

Flash Note

Friday, 21 April 2017

Power Generation and Distribution Companies

KAPCO: Earnings reported at PKR 2.94/share in 3QFY17, up by +38%YoY

- Kot Addu Power Company Limited (KAPCO) announced financial results for 3QFY17 with earnings clocking in at PKR 2.59bn (EPS PKR 2.94) up by +38%YoY as compared to PKR 1.87bn (EPS PKR 2.13) in the same period last year. Cumulative earnings for 9MFY17 stand at PKR 6.76bn (EPS PKR 7.68) as compared to PKR 6.20bn (EPS PKR 7.05) in the corresponding period last year.
- Revenues for 3QFY17 increased by +58%YoY to PKR 21.28bn as compared to PKR 13.50bn in the corresponding period last year owing to +79%YoY rise in FO prices and +30%YoY increase in generation to 1,929Gwh.
- Gross margins declined by 183bps to 17.2% during 3QFY17 as compared to 19.1% in the corresponding period last year likely owing to higher maintenance cost as a result of overhauling of gas turbines.
- Other income increased by +27%YoY to PKR 1.25bn in 3QFY17 as compared PKR 0.99bn in the same period last year owing to higher interest earned on receivables amounting to PKR 70bn, up by +29%YoY.
- Finance costs leaped up by +49%YoY to PKR 1.09bn during 3QFY17 as compared to PKR 0.73bn in the corresponding period last year likely owing to increased short term borrowing leading to higher interest cost.

Recommendation

We maintain a 'HOLD' call on KAPCO with Dec-17 TP of PKR 77.8/share offering an upside of +4% from its last close. The company is currently trading at FY17E P/E of 7.6x and dividend yield of 12.3%.

Exhibit:

Financial Highlights

PKRmn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Revenue	21,284	13,503	58%	54,200	47,937	13%
Operating Costs	17,620	10,931	61%	44,578	39,033	14%
Gross Profit	3,664	2,572	42%	9,623	8,904	8%
Admin and Selling	99	98	2%	317	369	-14%
Financial Charges	1,096	733	49%	3,059	2,446	25%
Other Income	1,253	988	27%	3,556	2,959	20%
Pre Tax Profits	3,722	2,729	36%	9,802	9,048	8%
Post Tax Profits	2,589	1,873	38%	6,760	6,204	9%
EPS	2.94	2.13		7.68	7.05	
DPS	-	-		4.30	4.25	

Source: IGI Research, Company Financials

No of Shares: 880 mn

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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)
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Time Horizon: Dec - 2017

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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