

Day Break

Monday, 18 February 2019

Sector Update

IGI IPP Universe

Recommendation

	TP (PKR/share)	Recom.	Upside	D/Y
HUBC	120.2	BUY	30.0%	6.5%
KAPCO	63.9	BUY	21.7%	18.3%
NCPL	25.2	BUY	13.8%	15.8%

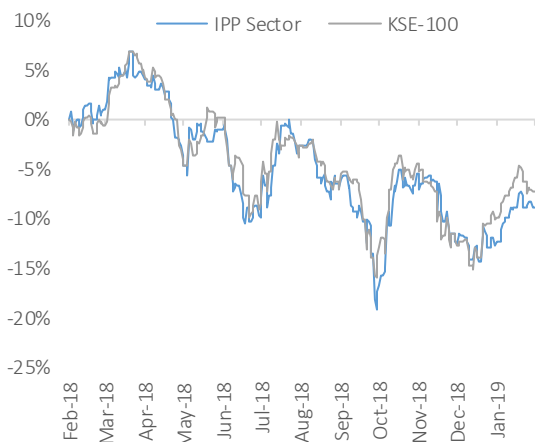
EPS estimate for 2QFY19

	2QFY19E	YoY	1HFY19E	YoY
HUBC	2.46	-2%	5.02	10%
KAPCO	4.08	62%	7.62	53%
NCPL	2.14	-7%	4.59	-3%

DPS estimate for 2QFY19

	2QFY19E	2QFY18	1HFY19E	1HFY18
HUBC	3.0	1.5	3.0	3.0
KAPCO	4.5	4.4	4.5	4.4
NCPL	-	-	-	-

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Power Generation & Distribution

IPP Sector earnings to lift by +21%YoY during 2QFY19 led by KAPCO

- Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19th Feb-19 to announce financial result for 2QFY19, where we expect the company to post earnings of PKR 3.59bn (EPS PKR 4.08), up by +62%YoY,
- The Hub Power Company Limited's (HUBC) board meeting is scheduled on 21st Feb-19 to announce financial result for 2QFY19, where we expect the company to post earnings of PKR 2.85bn (EPS PKR 2.46), down by 2%YoY,
- We estimate Nishat Chunian Power Limited (NCPL) to post earnings of PKR 787mn (EPS PKR 2.14), down by 7%YoY, compared to PKR 849mn (EPS PKR 2.31) in the same period last year.
- We have a 'BUY' call on HUBC with our Dec-19 target price of PKR 120.23/share, offering +30% upside from its last close. The company is currently trading at FY19E P/E of 8.7x and offers a decent dividend yield of 6.5%

IGI IPP sector earnings to lift by +21%YoY during 2QFY19

IGI IPPs universe earnings are expected to increase by +21%YoY in 2QFY19 to PKR 7.23bn compared to PKR 6.00bn in the same period last year. We expect dividend payout to remain restricted during 2QFY18 on the back of cash constraints amid rising circular debt and equity financing requirement for investments. Earnings accretion is expected on the back of a) 9%YoY PKR depreciation and, b) lower maintenance costs post conclusion of major overhauls.

KAPCO: Earnings to clock in at PKR 4.08/share for 2QFY19, up by +62%YoY

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19th Feb-19 to announce financial result for 2QFY19, where we expect the company to post earnings of PKR 3.59bn (EPS PKR 4.08), up by +62%YoY, compared to PKR 2.21bn (EPS PKR 2.52) in the same period last year. We estimate growth in earnings on the back a) PKR depreciation and, b) higher other income on account of true up income realized of PKR depreciation as per Power Purchase Agreement (PPA). However, we expect finance cost to remain elevated on account of higher short term borrowings and rise in interest rates. We expect the company to announce cash dividend of PKR 4.50/share along with the result.

Exhibit:

KAPCO Financial Highlights

PKRmn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Revenue	14,834	18,445	-20%	46,429	40,016	16%
Operating Costs	10,678	15,238	-30%	38,656	33,365	16%
Gross Profit	4,156	3,207	30%	7,773	6,651	17%
Admin and Selling	148	101	46%	325	229	42%
Financial Charges	1,960	1,486	32%	4,059	3,085	32%
Other Income	3,082	1,584	95%	6,155	2,983	106%
Pre-Tax Profits	5,130	3,141	63%	9,544	6,257	53%
Post-Tax Profits	3,591	2,214	62%	6,707	4,395	53%
EPS	4.08	2.52		7.62	4.99	
DPS	4.50	4.35		4.50	4.35	

Source: IGI Research, Company Financials

No of Shares: 880 mn

HUBC: Earnings to clock in at PKR 2.46/share for 2QFY19, down by 2%YoY

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 21st Feb-19 to announce financial result for 2QFY19, where we expect the company to post earnings of PKR 2.85bn (EPS PKR 2.46), down by 2%YoY, compared to PKR 2.91bn (EPS PKR 2.52) in the same period last year. We estimate slight drop in earnings on the back a) lower generation from Hub and Narowal plant and, b) higher finance cost on account of rise in interest rate and short term borrowings. We expect the company to announce cash dividend of PKR 3.0/share along with the result in line with new company policy of dividend announcement every six months to mitigate the impact of rising circular debt.

Exhibit:

HUBC Financial Highlights (Consolidated)

PKR mn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Turnover	11,823	26,951	-56%	29,769	54,291	-45%
Operating Costs	6,048	22,363	-73%	19,156	45,525	-58%
Gross Profit	4,749	4,589	3%	9,586	8,766	9%
General & Admin expenses	333	351	-5%	646	788	-18%
Financing Cost	1,220	1,139	7%	2,542	2,156	18%
PBT	3,137	3,085	2%	6,327	5,756	10%
PAT	3,063	3,013	2%	6,187	5,562	11%
PAT - Attributable to HUBC	2,849	2,914	-2%	5,810	5,298	10%
EPS (PKR)	2.46	2.52		5.02	4.58	
DPS (PKR)	3.00	1.50		3.00	3.00	

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

NCPL: Earnings to clock in at PKR 2.14/share for 2QFY19, down by 7%YoY

We estimate Nishat Chunian Power Limited (NCPL) to post earnings of PKR 787mn (EPS PKR 2.14), down by 7%YoY, compared to PKR 849mn (EPS PKR 2.31) in the same period last year. We estimate slight drop in earnings on the back a) lower generation leading to lower O&M savings and, b) higher finance cost amid rise in interest rate and short term borrowings. We anticipate the Company to hold cash dividend during 2QFY19 owing to cash constraints amid rise in circular debt and lower generation.

Exhibit:

NCPL Financial Highlights

PKRmn	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Net Sales	3,038	3,788	-20%	8,199	8,476	-3%
Cost of Sales	1,937	2,590	-25%	5,881	6,078	-3%
Gross Profit	1,102	1,198	-8%	2,318	2,398	-3%
Administrative Expense	31	87	-65%	68	125	-46%
EBIT	1,076	1,112	-3%	2,261	2,278	-1%
Finance Cost	289	263	10%	576	533	8%
PBT	787	849	-7%	1,685	1,745	-3%
PAT	787	849	-7%	1,685	1,745	-3%
EPS	2.14	2.31		4.59	4.75	
DPS	-	-		-	-	

Source: IGI Research

No of shares: 367.35mn

Recommendation

We have a 'BUY' call on HUBC with our Dec-19 target price of PKR 120.23/share, offering +30% upside from its last close. The company is currently trading at FY19E P/E of 8.7x and offers a decent dividend yield of 6.5%.

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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 – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

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