

Earning Review

KAPCO: 2QFY23 EPS clocked in at Rs1.22, DPS Rs3.5

Event

- Kot Addu Power Company (KAPCO) profitability during 2QFY23 clocked in at Rs1.1bn (EPS Rs1.22), down 68%/49% YoY/QoQ, against Rs3.3bn (EPS Rs3.78) during 2QFY22. This cumulates into profitability of Rs3.2bn (EPS Rs3.62) in 1HFY23, down 43% YoY.
- The result is accompanied with cash payout of Rs3.5/sh.
- The result is below our expectation given higher cost of goods sold and admin expenses. However, cash payout beats our expectation.

Impact

- We attribute decrease in profitability to (1) lower variable charge given reduced utilization, (2) lower spread on funding of receivables, (3) increase in administration expense, (4) higher other expenses and (5) higher effective tax.
- However, increase in other income has restricted drop in company's profitability.
- During the quarter, the company dispatched 36GWh of electricity, down by 95% YoY and 93% QoQ, due to lower generation on imported fuels amid supply chain constraints and elevated RLNG and Furnace oil (FO) prices.
- Company gross loss clocked in at Rs426mn due to fixed charge amid lower plant utilization. Moreover, gross margin 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 25.2% YoY and 31.2% YoY during the quarter.
- During the quarter, benefit of funding the receivable decreased by ~7% YoY given significant reduction in trade receivables due to clearance of circular debt.

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: 2QFY23 Financial highlights

Rs (mn)	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Revenue	2,279	19,494	-88%	-90%	25,169	53,731	-53%
Cost of Sales	2,706	17,664	-85%	-87%	24,020	50,601	-53%
Gross profit	(426)	1,829	-123%	-127%	1,149	3,130	-63%
Admin expense	385	163	137%	119%	561	282	99%
Other operating income	3,877	3,661	6%	1%	7,702	6,418	20%
Operating profit	2,995	5,328	-44%	-40%	8,021	9,266	-13%
Finance cost	1,266	851	49%	-33%	3,144	1,581	99%
Other Expenses	70	-	na	-65%	269	-	na
PBT	1,729	4,477	-61%	-45%	4,877	7,685	-37%
Tax	652	1,149	-43%	-37%	1,691	2,077	-19%
PAT	1,076	3,328	-68%	-49%	3,185	5,608	-43%
EPS	1.22	3.78			3.62	6.37	
DPS	3.5	0.0			3.5	0.0	

Source: PSX, Company Reports, Foundation Research, February 2023

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