

Power Generation & Distribution

KAPCO: Earnings Drop by 8%YoY to PKR 2.53/share in 2QFY16

- Profitability slid by 8%YoY/4%YoY to PKR 2.2bn/PKR 4.7bn (EPS PKR 2.53/PKR 5.28) during 2QFY16/1HFY16. Along with the result the company announced cash dividend of PKR 4.25/share.
- Operating costs witnessed a decline of 53%YoY to PKR 9.2bn in 2QFY16 as compared to PKR 19.7bn in same period last year, which in our view is primarily due to drop in oil prices.
- Finance costs dropped massively by 61%YoY to PKR 0.87bn in 2QFY16 from PKR 2.2bnbn in 2QFY15 as a result of lower mark-up rate.
- Other income faltered by 54%YoY to PKR 1.0bn in 2QFY16 from PKR 2.2bn in same period last year.

Recommendation

KAPCO's PPA is set to expire in 2021 and we believe favorable terms for PPA extension along with the government divesting its shareholding in the company, will unlock the value. Furthermore, company is currently evaluating feasibility of 660MW coal based power plant with an estimated cost of USD 1bn. KAPCO is trading at FY16 P/E of 6.9x and with our Dec-16 TP of PKR 83.3/share, we maintain our '**HOLD**' call on the scrip.

Exhibit: Financial Highlights

PKRmn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Revenue	12,446	23,184	-46%	31,438	58,399	-46%
Operating Costs	9,175	19,650	-53%	24,721	50,950	-51%
Gross Profit	3,272	3,534	-7%	6,718	7,449	-10%
Admin and Selling	118	90	31%	202	199	2%
Financial Charges	872	2,231	-61%	2,188	4,105	-47%
Other Income	1,022	2,210	-54%	2,436	3,840	-37%
Pre Tax Profits	3,304	3,424	-4%	6,764	6,986	-3%
Post Tax Profits	2,224	2,424	-8%	4,646	4,833	-4%
EPS	2.53	2.75		5.28	5.49	
DPS	4.25	4.00		4.25	4.00	

Source: IGI Research, Company Financials

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Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DDM(Dividend Discount Model)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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