

Flash Note

Friday, 21 February 2020

Power Generation and Distribution Companies

Kot Addu Power Company Limited (KAPCO)

Hefty other income along with PKR depreciation lifts 2QFY20 EPS by +87%YoY to PKR 7.60

- Kot Addu Power Company Limited (KAPCO) announced financial results for 2QFY20 with earnings clocking in at PKR 6.69bn (EPS PKR 7.60) up by +87%YoY compared to PKR 3.58bn (EPS PKR 4.07) in the same period last year. On a sequential basis, earnings are up by +33%QoQ during 2QFY20.
- The Company did not announce any cash dividend for 1HFY20.
- We attribute the incline in earnings during 2QFY20 primarily on the back of a) PKR depreciation, b) lower effective tax rate and, c) +75% YoY rise in other income. To note KAPCO restated most of its true up income booked until 9MFY19 to account for changes in accounting policy as per IFRS 15 and would only be recognized now on cash receipt of Capacity Purchase Price (CPP) invoices.
- Net Revenues dropped by +28%YoY to PKR 9.10bn during 2QFY20 compared to PKR 12.63bn in the same period last year, likely on the back of lower generation and drop in FO prices.
- Other income leaped up by +75%YoY to PKR 6.97bn during 2QFY20 compared to PKR 3.98bn in the same period last year which may likely relate to amount realized under True-up income. To highlight, KAPCO reversed true up income recognized in 9MFY19 in 4QFY19 owing to changes accounting policy (IFRS 15) where True-up income will now be recognized upon cash receipts of CPP payments. Thus financial results were restated for last year where true up income booked last year was derecognized to the extent which was not yet received and amount actually received in cash was realized during this quarter.
- Finance cost increased by +7%YoY to PKR 2.47bn during 2QFY20 likely owing to increase in mark up amid rise in interest rates and short term borrowings.
- Effective tax rate stood at 26.6% during 2QFY20 compared to 29.3% (1QFY20: 29.0%) reported in the corresponding period last year bring total effective tax rate to 27.7% for 1HFY20 against 29.3% during 1HFY19.
- To note, KAPCO has restated its other income for 2QFY19 by PKR 3.33bn which is likely due to de-recognition of True-up income owing to changes in accounting policy as per IFRS 15.

Exhibit: Financial Highlights

PKRmn	2QFY20	2QFY19*	YoY	1QFY20	QoQ	1HFY20	1HFY19*	YoY
Revenue	9,104	12,626	-28%	35,365	-74%	44,469	44,221	1%
Operating Costs	4,223	9,088	-54%	30,141	-86%	34,364	37,066	-7%
Gross Profit	4,881	3,538	38%	5,224	-7%	10,106	7,155	41%
Admin and Selling	266	141	88%	207	29%	473	318	49%
Financial Charges	2,466	2,302	7%	2,292	8%	4,758	4,400	8%
Other Income*	6,969	3,977	75%	4,367	60%	11,336	6,506	74%
Pre Tax Profits*	9,118	5,065	80%	7,093	29%	16,211	8,936	81%
Post Tax Profits*	6,694	3,581	87%	5,033	33%	11,727	6,322	86%
EPS	7.60	4.07	87%	5.72		13.32	7.18	85%
DPS	-	-		-		-	-	

Source: IGI Research, Company Financials No of Shares: 880 mn

*restated

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