

December 03, 2009

Pakistan Market**KAPCO: Company update / 'Hold' maintained****MORNING BRIEFING**

KSE100 Index: Closing 9087.70 ↑ (+74.66)

Kot Addu Power Company (KAPCO) in its first quarter (Jul-Sep) FY10 results depicted an earnings decline of 13% versus the corresponding period last year. On the positive side, company's liquidity situation witnessed an improvement during the period due to government intervention to curb the mounting circular debt situation.

1QFY10 profits down by 13%

In its first quarter result, KAPCO posted net profit of Rs1.3bn (EPS Rs1.52) versus profits of Rs1.5bn (EPS Rs1.75), a decline of 13%YoY. The company's bottom-line deteriorated mainly due to higher plant maintenance and turbine overhaul cost which jointly stood at around Rs99mn versus Rs16mn in the corresponding period last year. Additionally an 8% hike in company's financial charges (Rs1.2bn in 1QFY10) further dampened KAPCO's bottom line.

Table: 1QFY10 Financial highlights (YoY)

(Rs mn)	1QFY10	1QFY09	Δ%
Sales	20,325	22,486	-10%
Cost of sales	(17,728)	(19,677)	-10%
Gross Profit	2,598	2,809	-8%
Profit from operations	3,285	3,521	-7%
Finance cost	(1,228)	(1,141)	8%
Profit before tax	2,057	2,380	-14%
Profit after tax	1,336	1,536	-13%
Earning per share	1.52	1.75	

Source: Company Accounts

Apart from the above, company's other income stood at Rs807mn. The other income was mainly driven by markup on overdue receivables from WAPDA. As per the Power Purchase Agreement, KAPCO is entitled to receive markup worth discount rate plus 4% in case WAPDA delay's its payments.

Trade debts eased to Rs21.1bn

As per company financials, KAPCO's trade debt during 1QFY10 fell by Rs11.7bn and stood at Rs21.1bn. The decline

was primarily attributed to payment of overdue receivables on behalf of WAPDA/PEPCO by the government post TFC issues to settle the mounting circular debt situation in the country. As a result, the company was able to settle part of its trade liabilities with its fuel supplier (PSO) and somewhat reduced its reliance on short term borrowings. On QoQ basis, company's trade liabilities declined to Rs12.7bn (down Rs6.4bn) and its short term borrowings have decline by Rs6.2bn and stood at Rs2.4bn. With rising power tariffs in the country, we expect the pace of increase in circular debt to slow down going forward.

Expansion project update

Owing to the prevailing liquidity constraints, the company has reduced its proposed 450MW expansion project to 280MW. The company has completed the feasibility and technical studies but has not yet approached the government authorities for tariff determination and other regulatory procedures.

Recommendation: 'Hold' maintained

Currently, KAPCO offers Rupee and US\$ IRR of 18.5% and 16.5% respectively. The stock also offers FY10E dividend yield of 12.7%. At these levels, we maintain our 'Hold' stance on the stock.

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Kot Addu Power	
Market Price: Rs46.50	Kats Code: KAPCO
Market Cap: Rs40.9bn (US\$490mn)	Bloomberg Code: KAPCO PA
1-yrs Avg. Daily Volume: 0.5mn shares, Rs20.7mn (US\$0.3mn)	Reuters Code: KAPCO.KA
1-year High/Low: Rs54.65/26.41	

Also in focus**T-Bills yields drop by 7-23bps**

Following the reduction in policy rate by 50bps in last monetary policy statement, cut off yields on treasury bills fell in the range of 7 to 23bps in the first auction, as expected. Yield for the 6mth paper dropped by 7bps to 12.258%, while yields for the 12mth and 3mth paper dipped by 13bps and 23bps to 12.091% and 12.15% respectively. The central bank was able to raise Rs14.32bn against a target of Rs15bn.

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