

Engro Powergen Qadirpur Limited

Result Review

PSX: EPQL Bloomberg: EPQL: PA Reuters: ENGP. KA

Pakistan Research

CY18 EPS clocked in at PKR 8.11, up 10% YoY

- EPQL announced its CY18 financial results where the company reported EPS of PKR 8.11, up 10% YoY, 4QCY18 earnings clocked in at PKR 2.17/share, up 31% YoY. We attribute earnings growth to increase in ROE component because of currency devaluation. The company did not declare any final dividend citing liquidity concerns as the receivables continued to pile up.
- The topline of the company inched up 2% YoY during CY18 to settle at PKR 11.87bn. Topline growth remained subdued as the increase in ROE component was moderated by decline in load factor. Load factor for the CY18 clocked in at 82% as compared to 93% in CY17 where the lower load factor was on account of ~15% gas curtailment during the period.
- Finance cost for CY18 posted a decline of 27% YoY to settle at PKR 196mn on account of decline in long-term loans.
- Other income witnessed a sharp decline of 98% YoY during CY18 due to base effect.
- During its analyst briefing held after the result announcement, EPQLs management disclosed that total receivables stands at PKR 9.0bn out of which PKR 6.0bn is overdue. EPQL is expected to receive ~ PKR2.0bn in the upcoming sukuk issue of PKR 200bn by the government which will ease the liquidity pressure currently being faced by the company. However, the timeline of the issue has not been finalised yet.
- Improvement in liquidity position of the company post the sukuk issue may give the board an opportunity to consider interim distribution.
- We estimate our Dec-19 PT of PKR 37/share. Our PT implies an upside of 26% along with a dividend yield of 14.5%. We have a 'BUY' recommendation on the stock.

Key Data

PSX Ticker	EPQL
Target Price (PKR)	37
Current Price (PKR)	29
Upside/ (Downside) (%)	+ 26%
Dividend Yield (%)	15%
Total Return (%)	+ 41%
12-month High (PKR)	36
12-month Low (PKR)	28
Outstanding Shares (mn)	323.80
Market Cap (PKR mn)	9,510
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY17	4QCY18	YoY	CY17	CY18	YoY
Sales	2,791	3,467	24%	11,590	11,874	2%
Cost of Sales	2,175	2,679	23%	8,878	8,864	0%
Gross Profit	616	788	28%	2,712	3,010	11%
Administrative expenses	22	54	146%	159	182	15%
Other income	0.2	(0)	NA	110	2	-98%
Other operating expenses	(0)	(0)	NA	3	5	72%
Finance cost	57	31	-45%	269	196	-27%
Profit after tax	538	703	31%	2,391	2,628	10%
EPS	1.66	2.17	31%	7.38	8.11	10%
DPS	1.50	-		3.25	1.50	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY15A	CY16A	CY17A	CY18E	CY19F	CY20F
EPS	5.55	5.52	7.38	8.11	10.95	6.21
EPS Growth	-11%	-1%	34%	10%	35%	-43%
DPS	3.50	3.00	3.25	1.50	4.25	4.25
PER	5.3	5.3	4.0	3.6	2.7	4.7
Dividend Yield	11.9%	10.2%	11.1%	5.1%	14.5%	14.5%
EV/EBITDA	6.7	6.8	5.3	5.9	3.5	5.1
P/B	1.3	1.1	1.0	0.9	0.7	0.7
ROE	24.0%	21.1%	24.4%	24.5%	27.5%	14.8%

Source: Company Accounts, Akseer Research

Saad Nandia

saad.nandia@akseerresearch.com

Valuation Basis

Our PT for Engro Powergen Qadirpur Limited (EPQL) has been computed using Dividend Discount Model (DDM) method. We have used a risk-free rate of 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-19 PT of PKR 37/share which results in an upside of 26% along with a dividend yield of 14.5%. Our investment case on EPQL is based on (1) Company is able to secure gas supply from alternative sources because of depleting permeate gas at Qadirpur field. (2) Company operating at its bench mark efficiency with negligible fuel efficiency gains/losses.

Risks

Key downside risks to our investment thesis are: 1) Company not able to secure any alternative supply of gas. 2) EPQL operating below its benchmark efficiency causing fuel efficiency losses.

Company Description

Engro Powergen Qadirpur Limited generates and sells power in Pakistan. It operates a combined cycle power plant with a capacity of 217.3 megawatts in Qadirpur, Sindh. The company was formerly known as Engro Energy Limited. Engro Powergen Qadirpur Limited was incorporated in 2006 and is headquartered in Karachi, Pakistan. Engro Powergen Qadirpur Limited is a subsidiary of Engro Powergen Limited.

Financial Highlights - EPQL

Income Statement (PKR mn)						
	CY15A	CY16A	CY17A	CY18A	CY19F	CY20F
Net sales	13,354	11,452	11,590	11,874	15,798	14,888
Cost of sales	10,889	9,209	8,878	8,864	12,228	13,037
Gross Profit	2,465	2,242	2,712	3,010	3,569	1,852
SG & A	182	188	159	182	220	229
Operating Profit	2,283	2,054	2,553	2,828	3,350	1,623
Other income	7	99	110	2	2	2
Other charges	50	4	3	5	(2)	(2)
Finance cost	441	361	269	196	(194)	(388)
Profit before tax	1,798	1,788	2,391	2,629	3,548	2,015
Taxation	1	1	0	1	3	3
Profit after tax	1,797	1,788	2,391	2,628	3,545	2,012

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY15A	CY16A	CY17A	CY18E	CY19F	CY20F
PPE	14,079	13,525	13,169	12,803	12,426	12,037
Other LT assets	121	123	119	136	136	136
Non-Current Assets	14,199	13,647	13,288	12,939	12,562	12,174
Current assets	5,352	6,445	8,003	10,024	11,438	10,711
Total Assets	19,552	20,092	21,291	22,964	24,000	22,885
Non-Current liabilities	6,395	4,611	2,819	1,166	-	-
Current liabilities	5,668	7,027	8,658	11,094	11,098	9,324
Total Liabilities	12,063	11,637	11,478	12,260	11,098	9,324
Equity	7,489	8,455	9,813	10,704	12,902	13,561
Total Equity & liabilities	19,552	20,092	21,291	22,964	24,000	22,885

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY15A	CY16A	CY17A	CY18E	CY19F	CY20F
Net Income	1,797	1,788	2,391	2,628	3,545	2,012
Non-cash Charges	723	730	753	-	799	822
Operating Cash flows	3,009	2,964	4,220	4,138	5,287	3,193
FCFF	4,142	3,617	4,866	4,777	7,334	7,417
Net borrowings	(945)	(872)	(1,236)	(729)	(2,105)	(2,132)
FCFE	3,197	2,745	3,630	4,048	5,229	5,285
Net change in cash	11	25	(32)	97	4	6
Closing cash	14	40	7	105	109	115

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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Pakistan Research Team

Sohaib Subzwari sohaib.subzwari@akseerresearch.com	Muhib ur Rasool muhib.rasool@akseerresearch.com	Saad Nandia saad.nandia@akseerresearch.com
Musadiq Jawaid musadiq.jawaid@akseerresearch.com	Shahbaz Lalani shahbaz.lalani@akseerresearch.com	Asad Rindani asad.rindani@akseerresearch.com

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

Land Mark Plaza, Suite# 303, Muhammad Bin Qasim Road,
off. I.I Chundrigar Road, Karachi-74000

T: +92-21-38694242

E: info@alfaadhi.net