

March 22, 2010

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

KSE100 Index: Closing 10000.93 ↓ (-6.94)

Kot Addu Power Company (KAPCO) in its first half yearly (Jul-Dec) FY10 results posted net profit of Rs2.7bn (EPS: Rs3.1), depicting a flat earnings trend on YoY basis. However, company's liquidity situation witnessed slight improvement during the period as mainly due to special TFC issue by the government in order to address the soaring circular debt scenario.

1HFY10 profits flat at Rs3.09 per share

In its 1HFY10 results, KAPCO posted net profit of Rs2.7bn (EPS Rs3.1), almost flat when compared to the corresponding period last year. KAPCO's gross profits fell by 5% mainly due to declining debt profile of the company (Long term debt repayment including mark up is part of company's tariff). The effect of this decline was somewhat mitigated by lower admin expenses which fell to Rs225mn (down 31%YoY).

1HFY10 Financial highlights (YoY)

(Rs mn)	1HFY10	1HFY09	Δ%
Sales	41,108	39,657	4%
Cost of sales	(35,947)	(34,219)	5%
Gross Profit	5,161	5,438	-5%
Profit from operations	6,325	7,271	-13%
Finance cost	(2,149)	(3,102)	-31%
Profit before tax	4,176	4,169	0%
Profit after tax	2,717	2,711	0%
Earning per share	3.09	3.08	

Source: Company accounts

Apart from the above, company's other income stood at Rs1.4bn (down 35%YoY). The decline was mainly attributed to lower Markup (charged at discount rate plus 4%) on delayed payments from WAPDA. The decline is mainly the outcome of improved receivable profile of the company. Similarly, financial charges also fell to Rs2.1bn (Rs3.1bn in 1HFY09) mainly due to declining debt profile and improved working capital situation.

Trade debts at Rs31.2bn

As per company financials, KAPCO's trade debt during

2QFY10 has risen to Rs31.2bn versus Rs32.7bn as of June 2009. However, the overdue receivable has fallen by a major Rs4.8bn which led to lower Markup income charged by the company. On QoQ basis trade debts have witnessed a significant growth of 47%, as KAPCO's receivable fell to Rs21.1bn post government's injection of around Rs160bn to improve the circular debt situation. At current levels, circular debt remains a key concern for the company until new funding is being arranged by the government to clear the backlog.

Expansion project update

Owing to the prevailing liquidity constraints, KAPCO 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% and 15% respectively. The stock also offers FY10E dividend yield of 13%. At these levels, we maintain our 'Hold' stance on the stock.

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Also in focus**Oil slips to US\$80/bbl**

Oil prices fell to US\$80.4/bbl from US\$82.9 (↓ 3.0%) as the dollar gained strength against the major currencies, especially Euro, which weakened amid concerns regarding Greece's economic fate. OPEC's decision to maintain supplies in the coming weeks failed to prevent the prices from sliding. This is likely to bode positive for Pakistan's external accounts.

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