

Day Break

Monday, 17 August 2020

COMPANY UPDATE

Kot Addu Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price: Dec/20	38.3
Last Closing: 13-Aug-20	28.4
Upside (%)	34.9
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	5M

Market Data

Bloomberg Tkr.	KAPCO PA		
Shares (mn)	880.3		
Free Float Shares (mn)	455.7		
Free Float Shares (%)	51.8%		
Market Cap (PKRbn USDmn)	25.0	162.0	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	11.9	(10.4)	(17.4)
Lo	19.8	15.0	15.0
Hi	24.6	27.3	35.5

Key Company Financials

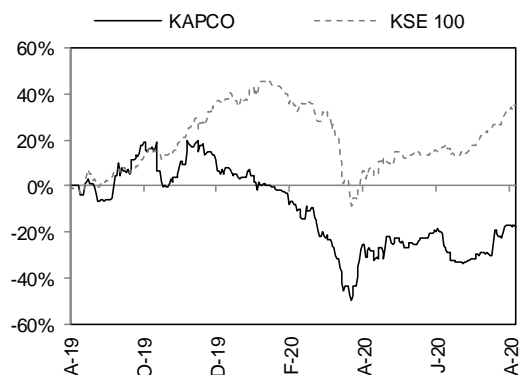
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	84.8	69.3	78.0	-
Net Income	13.1	24.3	11.7	-
EPS (PKR)	14.9	27.6	13.3	-
DPS (PKR)	4.5	4.0	5.0	-
Total Assets	139.3	156.9	151.2	-
Total Equity	41.2	58.7	66.0	-

Key Financial Ratios

ROE (%)	31.4	34.4	48.6	18.7
P/E (x)	1.9	1.0	2.1	-
P/B (x)	0.7	0.6	0.4	0.4
DY (%)	15.8	14.1	17.6	-

Relative Price Performance



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Power Generation & Distribution

KAPCO: Other income and PKR depreciation to lift 4QFY20 EPS to PKR 7.36; DPS PKR 4.0

- ✓ Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19th Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 6.48bn (EPS PKR 7.36), up by +2.1xYoY.
- ✓ We estimate growth in earnings on the back of a) higher other income on account of true-up income and, b) +11% YoY PKR depreciation.
- ✓ On a quarterly basis, earnings are expected to lift by +7% QoQ during 4QFY20. We expect the growth in earnings on sequential basis on the back of 5% QoQ on average PKR depreciation against greenback.
- ✓ We recommend a 'BUY' stance on KAPCO with our Dec-20 target price of PKR 38.3/share offering 35% upside from last close. The company is currently trading at FY21 P/E of 2.1x.

Earnings to clock in at PKR 7.36/share for 4QFY20, up by +2.1xYoY

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19th Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 6.48bn (EPS PKR 7.36), up by +2.1xYoY, compared to PKR 3.12bn (EPS PKR 3.54) in the same period last year. We estimate growth in earnings on the back of a) higher other income on account of true-up income and, b) +11% YoY PKR depreciation. However, growth in earnings is expected to be limited by +62% YoY rise in finance cost on account of increased borrowings despite substantial drop in interest rates. This brings total profitability to PKR 24.26bn (EPS PKR 27.56) for FY20, up by +85% YoY, compared to PKR 13.11bn (EPS PKR 14.90) last year.

We foresee KAPCO to payout cash dividend of PKR 4.0/share for 4QFY20. To recall, KAPCO received PKR 11.68bn from Sukuk-II disbursements under EPP payments.

Exhibit: KAPCO Financial Highlights

PKRmn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Revenue	12,866	29,852	-57%	69,263	84,831	-18%
Operating Costs	7,269	26,506	-73%	47,989	70,625	-32%
Gross Profit	5,598	3,347	67%	21,274	14,205	50%
Admin and Selling	214	176	22%	884	709	25%
Financial Charges	1,918	1,780	8%	8,855	8,306	7%
Other Income	5,664	3,303	71%	22,323	13,781	62%
Pre-Tax Profits	9,130	4,694	95%	33,857	18,963	79%
Post-Tax Profits	6,483	3,119	108%	24,256	13,112	85%
EPS	7.36	3.54	108%	27.56	14.90	85%
DPS	4.00	3.00		4.00	4.50	

Source: IGI Research, Company Financials

No of Shares: 880 mn

EPS to rise by +7% QoQ on account of PKR depreciation

On a quarterly basis, earnings are expected to lift by +7% QoQ during 4QFY20. We expect the growth in earnings on sequential basis on the back of 5% QoQ on average PKR depreciation against greenback.

Lower demand drags total generation down by 56% YoY in 4QFY20

On account of lower demand from power purchaser, total generation dropped by 56% YoY during 4QFY20 with generation on Gas/LNG dropping to 77% as against 87% in the same period last year. This brings total generation to 3,477Gwh for FY20 down by 30% YoY, while, generation through Gas/LNG dropped to 93% compared to 98% in the same period last year.

Exhibit: KAPCO power generation (Gwh)

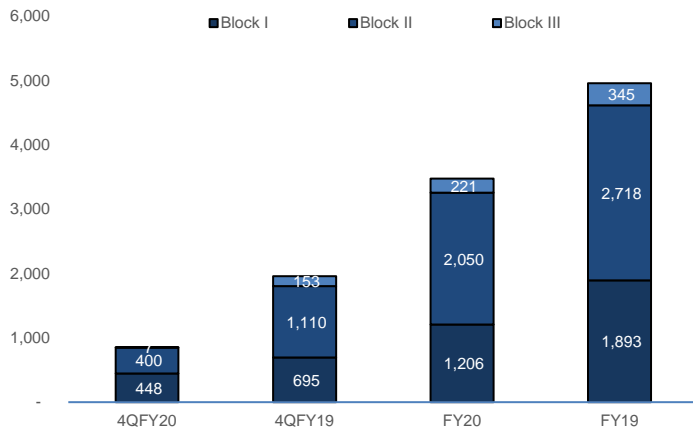
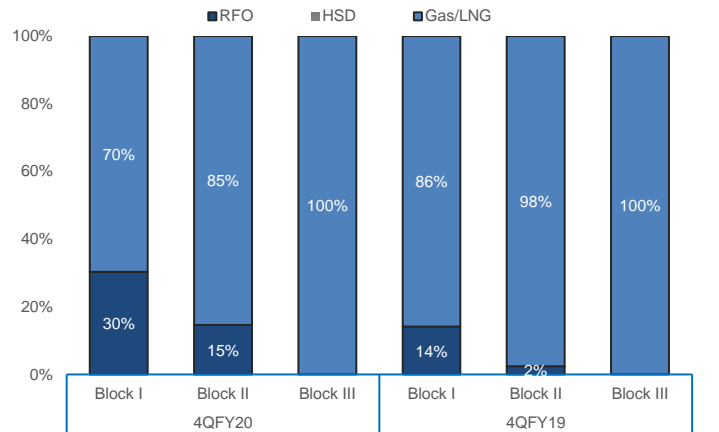


Exhibit: Fuel mix block wise (%)



Recommendation

We recommend a ‘BUY’ stance on KAPCO with our Dec-20 target price of PKR 38.3/share offering 35% upside from last close. The company is currently trading at FY21 P/E of 2.1x.

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