

Day Break

Wednesday, 11 September 2019

Sector Update

IGI IPP Universe Result Preview 4QFY19

EPS Estimate for 4QFY19

	4QFY19E	YoY	FY19E	YoY
HUBC	2.0	-5%	8.6	1%
KAPCO	5.2	13%	19.3	60%
NCPL	3.1	35%	10.7	16%

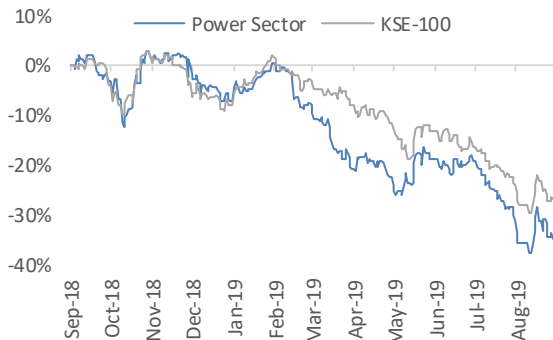
DPS Estimate for 4QFY19

	4QFY19E	4QFY18	FY19E	FY18
HUBC	-	2.80	-	7.40
KAPCO	2.50	4.80	4.00	9.15
NCPL	1.00	1.50	3.00	1.50

Recommendation

	TP (PKR/share)	Rating	P/E	D/Y
HUBC	124.0	BUY	5.4	9%
KAPCO	38.2	BUY	1.5	21%
NCPL	23.3	BUY	1.5	19%

Relative Performance to KSE 100



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Power Generation & Distribution

IPP Sector earnings to lift by +9%YoY during 4QFY19 led by KAPCO and NCPL

- Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 16th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 4.54bn (EPS PKR 5.16), up by +13% YoY,
- The Hub Power Company Limited's (HUBC) board meeting is scheduled on 12th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 2.63bn (EPS PKR 2.03), down by 5% YoY,
- We estimate Nishat Chunian Power Limited (NCPL) to post earnings of PKR 1,123mn (EPS PKR 3.06), up by +35% YoY, compared to PKR 831mn (EPS PKR 2.26) in the same period last year,
- We have a 'BUY' call on HUBC with our Dec-20 target price of PKR 124.0/share, offering +78% upside from its last close. The company is currently trading at FY20E P/E of 5.4x and offers a decent dividend yield of 9.0%.

IGI IPP sector earnings to lift by +9%YoY during 4QFY19

IGI IPPs universe earnings are expected to increase by +9% YoY in 4QFY19 to PKR 8.30bn compared to PKR 7.62bn in the same period last year. We expect dividend payout to remain restricted during 4QFY18 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) 26% YoY PKR depreciation and, b) lower maintenance costs post conclusion of major overhauls. This will bring total earnings for FY19 to PKR 32.15bn compared to PKR 25.08bn in FY18, up by +28% YoY.

KAPCO: Earnings to clock in at PKR 5.16/share for 4QFY19, up by +13%YoY

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 16th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 4.54bn (EPS PKR 5.16), up by +13% YoY, compared to PKR 4.01bn (EPS PKR 4.56) in the same period last year. We estimate growth in earnings on the back a) PKR depreciation and, b) higher other income on account of true up income realized on PKR depreciation as per Power Purchase Agreement (PPA). However, we expect finance cost to remain elevated on account of higher short term borrowings and rise in interest rates. This will bring total earnings for FY19 to PKR 17.01bn (EPS PKR 19.32) compared to PKR 10.62bn (EPS PKR 12.06) up by +60% YoY. We expect the company to announce cash dividend of PKR 2.50/share along with the result bringing total cash payout for FY19 to PKR 4.0/share.

Exhibit:

KAPCO Financial Highlights

PKRmn	4QFY19E	4QFY18	YoY	FY19E	FY18	YoY
Revenue	24,268	30,310	-20%	79,246	91,916	-14%
Operating Costs	19,300	26,754	-28%	63,420	78,537	-19%
Gross Profit	4,967	3,555	40%	15,826	13,379	18%
Admin and Selling	151	149	1%	684	466	47%
Financial Charges	2,657	1,494	78%	9,183	6,188	48%
Other Income	4,422	4,735	-7%	18,482	9,453	96%
Pre Tax Profits	6,581	6,340	4%	24,432	15,808	55%
Post Tax Profits	4,541	4,014	13%	17,005	10,617	60%
EPS	5.16	4.56		19.32	12.06	
DPS	2.50	4.80		4.00	9.15	

Source: IGI Research, Company Financials

No of Shares: 880 mn

HUBC: Earnings to clock in at PKR 2.03/share for 4QFY19, down by 5%YoY

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 12th Sep-19 to announce financial result for 4QFY19, where we expect the company to post earnings of PKR 2.63bn (EPS PKR 2.03), down by 5% YoY, compared to PKR 2.78bn (EPS PKR 2.15) in the same period last year. We estimate slight drop in earnings on the back a) lower generation from Hub and Narowal plant and, b) higher finance cost on account of rise in interest rate and short term borrowings. This brings total FY19 earnings to PKR 11.20bn (EPS PKR 8.64) compared to PKR 11.06bn (EPS PKR 8.52) in FY18, up by +1% YoY. We expect the Company to withhold cash payout during the quarter leading to no cash payout for FY19.

Exhibit:

HUBC Financial Highlights (Consolidated)

PKR mn	4QFY19E	4QFY18	YoY	FY19E	FY18	YoY
Turnover	12,820	26,213	-51%	57,160	99,999	-43%
Operating Costs	7,042	21,325	-67%	35,982	81,720	-56%
Gross Profit	5,778	4,889	18%	21,178	18,279	16%
General & Admin expenses	442	412	7%	1,523	1,525	0%
Financing Cost	2,203	1,185	86%	7,137	4,432	61%
PBT	3,002	3,246	-8%	12,296	12,150	1%
PAT	2,880	3,022	-5%	11,889	11,665	2%
PAT - Attributable to HUBC	2,632	2,779	-5%	11,200	11,057	1%
EPS (PKR)	2.03	2.14	-5%	8.63	8.52	1%
DPS (PKR)	-	2.80		-	7.40	

Source: IGI Research, Company Financials

No of Shares: 1,297.15

NCPL: Earnings to clock in at PKR 3.06/share for 4QFY19, up by +35%YoY

We estimate Nishat Chunian Power Limited (NCPL) to post earnings of PKR 1,123mn (EPS PKR 3.06), up by +35% YoY, compared to PKR 831mn (EPS PKR 2.26) in the same period last year. We estimate growth in earnings on the back a) higher O&M savings and, b) 26% YoY PKR depreciation despite higher finance cost amid rise in interest rate and short term borrowings. This bring total earning to PKR 3.94bn (EPS PKR 10.73) compared to PKR 3.41bn (EPS PKR 9.27) in FY18, up by +16% YoY. We anticipate the Company to announce cash dividend of PKR 1.0/share taking total cash payout for FY19 to PKR 3.0/share.

Exhibit:

NCPL Financial Highlights

PKRmn	4QFY19E	4QFY18	YoY	FY19E	FY18	YoY
Net Sales	3,813	4,345	-12%	14,672	16,594	-12%
Cost of Sales	2,364	3,227	-27%	9,417	11,954	-21%
Gross Profit	1,448	1,118	30%	5,255	4,640	13%
Administrative Expense	31	35	-12%	149	207	-28%
Other Operating Expense	4	4	-16%	11	16	-28%
Other Operating Income	9	9	-1%	32	36	-10%
EBIT	1,423	1,088	31%	5,126	4,453	15%
Finance Cost	300	257	17%	1,186	1,046	13%
PBT	1,123	831	35%	3,940	3,406	16%
PAT	1,123	831	35%	3,940	3,406	16%
EPS	3.06	2.26		10.73	9.27	
DPS	1.00	1.50		3.00	1.50	

Source: IGI Research, Company Financials

No of shares: 367.35mn

Recommendation

We have a 'BUY' call on HUBC with our Dec-20 target price of PKR 124.0/share, offering +78% upside from its last close. The company is currently trading at FY20E P/E of 5.4x and offers a decent dividend yield of 9.0%.

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Time Horizon: Dec – 2019

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