

# Day Break

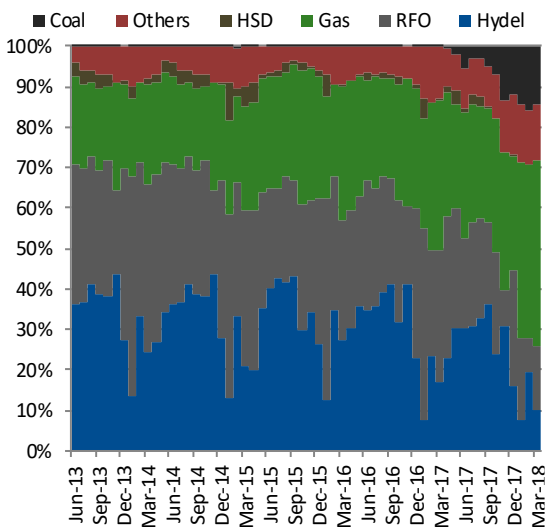
Thursday, 03 May 2018

## Sector Update

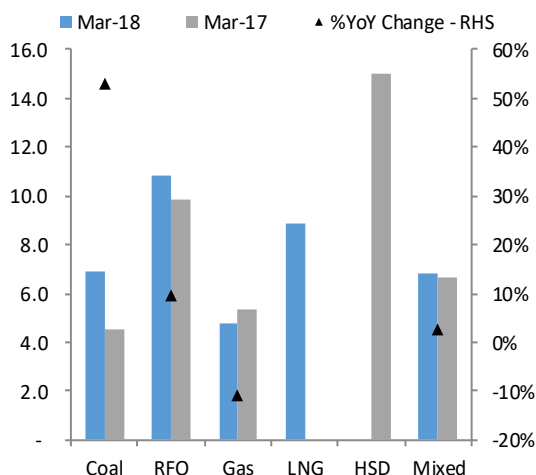
### Monthly Power Generation Mix (Mar-18) - Gwh

Source	Mar-18	Mar-17	YoY	Feb-18	MoM
Hydel	872	1,284	-32%	1,357	-36%
RFO	1,410	2,496	-43%	581	143%
Gas/LNG	3,986	2,830	41%	3,013	32%
HSD	-	38	n/a	1	n/a
Coal	1,264	9	144x	1,102	15%
Others	1,208	963	25%	925	31%
Total	8,741	7,620	15%	6,979	25%

### Fuel Wise Generation Mix (%)



### Fuel Wise Cost of Generation - Mar-17 (PKR/Kwh)



Source: NEPRA & IGI Research

### Analyst

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## Power Generation & Distribution

### Generation up by +15%YoY in Mar-18 as new LNG and Coal plants gear up

- As per latest data available on NEPRA's website, overall power generation during the month of Mar-18 surged by +15%YoY to 8,741Gwh. Power production through Coal/Gas-LNG clocked in at 1,264/3,986Gwh up by +144x/+41%YoY, while generation through FO/Hydel decreased by 43%/32%YoY to 1,284Gwh during Mar-18,
- Power generation through RFO in Mar-18 dropped by 43%YoY (down by 1,085Gwh) to 1,410Gwh, owing to lower generation from inefficient FO plants, lower generation from KAPCO block I/II (cumulatively down by 73%YoY or 118Gwh) due higher generation on LNG and lower generation from Hub plant (down by 64%YoY or 393Gwh),
- Gas/LNG based power generation augmented by +41%YoY (+1,156Gwh) to 3,986Gwh in Mar-18 on the back of +2.5x/+3.8x/+2.8x/+29%/+17%/+1% higher production from KAPCO Block I/QATPL/Saif power/Orient/Sapphire/KAPCO Block II,
- We maintain HUBC as our top pick with our Dec-18 target price of PKR 133/share offering +30.5% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 73/share offering +20.3% upside from last close.

### Power production depicts +15%YoY growth in Mar-18

As per latest data available on NEPRA's website, overall power generation during the month of Mar-18 surged by +15%YoY to 8,741Gwh. Power production through Coal/Gas-LNG clocked in at 1,264/3,986Gwh up by +144x/+41%YoY, while generation through FO/Hydel decreased by 43%/32%YoY to 1,284Gwh during Mar-18. For 9MFY18, generation is up by +13%YoY to 85,552Gwh primarily led by +125x/+30%YoY rise in production through Coal/Gas-LNG contributing 42% of the total power generation while contribution from FO/Hydel based power generation is down to 45%YoY as compared to 61% in 9MFY17.

Exhibit:

### Power Generation Mix (Mar-18)

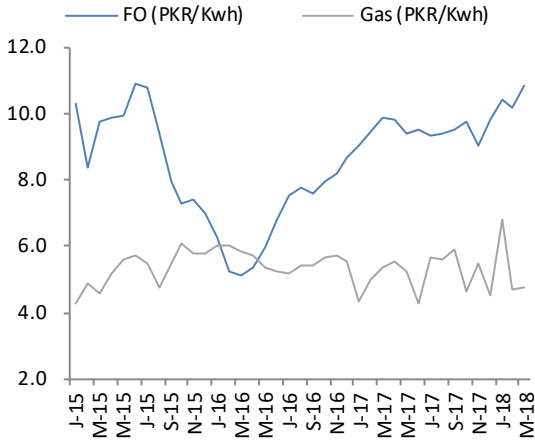
GWH	Mar-18	Mar-17	YoY	Feb-18	MoM	9MFY18	9MFY17	YoY
Hydel	872	1,284	-32%	1,357	-36%	20,924	22,944	-9%
RFO	1,410	2,496	-43%	581	143%	17,720	23,011	-23%
Gas/LNG	3,986	2,830	41%	3,013	32%	28,804	22,087	30%
HSD	-	38	n/a	1	n/a	784	949	-17%
Coal	1,264	9	144x	1,102	15%	7,393	59	125x
Others	1,208	963	25%	925	31%	9,926	6,685	48%
Total	8,741	7,620	15%	6,979	25%	85,552	75,735	13%

Source: IGI Research, NEPRA

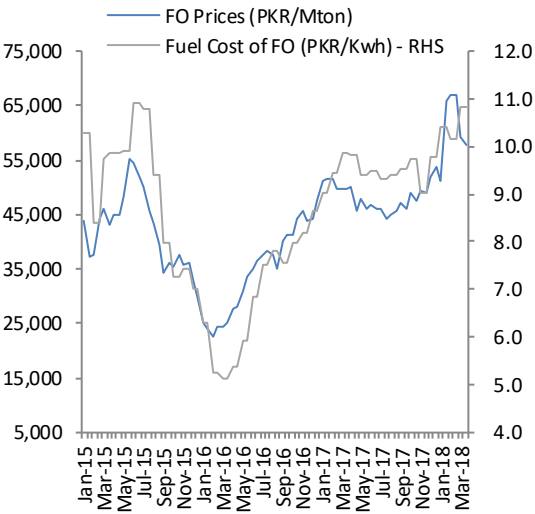
### FO: Generation down by 43%YoY in Mar-18

Power generation through RFO in Mar-18 dropped by 43%YoY (down by 1,085Gwh) to 1,410Gwh, owing to lower generation from inefficient FO plants, lower generation from KAPCO block I/II (cumulatively down by 73%YoY or 118Gwh) due to higher generation on LNG and lower generation from Hub plant (down by 64%YoY or 393Gwh). However, on monthly basis FO based generation increased by +2.4xYoY owing to resumption of FO plants as summer demand kicked in and generation capacity on other sources remained insufficient to cater the demand.

**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)



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

Gas/LNG based power generation augmented by +41%YoY (+1,156Gwh) to 3,986Gwh in Mar-18 on the back of +2.5x/+3.8x/+2.8x/+29%/+17%/+1% higher production from KAPCO Block I/QATPL/Saif power/Orient/Sapphire/KAPCO Block II while commencement of production from Haveli Bahadur shah and Baloki cumulatively added 329Gwh during Mar-18.

**Generation cost on RFO further mounts to PKR 10.83/Kwh during Mar-18**

As per NEPRA, power cost on RFO is up by +7%MoM (or 10%YoY) to PKR 10.83/Kwh as international FO prices have been on the rising trajectory since Oct-17, compared to PKR 4.75/Kwh for gas and PKR 8.85/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 Apr-18, international RFO (180cst bunker fuel) prices have averaged out at USD 380/MTon (or PKR 62,288/Mton) as compared to USD 360/Mton (or PKR 57,722/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 pick up from May-17 onwards as demand picks up and remains 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. 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 +30.5% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 73/share offering +20.3% upside from last close. HUBC and KAPCO are currently trading at FY18 P/E of 10.5x and 5.5x and offer a healthy dividend yield of 7.8% and 16.6% respectively.

Source: NEPRA & IGI Research

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**Time Horizon:** Dec – 2018

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