

# Day Break

Monday, 17 August 2020

## COMPANY UPDATE

### Kot Addu Power Company Limited

Power Generation & Distribution

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	38.3
Last Closing: 13-Aug-20	28.4
Upside (%):	34.9
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	5M

#### Market Data

Bloomberg Tkr.	KAPCO PA		
Shares (mn)	880.3		
Free Float Shares (mn)	455.7		
Free Float Shares (%)	51.8%		
Market Cap (PKRbn   USDmn)	25.0	162.0	
Exchange	KSE 100		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	11.9	(10.4)	(17.4)
Lo	19.8	15.0	15.0
Hi	24.6	27.3	35.5

#### Key Company Financials

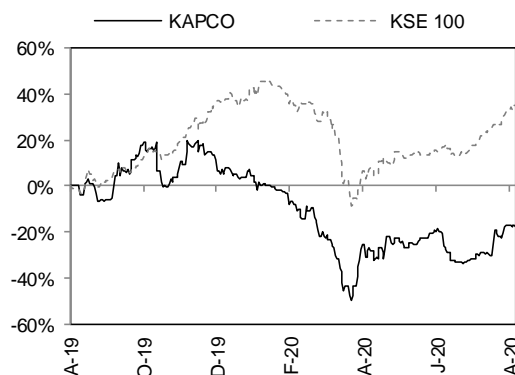
Period End: Jun

PKRbn	2019a	2020e	2021f	2022f
Total Revenue	84.8	69.3	78.0	-
Net Income	13.1	24.3	11.7	-
EPS (PKR)	14.9	27.6	13.3	-
DPS (PKR)	4.5	4.0	5.0	-
Total Assets	139.3	156.9	151.2	-
Total Equity	41.2	58.7	66.0	-

#### Key Financial Ratios

ROE (%)	31.4	34.4	48.6	18.7
P/E (x)	1.9	1.0	2.1	-
P/B (x)	0.7	0.6	0.4	0.4
DY (%)	15.8	14.1	17.6	-

#### Relative Price Performance



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## Power Generation & Distribution

### KAPCO: Other income and PKR depreciation to lift 4QFY20 EPS to PKR 7.36; DPS PKR 4.0

- ✓ Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19<sup>th</sup> Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 6.48bn (EPS PKR 7.36), up by +2.1xYoY.
- ✓ We estimate growth in earnings on the back of a) higher other income on account of true-up income and, b) +11% YoY PKR depreciation.
- ✓ On a quarterly basis, earnings are expected to lift by +7% QoQ during 4QFY20. We expect the growth in earnings on sequential basis on the back of 5% QoQ on average PKR depreciation against greenback.
- ✓ We recommend a 'BUY' stance on KAPCO with our Dec-20 target price of PKR 38.3/share offering 35% upside from last close. The company is currently trading at FY21 P/E of 2.1x.

#### Earnings to clock in at PKR 7.36/share for 4QFY20, up by +2.1xYoY

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 19<sup>th</sup> Aug-20 to announce financial result for 4QFY20, where we expect the company to post earnings of PKR 6.48bn (EPS PKR 7.36), up by +2.1xYoY, compared to PKR 3.12bn (EPS PKR 3.54) in the same period last year. We estimate growth in earnings on the back of a) higher other income on account of true-up income and, b) +11% YoY PKR depreciation. However, growth in earnings is expected to be limited by +62% YoY rise in finance cost on account of increased borrowings despite substantial drop in interest rates. This brings total profitability to PKR 24.26bn (EPS PKR 27.56) for FY20, up by +85% YoY, compared to PKR 13.11bn (EPS PKR 14.90) last year.

We foresee KAPCO to payout cash dividend of PKR 4.0/share for 4QFY20. To recall, KAPCO received PKR 11.68bn from Sukuk-II disbursements under EPP payments.

#### Exhibit: KAPCO Financial Highlights

PKRmn	4QFY20E	4QFY19	YoY	FY20E	FY19	YoY
Revenue	12,866	29,852	-57%	69,263	84,831	-18%
Operating Costs	7,269	26,506	-73%	47,989	70,625	-32%
Gross Profit	5,598	3,347	67%	21,274	14,205	50%
Admin and Selling	214	176	22%	884	709	25%
Financial Charges	1,918	1,780	8%	8,855	8,306	7%
Other Income	5,664	3,303	71%	22,323	13,781	62%
Pre-Tax Profits	9,130	4,694	95%	33,857	18,963	79%
Post-Tax Profits	6,483	3,119	108%	24,256	13,112	85%
EPS	7.36	3.54	108%	27.56	14.90	85%
DPS	4.00	3.00		4.00	4.50	

Source: IGI Research, Company Financials

No of Shares: 880 mn

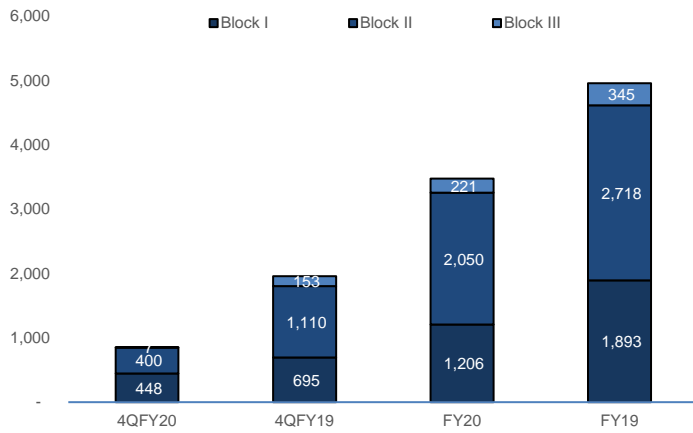
#### EPS to rise by +7% QoQ on account of PKR depreciation

On a quarterly basis, earnings are expected to lift by +7% QoQ during 4QFY20. We expect the growth in earnings on sequential basis on the back of 5% QoQ on average PKR depreciation against greenback.

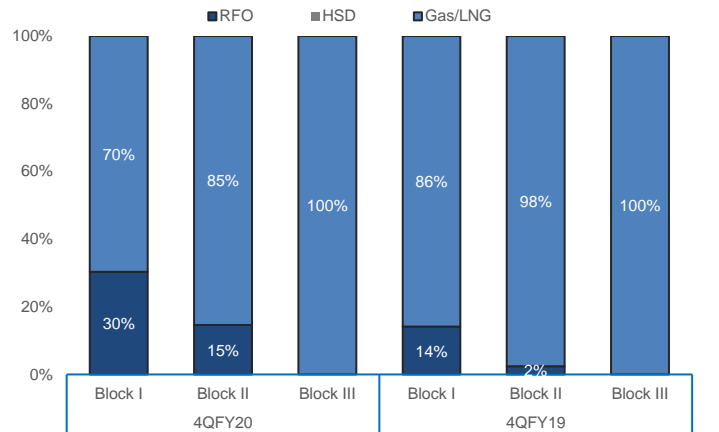
**Lower demand drags total generation down by 56% YoY in 4QFY20**

On account of lower demand from power purchaser, total generation dropped by 56% YoY during 4QFY20 with generation on Gas/LNG dropping to 77% as against 87% in the same period last year. This brings total generation to 3,477Gwh for FY20 down by 30% YoY, while, generation through Gas/LNG dropped to 93% compared to 98% in the same period last year.

**Exhibit: KAPCO power generation (Gwh)**



**Exhibit: Fuel mix block wise (%)**



**Recommendation**

We recommend a ‘BUY’ stance on KAPCO with our Dec-20 target price of PKR 38.3/share offering 35% upside from last close. The company is currently trading at FY21 P/E of 2.1x.

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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon: Dec – 2019**

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

**DDM** (Dividend Discount Model)

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