

Day Break

Monday, 22 October 2018

COMPANY UPDATE

Kot Addu Power Company Limited

Power Generation & Distribution

Recommendation	BUY
Target Price:	60.6
Last Closing: 19-Oct-18	49.2
Upside:	23.1
Valuation Methodology:	Dividend Discount Model (DDM)
Time Horizon:	Jun-19

Market Data

Bloomberg Tkr.	KAPCO PA		
Shares (mn)	880.3		
Free Float Shares (mn)	455.3		
Free Float Shares (%)	51.7%		
Market Cap (PKRbn USDmn)	43.3	330.2	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	3.6	(5.8)	(21.2)
Lo	52.2	52.2	49.4
Hi	59.9	60.8	71.0

Key Company Financials

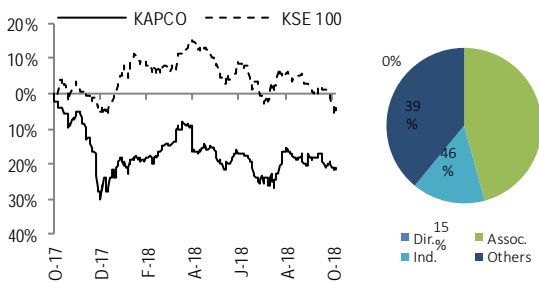
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	91.9	109.4	116.7	119.8
Net Income	10.6	10.6	13.1	14.3
EPS (PKR)	12.1	12.0	14.9	16.3
DPS (PKR)	9.2	9.5	11.5	13.0
Total Assets	116.0	138.4	138.0	141.0
Total Equity	35.1	37.3	40.4	43.2

Key Financial Ratios

ROE (%)	30.3	28.4	32.6	33.1
P/E (x)	4.1	4.1	3.3	3.0
P/B (x)	0.8	1.2	1.2	1.1
DY (%)	18.6	19.3	23.4	26.4

Relative Price Performance



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 1600 MW, and to sell the electricity to a single customer, the WAPDA.

Source: Bloomberg, PSX & IGI Research

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Power Generation & Distribution

KAPCO: Earnings to lift by +14%YoY on weak PKR during 1QFY19

- Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 23rd Oct-18 to announce financial result for 1QFY19, where we expect the company to post earnings of PKR 2.48bn (EPS PKR 2.82), up by +14%YoY,
- We estimate incline in earnings on the back +17%YoY depreciation of PKR against greenback and higher other income on the back of substantial rise in receivables amid rise in interest rates,
- On quarterly basis, earnings are expected to drop by 38%QoQ owing to true up income booked as per Power Purchase Agreement (PPA) on account of PKR depreciation against greenback,
- We have rolled over our target price to Jun-19 for KAPCO to PKR 60.6/share with a 'BUY' call on the Company, offering +23% upside from its last close.

Earnings to clock in at PKR 2.82/share for 1QFY19, up by +14%YoY

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 23rd Oct-18 to announce financial result for 1QFY19, where we expect the company to post earnings of PKR 2.48bn (EPS PKR 2.82), up by +14%YoY, compared to PKR 2.18bn (EPS PKR 2.48) in the same period last year. We estimate incline in earnings on the back +17%YoY depreciation of PKR against greenback and higher other income on the back of substantial rise in receivables amid rise in interest rates. However, finance cost are also expected to remain elevated on the back of rise in short term borrowing as circular debt accumulation looms over power sectors.

On quarterly basis, earnings are expected to drop by 38%QoQ owing to true up income booked as per Power Purchase Agreement (PPA) on account of PKR depreciation against greenback. Thus, other income is expected to decline by 56%QoQ leading to a 38%QoQ drop in earnings during 1QFY19.

Exhibit:

Financial Highlights

PKRmn	1QFY19E	1QFY18	YoY	4QFY18	QoQ
Revenue	30,578	21,571	42%	30,310	1%
Operating Costs	27,203	18,127	50%	26,754	2%
Gross Profit	3,374	3,443	-2%	3,555	-5%
Admin and Selling	122	128	-4%	149	-18%
Financial Charges	1,787	1,598	12%	1,494	20%
Other Income	2,079	1,399	49%	4,735	-56%
Pre-Tax Profits	3,544	3,116	14%	6,340	-44%
Post-Tax Profits	2,481	2,181	14%	4,014	-38%
EPS	2.82	2.48		4.56	
DPS	-	-		4.80	

Source: IGI Research, Company Financials

No of Shares: 880 mn

Generation up by +12%YoY during 1QFY19

Total generation is up by +12%YoY during 1QFY19 to 2,093Gwh. Generation was primarily focused on LNG for Block II & III while generation remained 40%/58% on LNG/LSFO for Block I. As a result, of higher generation on LNG/LSFO and rise in oil prices, revenues are expected to lift by +42%YoY during 1QFY19.

Recommendation

We have rolled over our target price to Jun-19 for KAPCO to PKR 60.6/share with a 'BUY' call on the Company, offering +23% upside from its last close. The company is currently trading at FY19E P/E of 4.1x and offers a dividend yield of 19%.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Jun – 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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