

Flash Note

Tuesday, 17 September 2019

Power Generation and Distribution Companies

Kot Addu Power Company Limited (KAPCO)

Likely reversal of true up income and lower margin drags 4QFY19 EPS down to PKR 0.74; Surprise dividend of PKR 3.0/share

- Kot Addu Power Company Limited (KAPCO) announced financial results for 4QFY19 with earnings clocking in at PKR 0.65bn (EPS PKR 0.74) down by 84%YoY compared to PKR 4.01bn (EPS PKR 4.56) in the same period last year. On a sequential basis, earnings are down by 81%QoQ during 4QFY19. This brings total profitability to PKR 13.11bn (EPS PKR 14.90) for FY19, up by +24%YoY, compared to PKR 10.62bn (EPS PKR 12.06) in the corresponding period last year.
- The Company announced cash dividend of PKR 3.0/share for 4QFY19 bringing total cash payout for FY19 to PKR 4.5/share.
- We attribute this decline in earnings during 4QFY19 primarily on the back of a) lower gross margins of 11.21%, b) non-operating loss likely owing to reversal of true up income, and c) higher finance cost owing to rise in interest rate and short term borrowings.
- Net Revenues dropped by 2%YoY to PKR 29.85bn during 4QFY19, likely on the back of lower generation with a total load factor of 67% against 84% in the same period last year. This brings total revenues for FY19 to PKR 84.83bn down by 8%YoY likely owing to lower generation.
- Gross margins clocked in at 11.21% during 4QFY19 compared to 11.73% in the same period last year as most of the generation was gas/RLNG. As a result total gross margins stood at 16.75% for FY19 compared to 14.56% in FY18 owing to PKR depreciation.
- The Company reported non-operating loss of PKR 0.28bn during 4QFY19 likely owing to reversal of true up income leading to total other income of PKR 13.78bn for FY19, up by +46%YoY. Reversal of true up income is likely owing to changes in accounting policy and will likely be recorded once payments are received.
- Finance cost increased by +19%YoY to PKR 1.78bn during 4QFY19 likely owing to rise in mark up amid rise in interest rates and short term borrowings.
- Effective tax stood at 41.7% during 4QFY19 compared to 36.7% (3QFY19: 31.2%) reported in the corresponding period last year bringing total effective tax rate to 30.9% compared to 32.8% in the same period last year.

Exhibit:

KAPCO Financial Highlights

PKRmn	4QFY19	4QFY18	YoY	3QFY19	QoQ	FY19	FY18	YoY
Revenue	29,852	30,310	-2%	10,757	178%	84,831	91,916	-8%
Operating Costs	26,506	26,754	-1%	7,053	276%	70,625	78,537	-10%
Gross Profit	3,347	3,555	-6%	3,704	-10%	14,205	13,379	6%
Admin and Selling	176	149	18%	215	-18%	709	466	52%
Financial Charges	1,780	1,494	19%	2,126	-16%	8,306	6,188	34%
Other Income/(Expense)	(278)	4,735	-106%	3,676	-108%	13,781	9,453	46%
Pre Tax Profits	1,112	6,340	-82%	5,037	-78%	18,963	15,808	20%
Post Tax Profits	648	4,014	-84%	3,467	-81%	13,112	10,617	23%
EPS	0.74	4.56	-84%	3.94		14.90	12.06	24%
DPS	3.00	4.80		1.50		4.50	9.15	

Source: IGI Research, Company Financials

No of Shares: 880 mn

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