

# Flash Note

Tuesday, 22 August 2017

## Power Generation and Distribution Companies

### KAPCO: Earnings reported at PKR 10.73/share in FY17, up by +4%YoY

- Kot Addu Power Company Limited (KAPCO) announced financial results for 4QFY17 with earnings clocking in at PKR 2.69bn (EPS PKR 3.05) down by 6%YoY as compared to PKR 2.87bn (EPS PKR 3.26) in the same period last year. Cumulative earnings for FY17 stand at PKR 9.45bn (EPS PKR 10.73) as compared to PKR 9.07bn (EPS PKR 10.31) in the corresponding period last year.
- Revenues for 4QFY17 increased by +70%YoY to PKR 27.65bn as compared to PKR 16.24bn in the corresponding period last year owing to +36%YoY rise in FO prices.
- Gross margins declined by 11.2ppts to 16.5% during 4QFY17 as compared to 27.7% in the corresponding period last year likely owing to higher maintenance cost as a result of overhauling of gas turbines.
- Other income increased by +33%YoY to PKR 1.44bn in 4QFY17 as compared PKR 1.01bn in the same period last year likely owing to higher interest earned on receivables.
- Finance costs leaped up by +73%YoY to PKR 1.37bn during 4QFY17 as compared to PKR 0.79bn in the corresponding period last year likely owing to increased short term borrowing leading to higher interest cost.
- Effective tax rate decreased by 105bps to 37% during 4QFY17 as compared to 38% in the same period last year.

#### Recommendation

We maintain a 'HOLD' call on KAPCO with Dec-17 TP of PKR 77.8/share offering an upside of +8.2% from its last close. The company is currently trading at FY18E P/E of 6.0x and dividend yield of 15.3%.

Exhibit:

#### Financial Highlights

PKRmn	4QFY17	4QFY16	YoY	FY17	FY16	YoY
Revenue	27,647	16,241	70%	81,847	64,178	28%
Operating Costs	23,089	11,738	97%	67,667	50,770	33%
Gross Profit	4,558	4,504	1%	14,180	13,408	6%
Admin and Selling	135	160	-15%	452	529	-15%
Financial Charges	1,366	790	73%	4,425	3,237	37%
Other Income	1,436	1,082	33%	4,991	4,041	24%
PBT	4,271	4,636	-8%	14,073	13,683	3%
PAT	2,687	2,867	-6%	9,447	9,071	4%
EPS	3.05	3.26		10.73	10.31	
DPS	4.75	4.75		9.05	9.00	

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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IGI Finex Securities Limited

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