

Earning Review

KAPCO: 1QFY23 EPS clocked in at Rs2.40, down 7% YoY

Event

- Kot Addu Power Company (KAPCO) profitability during 1QFY23 clocked in at Rs2.1bn (EPS Rs2.40), down 7% YoY, against Rs2.3bn (EPS R2.59) during 1QFY22.
- The result is below our expectation given higher cost of goods sold and unexpected other expenses.

Impact

- We attribute decrease in profitability to (1) lower spread on funding of receivables, (2) increase in administration expense, (3) higher other expenses and (4) higher effective tax.
- However, (1) higher capacity payments, (2) lower efficiency losses and (3) increase in other income has restricted drop in company's profitability.
- During the quarter, the company dispatched 551GWh of electricity, down by 68% YoY and 67% QoQ, due to lower generation on imported fuels amid supply chain constraints and elevated RLNG and Furnace oil (FO) prices.
- Company gross profit increased by 21% YoY due to higher capacity payments and lower efficiency losses. However, gross profit is below our expectation given higher Operation and Maintenance expense, in our view.
- Average cost of electricity generation on RLNG and FO are up by 95% and 97% during the quarter.
- During the quarter, benefit of funding the receivable decreased by ~4% YoY given significant reduction in trade receivables due to clearance of circular debt.
- National Electric Power Regulatory Authority (NEPRA) has renewed the Generation License of the company for a period of three years from the expiry date, September 21'2021. Subsequently, the term of the Generation License will expire on September 21'2024.
- The Company has submitted an application for Reference Generation Tariff while Power Purchaser and the Company has already agreed to enter into a new power purchase agreement for sale and purchase of electric power.

Outlook

- Extension in generation license for a period of three years would pay way for extension in PPA of the company that expired on October 24'2022.
- We expect the PPA extension to be on the basis of "Take and Pay" basis rather than "Take or Pay" due to induction of Trimu RLNG based plant, and capacity building in transmission and distribution network that would overcome supply constraints in the vicinity of the plant.

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Fig1: 1QFY23 Financial highlights

Rs (mn)	1QFY23	1QFY22	YoY	QoQ
Revenue	22,890	34,238	-33%	-62%
Cost of Sales	21,314	32,937	-35%	-62%
Gross profit	1,576	1,301	21%	-49%
Admin expense	176	119	47%	-67%
Other operating income	3,826	2,756	39%	5%
Operating profit	5,027	3,938	28%	-19%
Finance cost	1,878	730	157%	4%
Other Expenses	199	-	na	na
PBT	3,149	3,208	-2%	-29%
Tax	1,039	928	12%	-62%
PAT	2,110	2,280	-7%	27%
EPS	2.40	2.59		
DPS	0.0	0.0		

Source: PSX, Company Reports, Foundation Research, October 2022

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.