

Day Break

Tuesday, 24 April 2018

Sector Update

IGI IPP Universe

Recommendation

| | TP (PKR/share) | Recom. | Upside | P/E |
|-------|----------------|--------|--------|------|
| HUBC | 133.3 | BUY | 30.3% | 10.5 |
| KAPCO | 72.5 | BUY | 20.6% | 5.5 |
| NCPL | 32.0 | HOLD | 8.0% | 3.7 |

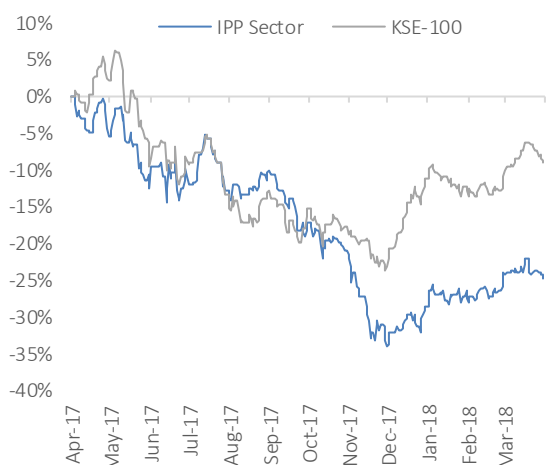
EPS estimate for 3QFY18

| | 3QFY18E | YoY | 9MFY18E | YoY |
|-------|---------|-----|---------|-----|
| HUBC | 2.15 | -3% | 6.73 | 2% |
| KAPCO | 2.80 | -5% | 7.79 | 1% |
| NCPL | 2.58 | 26% | 7.33 | 26% |

DPS estimate for 3QFY18

| | 3QFY18E | 3QFY17 | 9MFY18E | 9MFY17 |
|-------|---------|--------|---------|--------|
| HUBC | 2.0 | 2.0 | 5.0 | 5.0 |
| KAPCO | - | - | 4.4 | 4.3 |
| NCPL | - | - | - | 1.5 |

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Analyst

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Power Generation & Distribution

IPP sector earnings to remain flat at PKR 5.90bn in 3QFY18

- IPP universe earnings are expected to remain flat in 3QFY18 at PKR 5.90bn compared to PKR 5.90bn in the same period last year.
- The Hub Power Company Limited's (HUBC) board meeting is scheduled on 26th Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 2.49bn (EPS: PKR 2.15) down by 3%YoY.
- Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 25th Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 2.46bn (EPS: PKR 2.80) down by 5%YoY.
- Nishat Chunan Power Limited's (NCPL) board meeting is scheduled on 26th Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 0.95bn (EPS: PKR 2.58) up by +26%YoY,
- We maintain 'BUY' call on HUBC and KAPCO with our Dec-18 target price of PKR 133/share and PKR 73/share offering +30% and +21% upside respectively from last close. We have a 'HOLD' call on NCPL with our Dec-18 target price of PKR 32/share.

IPP Sector: Earnings to remain stagnant at PKR 5.90bn in 3QFY18

We preview 3QFY18 result preview for IPP companies HUBC, KAPCO and NCPL under IGI coverage. For the 3QFY18, we expect overall earnings to remain flat at PKR 5.90bn compared to PKR 5.90bn in the same period last year. Key earning driver during 3QFY18 is a) 5% PKR depreciation and, b) lower repair and maintenance cost for NCPL and HUBCO.

HUBC: Lower load factor from Hub, Narowal and Laraib to drag EPS by 3%YoY to PKR 2.15 during 3QFY18

The Hub Power Company Limited's (HUBC) board meeting is scheduled on 26th Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 2.49bn (EPS: PKR 2.15) down by 3%YoY compared to PKR 2.56bn (EPS: PKR 2.21) in the same period last year.

We attribute this decline in the earnings to 57/14/22% YoY decline in load factor for Hub plant/Narowal/Laraib leading to lower fuel and O&M savings. However, decline in earnings is expected to remain restricted owing to lower repair and maintenance cost and 5% PKR depreciation against greenback. The Company is expected to announce cash dividend of PKR 2.0/share bringing 9MFY18 total cash dividend to PKR 5.0/share. This will bring 9MFY18 earnings to PKR 7.79bn (EPS PKR 6.73) up by +2%YoY.

Exhibit:

HUBC Financial Highlights (Consolidated)

| PKR mn | 3QFY18E | 3QFY17 | YoY | 9MFY18E | 9MFY17 | YoY |
|----------------------------|---------|--------|------|---------|--------|-----|
| Turnover | 18,942 | 25,912 | -27% | 73,233 | 74,140 | -1% |
| Operating Costs | 13,907 | 21,648 | -36% | 59,432 | 61,709 | -4% |
| Gross Profit | 5,034 | 4,264 | 18% | 14,764 | 12,431 | 19% |
| Admin expenses | 349 | 340 | 3% | 1,137 | 980 | 16% |
| Other Income | 48 | 29 | 65% | 131 | 143 | -8% |
| Financing Cost | 1,070 | 1,021 | 5% | 3,226 | 3,083 | 5% |
| EBT | 2,659 | 2,821 | -6% | 8,415 | 8,301 | 1% |
| PAT | 2,606 | 2,694 | -3% | 8,167 | 8,064 | 1% |
| PAT - Attributable to HUBC | 2,490 | 2,559 | -3% | 7,788 | 7,628 | 2% |
| EPS (PKR) | 2.15 | 2.21 | | 6.73 | 6.59 | |
| DPS (PKR) | 2.00 | 2.00 | | 5.00 | 5.00 | |

Source: Company Financials & IGI Research

No of Shares: 1,157.15 mn

KAPCO: earnings to drop by 11%YoY in 3QFY18 to PKR 2.62/share

Kot Addu Power Company Limited's (KAPCO) board meeting is scheduled on 25th Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 2.46bn (EPS: PKR 2.80) down by 5%YoY compared to PKR 2.59bn (EPS: PKR 2.94) in the same period last year. We attribute the decline in the earnings to a) higher finance cost amid rising circular debt and, b) higher repairs and maintenance cost. However, 5% PKR depreciation and +28%YoY incline in other income is expected to offset the impact of lower generation and higher repair and maintenance cost. This brings 9MFY18 earnings to PKR 6.70bn (EPS PKR 7.62) down by 1%YoY.

Exhibit:

KAPCO Financial Highlights

| PKRmn | 3QFY18E | 3QFY17 | YoY | 9MFY18E | 9MFY17 | YoY |
|-------------------|---------|--------|------|---------|--------|-----|
| Revenue | 23,322 | 21,284 | 10% | 63,337 | 54,200 | 17% |
| Operating Costs | 20,122 | 17,620 | 14% | 53,488 | 44,578 | 20% |
| Gross Profit | 3,199 | 3,664 | -13% | 9,850 | 9,623 | 2% |
| Admin and Selling | 97 | 99 | -2% | 326 | 317 | 3% |
| Financial Charges | 1,244 | 1,096 | 14% | 4,329 | 3,059 | 42% |
| Other Income | 1,609 | 1,253 | 28% | 4,592 | 3,556 | 29% |
| PBT | 3,467 | 3,722 | -7% | 9,723 | 9,802 | -1% |
| PAT | 2,461 | 2,589 | -5% | 6,857 | 6,760 | 1% |
| EPS | 2.80 | 2.94 | | 7.79 | 7.68 | |
| DPS | - | - | | 4.35 | 4.30 | |

Source: IGI Research, Company Financials

No of Shares: 880 mn

NCPL: O&M savings and PKR depreciation to lift EPS by +26%YoY to PKR 2.58

Nishat Chunian Power Limited's (NCPL) board meeting is scheduled on 26th Apr-18 to announce financial result for 3QFY18, where we expect the Company to post earnings of PKR 0.95bn (EPS: PKR 2.58) up by +26%YoY compared to PKR 0.75bn (EPS: PKR 2.05) in the same period last year. We attribute this substantial growth in the earnings to a) O&M savings of PKR 241mn (or PKR 0.67/share), b) 5% PKR depreciation and, c) lower maintenance cost. However, we expect the Company to withhold payout owing to cash constraints and amount of circular debt to pay off short term borrowings. This brings 9MFY18 earnings to PKR 2.69bn (EPS: PKR 7.33) up by +26%YoY.

Exhibit:

NCPL Financial Highlights

| PKRmn | 3QFY18E | 3QFY17 | YoY | 9MFY18E | 9MFY17 | YoY |
|------------------------|---------|--------|------|---------|--------|------|
| Net Sales | 3,502 | 4,187 | -16% | 11,978 | 11,606 | 3% |
| Cost of Sales | 2,224 | 3,119 | -29% | 8,301 | 8,537 | -3% |
| Gross Profit | 1,278 | 1,067 | 20% | 3,676 | 3,068 | 20% |
| Admin Expense | 10 | 2 | 544% | 17 | 21 | -20% |
| Other Expense | 31 | 48 | -35% | 156 | 127 | 23% |
| Other Operating Income | 9 | 11 | -14% | 21 | 39 | -45% |
| EBIT | 1,247 | 1,029 | 21% | 3,525 | 2,959 | 19% |
| Finance Cost | 300 | 275 | 9% | 833 | 815 | 2% |
| PBT | 946 | 754 | 26% | 2,692 | 2,144 | 26% |
| PAT | 946 | 754 | 26% | 2,692 | 2,144 | 26% |
| EPS | 2.58 | 2.05 | | 7.33 | 5.84 | |
| DPS | - | - | | - | 1.50 | |

Source: IGI Research

No of shares: 367.35mn

Recommendation

We maintain 'BUY' call on HUBC and KAPCO with our Dec-18 target price of PKR 133/share and PKR 73/share offering +30% and +21% upside respectively from last close. We have a 'HOLD' call on NCPL with our Dec-18 target price of PKR 32/share.

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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: Dec – 2018

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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