

Day Break

Wednesday, 19 April 2017

COMPANY UPDATE

KOT ADDU POWER COMPANY LIMITED
POWER GENERATION & DISTRIBUTION

Recommendation	NEUTRAL		
Target Price	77.8		
Last Closing	18-Apr-17	73.6	
Upside	5.6		

Market Data

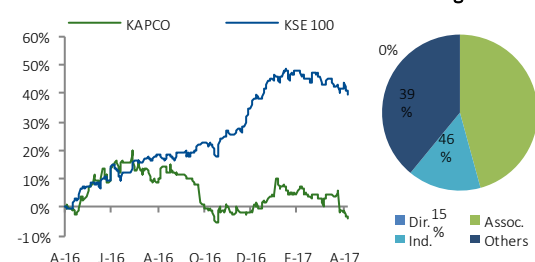
Bloomberg Tkr.	KAPCO PA		
Shares (mn)	880.3		
Free Float Shares (mn)	455.0		
Free Float Shares (%)	51.7%		
Market Cap (PKRbn USDmn)	64.8	617.9	
Exchange	KSE 100		
Price Info.	90D	180D	365D
Abs. Return	(11.3)	(3.7)	(4.3)
Lo	75.0	73.1	73.1
Hi	84.2	85.0	93.0

Key Company Financials

Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	64.2	66.2	85.4	89.1
Net Income	9.07	8.8	10.6	11.3
EPS (PKR)	10.3	10.1	12.1	12.8
DPS (PKR)	9.0	9.3	11.0	12.0
Total Assets	92.2	80.0	82.7	79.8
Total Equity	31.0	31.6	32.6	33.3
Key Financial Ratios				
ROE (%)	29.3	28.0	32.6	33.9
P/E (x)	7.1	7.3	6.1	5.7
P/B (x)	2.1	2.1	2.0	1.9
DY (%)	12.2	12.6	14.9	16.3

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: Other Income to Corroborate Earnings in 3QFY17, PPA Extension Still Looming Over Future Prospects

- Kot Addu Power Company's (KAPCO) board meeting is scheduled on 21st Apr-17, where we anticipate earnings to augment by +20%YoY to PKR 2.3bn (EPS PKR 2.56) for 3QFY17 as compared to PKR 1.9bn (EPS PKR 2.13)
- 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, we await official details regarding setting up of 660MW coal based power plant with an estimated cost of USD 1bn.
- We maintain a 'HOLD' call on KAPCO with Dec-17 TP of PKR 77.8/share offering an upside of +6% from its last close. The company is currently trading at FY17E P/E of 7.3x and dividend yield of 12.6%.

Earnings to clock in at PKR 2.56/share for 3QFY17

Kot Addu Power Company's (KAPCO) board meeting is scheduled on 21st Apr-17 to announce financial result for 3QFY17, where we anticipate earnings to augment by +20%YoY to PKR 2.3bn (EPS PKR 2.56) as compared to PKR 1.9bn (EPS PKR 2.13) in the corresponding period. This rise in earnings is attributable to a) +22%YoY increase in other income owing to higher penal interest income (receivables: PKR 69bn as at Dec-16), and b) devaluation of PKR against USD.

9MFY17 – Earnings to improve by +4%YoY to PKR 7.3/share, but higher maintenance cost to dilute earnings growth

For 9MFY17E, we expect company's profitability to augment by +4%YoY to PKR 6.4bn (EPS PKR 7.30) compared to PKR 6.2bn (EPS PKR 7.05) during the same period last year. Gross profit is expected to increase by +3%YoY on the back of devaluation of PKR against USD to stand at PKR 104.76/USD (9MFY16: PKR 103.84/USD). Moreover other income is expected to rise by +19%YoY to PKR 3.5bn (9MFY16: PKR 3.0bn) owing to higher penal interest income on receivables. However, earnings growth is anticipated to dilute on the increased maintenance and repairs cost incurred on overhaul of three gas turbines.

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. Furthermore, we await official details regarding setting up of 660MW coal based power plant with an estimated cost of USD 1bn.

Recommendation

We maintain a 'HOLD' call on KAPCO with Dec-17 TP of PKR 77.8/share offering an upside of +6% from its last close. The company is currently trading at FY17E P/E of 7.3x and dividend yield of 12.6%.

Exhibit:

Financial Highlights

PKRmn	3QFY17E	3QFY16	YoY	9MFY17E	9MFY16	YoY
Revenue	17,471	13,503	29%	50,388	47,937	5%
Operating Costs	14,283	10,931	31%	41,240	39,033	6%
Gross Profit	3,189	2,572	24%	9,148	8,904	3%
Admin and Selling	101	98	4%	319	369	-14%
Financial Charges	1,025	733	40%	2,989	2,446	22%
Other Income	1,205	988	22%	3,508	2,959	19%
Pre-Tax Profits	3,267	2,729	20%	9,348	9,048	3%
Post-Tax Profits	2,254	1,873	20%	6,426	6,204	4%
EPS	2.56	2.13		7.30	7.05	
DPS	-	-		4.30	4.25	

Source: IGI Research, Company Financials

No of Shares: 880 mn

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

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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