

Flash Note

Thursday, 19 October 2017

Power Generation and Distribution Companies

KAPCO: High borrowing cost dragged 1QFY18 earnings down by 6%YoY to PKR 2.48/share

- Kot Addu Power Company Limited (KAPCO) announced financial results for 1QFY18 with earnings clocking in at PKR 2.2bn (EPS PKR 2.48) down by 6%YoY as compared to PKR 2.3bn (EPS PKR 2.63) in the same period last year.
- Revenues for 1QFY18 increased by +22%YoY to PKR 21.5bn as compared to PKR 17.7bn in the corresponding period last year owing to rise in FO prices and higher load factor.
- Gross margins declined by 3ppts to 16.0% during 1QFY18 as compared to 19% in the corresponding period last year likely owing to higher maintenance cost as a result of overhauling of gas turbines.
- Other income increased by +30%YoY to PKR 1.4bn in 1QFY18 as compared PKR 1.1bn in the same period last year likely owing to higher interest earned on receivables.
- Finance costs leaped up substantially by +67%YoY to PKR 1.6bn during 1QFY18 as compared to PKR 1.0bn in the corresponding period last year likely owing to increased short term borrowing leading to higher interest cost.
- Effective tax rate decreased by 100bps to 30% during 1QFY18 as compared to 31% in the same period last year owing to annual reduction of 1% in corporate tax rate in Budget 2017-18.

Recommendation

We maintain a 'HOLD' call on KAPCO with Jun-18 TP of PKR 69.8/share offering an upside of +3% from its last close. The company is currently trading at FY18E P/E of 5.94x and dividend yield of 16%.

Exhibit:

KAPCO Financial Highlights

PKRmn	1QFY18	1QFY17	YoY	4QFY17	QoQ
Revenue	21,571	17,725	22%	27,647	-22%
Operating Costs	18,127	14,387	26%	23,089	-21%
Gross Profit	3,443	3,339	3%	4,558	-24%
Admin and Selling	128	102	24%	135	-6%
Financial Charges	1,598	955	67%	1,366	17%
Other Income	1,399	1,078	30%	1,436	-3%
PBT	3,116	3,358	-7%	4,271	-27%
PAT	2,181	2,318	-6%	2,687	-19%
EPS	2.48	2.63		3.05	
DPS	-	-		4.75	

Source: IGI Research, Company Financials

No of Shares: 880 mn

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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):

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