

August 30, 2010

Pakistan Market

KAPCO: FY10 EPS Likely at Rs5.8

MORNING BRIEFING



KSE100 Index: Closing 9,598.71 ↑ (+14.34)

The board of directors of KAPCO is scheduled to meet on September 1, 2010 to announce the company's FY10 earnings. We expect the company to post an EPS of Rs5.8, down 10%YoY. Along with the result, KAPCO is also likely to announce final cash dividend of Rs3.5 per share, taking the full year payout to Rs5.75 per share in FY10. At current levels, we maintain our 'Hold' call on the stock.

High maintenance cost eroding earnings

Despite 6.4% Rupee depreciation against US\$ and an average 1.6% growth in US CPI in FY10, we believe the hike in indexation factors would not be enough to offset the expected earnings decline for the company. The fall is mainly expected on the back of higher plant maintenance and overhaul costs incurred by the company. Only in 9MFY10, the total plant overhaul and repairs expenditure stood at Rs1.2bn (up 168%YoY). As the major overhauls for the year have already been incurred in the last two quarters, we expect the expense to fall on a QoQ basis and is likely to settle around Rs1.4bn on full year basis.

FY10 Earnings Estimates

(Rs mn)	FY10E	FY09A	Δ%
Sales	84,351	69,364	22%
COGS	74,047	58,373	27%
Gross Profit	10,304	10,991	-6%
Admin Expense	562	728	-23%
Other Income	3,105	4,870	-36%
Operating Profit	12,847	15,133	-15%
Finance Cost	4,977	6,410	-22%
PBT	7,870	8,723	-10%
Taxation	2,755	3,051	-10%
PAT	5,116	5,672	-10%
EPS	5.81	6.4	-10%

Source: JS Research

Moreover, company's heavy reliance on short term borrowings due to the prevailing circular debt is also likely to

erode the bottom line in FY10, as the Power Purchase Agreement only covers for the repayment of long term loans of the power project.

Outlook: 'Hold' maintained

The stock currently offers an FY10E dividend yield of 13.5% and a Rupee IRR of 17%. Moreover, due to lack of earning upside triggers, especially after shelving its expansion project this year, we remain neutral on the stock with our 'Hold' call intact for KAPCO.

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Kot Addu Power Company Limited

Market Price: Rs41.50	Kats Code: KAPCO
Market Cap: Rs36.5bn (US\$426.5mn)	Bloomberg Code: KAPCO PA
1-yrs Avg. Daily Volume: 0.4mn shares, Rs18.1mn (US\$0.2mn)	Reuters Code: KAPCO.KA
1-year High/Low: Rs54.65/40.00	

Also in focus

NIB registers loss of Rs1.9bn in 1H2010

NIB Bank reported its 1H2010 financial result today, recording a loss after tax of Rs1.9bn (loss per share of Rs0.48) as against profits of Rs579mn (EPS Rs0.14) in the same period last year. The decline in earnings was primarily down to decline in Net Interest Income (down 26% to Rs2bn in 1H2010) and a hefty increase in provisions for NPLs (Rs1.8bn in 1H2010 as against reversals of Rs496mn in the corresponding period last year). Encouragingly, Non Interest Income rose by 49% to Rs1bn, as the bank booked increased income from foreign currency dealing and higher gain on sale of securities. We currently maintain our 'Hold' call on the scrip.

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