



## Today's Daily

### ■ Power: FY18 Result Previews

Companies in our power universe are due to announce their FY18 results in the next couple of weeks (HUBC: Aug 20'18, KAPCO: Aug 29'18) where the combined profitability is expected to stay flattish at PkR20.66bn vs. PkR20.14bn in FY17. While PkR devaluation would raise RoE based revenue stream; higher fuel costs, piling circular debt and incremental long term borrowing (for HUBC) are expected to push finance cost up, in turn suppressing profitability. On individual basis, HUBC is expected to report FY18 profitability of PkR11.27bn (EPS: PkR9.74), up by 5.5%YoY while KAPCO's NPAT is expected to dip by 6.2%YoY to PkR8.86bn (EPS: PkR10.06). Along with the results, we expect HUBC/KAPCO to announce final dividends of PkR2.75/4.25/sh.

#### KSE100 - Index

Current	41,960.80
Previous	42,446.56
Chg.	-1.14%

#### Mkt Cap. (PkRbn/US\$bn)

Current	8,620 / 69.78
Previous	8,704 / 70.46
Chg.	-0.97%

#### Daily Turnover (mn)

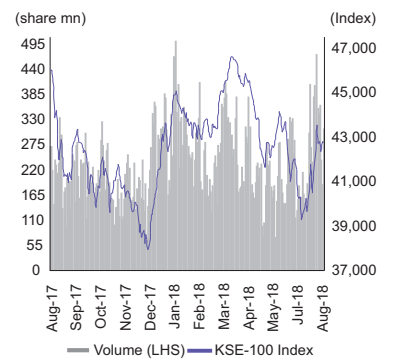
Current	142.18
Previous	145.25
Chg.	-2.1%

#### Value Traded (PkRmn/US\$m)

Current	7,225 / 58.49
Previous	8,480 / 68.65
Chg.	-14.8%

### News and Views

- Fitch Rating in its report highlighted that US pressure could lead to stringent conditions by the International Monetary Fund (IMF) to bailout Pakistan, including curtailment of China-Pakistan Economic Corridor and greater transparency in its financing.
- Reverting back to its downward trajectory, FX reserves held by central bank fell by US\$216.5mn during the last week, ending at US\$10.2bn (-2.1%WoW). Accompanied by decline in reserves held by bank (down 1.15%WoW), total FX reserves of the country ended at US\$16.7bn (down by US\$292.2mn).
- The opposition alliance fell apart after PPP and MMA decided to abstain from voting in the NA for the office of Prime Minister due to refusal of the Pakistan Muslim League-Nawaz (PML-N) to replace its candidate, making the contest a one-sided affair.



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**HUBC FY18 Preview:** HUBC's net profitability is expected to rise 5.5%YoY to PkR11.27bn (EPS: PkR9.74) vs. PkR10.7bn (EPS: PkR9.23) in the previous year. PkR depreciation against the US\$, lower utilization of relatively inefficient base plant (52% vs. 65% in FY17) and controlled O&M costs (due to self-owned subsidiary) are expected to be the major factors behind earnings increment. On the other hand, company's short term financing is expected to stay elevated at ~PkR27.5bn, exerting pressure through raised finance cost in a high interest rate environment with additional burdens from long term borrowings to finance equity investments in CPHGC, TEL and SECMC. Along with the result, we expect the company to announce a final dividend of PkR2.75/sh taking full year payout to PkR7.35/sh.

On quarterly basis, earnings are expected to drop 2.2%QoQ to PkR2.99bn (EPS: PkR2.59) vs. PkR3.06bn (EPS: PkR2.64) where finance cost is again anticipated to be the major culprit, offsetting the benefits of PkR devaluation in revenues.

### HUBC: Income Statement

(PkRmn)	FY18F	FY17	YoY	4QFY18F	4QFY17	YoY	3QFY18	QoQ
Turnover - net	100,532	101,188	-0.6%	26,746	27,049	-1.1%	19,495	37.2%
Operating Costs	78,187	80,384	-2.7%	20,839	21,260	-2.0%	13,827	50.7%
SG&A expenses	1,493	1,365	9.3%	380	385	-1.4%	325	16.8%
EBITDA	20,853	19,439	7.3%	5,527	5,403	2.3%	5,344	3.4%
Dep & amortisation	4,021	3,544	13.4%	972	960	1.3%	1,044	-6.9%
EBIT	16,832	15,894	5.9%	4,555	4,444	2.5%	4,299	6.0%
Financing cost	4,548	4,081	11.4%	1,301	998	30.3%	1,091	19.2%
Other income	166	158	5.3%	45	14	228.0%	38	18.4%
Shareprofit from associate	(298)	(186)	60.1%	(104)	(34)	203.4%	(87)	20.0%
EBT	12,100	11,708	3.3%	3,196	3,407	-6.2%	3,149	1.5%
Taxation	337	359	-6.2%	75	122	-39.0%	68	10.0%
Net Income	11,763	11,348	3.7%	3,121	3,284	-5.0%	3,081	1.3%
Attributable to Owners of Holding Co	11,274	10,689	5.5%	2,995	3,061	-2.2%	2,981	0.5%
EPS (PkR)	9.74	9.23	-	2.59	2.64	-	2.58	-

Source: AKD Research & Company Report



**KAPCO:** KAPCO is expected to post FY18 earnings of PkR8.86bn (EPS: PkR10.1) vs. PkR9.44bn (EPS: PkR10.73), lower by 6.2% as the company continues to lose efficiency despite turbine overhauls in both FY17 and FY18, with gross margins anticipated to hover at 14.37% compared with 17.33% in the previous year. Moreover, circular debt has forced reliance on short term borrowings, expected to take its finance cost to PkR6.38bn vs. PkR4.42bn in FY17. With a utilization rate of 65%, the company continues to supply electricity to the national grid, where piling receivables have created an extreme liquidity crunch, owing to which we believe the company will announce a final dividend of PkR4.25/sh, taking its full year payout ratio to 85%.

On sequential basis, earnings are expected to go up by a meagre 2.2%QoQ to PkR2.25bn (EPS: PkR2.56) vs. PkR2.21bn (EPS: PkR2.51) in 3QFY18 where absence of turbine overhaul cost remains the key contributor.

#### KAPCO: Income Statement

(PkRmn)	FY18F	FY17	YoY	4QFY18F	4QFY17	YoY	3QFY18	QoQ
Sales	91,737	81,847	12.1%	30,131	27,647	9.0%	21,590	39.6%
Gross Profit	13,179	14,180	-7.1%	3,356	4,558	-26.4%	3,173	5.8%
Administrative Expenses	429	452	-5.0%	113	135	-16.4%	88	28.7%
Other Operating Income	6,461	4,991	29.5%	1,743	1,436	21.4%	1,736	0.4%
Operating Profit	19,120	18,498	3.4%	4,959	5,637	-12.0%	4,820	2.9%
Finance Cost	6,383	4,425	44.2%	1,689	1,366	23.7%	1,609	5.0%
NPBT	12,737	14,073	-9.5%	3,270	4,271	-23.4%	3,211	1.8%
Taxation	3,878	4,626	-16.2%	1,014	1,584	-36.0%	1,003	1.0%
NPAT	8,859	9,447	-6.2%	2,256	2,687	-16.0%	2,208	2.2%
EPS (PkR)	10.06	10.73	-	2.56	3.05	-	2.51	-

Source: AKD Research & Company Report

**Investment Perspective:** Value accretive investments in the power sector and the ongoing contribution from base plant, Narowal and Laraib makes HUBC our best pick in the sector. Progress on the ongoing projects has been faster than anticipated, where as per news flows, CPHGC (1,320MW) has been connected to the national grid and its first unit is scheduled to come online by Dec'18. From last close, HUBC provides a capital upside of 47.9%, and its FY18F/19F D/Y stands at 7.67/9.39%. BUY!



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Reduce	< -5% to > -20% downside potential
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