

Day Break

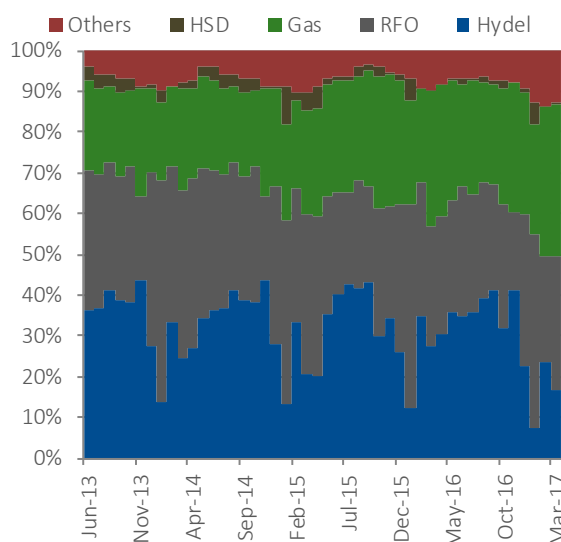
Wednesday, 17 May 2017

Sector Update

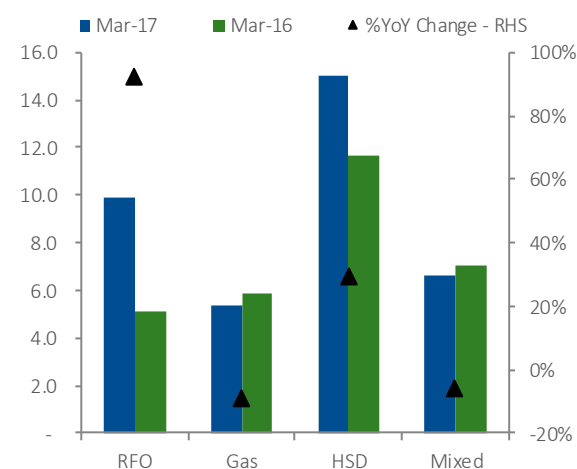
Monthly Power Generation Mix (Mar-17) - Gwh

Source	Mar-17	Mar-16	YoY	Feb-17	MoM
Hydel	1,284	1,855	-31%	1,493	-14%
RFO	2,496	1,992	25%	1,678	49%
Gas	2,830	2,231	27%	2,334	21%
HSD	38	12	221%	6	541%
Others	972	645	51%	871	12%
Total	7,620	6,735	13%	6,383	19%

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 +13%YoY in Mar-17

- As per latest data available on NEPRA's website, overall power generation during the month of Mar-17 surged by +2%YoY to 7,620Gwh.
- Power generation through RFO in Mar-17 augmented by +25%YoY (+504Gwh) to 2,496Gwh owing to higher generation overall from Narowal, Kapco Block-1 AES Lalpir, Saba power, Liberty, Nishat Chunian and Nishat Power with a cumulative production increase of +336Gwh, Gas based power generation augmented by +27%YoY (+599Gwh) to 2,830Gwh in Mar-17 on the back of +4.2xYoY (375Gwh) increased production from Kapco Block-2 & Block-3 during Mar-17.
- We expect generation on gas to increase due to higher LNG import going forward. RFO based generation is expected to slowdown from May-17 onwards as Hydel based generation picks up. However, we believe growth in RFO based generation to remain muted on the back of availability of LNG at cheaper cost than RFO and rebound in FO prices.

Power production depicts +13%YoY growth in Mar-17

As per latest data available on NEPRA's website, overall power generation during the month of Mar-17 surged by +2%YoY to 7,620Gwh. Power production through RFO/Gas clocked in at 2,496/2,830Gwh up by +25%/+27%YoY, while generation through Hydel decreased by 31%YoY to 1,284Gwh during Mar-17. For FY17TD, generation is up by +4%YoY to 75,735Gwh primarily led by +5%/+6%YoY rise in production through RFO/Gas contributing 59% of the total power generation while contribution from Hydel based power generation is down to 30% as compared to 32% in FY16TD.

Exhibit:

Power Generation Mix (Mar-17)

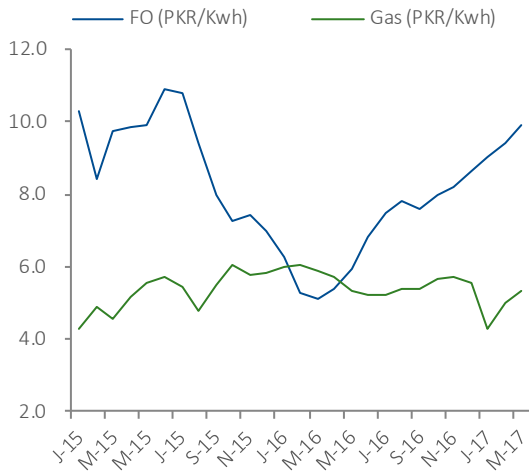
GWH	Mar-17	Mar-16	YoY	Feb-17	MoM	FY17TD	FY16TD	YoY
Hydel	1,284	1,855	-31%	1,493	-14%	22,944	24,562	-7%
RFO	2,496	1,992	25%	1,678	49%	23,011	21,881	5%
Gas	2,830	2,231	27%	2,334	21%	22,087	20,759	6%
HSD	38	12	221%	6	541%	949	1,194	-21%
Others	972	645	51%	871	12%	6,743	4,170	62%
Total	7,620	6,735	13%	6,383	19%	75,735	72,568	4%

Source: IGI Research, NEPRA

FO: Generation up by +25%YoY in Mar-17

Power generation through RFO in Mar-17 augmented by +25%YoY (+504Gwh) to 2,496Gwh, owing to higher generation overall from Narowal, Kapco Block-1 AES Lalpir, Saba power, Liberty, Nishat Chunian and Nishat Power with a cumulative production increase of +336Gwh. However, generation from Hub plant dropped by 9%YoY in Mar-17 owing to maintenance work.

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



Gas: Higher generation by Kapco Block-1 and Block-2 lifts generation up by +27%YoY

Gas based power generation augmented by +27%YoY (+599Gwh) to 2,830Gwh in Mar-17 on the back of +4.2xYoY (375Gwh) increased production from Kapco Block-2 & Block-3 during Mar-17. Further growth in gas based power production emanated from increased production of 9%YoY (+33Gwh) from Uch Plant and +3.9xYoY (+56Gwh) from Habibullah Plant.

Generation cost on RFO further mounts to PKR 9.88/Kwh during Mar-17

As per NEPRA, power cost on RFO is up by +5%MoM to PKR 9.88/Kwh as compared to PKR 5.0/Kwh for gas, as international FO prices have been on the rising trajectory since Feb-16, while gas prices are range bound between PKR 5-6/Kwh since Feb-16 owing to lower price of LNG. For the month of Apr-17, international RFO (180cst bunker fuel) prices have averaged out at USD 309/MTon as compared to USD 300/MTon in the preceding month.

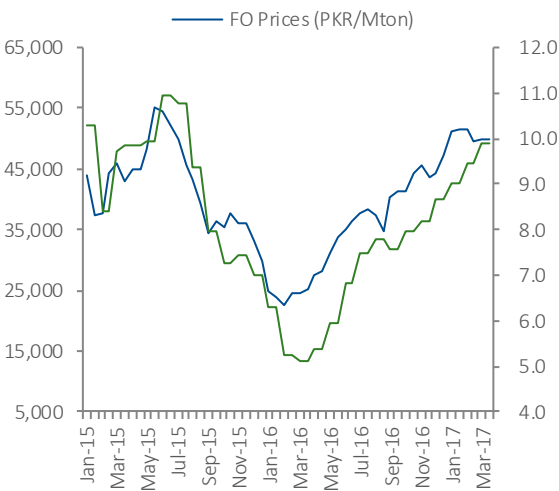
Outlook

We expect generation on gas to increase due to higher LNG import going forward. RFO based generation is expected to slowdown from May-17 onwards as Hydel based generation picks up. However, we believe growth in RFO based generation to remain muted on the back of availability of LNG at cheaper cost than RFO and rebound in FO prices. Hydel based power generation is anticipated to rise from May-17 as monsoon season approaches.

Recommendation

We maintain **“HOLD”** call on HUBC and KAPCO with our Dec-17 Target Price of PKR 137/share and PKR 77/share, respectively. HUBC and KAPCO are currently trading at forward FY18F P/E of 12.2x and 6.6x and while offering healthy dividend yield of 7.5% and 13%, respectively.

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



Source: NEPRA & IGI Research

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Time Horizon: Dec - 2017

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