

# Day Break

Wednesday, 24 August 2016

## Company Update

### Kot Addu Power

Power Generation & Distribution

Recommendation	HOLD
Target Price	83.3
Last Closing	88.6
Upside	-6%

### Market Data

Bloomberg Tkr.	KAPCO PA		
Shares (mn)	880.3		
Market Cap (PKRbn   USDmn)	78.0	744.3	
Exchange	KSE 100		

Price Info.	90D	180D	365D
Abs. Return	4.2	11.5	(0.7)
Low	83.8	75.2	75.2
High	93.0	93.0	98.2

### Key Company Financials

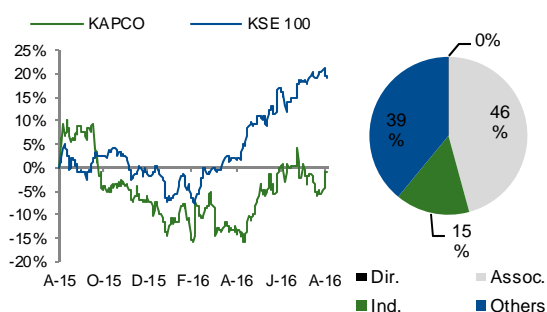
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	101.5	65.8	81.8	85.0
Net Income	9.8	8.5	10.0	10.8
EPS (PKR)	11.1	9.7	11.3	12.2
DPS (PKR)	8.8	9.0	10.7	11.6
Total Assets	96.3	85.1	87.6	84.1
Total Equity	29.7	30.3	30.9	31.1

### Key Financial Ratios

ROE (%)	33%	28%	32%	35%
P/E (x)	8.0	9.2	7.8	7.2
P/B (x)	2.6	2.6	2.5	2.5
DY (%)	9.9	10.2	12.1	13.1

### Relative Price Performance & Shareholding



### About the Company

The Company was incorporated in Pakistan on April 25, 1996 as a public limited company. The company owns, operate and maintain a multi-fuel fired power station with fifteen generating units having capacity of 1,600 MW, and to sell the electricity to a single customer, the WAPDA.

Source: Bloomberg, KSE 100 & IGI Research

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## Power Generation & Distribution

### KAPCO: Lower Other Income & Higher Maintenance Cost to Dilute Earnings in FY16

- Kot Addu Power Company's (KAPCO) board meeting is scheduled on 25th Aug-16, where we anticipate net profit to plummet by 13%YoY to PKR 8.5bn (EPS PKR 9.67) as compared to PKR 9.8bn (EPS PKR 11.13) in the corresponding period.
- For 4QFY16, we expect company's profitability to contract by 14%YoY to PKR 2.3bn (EPS PKR 2.62) compared to PKR 2.7bn (EPS PKR 3.05) during the same period last year.
- We maintain a 'Hold' call on KAPCO with Dec-16 TP of PKR 83.3/share offering a downside of 6% from its last close. The company is currently trading at FY16E/FY17F P/E and dividend yield of 9.2x/7.8x and 10.2%/12.1%, respectively.

### FY16 Earnings to clock in at PKR 9.67/share, DPS 9.0/share

Kot Addu Power Company's (KAPCO) board meeting is scheduled on 25<sup>th</sup> Aug-16, where we anticipate net profit to plummet by 13%YoY to PKR 8.5bn (EPS PKR 9.67) as compared to PKR 9.8bn (EPS PKR 11.13) in the corresponding period. This drop in earnings is attributable to a) 37%YoY plunge in other income owing to lower penal interest income as we expect receivables to decline by 9%YoY to PKR64bn in FY16, and b) 1.3xYoY higher maintenance cost of PKR 2.4bn incurred on overhauling of boilers. Based on our estimates, company is likely to announce a cash dividend of PKR 4.75/share, taking FY16 total payout to PKR 9.0/share.

### 4QFY16 -EPS PKR 2.62, DPS PKR 4.75

For 4QFY16, we expect company's profitability to contract by 14%YoY to PKR 2.3bn (EPS PKR 2.62) compared to PKR 2.7bn (EPS PKR 3.05) during the same period last year. Net sales are expected to decline by 33%YoY to PKR 17.9bn in 4QFY16 owing to 35%YoY/14%YoY drop in FO/HSD price.

### Outlook

Government plans to divest its shareholding in KAPCO as its PPA is set to expire in 2021, where we believe favorable terms for PPA extension along with the divestment will unlock the value.

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Furthermore, company is currently evaluating feasibility of 660MW coal based power plant with an estimated cost of USD 1bn.

### Recommendation

We maintain a '**Hold**' call on KAPCO with Dec-16 TP of PKR 83.3/share offering a downside of 6% from its last close. The company is currently trading at FY16E/FY17F P/E and dividend yield of 9.2x/7.8x and 10.2%/12.1%, respectively.

#### Exhibit: Financial Highlights

PKRmn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Revenue	17,863	26,744	-33%	65,800	101,481	-35%
Operating Costs	14,524	22,289	-35%	53,557	86,335	-38%
Gross Profit	3,339	4,456	-25%	12,244	15,146	-19%
Admin and Selling	123	141	-13%	492	418	18%
Financial Charges	719	982	-27%	3,165	6,248	-49%
Other Income	1,002	1,100	-9%	3,961	6,321	-37%
Pre Tax Profits	3,499	4,432	-21%	12,547	14,788	-15%
Post Tax Profits	2,310	2,689	-14%	8,513	9,799	-13%
EPS	2.62	3.05		9.67	11.13	
DPS	4.75	4.75		9.00	8.75	

Source: IGI Research, Company Financials

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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.

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

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- DDM (Dividend Discount Model)

#### Time Horizon

- Dec - 2016

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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