

Day Break

Wednesday, 30 March 2016

Company Update

Kot Addu Power

Power Generation & Distribution

Recommendation	HOLD
Target Price	83.3
Last Closing	77.5
Upside	7%

Market Data

Bloomberg Tkr.	KAPCO PA
Shares (mn)	880.3
Market Cap (PKRbn USDmn)	68.2 651.4
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	(5.2)	(17.8)	(0.0)
Low	75.2	75.2	74.1
High	84.4	97.5	98.2

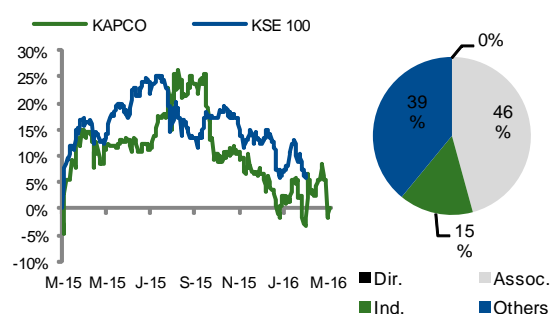
Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	101.5	81.2	81.8	85.0
Net Income	9.8	9.9	10.5	11.3
EPS (PKR)	11.1	11.2	11.9	12.8
DPS (PKR)	8.8	10.1	10.7	11.5
Total Assets	96.3	90.9	88.6	85.6
Total Equity	29.7	30.7	31.8	32.5

Key Financial Ratios

ROE (%)	33%	32%	33%	35%
P/E (x)	7.0	6.9	6.5	6.0
P/B (x)	2.3	2.2	2.1	2.1
DY (%)	11.3	13.0	13.8	14.9

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

Analyst

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Power Generation & Distribution

KAPCO: Earnings Nosedive Owing to Higher Repair Cost

- Kot Addu Power Company's (KAPCO) earning posted a decline of 8%YoY/10%YoY to PKR 2.2bn/PKR 4.3bn (EPS PKR 2.53/PKR 4.92) in 2QFY16/1HFY16, owing to higher repair/renewal costs.
- We expect improved profitability on the back of PKR depreciation and maintenance costs normalizing from 2QFY16 onwards. Furthermore, 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.
- We maintain a 'Hold' call on KAPCO with Dec-16 TP of PKR 83.3/share. The company is currently trading at P/E of 6.9x and offers a dividend yield of 13.0%.

EPS PKR 2.53, down by 8%YoY in 2QFY16

Kot Addu Power Company's (KAPCO) posted a decline in earnings of 8%YoY/10%YoY to PKR 2.2bn/PKR 4.3bn (EPS PKR 2.53/PKR 4.92) in 2QFY16/1HFY16, owing to higher repair/renewal costs. Along with the result, the company announced cash dividend of PKR 4.25/share for 2QFY16 with a payout of 86% for 1HFY16.

Repair Cost Dents Profitability Slightly

Cost of sales dropped by 53%YoY to PKR 9.2bn in 2QFY16, on the back of 58%YoY dip in fuel cost (FO prices down by 46%YoY in 2QFY16). However, company's gross profit declined by 7%YoY in 2QFY16 owing to 11.1xYoY increase in repair/renewal cost during the quarter to PKR 383mn, as compared to PKR 31mn in the same period last year.

Finance Costs & Other income down owing to low Interest Rates

Company's finance cost witnessed a decline of 61%YoY to PKR 0.9bn in 2QFY16 as compared to PKR 2.2bn in the corresponding period last year on the back of lower interest rate. Similarly, other income plummeted by 54%YoY to PKR 1.0bn during 2QFY16, as compared to PKR 2.2bn in the same period last year, which in our view is due to lower interest rate and lower mark up on delayed payments as a result of drop in trade debts.

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Recoveries from WAPDA

During 2QFY16, the company received payment to the tune of PKR 5.4bn from WAPDA which was utilized to clear due payments to PSO and SNGP of PKR 1.4bn and PKR 8.4bn, respectively. Consequently, total trade debts declined by 11%QoQ to PKR 61.5bn, while trade payables witnessed a significant drop of 35%QoQ to PKR 16.9bn.

Outlook

We expect improved profitability on the back of PKR depreciation against USD and maintenance costs normalizing from 2QFY16 onwards. Furthermore, 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. Furthermore, company is currently evaluating feasibility of 660MW coal based power plant with an estimated cost of USD 1bn at its current plant's location.

Recommendation

We maintain a 'Hold' call on KAPCO with Dec-16 TP of PKR 83.3/share. The company is currently trading at P/E of 6.9x and offers a dividend yield of 13.0%.

Exhibit: Financial Highlights

PKRmn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Revenue	12,446	23,184	-46%	34,434	58,399	-41%
Operating Costs	9,175	19,650	-53%	28,102	50,950	-45%
Gross Profit	3,272	3,534	-7%	6,333	7,449	-15%
Admin and Selling	118	90	31%	272	199	37%
Financial Charges	872	2,231	-61%	1,713	4,105	-58%
Other Income	1,022	2,210	-54%	1,970	3,840	-49%
Pre Tax Profits	3,304	3,424	-4%	6,318	6,986	-10%
Post Tax Profits	2,224	2,424	-8%	4,331	4,833	-10%
EPS	2.53	2.75		4.92	5.49	
DPS	4.25	4.00		4.25	4.00	

Source: IGI Research, Company Financials

Analyst Certification

The analyst[^] 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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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 return on aforementioned security(ies) is more than 10%, from its last closing price(s)
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[^] 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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