

# 1Q2019 results of KEGOC

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According to the 1Q2019 results, KEGOC reported on revenue growth of 43% yoy to T63bn, which was mainly achieved due to revenue of T17bn from the new type of services (preparedness capacity), as well as a smaller discount compared to 1Q2018. (-93% yoy).

At the same time, in terms of segments, revenues from the main activity decreased, which we associate with a decrease in tariffs from 2018: revenues from electricity transmission decreased by 7% yoy, from dispatching services - by 9% yoy and from electricity balancing - by 3% yoy.

The cost of sales almost doubled (+ 99% yoy), which contributed to the weakening of the gross margin from 48% in 1Q2018 to 28% in the reporting period. In absolute terms, gross profit amounted to T17.7bn (-17% yoy).

Operating profit amounted to T15.9bn, a slight decrease of 14% yoy. While general and administrative expenses decreased by 46% yoy, the company increased sales expenses by 24% yoy and recognized an impairment loss of T39.7mn against T156mn profit in 1Q2018.

The financial costs more than tripled (to T1.9mn), which was associated with a relatively lower deduction percent (capitalized in the cost of the PP&E) .

Net income amounted to T13bn, which is 16% yoy lower than in 1Q2018.

## **Our view**

The relatively weak results of 1Q2019 were expected by us, taking into account the reduction of the tariff base. Services from the preparedness capacity, in our opinion, will not generate revenues on a scale that can offset the reduction in tariffs on core activities. We see no obvious growth catalysts capable of leveling the weak dynamics of cash flows due to the social importance of the source of income and we maintain our recommendation to Sell KEGOC shares.

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