

Day Break

Thursday, 25 April 2019

COMPANY UPDATE

Kot Addu Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price:	31-Dec-19 51.7
Last Closing:	24-Apr-19 41.6
Upside:	24.5
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	8M

Market Data

Bloomberg Tkr.	KAPCO PA		
Shares (mn)	880.3		
Free Float Shares (mn)	455.5		
Free Float Shares (%)	51.7%		
Market Cap (PKRbn USDmn)	36.6	258.2	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(14.9)	(16.1)	(30.0)
Lo	40.4	40.4	40.4
Hi	51.9	54.2	60.8

Key Company Financials

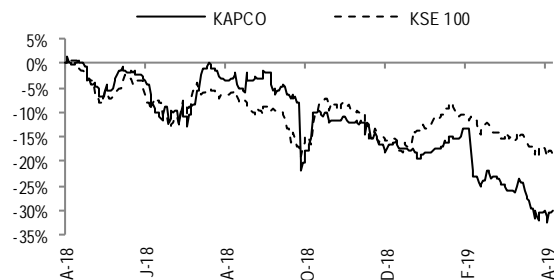
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	91.9	85.7	78.1	81.2
Net Income	10.6	17.1	13.4	14.9
EPS (PKR)	12.1	19.4	15.2	16.9
DPS (PKR)	9.2	9.5	10.0	11.5
Total Assets	116	138	148	140
Total Equity	35	44	48	53

Key Financial Ratios

ROE (%)	30.3	39.0	27.6	28.0
P/E (x)	3.4	2.1	2.7	2.5
P/B (x)	0.7	1.0	0.8	0.8
DY (%)	22.0	22.9	24.1	27.7

Relative Price Performance



About the Company

The Company was incorporated in Pakistan on April 25, 1996 as a public limited company. The company owns, operate and maintain a multi-fuel fired power station with fifteen generating units having capacity of 1600 MW, and to sell the electricity to a single customer, the WAPDA.

Source: Bloomberg, PSX & IGI Research

Analyst

Abdullah Farhan

Senior Research Analyst

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

Abdullah.farhan@igi.com.pk

Power Generation & Distribution

KAPCO: Substantial PKR depreciation to lift 3QFY19 EPS by +49%YoY to PKR 3.73

- Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 26th Apr-19 to announce financial result for 3QFY19, where we expect the company to post earnings of PKR 3.29bn (EPS PKR 3.73), up by +49%YoY,
- We estimate incline in earnings on the back 25%YoY depreciation of PKR against greenback. Total load factor stood at 7% during 3QFY19 against 56% in same period last year with over 90% generation through LSFO compared to gas/LNG during 3QFY18,
- This will bring total 9MFY19 profitability to PKR 12.28bn (EPS PKR 13.95) up by +86%YoY compared to PKR 6.60bn (EPS PKR 7.50) in the same period last year. We expect to announce cash dividend of PKR 6.0/share,
- We recommend a 'BUY' stance on KAPCO with our Dec-19 target price of PKR 51.63/share offering 24.5% upside from last close.

Earnings to clock in at PKR 3.73/share for 3QFY19, up by +49%YoY

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 26th Apr-19 to announce financial result for 3QFY19, where we expect the company to post earnings of PKR 3.29bn (EPS PKR 3.73), up by +49%YoY, compared to PKR 2.21bn (EPS PKR 2.51) in the same period last year. We estimate incline in earnings on the back 25%YoY depreciation of PKR against greenback. Total load factor stood at 7% during 3QFY19 against 56% in same period last year with over 90% generation through LSFO compared to gas/LNG during 3QFY18. This will bring total 9MFY19 profitability to PKR 12.28bn (EPS PKR 13.95) up by +86%YoY compared to PKR 6.60bn (EPS PKR 7.50) in the same period last year. We expect to announce cash dividend of PKR 6.0/share.

On quarterly basis, earnings are expected to drop by 44%QoQ on the back of lower other income in the absence of true up income as PKR remained stable against USD, lower generation with total load factor of 7% against 20% in 2QFY19 and 10%YoY rise in finance cost amid rise in interest rates. However, lower maintenance cost and +3.6%QoQ PKR depreciation is likely to keep earnings decline limited.

Exhibit:

Financial Highlights

PKRmn	3QFY19E	3QFY18	YoY	9MFY19E	9MFY18	YoY
Revenue	12,754	21,590	-41%	56,975	61,606	-8%
Operating Costs	8,122	18,417	-56%	45,189	51,782	-13%
Gross Profit	4,631	3,173	46%	11,786	9,824	20%
Admin and Selling	151	88	72%	470	316	48%
Financial Charges	2,538	1,609	58%	6,938	4,693	48%
Other Income	2,753	1,736	59%	13,136	4,719	178%
PBT	4,695	3,211	46%	17,508	9,468	85%
PAT	3,286	2,208	49%	12,283	6,603	86%
EPS	3.73	2.51		13.95	7.50	
DPS	6.00	-		6.00	4.35	

Source: IGI Research, Company Financials

No of Shares: 880 mn

Recommendation

We recommend a 'BUY' stance on KAPCO with our Dec-19 target price of PKR 51.63/share offering 24.5% upside from last close. The company is currently trading at FY19/20 P/E of 2.1/2.7x and offers dividend yield of 22.9%/24.1%.

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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)
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Time Horizon: Dec – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DDM (Dividend Discount Model)

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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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
Bharat Kishore	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@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	mehtab.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	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
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	Rahim Yar Khan Office Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	Abbottabad Office Ground Floor, Al Fatah Shopping Center , Opp. Radio Station, Mansehra Road Tel: (+92-99) 2408243 - 44
Peshawar Office 2nd Floor, The Mall Tower, 35 The Mall Saddar Cantt. Tel: (92-91) 5273035, 5223882	

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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