

# Day Break

Friday, 17 August 2018

## Sector Update

### IGI IPP Universe

#### Recommendation

| (PKR/share) | TP    | Recom. | Upside | D/Y   | P/E (x) |
|-------------|-------|--------|--------|-------|---------|
| HUBC        | 139.1 | BUY    | 45.3%  | 7.8%  | 8.2     |
| KAPCO       | 68.7  | BUY    | 17.6%  | 19.7% | 4.7     |
| NCPL        | 29.6  | BUY    | 21.2%  | 20.5% | 2.6     |

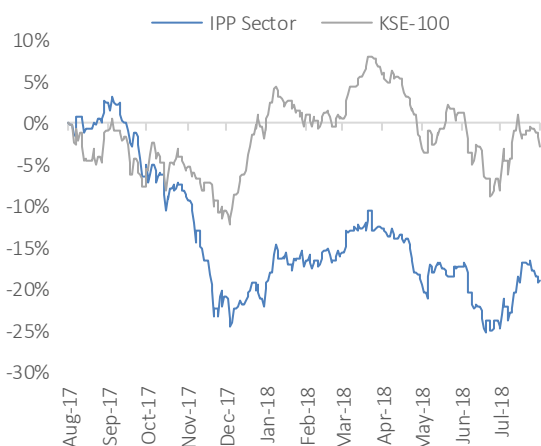
#### EPS estimate for 4QFY18

|       | 4QFY18E | YoY  | FY18E | YoY |
|-------|---------|------|-------|-----|
| HUBC  | 2.87    | 7%   | 10.03 | 9%  |
| KAPCO | 2.46    | -19% | 10.03 | -7% |
| NCPL  | 2.35    | 1%   | 9.31  | 14% |

#### DPS estimate for 4QFY18

|       | 4QFY18E | FY18E | FY17 |
|-------|---------|-------|------|
| HUBC  | 2.50    | 7.10  | 7.50 |
| KAPCO | 4.25    | 8.60  | 9.05 |
| NCPL  | 3.50    | 3.50  | 2.50 |

### Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Power Generation and Distribution

### KAPCO to Drag 4QFY18 Earnings by 5%YoY; HUBC to Top Earnings Growth

- IGI IPP universe earnings are expected to plummet by 5%YoY in 4QFY18 to PKR 6.35bn compared to PKR 6.66bn in the same period last year,
- The Hub Power Company Limited's (HUBC) board meeting is schedule on 20<sup>th</sup> Aug-18 to announce financial results for 4QFY18 where we expect the Company to post earnings of PKR 3.33bn (EPS PKR 2.87) up by +7%YoY,
- Kot Addu Power Company Limited's (KAPCO) board meeting is schedule on 29<sup>th</sup> Aug-18 to announce financial results for 4QFY18 where we estimate (MARI) to register earnings decline of 19%YoY,
- We expect Nishat Chunian Power Limited (NCPL) to post earnings of PKR 862mn (EPS PKR 2.35) up by +1%YoY compared to PKR 855mn (EPS PKR 2.33) in the same period last year,
- We maintain HUBC as our top pick with our Dec-18 target price of PKR 139.1/share offering +45% upside from last close. We also have a BUY call on KAPCO/NCPL with our Dec-18 target prices of PKR 68.7/share and PKR 29.6/share respectively offering +20%/+21% upside from last close.

#### IPP Sector: Earnings to drop by 5%YoY to PKR 6.35bn in 4QFY18

IGI IPP universe earnings are expected to plummet by 5%YoY in 4QFY18 to PKR 6.35bn compared to PKR 6.66bn in the same period last year. Earnings attrition is expected on the back of lower profitability from Kot Addu Power Company Limited (KAPCO) on account of lower efficiency and super tax despite overhaul of turbines in FY17 and FY18. However, PKR depreciation, O&M savings and lower maintenance is expected to lift earnings for HUBC and NCPL.

#### HUBC: Earnings to augment on lower maintenance and PKR depreciation

The Hub Power Company Limited's (HUBC) board meeting is schedule on 20<sup>th</sup> Aug-18 to announce financial results for 4QFY18 where we expect the Company to post earnings of PKR 3.33bn (EPS PKR 2.87) up by +7%YoY compared to PKR 3.12bn (EPS PKR 2.70) in the same period last year. We attribute the growth in the earnings to PKR depreciation of 12%YoY, lower repairs and maintenance cost and higher generation from Narowal plant. However, higher finance costs is expected to keep earnings growth limited during 4QFY18. This brings FY18 earnings to PKR 11.60bn (EPS PKR 10.03) up by +9%YoY. We forecast HUBC to pay cash dividend of PKR 2.5/share, bringing total cash payout for FY18 to PKR 7.1/share. The Company may possibly announce a bonus/right issue of along with the result.

Exhibit:

#### HUBC Financial Highlights (Consolidated)

| PKR mn                     | 4QFY18E | 3QFY17 | YoY | 3QFY18 | QoQ | FY18E   | FY17    | YoY |
|----------------------------|---------|--------|-----|--------|-----|---------|---------|-----|
| Turnover                   | 28,825  | 27,049 | 7%  | 19,495 | 48% | 102,611 | 101,188 | 1%  |
| Operating Costs            | 22,831  | 22,220 | 3%  | 14,871 | 54% | 83,227  | 83,929  | -1% |
| Gross Profit               | 5,028   | 4,829  | 4%  | 4,624  | 9%  | 20,700  | 17,260  | 20% |
| General & Admin expenses   | 382     | 385    | -1% | 325    | 18% | 1,495   | 1,365   | 10% |
| Financing Cost             | 1,082   | 998    | 8%  | 1,091  | -1% | 4,329   | 4,081   | 6%  |
| PBT                        | 3,505   | 3,407  | 3%  | 3,149  | 11% | 12,410  | 11,708  | 6%  |
| PAT                        | 3,430   | 3,284  | 4%  | 3,081  | 11% | 12,072  | 11,348  | 6%  |
| PAT - Attributable to HUBC | 3,325   | 3,120  | 7%  | 2,981  | 12% | 11,604  | 10,689  | 9%  |
| EPS (PKR)                  | 2.87    | 2.70   |     | 2.58   |     | 10.03   | 9.24    |     |
| DPS (PKR)                  | 2.50    | 2.50   |     | 1.60   |     | 7.10    | 7.50    |     |

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

### KAPCO: Earnings to drop by 19%YoY to PKR 2.46/share in 4QFY18

Kot Addu Power Company Limited's (KAPCO) board meeting is schedule on 29<sup>th</sup> Aug-18 to announce financial results for 4QFY18 where we estimate (MARI) to register earnings decline of 19%YoY to PKR 2.16bn (EPS PKR 2.46) compared to PKR 2.69bn (EPS PKR 3.05) in the same period last year. We attribute this substantial decline in the earnings to a) higher generation on LNG and HSFO leading to lower efficiency despite overhauls of turbines and, b) application of super tax to keep effective tax rate higher during 4QFY18. This brings FY18 earning to PKR 8.83bn (EPS PKR 10.03) down by 7%YoY. We forecast KAPCO to pay cash dividend of PKR 4.25/share, bringing total cash payout for FY18 to PKR 8.60/share.

Exhibit:

#### KAPCO Financial Highlights

| PKRmn             | 4QFY18E | 4QFY17 | YoY  | 3QFY18 | QoQ | FY18E  | FY17   | YoY |
|-------------------|---------|--------|------|--------|-----|--------|--------|-----|
| Revenue           | 35,738  | 27,647 | 29%  | 21,590 | 66% | 97,344 | 81,847 | 19% |
| Operating Costs   | 32,389  | 23,089 | 40%  | 18,417 | 76% | 84,172 | 67,667 | 24% |
| Gross Profit      | 3,349   | 4,558  | -27% | 3,173  | 6%  | 13,173 | 14,180 | -7% |
| Financial Charges | 1,675   | 1,366  | 23%  | 1,609  | 4%  | 6,369  | 4,425  | 44% |
| Other Income      | 1,785   | 1,436  | 24%  | 1,736  | 3%  | 6,504  | 4,991  | 30% |
| PBT               | 3,380   | 4,271  | -21% | 3,211  | 5%  | 12,912 | 14,073 | -8% |
| PAT               | 2,163   | 2,687  | -19% | 2,208  | -2% | 8,831  | 9,447  | -7% |
| EPS (PKR)         | 2.46    | 3.05   |      | 2.51   |     | 10.03  | 10.73  |     |
| DPS (PKR)         | 4.25    | 4.75   |      | -      |     | 8.60   | 9.05   |     |

Source: IGI Research, Company Financials

No of Shares: 880 mn

### NCPL: Earnings to remain flat amid lower generation and higher finance cost despite PKR depreciation

We expect Nishat Chunian Power Limited (NCPL) to post earnings of PKR 862mn (EPS PKR 2.35) up by +1%YoY compared to PKR 855mn (EPS PKR 2.33) in the same period last year. We attribute the flattish growth in earnings on account of sluggish generation leading to lower O&M and fuel savings despite PKR depreciation during 4QFY18. Furthermore, higher finance cost amid rise in short term borrowing is expected to limited earnings growth. This bring total FY18 earnings to PKR 3.42bn (EPS PKR 9.31) up by +14%YoY. We expect the company to announce cash dividend of PKR 3.5/share along with the result. .

Exhibit:

#### NCPL Financial Highlights

| PKRmn         | 4QFY18E | 4QFY17 | YoY | 3QFY18 | QoQ | FY18E  | FY17   | YoY |
|---------------|---------|--------|-----|--------|-----|--------|--------|-----|
| Net Sales     | 4,719   | 4,542  | 4%  | 3,774  | 25% | 17,437 | 16,148 | 8%  |
| Cost of Sales | 3,510   | 3,290  | 7%  | 2,650  | 32% | 12,622 | 11,828 | 7%  |
| Gross Profit  | 1,208   | 1,252  | -3% | 1,123  | 8%  | 4,814  | 4,320  | 11% |
| Admin Expense | 60      | 46     | 32% | 47     | 28% | 240    | 173    | 39% |
| EBIT          | 1,147   | 1,132  | 1%  | 1,086  | 6%  | 4,527  | 4,091  | 11% |
| Finance Cost  | 285     | 278    | 3%  | 256    | 11% | 1,106  | 1,093  | 1%  |
| PBT           | 862     | 854    | 1%  | 830    | 4%  | 3,421  | 2,998  | 14% |
| PAT           | 862     | 855    | 1%  | 830    | 4%  | 3,421  | 3,000  | 14% |
| EPS (PKR)     | 2.35    | 2.33   |     | 2.26   |     | 9.31   | 8.17   |     |
| DPS (PKR)     | 3.50    | 1.00   |     | -      |     | 3.50   | 2.50   |     |

Source: IGI Research

No of shares: 367.35mn

### Recommendation

We maintain HUBC as our top pick with our Dec-18 target price of PKR 139.1/share offering +45% upside from last close. We also have a BUY call on KAPCO/NCPL with our Dec-18 target prices of PKR 68.7/share and PKR 29.6/share respectively offering +20%/+21% upside from last close.

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| 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 – 2018

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