Day Break

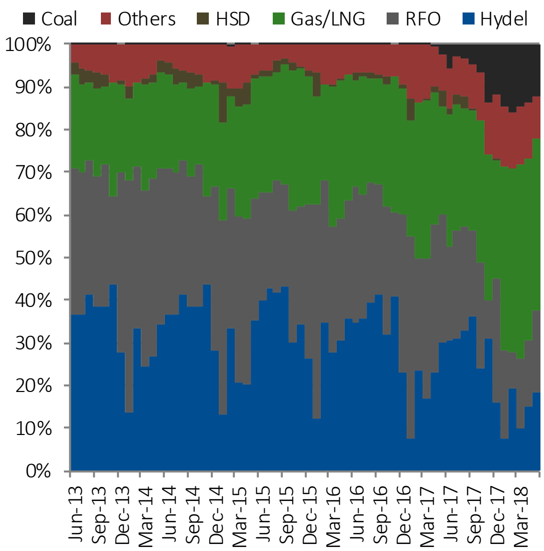
Monday, 02 July 2018

Sector Update

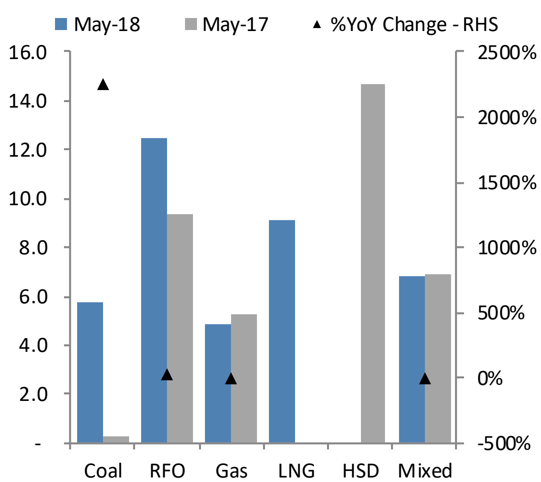
Monthly Power Generation Mix (May-18) - Gwh

Source	May-18	May-17	YoY	11MFY18	YoY
Hydel	2,218	3,326	-33%	24,670	-36%
RFO	2,338	3,306	-29%	21,608	143%
Gas/LNG	4,862	2,802	74%	38,011	32%
HSD	-	407	n/m	784	n/m
Coal	1,469	247	495%	10,264	15%
Others	1,231	937	31%	12,467	31%
Total	12,118	11,024	10%	107,805	25%

Fuel Wise Generation Mix (%)



Fuel Wise Cost of Generation - May-18 (PKR/Kwh)



Source: NEPRA & IGI Research

Analyst
Abdullah Farhan
abdullah.farhan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 912

Power Generation & Distribution

May-18: FO lifts as Hydel dips; new LNG/Coal plants on full swing

- As per latest data available on NEPRA's website, overall power generation during the month of May-18 surged by +10%YoY to 12,118Gwh. Power production through Coal/Gas-LNG clocked in at 1,469/4,862Gwh up by +5.9x/+74%YoY, while generation through FO/Hydel decreased by 29%/33%YoY to 2,338/2,218Gwh during May-18,
- Power generation through RFO in May-18 dropped by 29%YoY (down by 968Gwh) to 2,338Gwh, owing to lower generation from GENCO I & III, lower generation from smaller IPPs and drop in generation from Hub plant (down by 10%YoY or 52Gwh),
- Gas/LNG based power generation augmented by +74%YoY (+2,060Gwh) to 4,862Gwh in May-18 on the back of a) resumption of production from Orient, Saif, Saphire and Halmore cumulatively adding 559Gwh, b) commencement of production from Baloki Power Plant adding 399Gwh and, c) +17x/+6xYoY higher production from QATPL/Haveli Bahadur shah,
- We maintain HUBC as our top pick with our Dec-18 target price of PKR 133/share offering +44% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 73/share offering +34% upside from last close.

Power production depicts +10%YoY growth in May-18

As per latest data available on NEPRA's website, overall power generation during the month of May-18 surged by +10%YoY to 12,118Gwh. Power production through Coal/Gas-LNG clocked in at 1,469/4,862Gwh up by +5.9x/+74%YoY, while generation through FO/Hydel decreased by 29%/33%YoY to 2,338/2,218Gwh during May-18. For 11MFY18, generation is up by +13%YoY to 107,805Gwh primarily led by +28x/+38%YoY rise in production through Coal/Gas-LNG contributing 45% of the total power generation while contribution from FO/Hydel based power generation is down to 43%YoY as compared to 60% in 11MFY17.

Exhibit:

Power Generation Mix (May-18)

GWH	May-18	May-17	YoY	Apr-18	MoM	11MFY18	11MFY17	YoY
Hydel	2,218	3,326	-33%	1,528	45%	24,670	28,296	-13%
RFO	2,338	3,306	-29%	1,551	51%	21,608	29,398	-26%
Gas/LNG	4,862	2,802	74%	4,345	12%	38,011	27,614	38%
HSD	-	407	n/m	0	n/m	784	1,493	-47%
Coal	1,469	247	495%	1,402	5%	10,264	361	2746%
Others	1,231	937	31%	1,310	-6%	12,467	8,440	48%
Total	12,118	11,024	10%	10,135	20%	107,805	95,601	13%

Source: IGI Research, NEPRA

FO: Generation down by 29%YoY in May-18

Power generation through RFO in May-18 dropped by 29%YoY (down by 968Gwh) to 2,338Gwh, owing to lower generation from GENCO I & III, lower generation from smaller IPPs and drop in generation from Hub plant (down by 10%YoY or 52Gwh). However, on monthly basis FO based generation increased by +51%YoY owing to resumption of FO plants as summer demand kicked in and generation capacity on other sources remained insufficient to cater the demand. Slowdown in Hydel generation due to water crisis has also led to improved FO based power generation

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

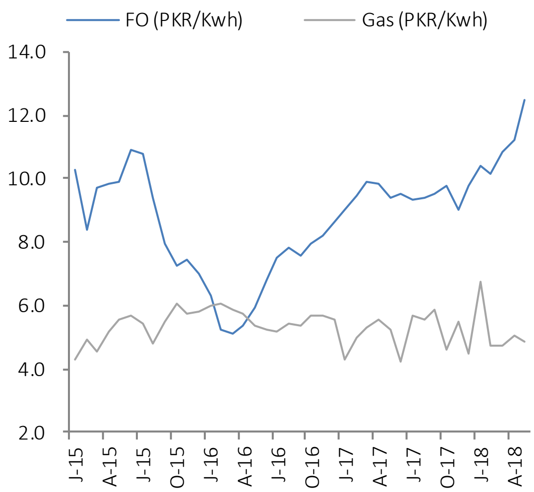
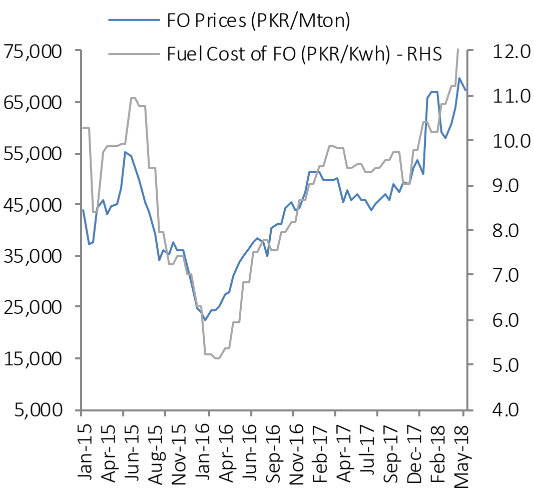


Exhibit: FO Prices (PKR/Mton) and Fuel Cost of FO-PKR/Kwh (According to Data released by NEPRA)



Source: NEPRA & IGI Research

Gas: Availability of LNG revives gas based generation coupled with new plants commencing operations

Gas/LNG based power generation augmented by +74%YoY (+2,060Gwh) to 4,862Gwh in May-18 on the back of a) resumption of production from Orient, Saif, Saphire and Halmore cumulatively adding 559Gwh, b) commencement of production from Baloki Power Plant adding 399Gwh and, c) +17x/+6xYoY higher production from QATPL/Haveli Bahadur shah. KAPCO Block I, Rousch power and Guddu further contributed to rise in gas production.

Generation cost on RFO further mounts to PKR 12.47/Kwh during May-18

As per NEPRA, power cost on RFO is up by +11%MoM (or +33%YoY) to PKR 12.47/Kwh as international FO prices have been on the rising trajectory and depreciation of PKR against USD, compared to PKR 4.85/Kwh for gas and PKR 9.10/Kwh for LNG. Generation cost on LNG has also increased due to rise in international oil prices and lower efficiency of conglomerate power plants previously operating on gas. For the month of Jun-18, international RFO (180cst bunker fuel) prices have averaged out at USD 438/MTon (or PKR 75,336/Mton) as compared to USD 424/Mton (or PKR 68,611/Mton) in the preceding month.

Outlook

We expect generation on gas to increase due to higher LNG import going forward. RFO based generation is expected to remain buoyant as demand picks up and should remain high until Oct-18. With delays in LNG power plants due to technical issues, we believe FO based power plants to resume operations and cater the excess demand which arises in summer season. Furthermore, due to water crisis Hydel based generation has remained subdued during the start of summer season and in our view will remain on the lower side if heavy rain is not witnessed during the monsoon season. 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-18 target price of PKR 133/share offering +44% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 73/share offering +34% upside from last close. HUBC and KAPCO are currently trading at FY19 P/E of 9.1x and 4.4x and offer a healthy dividend yield of 8.1% and 20.3% respectively.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
DDM (Dividend Discount Model)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. ROE: Return on equity is the amount of net income returned as a percentage of shareholders' equity. P/E: Price to Earnings ratio of a company's share price to its per-share earnings. P/B: Price to Book ratio used to compare a stock's market value to its book value. DY: The dividend yield is dividend per share, divided by the price per share. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tn: Thousands/Million/Billion/Trillion.

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office
5-F.C.C. Ground Floor,
Syed Maratib Ali Road, Gulberg II
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Islamabad Office
Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office
Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office
Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office
Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-992) 408243 - 44

Abbottabad Office
Ground Floor, Al Fatah Shopping Center,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Peshawar Office
2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Sialkot Office
Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258437, 3258762

IGI Finex Securities Limited
Research Identity Number: BRP009