

Flash Note

Thursday, 29 March 2018

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Securities

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Power Generation and Distribution Companies

KAPCO: Arbitration proceedings commence for liquidated damages imposed by WAPDA and CPPA-G

- Kot Addu Power Company Limited (KAPCO) in its notice through Pakistan Stock Exchange Limited (PSX) has notified that the company has commenced arbitration proceedings on 29th Mar-18 against Water and Power Development Authority (WAPDA) and Central Power Purchasing Agency Guarantee Limited (CPPA-G) for wrongfully imposing liquidated damages for the years ended 30th Jun-09 up until 30th Dec-17.
- The amount of liquidated damages as disclosed by the management of the Company amounts to PKR 27.73bn (most likely after taking in to account the forced outages allowed under the Power Purchase Agreement) which relates to short supply of electricity by the Company due to non-availability of fuel.
- The management of KAPCO based on the legal advice taken, believes that there are adequate grounds to defend the claim as short supply of electricity occurred was due to non-payment of dues on time by WAPDA which led to inability of the Company to make timely payments to its fuel supplier (Pakistan State Oil Company Limited).
- KAPCO's management further stated that it has the right to claim back the amount of PKR 2.45bn (after tax EPS impact of PKR 1.95) which consists of net losses incurred as a result of non-payment of dues by WAPDA which were not completely covered by the late payment interest charges collected by KAPCO.
- We have a '**HOLD**' call on KAPCO with our Dec-18 target price of PKR 72.5/share, offering +11.5% upside from its last close. The company offers a healthy dividend yield of 15%.

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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

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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