

Day Break

Tuesday, 23 October 2018

Sector Update

Monthly Power Generation Mix (Sep-18) - Gwh

Source	Sep-18	Sep-17	YoY	1QFY19	YoY
Hydel	4,280	4,163	3%	12,649	4%
RFO	1,025	2,328	-56%	3,952	-54%
Gas/LNG	4,828	3,209	50%	15,470	49%
HSD	2	60	-97%	19	-97%
Coal	1,149	551	108%	4,230	219%
Others	1,269	1,177	8%	4,000	16%
Total	12,552	11,489	9%	40,320	10%

Exhibit: Fuel Wise Generation Mix (%)

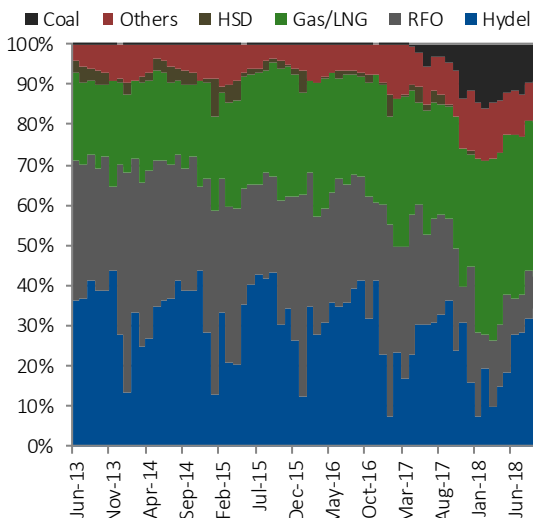
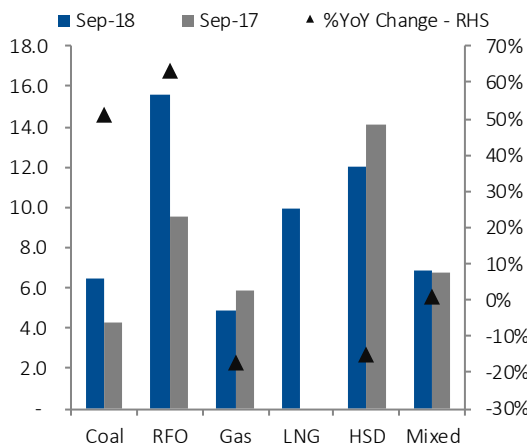


Exhibit: Fuel Wise Cost of Generation - Sep-18 (PKR/Kwh)



Source: NEPRA & IGI Research

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Power Generation & Distribution

Sep-18: Generation up by +10%YoY; Depressed FO generation despite historic peak level

- As per latest data available on NEPRA's website, overall power generation during the month of Sep-18 surged by +9%YoY to 12,552Gwh. Power production through Coal/Gas-LNG clocked in at 1,149/4,828Gwh up by +2.1x/+50%YoY, while generation through FO decreased by 56%YoY to 1,025Gwh during Sep-18,
- Power generation through RFO in Sep-18 dropped by 56%YoY (down by 1,304Gwh) to 1,025Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 432Gwh), lower generation from smaller IPPs (down by 136Gwh), 100%YoY or 112Gwh drop in generation from Pakgen Power and drop in generation from Hub plant (down by 97%YoY or 472Gwh),
- Gas/LNG based power generation augmented by +50%YoY (+1,619Gwh) to 4,828Gwh in Sep-18 on the back of a) resumption of production from Orient, Saif and Sapphire cumulatively adding 297Gwh, b) higher generation through gas by KAPCO Block I, II & III cumulatively adding 352Gwh and, c) +3.3x/+60%/+29%YoY higher production from Haveli Bahadur Shah/QATPL/Baloki (up by cumulative +778Gwh),
- We maintain HUBC as our top pick with our Jun-19 target price of PKR 130.9/share offering +56% upside from its last close. We also have a 'BUY' stance on KAPCO with our Jun-19 target price of PKR 60.6/share offering +23% upside from last close.

Power production depicts +9%YoY growth in Sep-18

As per latest data available on NEPRA's website, overall power generation during the month of Sep-18 surged by +9%YoY to 12,552Gwh. Power production through Coal/Gas-LNG clocked in at 1,149/4,828Gwh up by +2.1x/+50%YoY, while generation through FO decreased by 56%YoY to 1,025Gwh during Sep-18. This brings total generation for 1QFY19 to 40,320 up by +10%YoY primarily led by +3.2x/+49%YoY rise in production through Coal/Gas-LNG contributing 49% of the total power generation while contribution from FO/Hydel based power generation is down to 41%YoY as compared to 57% in 1QFY18.

Exhibit:

Power Generation Mix (Sep-18)

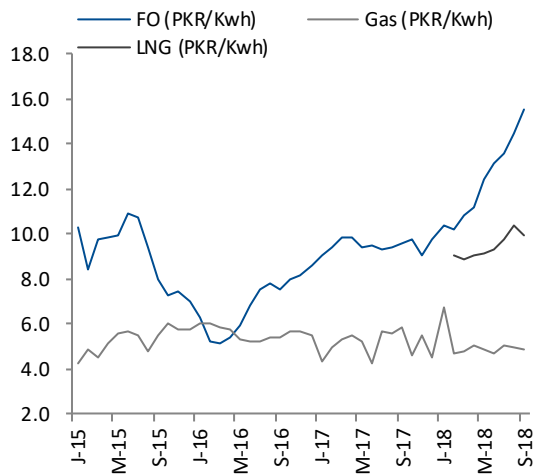
GWH	Sep-18	Sep-17	YoY	Aug-18	MoM	FY18	FY17	YoY
Hydel	4,280	4,163	3%	4,478	-4%	12,649	12,207	4%
RFO	1,025	2,328	-56%	1,644	-38%	3,952	8,650	-54%
Gas/LNG	4,828	3,209	50%	5,227	-8%	15,470	10,384	49%
HSD	2	60	-97%	6	-68%	19	732	-97%
Coal	1,149	551	108%	1,344	-14%	4,230	1,324	219%
Others	1,269	1,177	8%	1,318	-4%	4,000	3,443	16%
Total	12,552	11,489	9%	14,017	-10%	40,320	36,740	10%

Source: IGI Research, NEPRA

FO: Generation down by 56%YoY in Sep-18

Power generation through RFO in Sep-18 dropped by 56%YoY (down by 1,304Gwh) to 1,025Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 432Gwh), lower generation from smaller IPPs (down by 136Gwh), 100%YoY or 112Gwh drop in generation from Pakgen Power and drop in generation from Hub plant (down by 97%YoY or 472Gwh). This brings total generation for 1QFY19 to 3,952Gwh down by 54%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)



Gas/LNG generation up by +50%YoY in Sep-18

Gas/LNG based power generation augmented by +50%YoY (+1,619Gwh) to 4,828Gwh in Sep-18 on the back of a) resumption of production from Orient, Saif and Sapphire cumulatively adding 297Gwh, b) higher generation through gas by KAPCO Block I, II & III cumulatively adding 352Gwh and, c) +3.3x/+60%/+29%YoY higher production from Haveli Bahadur Shah/QATPL/Baloki (up by cumulative +778Gwh). This brings total generation in 1QFY19 to 15,470Gwh up by +49%YoY led by higher generation from QATPL, Haveli Bahadur Shah, Baloki, KAPCO Block I-III and smaller IPPs.

Generation cost on RFO further mounts to PKR 15.56/Kwh during Sep-18

As per NEPRA, power cost on RFO is up by +8%MoM (or +63%YoY) to PKR 15.56/Kwh as international FO prices have been on the rising trajectory, compared to PKR 4.85/Kwh for gas and PKR 9.93/Kwh for LNG. Generation cost on LNG has dropped by 4%MoM owing to higher generation on new efficient LNG based power plants. For the month of Oct-18, international RFO (180cst bunker fuel) prices have averaged out at USD 481/Mton (or PKR 85,034/Mton) as compared to USD 442/Mton (or PKR 80,381/Mton) in the preceding month.

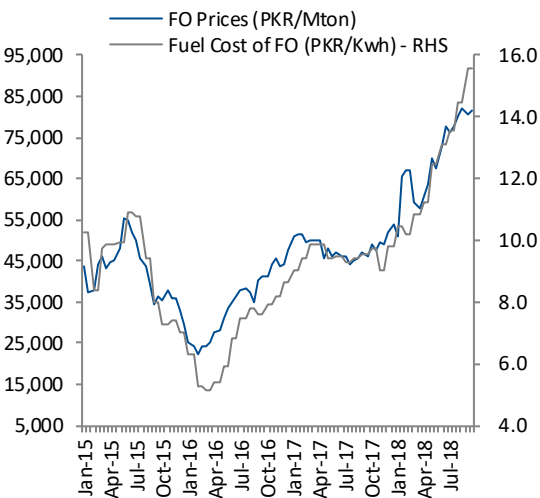
Outlook

We expect generation on gas to increase due to higher LNG import going forward. RFO based generation is expected to 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 Jun-19 target price of PKR 130.9/share offering +56% upside from its last close. We also have a 'BUY' stance on KAPCO with our Jun-19 target price of PKR 60.6/share offering +23% upside from last close. HUBC and KAPCO are currently trading at FY19 P/E of 7.5x and 4.1x and offer a healthy dividend yield of 10% and 19% 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: Jun – 2019

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