

Flash Note

Wednesday, 20 February 2019

Power Generation and Distribution Companies

Kot Addu Power Company Limited (KAPCO)

Substantial true-up Income lifts 2QFY19 EPS up by +2.7xYoY to PKR 6.68, no cash dividend declared

- Kot Addu Power Company Limited (KAPCO) announced financial results for 2QFY19 with earnings clocking in at PKR 5.88bn (EPS PKR 6.68) up by +2.7xYoY compared to PKR 2.21bn (EPS PKR 2.52) in the same period last year. On sequential basis, earnings are up by +89%QoQ during 2QFY19. This brings total profitability to PKR 9.00bn (EPS PKR 10.22) for 1HFY19, up by +2.1xYoY, compared to PKR 4.40bn (EPS PKR 4.99) in the corresponding period last year.
- In a surprise event, KAPCO did not announce any cash dividend for 1HFY19 which in our view is likely owing to cash constraint due to lower generation during 2QFY19 with no generation on FO in Nov-18 while all three block did not operate on Gas/LNG in Nov & Dec-18.
- We attribute this growth in earnings during 2QFY19 primarily on the back of higher other income which increased owing to true up income booked as per Power Purchase Agreement (PPA) on account of PKR depreciation and higher interest income realized on receivables.
- Net Revenues dropped by 32%YoY to PKR 12.63bn during 2QFY19, likely on the back of lower generation as LNG supply remained restricted amid winter season.
- Gross margins improved by 10.6ppts to 28.02% during 2QFY19 as against 17.39% in similar period last year likely owing to lower maintenance cost incurred and PKR depreciation.
- Other income leaped up by +4.6xYoY to PKR 7.31bn during 2QFY19 compared to PKR 1.58bn in the corresponding period last year likely owing to true up income realized under PPA on account of PKR depreciation.
- Finance cost increased by +55%YoY to PKR 2.30bn during 2QFY19 likely owing to rise in mark up on overdue payments amid rise in interest rates and short term borrowings.
- Effective tax stood at 30.0% during 2QFY19 compared to 29.5% (1QFY19: 29.4%) reported in the corresponding period last year.

Exhibit:

KAPCO Financial Highlights

PKRmn	2QFY19	2QFY18	YoY	1QFY19	QoQ	1HFY19	1HFY18	YoY
Revenue	12,626	18,445	-32%	31,595	-60%	44,221	40,016	11%
Operating Costs	9,088	15,238	-40%	27,978	-68%	37,066	33,365	11%
Gross Profit	3,538	3,207	10%	3,617	-2%	7,155	6,651	8%
Admin and Selling	141	101	40%	177	-20%	318	229	39%
Finance cost	2,302	1,486	55%	2,099	10%	4,400	3,085	43%
Other Income	7,311	1,584	361%	3,073	138%	10,383	2,983	248%
Pre-Tax Profits	8,399	3,141	167%	4,414	90%	12,813	6,257	105%
Post-Tax Profits	5,881	2,214	166%	3,116	89%	8,997	4,395	105%
EPS	6.68	2.52		3.54		10.22	4.99	
DPS	-	4.35		-		-	4.35	

Source: IGI Research, Company Financials

No of Shares: 880 mn

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and 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, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. 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. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tr: Thousands/Million/Billion/Trillion.

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Saddar Cantt.
Tel: (92-91) 5273035, 5223882

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258028

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited