

KEGOC: Weak results for 1H2019

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The company's revenue for 1H2019 amounted to T125bn, showing growth of 43% yoy. At the same time, cost of sales increased by 89% yoy. The service of ensuring the readiness of electric capacity to bear the load, the income from which the company began to reflect from the beginning of this year, became the main reason for the strong increase in both revenue and cost.

At the same time, revenue from electricity transmission in 1H2019 decreased by 5% yoy.

Gross margin was 26% versus 44%.

Operating profit fell 18% yoy to T28.6bn, which was partially influenced by an increase in selling expenses (37% yoy) and general administrative expenses by 3% yoy.

Profit for the period amounted to T22.6bn, which is lower by 14% yoy.

Our view

Weak 1H2019 results do not bring surprises to our assessment. In our opinion, the new service for providing electric capacity is too expensive for the company - its cost is about T30bn, while the revenue barely exceeds T33bn. The situation is similar for purchased energy, the cost of which amounted to T16bn (+ 61% yoy) for revenue of T17bn (+ 69% yoy).

We still do not see triggers that can offset the weak dynamics of cash flows due to the social significance of the source of income. We maintain our Sell recommendation on KEGOC shares.

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