	3,081	2,694	14%	2%	8,448	7,911	7%
Profit attributable to holding Co.	2,981	2,559	16%	2%	8,279	7,628	9%
EPS	2.6	2.2			7.2	6.6	

Source: PSX, Topline Research

- HUBC's consolidated revenue declined significantly by 25% YoY during the outgoing quarter, mainly due to lower utilization of base plant from 71% in 3QFY17 to 26% in 3QFY18. The company along with its results announced dividend of Rs 1.6. This payout was in-line with our estimates.
- Operating expenses witnessed decline of 31% YoY in 3QFY18. We attribute this to absence of any major overhaul and lower O&M expenses related to Narrowal plant.
- HUBC recorded gross margins at 23.7% in 3QFY18, up significantly by 725bps YoY. The improvement in gross margins was attributable to lower fuel losses incurred due to lower load factor of base plant, we believe.

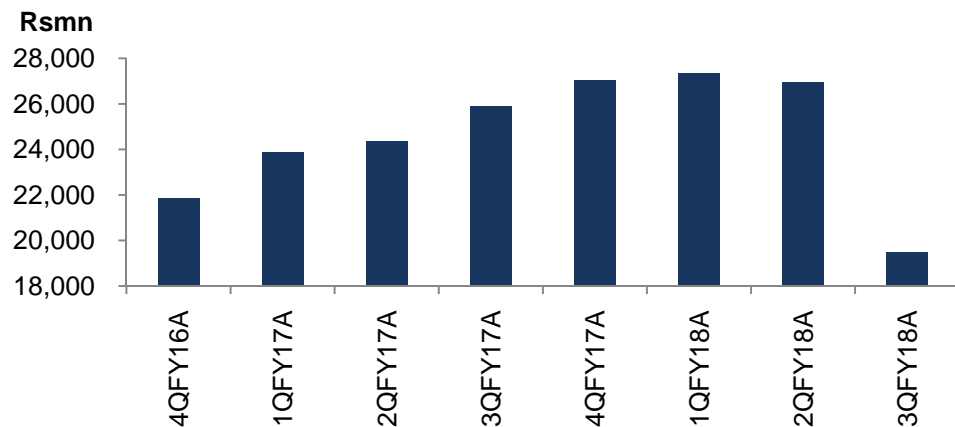
Lower fuel losses improved profitability

- General, admin & other expenses declined by 16% due to better cost control.
- Finance cost has increased by 7% YoY to Rs 1.1bn, led by increased reliance on short term borrowings due to higher receivables.
- 9MFY18 earning grew by 9% YoY which were primarily driven by lower fuel losses and O&M expenses.
- Keys risks to our investment thesis are 1) lower than expected rupee devaluation; 2) delay in commissioning of upcoming projects, and 3) circular debt pileup.

HUBC: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	8.7	6.5	9.6	10.3	9.2
Earnings Growth	18%	-26%	48%	7%	-10%
PE at Rs107.8	12.4	16.7	11.3	10.5	11.7
Dividend Yield	7%	6%	9%	10%	7%
ROE	30%	22%	33%	36%	33%
PBV	3.7	3.7	3.7	3.8	3.9

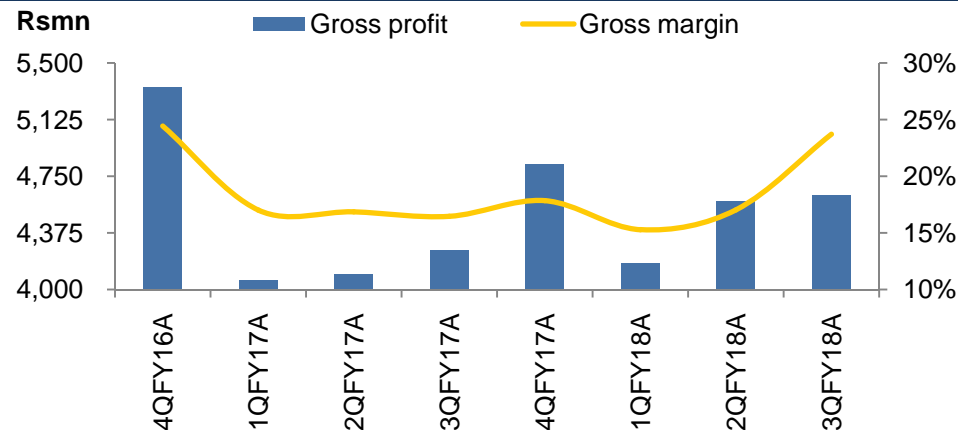
Source: Company Accounts, Topline Research

HUBC: Quarterly Sales



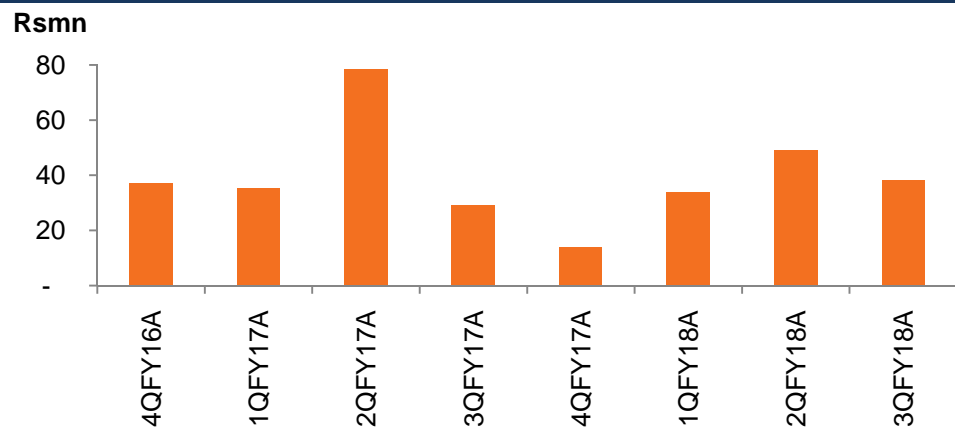
Source: Company Accounts, Topline Research

HUBC: Quarterly Gross Profit & Gross Margins



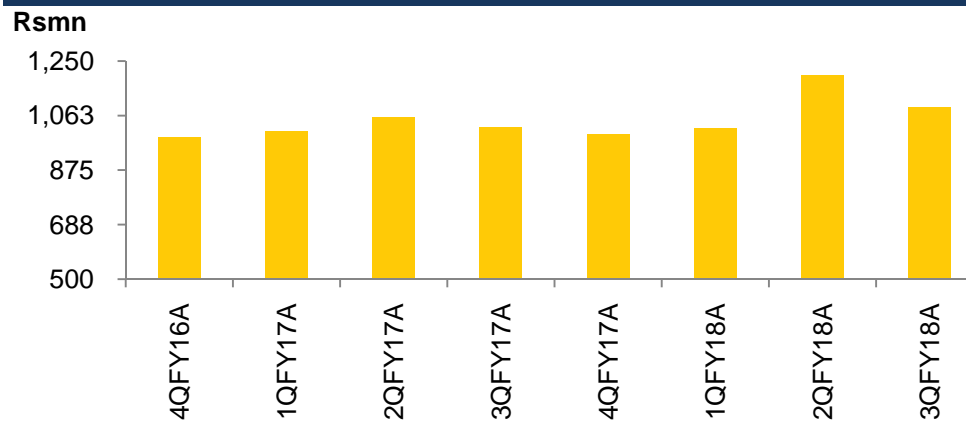
Source: Company Accounts, Topline Research

HUBC: Quarterly Other Income



Source: Company Accounts, Topline Research

HUBC: Quarterly Finance Cost



Source: Company Accounts, Topline Research

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Market Weight	= Weight in KSE-100 Index
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