

Flash Note

Thursday, 01 September 2016

Power Generation & Distribution

KAPCO: Earnings clock in at PKR 10.31/share, DPS 9.0/share in FY16

- Kot Addu Power Company's (KAPCO) earnings dropped by 7%YoY to PKR 9.1bn (EPS PKR 10.31) in FY16 as compared to PKR 9.8bn (EPS PKR 11.13) in the corresponding period last year. Earnings for 4QFY16 reported a slight increase of +7%YoY to PKR 2.9bn (EPS PKR 3.26).
- The company announced cash dividend of PKR 4.5/share along with the result, taking FY16 cumulative dividend to PKR 9.0/share.
- Revenues declined by 37%YoY to PKR 64.2bn in FY16 owing to 42%YoY plunge in FO prices.
- Finance cost decreased by 48%YoY to PKR 3.2bn driven by lower markup on short term borrowings and long term loans in FY16.
- Other income plunged by 36%YoY in FY16 likely owing to lower penal interest income on receivables.
- Effective tax rate dropped by 200bps to 32% in FY16 as compared to 34% in the same period last year.

Recommendation

We maintain a 'Hold' call on KAPCO with Dec-16 TP of PKR 83.3/share offering a downside of 6% from its last close. The company is currently trading at FY17F P/E and dividend yield of 7.4x and 12.1%, respectively.

Exhibit: Financial Highlights

PKRmn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Revenue	16,241	26,744	-39%	64,178	101,481	-37%
Operating Costs	11,738	22,289	-47%	50,770	86,335	-41%
Gross Profit	4,504	4,456	1%	13,408	15,146	-11%
Admin and Selling	160	141	13%	529	418	27%
Financial Charges	790	982	-19%	3,237	6,248	-48%
Other Income	1,082	1,100	-2%	4,041	6,321	-36%
Pre Tax Profits	4,636	4,432	5%	13,683	14,788	-7%
Post Tax Profits	2,867	2,689	7%	9,071	9,799	-7%
EPS	3.26	3.05		10.31	11.13	
DPS	4.75	4.75		9.00	8.75	

Source: IGI Research, Company Financials

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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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