



K-Electric – Unbundling core operations

K-Electric (KEL) is under the light for last some years and the journey is still goes on. We believe 2012 was the year where K-Electric formerly known as KESC comes into profit and from that time we can see improvement on earning over q-o-q basis (Though accumulated losses in balance sheet shall be wiped out in coming years).

The management is craving for further improvements which can be seen by the decisions taken, though it may have long term bearing on financials.

K-Electric to remain eminent

We believe that earnings will be improving on q-o-q basis as some of the major decisions taken by the management will lead to higher profits in upcoming quarters.

Unbundling core operations

Management is seriously concerned regarding the efficiency of operations and as per the notice sent to KSE, KEL have decided to unbundle its core operations into independent entities for electricity generations and transmission/distribution. Through this steps being taken for an overall efficiency, we expect further improvement resulting in reduction in transmission & distribution losses to decrease even from 21%.

Valuation

K-Electric is looking good based on

- Earnings increasing q-o-q basis
- T&D losses are decreasing
- Coal conversion plant will be operational soon ~ FY15
- Bills against electricity theft

We maintain our positive stance KEL.

KEL Statistics

| | |
|----------------------------|---------|
| Avg volume (12M) (mn) | 5.8 |
| Close | 7.78 |
| 52 Week High | 8.35 |
| 52 Week Low | 4.9 |
| Market Capitalization (bn) | 185.3 |
| Total No. Of Shares (mn) | 27615.2 |

K-Electric

Profit and Loss Statement

| (Rs in 000') | 3QCY14 | 3QCY13 | Change |
|----------------------------------|-------------------|-------------------|--------|
| Revenue | | | |
| Sale of energy-net | 29,277,778 | 22,643,713 | 29% |
| Tariff Adjustment | 13,413,537 | 18,960,056 | -29% |
| Rental of Meters and Equip. | 54,547 | 54,281 | 0% |
| | <u>42,745,862</u> | <u>41,658,050</u> | 3% |
| Expenditure | | | |
| Purchase of Electricity | 22,449,443 | 21,069,004 | 7% |
| Consumption of Fuel and Oil | 10,535,360 | 10,708,059 | -2% |
| | <u>32,984,803</u> | <u>31,777,063</u> | 4% |
| Expenses Incurred | 3,752,602 | 3,440,202 | 9% |
| Gross Profit | <u>6,008,457</u> | <u>6,440,785</u> | -7% |
| Consumer and Admin. Exp. | 3,981,371 | 3,902,933 | 2% |
| Other Operating Expenses | 112,518 | 117,012 | -4% |
| Other Operating Income | 1,865,569 | 1,111,608 | 68% |
| | <u>2,228,320</u> | <u>2,908,337</u> | -23% |
| Operating Profit | <u>3,780,137</u> | <u>3,532,448</u> | 7% |
| Finance Cost | 2,478,096 | 2,426,255 | 2% |
| Profit Before Taxation | <u>1,302,041</u> | <u>1,106,193</u> | 18% |
| Taxation | | | |
| Prior | - | - | |
| Deffered | 250,189 | 249,730 | 0% |
| Net Profit For The Period | <u>1,552,230</u> | <u>1,355,923</u> | 14% |
| EPS | 0.06 | 0.05 | 20% |

Source: Company Announcement

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