

Day Break

Wednesday, 20 February 2019

Sector Update

Monthly Power Generation Mix (Jan-19) - Gwh

Source	Jan-19	Jan-18	YoY	FY19TD	YoY
Hydel	478	606	-21%	19,415	4%
RFO	1,722	1,630	6%	7,365	-53%
Gas/LNG	2,848	3,455	-18%	27,877	28%
HSD	12	-	n/m	31	-96%
Coal	1,452	1,145	27%	9,404	87%
Others	1,252	1,146	9%	8,829	13%
Total	7,764	7,982	-3%	72,922	4%

Exhibit: Fuel Wise Generation Mix (%)

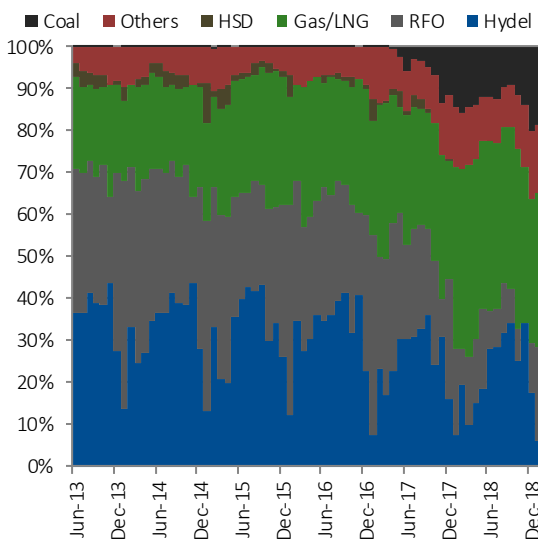
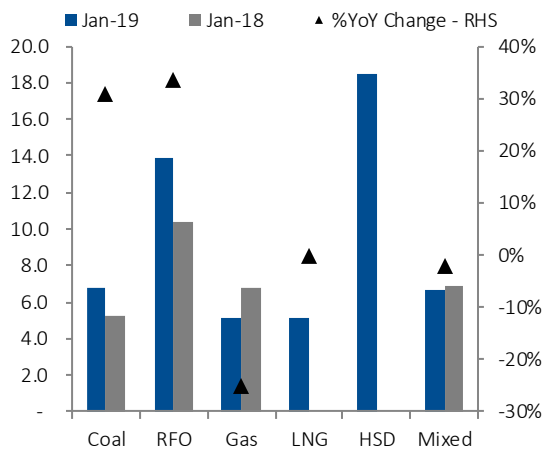


Exhibit: Fuel Wise Cost of Generation - Jan-19 (PKR/Kwh)



Source: NEPRA & IGI Research

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Power Generation & Distribution

Jan-19: Generation down by 3%YoY on account of lower demand

- As per latest data available on NEPRA's website, overall power generation during the month of Jan-19 dropped by 3%YoY to 7,764Gwh. Power production through Coal/RFO clocked in at 1,452/1,722Gwh up by +27%/+6%YoY, while generation through Hydel/Gas-LNG decreased by 21%/18%YoY to 478/2,848Gwh during Jan-19,
- Power generation through RFO in Jan-19 increased by +6%YoY (up by 92Gwh) to 1,722Gwh, owing to enhanced generation from GENCO III and KAPCO Block I & II (cumulatively up by 391Gwh), higher generation from smaller Lalpir and Pakgen (up by 95Gwh),
- Gas/LNG based power generation plummeted by 21%YoY (607Gwh) to 2,848Gwh in Jan-19 on the back of a) lower generation by KAPCO Block I, II & III cumulatively down by 549Gwh and, b) no generation from Rousch, Altern, Sapphire and Halmore despite higher generation from QATPL, Haveli Bahadurshah and Baloki Power plants cumulatively adding 806Gwh,
- We maintain HUBC as our top pick with our Dec-19 target price of PKR 120.23/share offering +31% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-19 target price of PKR 63.15/share offering +22% upside from last close.

Power production depicts 3%YoY decline in Jan-19

As per latest data available on NEPRA's website, overall power generation during the month of Jan-19 dropped by 3%YoY to 7,764Gwh. Power production through Coal/RFO clocked in at 1,452/1,722Gwh up by +27%/+6%YoY, while generation through Hydel/Gas-LNG decreased by 21%/18%YoY to 478/2,848Gwh during Jan-19. This brings total generation for FY19TD to 72,922 up by +4%YoY primarily led by +87%/+28%YoY rise in production through Coal/Gas-LNG contributing 51% of the total power generation while contribution from FO/Hydel based power generation is down to 37%YoY as compared to 49% in FY18TD.

Exhibit:

Power Generation Mix (Jan-19)

GWH	Jan-19	Jan-18	YoY	Dec-18	MoM	FY19TD	FY18TD	YoY
Hydel	478	606	-21%	1,334	-64%	19,415	18,695	4%
RFO	1,722	1,630	6%	931	85%	7,365	15,728	-53%
Gas/LNG	2,848	3,455	-18%	2,640	8%	27,877	21,805	28%
HSD	12	-	n/m	-	n/m	31	783	-96%
Coal	1,452	1,145	27%	1,563	-7%	9,404	5,028	87%
Others	1,252	1,146	9%	1,250	0%	8,829	7,792	13%
Total	7,764	7,982	-3%	7,719	1%	72,922	69,832	4%

Source: IGI Research, NEPRA

FO: Generation up by +6%YoY in Jan-19

Power generation through RFO in Jan-19 increased by +6%YoY (up by 92Gwh) to 1,722Gwh, owing to enhanced generation from GENCO III and KAPCO Block I & II (cumulatively up by 391Gwh), higher generation from smaller Lalpir and Pakgen (up by 95Gwh) despite drop in generation from Hub plant (down by 231Gwh) and smaller IPPs (cumulatively down by 180Gwh). This brings total generation for FY19TD to 7,365Gwh down by 53%YoY owing to lower generation from Hub Plant, KAPCO Block I & II and GENCO I & III along with lower generation from smaller inefficient IPPs such as Lalpir and Pakgen.

Exhibit: Cost of generation on FO and Gas
(According to Data released by NEPRA)

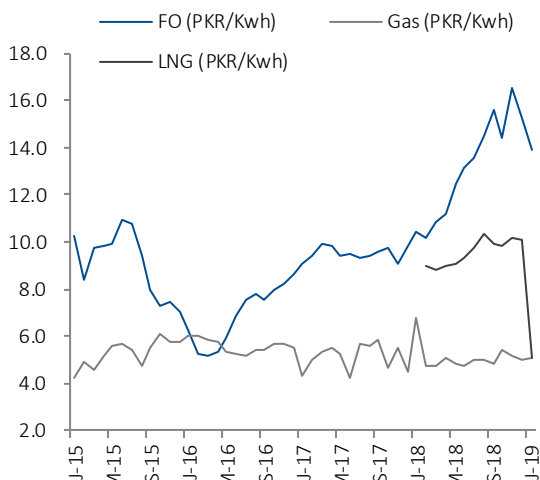
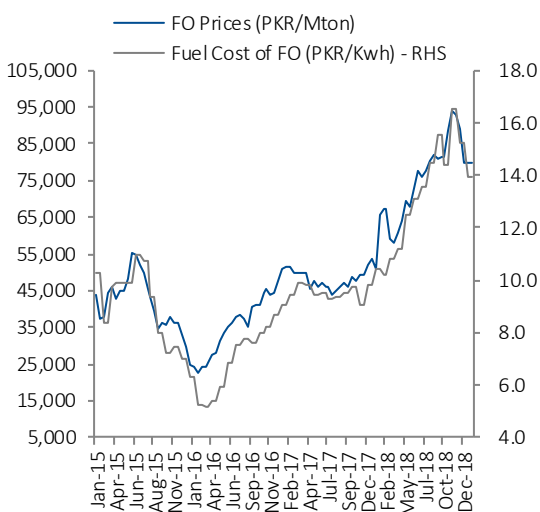


Exhibit: FO Prices (PKR/Mton) and Fuel Cost of FO-PKR/Kwh
(According to Data released by NEPRA)



Source: NEPRA & IGI Research

Gas/LNG generation down by 21%YoY in Jan-19

Gas/LNG based power generation plummeted by 21%YoY (607Gwh) to 2,848Gwh in Jan-19 on the back of a) lower generation by KAPCO Block I, II & III cumulatively down by 549Gwh and, b) no generation from Rousch, Altern, Sapphire and Halmore despite higher generation from QATPL, Haveli Bahadurshah and Baloki Power plants cumulatively adding 806Gwh. This brings total generation in FY19TD to 27,877Gwh up by +28%YoY led by higher generation from QATPL, Haveli Bahadur Shah, Baloki, KAPCO Block I-III and smaller IPPs.

Generation cost on RFO drops to PKR 13.92/Kwh during Jan-19

As per NEPRA, power cost on RFO is down by 9%MoM (or up by +34%YoY) to PKR 13.92/Kwh. However, gas price rose to PKR 5.08/Kwh for gas due to increase in gas tariff for IPPs while generation cost through LNG dropped to PKR 5.08/Kwh due to drop in international Brent oil price and higher generation from new efficient LNG plants. For the month of Feb-19 to date, international RFO (180cst bunker fuel) prices average USD 398/MTon (or PKR 79,842/Mton) as compared to USD 361/Mton (or PKR 79,842/Mton) in the preceding month. The price for Feb-19 remains unchanged owing to no imports of FO during the last few weeks. Furthermore PKR has remained stable since Dec-18 as well.

Outlook

We expect generation on gas to increase due to higher LNG import going forward. RFO based generation is expected to slow down as new LNG/coal plants commence operation and restoration of water levels for higher generation through Hydel. However, in the long term we foresee FO based power generation to slowly phase out as new LNG and Coal based power plants commence operations by FY21. Although, rise in coal and LNG prices could increase the cost of generation in the coming years but renewable energy projects (including wind and solar) would significantly reduce cost.

Recommendation

We maintain HUBC as our top pick with our Dec-19 target price of PKR 120.23/share offering +31% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-19 target price of PKR 63.15/share offering +22% upside from last close. HUBC and KAPCO are currently trading at FY19 P/E of 8.6x and 4.3x and offer a healthy dividend yield of 7% and 18% respectively.

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Time Horizon: Dec – 2019

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