

Day Break

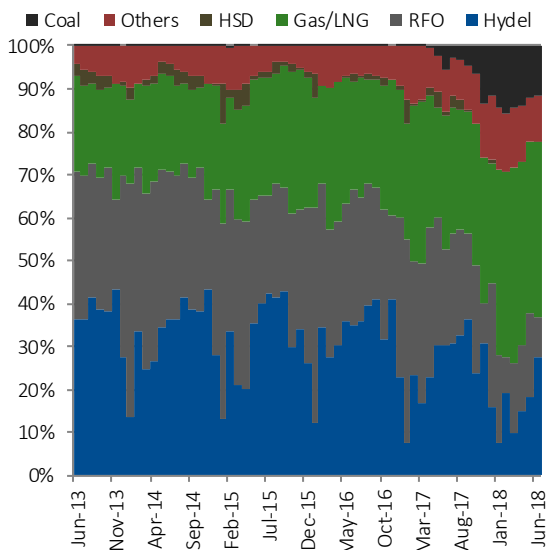
Thursday, 19 July 2018

Sector Update

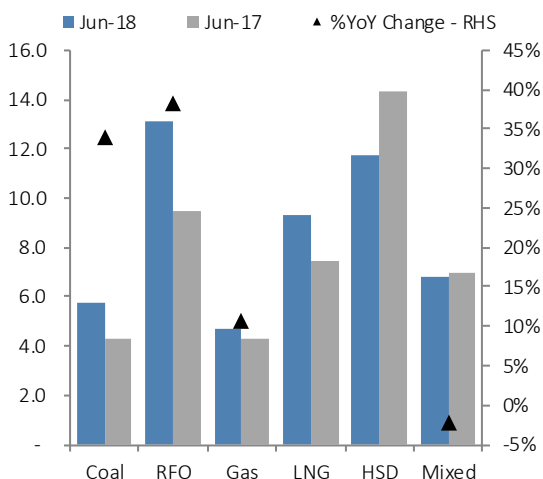
Monthly Power Generation Mix (Jun-18) - Gwh

Source	Jun-18	Jun-17	YoY	FY18	YoY
Hydel	3,589	3,490	3%	28,259	-11%
RFO	1,163	2,560	-55%	22,771	-29%
Gas/LNG	5,278	3,519	50%	43,289	39%
HSD	4	155	-97%	788	-52%
Coal	1,522	652	133%	11,787	10.7x
Others	1,358	1,082	26%	13,825	45%
Total	12,914	11,458	13%	120,719	13%

Fuel Wise Generation Mix (%)



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



Source: NEPRA & IGI Research

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Power Generation & Distribution

FY18: Generation up by +13%YoY as new LNG and coal plants geared up

- As per latest data available on NEPRA's website, overall power generation during the month of Jun-18 surged by +13%YoY to 12,914Gwh. Power production through Coal/Gas-LNG clocked in at 1,522/5,278Gwh up by +2.3x/+50%YoY, while generation through FO decreased by 55%YoY to 1,163Gwh during Jun-18,
- Power generation through RFO in Jun-18 dropped by 55%YoY (down by 1,397Gwh) to 1,163Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 861Gwh), lower generation from smaller IPPs (down by 272Gwh) and drop in generation from Hub plant (down by 53%YoY or 265Gwh),
- Gas/LNG based power generation augmented by +50%YoY (+1,760Gwh) to 5,278Gwh in Jun-18 on the back of a) resumption of production from Orient, Saif, Sapphire and Halmore cumulatively adding 423Gwh, b) commencement of production from Baloki Power Plant adding 283Gwh and, c) +4.8x/+9.0xYoY higher production from QATPL/Haveli Bahadur Shah (+1,394Gwh),
- We maintain HUBC as our top pick with our Dec-18 target price of PKR 133/share offering +46% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 73/share offering +40% upside from last close.

Power production depicts +13%YoY growth in FY18

As per latest data available on NEPRA's website, overall power generation during the month of Jun-18 surged by +13%YoY to 12,914Gwh. Power production through Coal/Gas-LNG clocked in at 1,522/5,278Gwh up by +2.3x/+50%YoY, while generation through FO decreased by 55%YoY to 1,163Gwh during Jun-18. This brings total generation for FY18 to 120,719 up by +13%YoY primarily led by +10.7x/+39%YoY rise in production through Coal/Gas-LNG contributing 46% of the total power generation while contribution from FO/Hydel based power generation is down to 42%YoY as compared to 60% in FY17.

Exhibit:

Power Generation Mix (Jun-18)

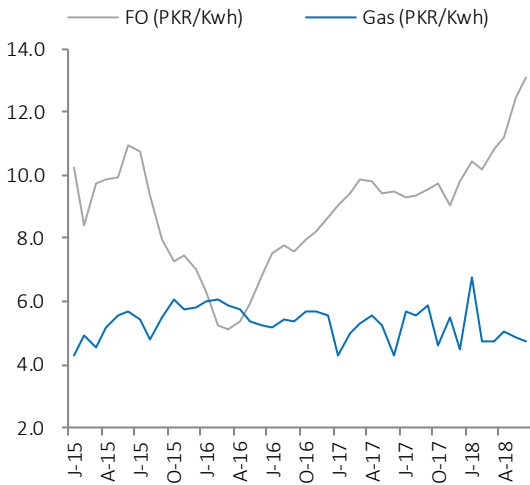
GWH	Jun-18	Jun-17	YoY	May-18	MoM	FY18	FY17	YoY
Hydel	3,589	3,490	3%	2,218	62%	28,259	31,786	-11%
RFO	1,163	2,560	-55%	2,338	-50%	22,771	31,958	-29%
Gas/LNG	5,278	3,519	50%	4,862	9%	43,289	31,132	39%
HSD	4	155	-97%	-	n/m	788	1,648	-52%
Coal	1,522	652	133%	1,469	4%	11,787	1,013	1063%
Others	1,358	1,082	26%	1,231	10%	13,825	9,521	45%
Total	12,914	11,458	13%	12,118	7%	120,719	107,059	12.8%

Source: IGI Research, NEPRA

FO: Generation down by 29%YoY in FY18

Power generation through RFO in Jun-18 dropped by 55%YoY (down by 1,397Gwh) to 1,163Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 861Gwh), lower generation from smaller IPPs (down by 272Gwh) and drop in generation from Hub plant (down by 53%YoY or 265Gwh). This brings total generation for FY18 to 22,771Gwh down by 29%YoY owing to lower generation from Hub Plant, KAPCO Block I & II and GENCO I & III.

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



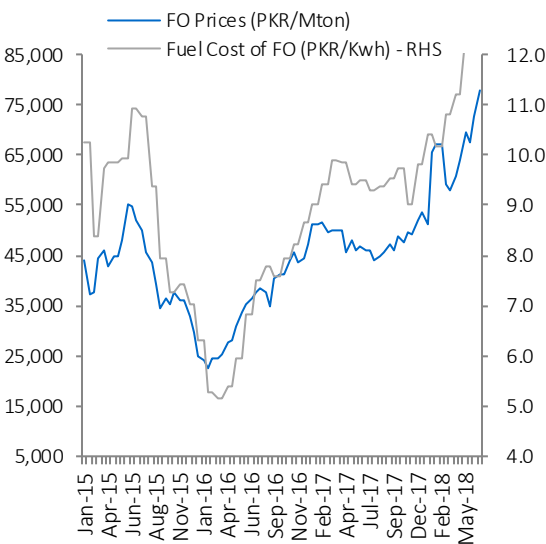
Gas/LNG generation up by +39%YoY in FY18 on availability of LNG and commencement of production from new plants

Gas/LNG based power generation augmented by +50%YoY (+1,760Gwh) to 5,278Gwh in Jun-18 on the back of a) resumption of production from Orient, Saif, Sapphire and Halmore cumulatively adding 423Gwh, b) commencement of production from Baloki Power Plant adding 283Gwh and, c) +4.8x/+9.0xYoY higher production from QATPL/Haveli Bahadur Shah (+1,394Gwh). KAPCO Block I, Rousch Power and Guddu further contributed to rise in gas production. This brings total generation in FY18 to 43,289Gwh up by +39%YoY led by commencement of production from Baloki and higher generation from QATPL, Haveli Bahadurshah, KAPCO Block I-III and smaller IPPs.

Generation cost on RFO further mounts to PKR 13.12/Kwh during Jun-18

As per NEPRA, power cost on RFO is up by +5%MoM (or +34%YoY) to PKR 13.12/Kwh as international FO prices have been on the rising trajectory and PKR has depreciated against USD, compared to PKR 4.71/Kwh for gas and PKR 9.31/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 Jul-18, international RFO (180cst bunker fuel) prices have averaged out at USD 446/MTon (or PKR 76,775/Mton) as compared to USD 438/Mton (or PKR 75,336/Mton) in the preceding month.

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



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 heavy rains leading to restoration of water levels for higher generation through Hydel. With delays in LNG power plants due to technical issues and rise in demand, we believe FO based power plants to remain operational during peak demand while only efficient plants to remain online during low demand in winters. 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 +46% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 73/share offering +40% upside from last close. HUBC and KAPCO are currently trading at FY19 P/E of 8.9x and 4.2x and offer a healthy dividend yield of 8.2% and 21.2% respectively.

Source: NEPRA & IGI Research

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Time Horizon: Dec – 2018

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