

Day Break

Friday, 16 February 2018

Sector Update

IGI IPP Universe

Recommendation

	TP (PKR/share)	Recom.	Upside	D/Y
HUBC	133.3	BUY	37.3%	8.2%
KAPCO	72.5	BUY	27.5%	17.6%
NCPL	32.0	HOLD	-2.4%	10.7%

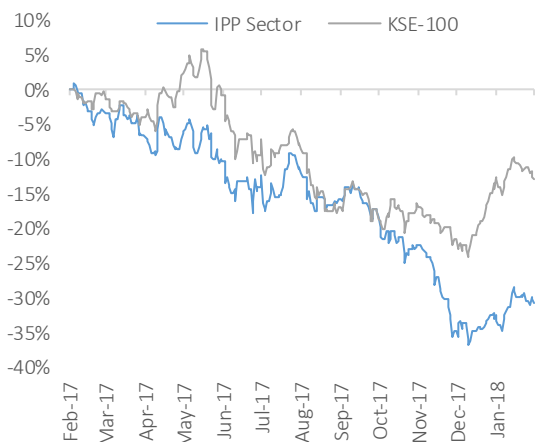
EPS estimate for 2QFY18

	2QFY18E	YoY	1HFY18E	YoY
HUBC	2.31	2%	4.37	0%
KAPCO	2.30	9%	4.78	1%
NCPL	1.85	4%	4.28	13%

DPS estimate for 2QFY18

	2QFY18E	2QFY17	1HFY18E	1HFY17
HUBC	1.5	1.5	3.0	3.0
KAPCO	4.0	4.3	4.0	4.3
NCPL	1.5	-	1.5	1.5

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Power Generation & Distribution

IPP Sector Earnings to Increase by +5%YoY in 2QFY18

- Hub Power & Generation Company Limited's (HUBC) board meeting is scheduled on 19th Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 2.67bn (EPS PKR 2.31) up by +2%YoY.
- Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 23rd Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 2.03bn (EPS PKR 2.30) up by +9%YoY.
- We expect Nishat Chunian Power Limited (NCPL) to post earnings of PKR 678mn (EPS PKR 1.85) up by +4%YoY compared to PKR 655mn (EPS PKR 1.78) in the same period last year.

IPP Sector: Earnings to increase by +5%YoY to PKR 5.37bn in 2QFY18

IGI IPPs universe earnings are expected to increase by +5%YoY in 2QFY18 to PKR 5.37bn compared to PKR 5.11bn 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) 2%YoY PKR depreciation and, b) lower maintenance costs post conclusion of overhauls in 1QFY18.

HUBC: earnings to increase by +2%YoY in 2QFY18 to PKR 2.31/share

Hub Power & Generation Company Limited's (HUBC) board meeting is scheduled on 19th Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 2.67bn (EPS PKR 2.31) up by +2%YoY compared to PKR 2.61bn (EPS PKR 2.25) in the same period last year. We attribute the incline in the earnings to a) 2% PKR depreciation and, b) conclusion of overhauls at Narowal plant during 1QFY18. However, higher financing cost and lower generation from Narowal plant to keep earnings growth in check. We forecast HUBC to pay cash dividend of PKR 1.50/share, along with the result, taking 1HFY18 total cash dividend to PKR 3.00/share.

Exhibit:

Financial Highlights (Consolidated)

PKR mn	2QFY18E	2QFY17	YoY	1HFY18E	1HFY17	YoY
Turnover	25,914	24,353	6%	53,254	48,227	10%
Gross Profit	4,286	4,106	4%	9,428	8,167	15%
Admin expenses	328	290	13%	766	640	20%
Financing Cost	1,070	1,054	2%	2,087	2,062	1%
PAT	2,829	2,718	4%	5,377	5,370	0%
Attributable to HUBC	2,670	2,605	2%	5,053	5,069	0%
EPS (PKR)	2.31	2.25		4.37	4.38	
DPS (PKR)	1.50	1.50		3.00	3.00	

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

KAPCO: earnings to increase by +2%YoY in 2QFY18 to PKR 2.31/share

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 23rd Feb-18 to announce financial result for 2QFY18, where we expect the company to post earnings of PKR 2.03bn (EPS PKR 2.30) up by +9%YoY compared to PKR 1.85bn (EPS PKR 1.85) in the same period last year. KAPCO's block 3 operated at 100% on LNG while Block I and II operated between 30%-60% on LNG. Further O&M costs are expected to remain high due to on-going gas turbine overhaul which is likely to be concluded during 2QFY18. We forecast KAPCO to pay cash dividend of PKR 4.00/share along with the result.

Exhibit:

Financial Highlights

PKRmn	2QFY18E	2QFY17	YoY	1HFY18E	1HFY17	YoY
Revenue	13,615	15,191	-10%	35,186	32,916	7%
Operating Costs	10,516	12,571	-16%	28,643	26,958	6%
Gross Profit	3,099	2,620	18%	6,542	5,959	10%
Admin and Selling	121	115	5%	249	217	14%
Financial Charges	889	1,008	-12%	2,487	1,964	27%
Other Income	804	1,225	-34%	2,203	2,303	-4%
PBT	2,893	2,722	6%	6,009	6,081	-1%
PAT	2,025	1,853	9%	4,206	4,172	1%
EPS	2.30	2.11		4.78	4.74	
DPS	4.00	4.30		4.00	4.30	

Source: IGI Research, Company Financials

No of Shares: 880 mn

NCPL: earnings to increase by +4%YoY in 2QFY18 to PKR 1.85/share

We expect Nishat Chunian Power Limited (NCPL) to post earnings of PKR 678mn (EPS PKR 1.85) up by +4%YoY compared to PKR 655mn (EPS PKR 1.78) in the same period last year. Generation for the 2QFY18 remained on the lower side as GoP abruptly ordered closure of FO based power plant in Oct-17 leading to average load factor of 57% compared to 70% in the same period last year. However, earnings growth is expected to be further supported by efficiency gains and O&M savings despite lower load factor. We expect the company to announce cash dividend of PKR 1.50/share along with the result, although possibility of no payout remain large as circular debt piled up and company's heavy reliance on short term borrowings.

Exhibit:

Financial Highlights

PKRmn	2QFY18E	2QFY17	YoY	1HFY18E	1HFY17	YoY
Net Sales	3,359	3,674	-9%	8,046	7,419	8%
Cost of Sales	2,343	2,698	-13%	5,830	5,418	8%
Gross Profit	1,016	976	4%	2,216	2,001	11%
Admin Expense	40	45	-11%	78	55	43%
EBIT	975	926	5%	2,141	1,931	11%
Finance Cost	297	271	9%	567	540	5%
PAT	678	655	4%	1,574	1,390	13%
EPS	1.85	1.78		4.28	3.79	
DPS	1.50	-		1.50	1.50	

Source: IGI Research

No of shares: 367.35mn

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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):

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