

# Day Break

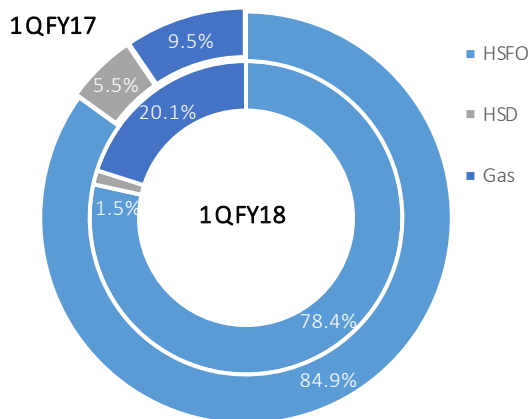
Wednesday, 18 October 2017

## COMPANY UPDATE

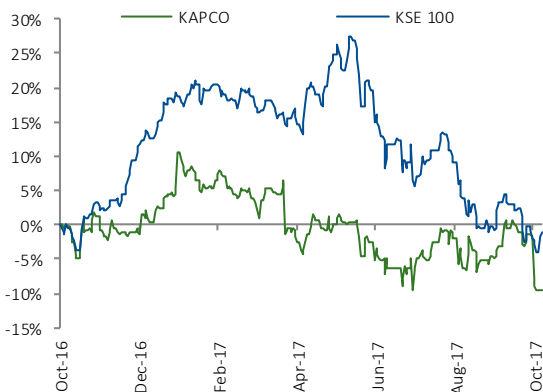
**KOT ADDU POWER COMPANY LIMITED**  
 POWER GENERATION & DISTRIBUTION

<b>Recommendation</b>	<b>NEUTRAL</b>
Target Price:	69.8
Last Closing: 17-Oct-17	69.5
Upside:	0.5
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	Jun-18

### Oil Production for 1QFY18 - (000'bbls)



### Relative Price Performance & Shareholding



Source: Bloomberg, PSX & IGI Research

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## Power Generation & Distribution

### KAPCO: Result Preview 1QFY18

- Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19<sup>th</sup> Oct-17 to announce financial result for 1QFY18, where we expect the company to post earnings of PKR 2.42bn (EPS PKR 2.75) up by +4%YoY from PKR 2.32bn (EPS PKR 2.63)
- Earnings growth is expected to be a function of a) higher generation during the quarter given fuel shortage last year, b) absence of overhauling expenditure vs. combustion inspection of four gas turbines carried out SPLY, c) improved efficiency given greater reliance on gas based generation, d) marginally higher indexation factor given 0.7%YoY depreciation of the rupee vs. the dollar in 1QFY18
- KAPCO trades as at an FY18F DY of 15.8% and offers +1% upside on our Jun-18 TP of PKR 69.8/share, thus we maintain our **'HOLD'** stance on the scrip.

#### KAPCO: Earnings to clock in at PKR 2.75/share for 1QFY18

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19<sup>th</sup> Oct-17 to announce financial result for 1QFY18, where we expect the company to post earnings of PKR 2.42bn (EPS PKR 2.75) up by +4%YoY from PKR 2.32bn (EPS PKR 2.63). Given the fact that KAPCO pays out dividend on bi-annual basis, we do not expect the company to announce any dividend in 1QFY18. Earnings growth is expected to be a function of a) higher generation during the quarter (Load Factor: 64% vs. 58% SPLY) given fuel shortage last year, b) absence of overhauling expenditure vs. combustion inspection of four gas turbines carried out SPLY, c) improved efficiency given greater reliance on gas based generation (20% vs. 10% reliance in 1QFY16), d) marginally higher indexation factor given 0.7%YoY depreciation of the rupee vs. the dollar in 1QFY18 (Avg: 105.4 in 1QFY18 vs. 104.7 in 1QFY17).

Exhibit:

#### KAPCO Financial Highlights

PKRmn	1QFY18E	1QFY17	YoY	4QFY17	QoQ
Revenue	20,232	17,725	14%	27,647	-27%
Operating Costs	16,820	14,387	17%	23,089	-27%
Gross Profit	3,412	3,339	2%	4,558	-25%
Financial Charges	1,114	955	17%	1,366	-18%
Other Income	1,333	1,078	24%	1,436	-7%
PAT	2,419	2,318	4%	2,687	-10%
EPS	2.75	2.63		3.05	
DPS	-	-		4.75	

Source: IGI Research, Company Financials

No of Shares: 880 mn

#### Recommendation

While we anticipate 1Q earnings to remain on the higher side, we site risk of higher finance cost as downside risk given substantial rise in payments to creditors (PKR 16.9bn vs. 0.67bn SPLY). KAPCO trades as at an FY18F DY of 15.8% and offers +1% upside on our Jun-18 TP of PKR 69.8/share, thus we maintain our **'HOLD'** stance on the scrip.

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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:** Jun – 2018

**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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