

Tuesday, April 5, 2016

[Morning Report]

Market Overview

Market observed an overwhelming day as almost 63 per cent of scrips closed in green zone. Index continued to travel northbound closing near upper lock. Renewed interest from local institution triggered positivity in market. Record level of sale kept OMC in public interest. Inaugural of FML supported the FFC to close at upper circuit. The benchmark KSE-100 index closed higher by 358.80 points to close at 33,808.42 points.

KAPCO: Higher cost restricts profitability growth

Kot Addu Power Company Limited (KAPCO) announced its half yearly financial results ended December 2015. During the period under review, the company earned Rs 4.33 billion (EPS: Rs 4.92) profit after tax, which resulted in 10% YoY decline as against Rs 4.83 billion (EPS: Rs 5.49) it achieved last year. The decrease in earnings was attributed to net effect of higher repair and maintenance expenses. The company's management announced an interim cash dividend of Rs. 4.25/share.

Lower electricity generation

In 2QFY16, Kapco generated 1,416 Gigawatt hours (GWh) of electricity (1,953 GWh in 1QFY16) at a load factor of 47.8% with an overall commercial availability of 92.1%. The core reason behind lower output is ill-payment from WAPDA. Top line decline by 41% YoY to Rs 34.43 billion versus Rs 58.39 billion in 1HFY15 on account of lower load factor.

Repair cost further dents profitability

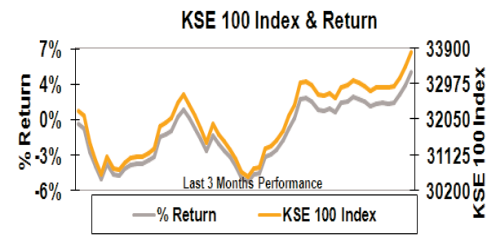
During half year tenure, the company's cost of sales dropped by 45%YoY to Rs 28.1 billion, on the back of 58%YoY dip in fuel cost; furnace oil prices were declined by 46%YoY in 2QFY16. Nevertheless, the company's gross profit was dipped by 15%YoY from Rs 7.45 billion in 1HFY15 to Rs 6.33 billion in 1HFY16. The decline incurred due to incremental repair and renewal cost during the second quarter to Rs 383 million, as compared to Rs 31 million during the same period last year.

Rs in million	1HFY16	1HFY15	YoY	2QFY16	1QFY16	QoQ
Net Sales	34,434	58,399	-41%	12,446	21,988	-43%
Cost of sales	28,102	50,950	-45%	9,175	18,927	-52%
Gross Profit	6,333	7,449	-15%	3,272	3,061	7%
General & Admin Exp.	272	188	44%	118	154	-23%
Other Income	1,970	3,840	-49%	1,022	948	8%
Other Expenses	0	10	NA	0	0	NA
Finance Cost	1,713	4,105	-58%	872	840	3.81%
Profit before Tax	6,318	6,986	-10%	3,304	3,015	10%
Tax	1,987	2,152	-8%	1,080	907	19%
Profit after Tax	4,331	4,833	-10%	2,224	2,107	6%
EPS (Rs)	4.92	5.49		2.53	2.39	

Source: Company Reports and AZEE Research

Recommendation

We expect improved profitability going forward due to rupee depreciation against US dollar. Further, the maintenance cost is also likely to normalize from 3QFY16 onwards. Additionally, the government has also the intention to divest its Kapco stake, as its PPA is set to expire in 2021 would extend. Furthermore, the company is currently evaluating feasibility of 660MW coal based power plant with an estimated cost of around US\$ 925 million. For this purpose company has formed a fully owned separate entity with a name KAPCO Energy (Pvt) Limited. Currently Kapco shares are trading at Rs 78.18/share providing upside potential of 167%, as against our Dec 2016 target price of Rs 91/share.



News Update

The Securities and Exchange Commission of Pakistan (SECP) has signed a memorandum of understanding (MoU) with CFA Society Pakistan (CFASP) a global association of investment professionals in 145 countries, to jointly raise awareness of investor rights and establish the standards of professional excellence in investment management in Pakistan. The MoU sets the framework for collaboration on promotion of investor rights and financial literacy, and emphasizes the importance of the Statement of Investor Rights awareness among both investors and investment management professionals. This collaboration will help advocate the highest level of ethical standards and ensure fair practices and transparency, all crucial to the sustainable growth and development of Pakistan's capital and financial industries, said a statement here on Monday. Terming the partnership a very timely move, the SECP Chairman, Zafar Hijazi, said that protecting investors' interests, ensuring fair practices and complete transparency in the markets in regulators' primary responsibility.

National Assembly's Standing Committee on Industries and Production discussed the ongoing policies, projects and future plans of Heavy Electrical Complex (HEC). A meeting of NA body on Industries and Production was held under the Chairmanship of MNA, Asad Umar in Committee Room of PIPS, Parliament Lodges here on Monday. During the meeting, presentation was given to the Standing Committee by the MD, National Fertilizer Marketing Limited (NFML) about the details of inquiry cases pending in National Accountability Bureau (NAB) and Federal Investigation Agency (FIA) and departmental inquiry reports along with the current status of the NFML. The Committee further discussed the proposed plan of Pakistan Machine Tools Factory's (PMTF) management for turning around its performance. Members who attended the meeting, MNA Isphanyar M. Bhandara, Syed Imran Ahmad Shah, Ms. Sajida Begum, Maulana Muhammad Gohar Shah, and Mr. Iftikhar-ud-Din along with officials of concerned institutions.

NCCPL (U.S \$ in million)		Portfolio Investment U.S \$ in million)		KSE Statistics		April 4, 2016
FIPI (04-Apr-2016)	-1.51	Yearly(Jul, 2015 up to 31-Mar-2016)	-527.34	Indices		
Local Companies (04-Apr-2016)	-0.13	Monthly(Mar, 2016 up to 31-Mar-2016)	4.00	All Share Index		23,238.24
Banks / DFI (04-Apr-2016)	1.80	Daily (31-Mar-2016)	-0.01	KSE-30TM Index		19,606.13
Mutual Funds (04-Apr-2016)	1.86	Total Portfolio Investment (25-Mar-2016)	5940	KSE-100TM Index		33,808.42
NBFC (04-Apr-2016)	0.60			Turnover		
Local Investors (04-Apr-2016)	-3.13			All Share Index		292,270,330
Other Organization (04-Apr-2016)	-0.16			KSE-30TM Index		110,899,850
				KSE-100TM Index		163,403,830

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Pivot Analysis

Company	CR	RSI	Buy 1	Buy 2	Sell 1	Sell 2	Pivot
KSE 100 INDEX	33808.42	62.43	33,511	33,213	33,968	34,127	33,670
Attock Cement	212.52	80.35	208.70	204.85	214.70	216.85	210.85
Adamjee Insurance	54.29	51.03	54.05	53.85	54.40	54.55	54.20
Askari Bank	18.50	28.17	18.35	18.25	18.60	18.75	18.50
Azgard Nine	4.34	73.74	4.10	3.90	4.50	4.65	4.25
Attock Petroleum	428.78	49.86	427.70	426.60	429.70	430.60	428.60
Attock Refinery	233.38	75.54	230.60	227.75	235.95	238.50	233.15
Bank Al-Falah	24.87	43.12	24.75	24.65	25.00	25.10	24.85
BankIslami Pak	10.79	57.20	10.60	10.40	10.90	11.00	10.70
Bank.Of.Punjab	8.72	51.74	8.65	8.55	8.85	8.95	8.75
Fauji Cement	44.41	72.79	43.20	42.05	45.10	45.80	43.90
Fauji Fert Bin	53.71	67.19	52.05	50.35	54.55	55.40	52.85
Fauji Fertilizer	109.74	54.93	107.75	105.80	111.25	112.75	109.25
Habib Bank Ltd	175.31	42.40	173.40	171.45	176.90	178.45	174.95
Hub Power	105.90	54.30	105.35	104.80	106.60	107.30	106.05
ICI Pakistan	432.18	48.23	429.40	426.60	433.60	434.95	430.80
Jah Siddiq Co	22.84	44.21	21.85	20.85	23.50	24.20	22.55
Lucky Cement	557.04	77.32	547.40	537.75	563.30	569.55	553.65
MCB Bank Ltd	206.79	55.01	205.75	204.65	208.35	209.90	207.30
Maple Leaf Cement	97.20	73.60	95.05	92.90	98.50	99.85	96.35
National Bank	53.26	38.62	52.05	50.90	54.10	54.95	52.90
NIB Bank	1.82	46.79	1.80	1.75	1.90	1.95	1.85
Oil & Gas Dev. XD	115.37	55.39	113.90	112.40	116.25	117.10	114.75
P.S.O. XD	370.44	73.09	357.70	344.95	377.50	384.55	364.75
Sui North Gas	26.62	66.54	26.25	25.85	26.95	27.30	26.60

Board Meetings

Company	DATE	TIME
Khalid Siraj Textile Mills Ltd	05-04-2016	10:00
Shahmurad Sugar Mills Ltd	05-04-2016	11:00
Pak Reinsure Comp Ltd	05-04-2016	11:00
Lalpir Power Ltd	05-04-2016	11:00
Asia Insure Comp Ltd	05-04-2016	11:00
Singer Pak Ltd	05-04-2016	11:00
Pakgen Power Ltd	05-04-2016	12:00
Crescent Star Insure Ltd.	05-04-2016	4:00
Shaheen Insure Co. Ltd.	06-04-2016	9:30

Key Data

Money Market

T-Bills (3 Mths)	30-Mar-2016	6.17%
T-Bills (6 Mths)	30-Mar-2016	6.18%
T-Bills (12 Mths)	30-Mar-2016	6.21%
Policy Rate	30-Jan-2015	6.00%
Kibor (1 Mth)	04-Apr-2016	6.50%
Kibor (3 Mths)	04-Apr-2016	6.36%
Kibor (6 Mths)	04-Apr-2016	6.37%
Kibor (9 Mths)	04-Apr-2016	6.64%
Kibor (1 Yr)	04-Apr-2016	6.65%
P.I.B (3 Yrs)	04-Apr-2016	6.35%
P.I.B (5 Yrs)	04-Apr-2016	6.95%
P.I.B (10 Yrs)	04-Apr-2016	8.23%
P.I.B (15 Yrs)	04-Apr-2016	10.30%
P.I.B (20 Yrs)	04-Apr-2016	10.60%
P.I.B (30 Yrs)	04-Apr-2016	11.10%

Commodities

Crude Oil (brent)\$/bbl	38.66
Crude Oil (WTI)\$/bbl	36.90
Cotton \$/lb	59.35
Gold \$/ozs	1,217.17
Silver \$/ozs	15.03
Malaysian Palm \$	707
GOLD (PMEX) PKR	41,672
KHI Cotton 40Kg PKR	5,573

CR = Yesterday's Closing Rate; RSI = 14 day RSI.
RSI Indication: Less than 30 Indicate oversold position & Greater than 70 Indicate overbought position.

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MTS Leverage Position

	Unrel Volume	Unrel Value	MTS Volume	MTS Value	Total Volume	Total Value	MTS Rate
1-Apr-16	118,617,499	4,755,969,134	10,460,000	373,320,276	129,077,499	5,129,289,410	9.01
31-Mar-16	119,364,099	4,654,492,048	10,296,100	504,410,430	129,660,199	5,158,902,478	8.24
Chg DoD %	-0.63%	2.18%	1.59%	-25.99%	-0.45%	-0.57%	77 bps
Symbol	Unrel Volume	Unrel Value	MTS Volume	MTS Value	Total Volume	Total Value	MTS Rate
AHCL	491,500	16,949,482	10,500	370,519	502,000	17,320,001	13.00
AICL	303,500	13,647,910	11,000	505,057	314,500	14,152,967	11.00
AKBL	2,039,900	32,396,617	426,500	6,740,968	2,466,400	39,137,585	9.00
ATRL	854,600	161,250,630	59,200	11,775,033	913,800	173,025,663	8.00
BAFL	893,500	18,325,131	69,500	1,471,329	963,000	19,796,460	9.00
BOP	19,697,500	143,032,458	1,083,000	8,176,560	20,780,500	151,209,018	9.00
CHCC	713,500	61,313,703	30,500	2,930,291	744,000	64,243,994	10.00
DCL	1,020,500	11,029,932	754,000	9,039,808	1,774,500	20,069,740	13.00
DGKC	1,707,200	242,615,144	34,400	5,147,354	1,741,600	247,762,498	8.00
EFERT	2,215,500	129,852,799	239,500	14,355,235	2,455,000	144,208,034	8.00
EFOODS	341,400	43,436,557	85,300	11,360,835	426,700	54,797,392	9.00
ENGRO	2,469,300	629,271,864	-	-	2,469,300	629,271,864	-
FABL	237,000	2,838,584	-	-	237,000	2,838,584	-
FATIMA	3,116,000	85,582,637	98,500	2,759,330	3,214,500	88,341,967	8.00
FCCL	2,526,000	87,315,359	132,500	4,865,377	2,658,500	92,180,736	8.00
FFBL	1,914,500	81,171,805	83,000	3,620,050	1,997,500	84,791,855	8.00
FFC	695,200	62,863,833	97,500	8,910,193	792,700	71,774,026	8.00
HASCOL	432,100	51,771,476	17,000	2,052,683	449,100	53,824,159	11.00
HBL	1,940,600	282,589,123	165,000	24,236,585	2,105,600	306,825,708	8.00
HUBC	563,200	49,901,061	88,300	8,033,066	651,500	57,934,127	10.00
HUMNL	168,000	1,349,010	-	-	168,000	1,349,010	-
KEL	25,202,500	147,993,844	1,277,000	7,741,351	26,479,500	155,735,195	10.00
MLCF	541,500	39,858,198	230,500	18,597,840	772,000	58,456,038	9.00
PAEL	4,383,099	221,495,349	488,500	24,616,418	4,871,599	246,111,767	9.00
PAKCEM	833,000	12,889,144	206,000	3,433,072	1,039,000	16,322,216	12.00
PIOC	711,500	57,244,694	28,000	2,463,888	739,500	59,708,582	9.00
POWER	1,062,500	8,184,257	65,500	521,282	1,128,000	8,705,539	12.00
PPL	274,200	29,156,974	14,300	1,566,673	288,500	30,723,647	9.00
PSO	140,400	40,455,616	11,600	3,491,204	152,000	43,946,820	8.00
PTC	4,526,100	55,301,550	83,500	1,093,282	4,609,600	56,394,832	9.00
SEARL	142,000	50,225,107	9,900	3,719,205	151,900	53,944,312	10.00
SNGP	5,565,300	114,338,369	390,500	8,678,605	5,955,800	123,016,974	9.00
SSGC	9,754,200	221,140,520	492,300	11,657,348	10,246,500	232,797,868	11.00
TPL	540,500	5,605,557	643,500	7,605,555	1,184,000	13,211,112	12.00
TRG	6,401,500	145,897,001	2,220,000	56,342,495	8,621,500	202,239,496	10.00
UBL	7,917,000	1,018,010,858	672,500	86,848,486	8,589,500	1,104,859,344	8.00
UBL	7,917,000	1,018,010,858	672,500	86,848,486	8,589,500	1,104,859,344	8.00
TOTAL	118,617,499	4,755,969,134	10,460,000	373,320,276	129,077,499	5,129,289,410	9.01

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Recommendation Definition

Buy	Expected Return > 10%
Neutral or Hold	Expected return from -10% to +10%
Sell	Expected Return <- 10%

Valuation Methodology

AZEE Securities uses different valuation method to arrive at target prices

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation Method (P/E, P/B, P/S)
- Asset based Methodology

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