

# Flash Note

Tuesday, 21 February 2017

## Power Generation and Distribution Companies

### KAPCO: Earnings reported at PKR 2.11/share in 2QFY17, down by 17%YoY

- Kot Addu Power Company Limited (KAPCO) announced financial results for 2QFY17 with earnings clocking in at PKR 1.9bn (EPS PKR 2.11) down by 17%YoY as compared to PKR 2.2bn (EPS PKR 2.53) in the same period last year. Cumulative earnings for 1HFY17 stand at PKR 4.2bn (EPS PKR 4.74) as compared to PKR 4.3bn (EPS PKR 4.92) in the corresponding period last year.
- The company announced cash dividend of PKR 4.3/share for 2QFY17.
- Revenues for 2QFY17 increased by +22%YoY to PKR 15.2bn as compared to PKR 12.4bn in the corresponding period last year owing to rise in FO prices.
- Operating costs leaped up by +37%YoY to PKR 12.6bn during 2QFY17 as compared to PKR 9.2bn in the corresponding period last year.
- Gross margins declined by 904bps to 17% during 2QFY17 as compared to 26% in the corresponding period last year likely owing to higher maintenance cost as a result of overhauling of gas turbines.
- Finance costs increased by +16% to PKR 1.0bn during 2QFY17 as compared to PKR 0.9bn in the same period last year, which was offset by +20%YoY rise in other income to PKR 1.2bn as compared to PKR 1.0bn in the corresponding period last year.

#### Recommendation

We maintain our "BUY" call on HUBC with our Dec-17 target price of PKR 77/share. The company is currently trading at a FY17E P/E of 7.5x and offers a healthy dividend yield of 13%.

Exhibit:

#### Financial Highlights

PKRmn	2QFY17	2QFY16	YoY	1HFY17	1HFY16	YoY
Revenue	15,191	12,446	22%	32,916	34,434	-4%
Operating Costs	12,571	9,175	37%	26,958	28,102	-4%
Gross Profit	2,620	3,272	-20%	5,959	6,333	-6%
Admin and Selling	115	118	-3%	217	272	-20%
Financial Charges	1,008	872	16%	1,964	1,713	15%
Other Income	1,225	1,022	20%	2,303	1,970	17%
Pre-Tax Profits	2,722	3,304	-18%	6,081	6,318	-4%
Post-Tax Profits	1,853	2,224	-17%	4,172	4,331	-4%
EPS	2.11	2.53		4.74	4.92	
DPS	4.30	4.25		4.30	4.25	

Source: IGI Research, Company Financials

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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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