

Day Break

Monday, 22 April 2019

Sector Update

Monthly Power Generation Mix (Mar-19) - Gwh

Source	Mar-19	Mar-18	YoY	9MFY19	YoY
Hydel	1,601	872	84%	22,539	8%
RFO	40	1,410	-97%	7,518	-58%
Gas/LNG	3,617	3,986	-9%	34,218	19%
HSD	-	-	n/m	31	-96%
Coal	1,069	1,264	-15%	11,641	57%
Others	1,295	1,208	7%	11,283	14%
Total	7,621	8,741	-13%	87,230	2%

Exhibit: Fuel Wise Generation Mix (%)

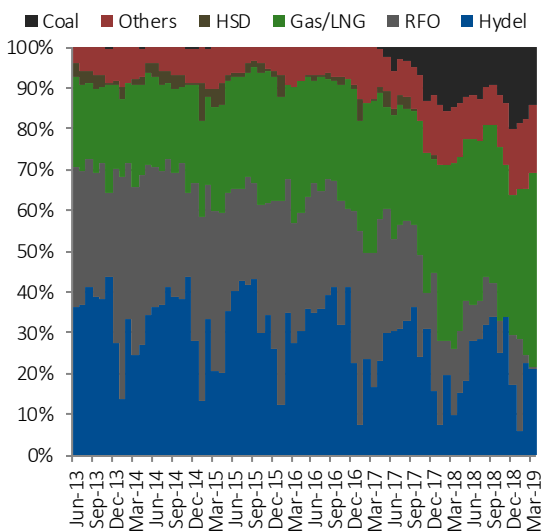
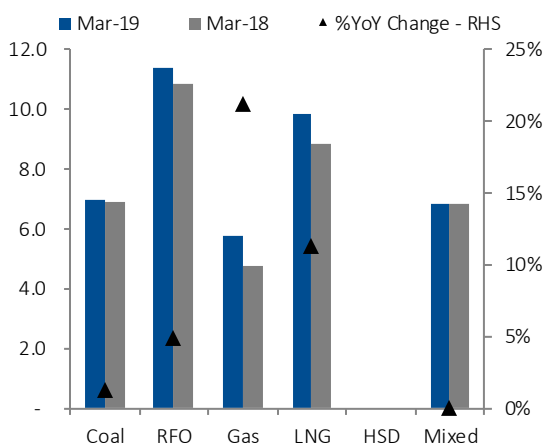


Exhibit: Fuel Wise Cost of Generation - Mar-19 (PKR/Kwh)



Source: NEPRA & IGI Research

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Power Generation & Distribution

Mar-19: Generation down by 13%YoY on account of lower FO/Coal generation

- As per latest data available on NEPRA's website, overall power generation during the month of Mar-19 dropped by 13%YoY to 7,621Gwh. Power production through Hydel clocked in at 1,601Gwh up by +84%YoY, while generation through RFO/Coal/Gas-LNG decreased by 97%/15%/9%YoY to 40/1,069/3,617Gwh during Mar-19,
- Power generation through RFO in Mar-19 dropped by 97%YoY (down by 1,370Gwh) to 40Gwh, owing to no generation from GENCO I-III, AES Lalpir, Saba Power, Hub Plant, Attock Gen and Resham (cumulatively down by 765Gwh) while lower generation from KAPCO Block I, Atlas, Nishat Power/Chunian, Liberty and Narowal,
- Gas/LNG based power generation plummeted by 9%YoY (370Gwh) to 3,617Gwh in Mar-19 on the back of a) lower generation by KAPCO Block I, II & III cumulatively down by 554Gwh and, b) lower generation from GENCO I, II & III (cumulatively down by 92Gwh),
- We maintain HUBC as our top pick with our Dec-19 target price of PKR 120.23/share offering +58% upside from its last close. We are currently revisiting our investment case for HUBC. The Company is trading at FY19/20F P/E of 7.1/5.5x and offers dividend yield of 2.6%/13.2%.

Power production depicts 13%YoY decline in Mar-19

As per latest data available on NEPRA's website, overall power generation during the month of Mar-19 dropped by 13%YoY to 7,621Gwh. Power production through Hydel clocked in at 1,601Gwh up by +84%YoY, while generation through RFO/Coal/Gas-LNG decreased by 97%/15%/9%YoY to 40/1,069/3,617Gwh during Mar-19. This brings total generation for 9MFY19 to 87,230 up by +2%YoY primarily led by +57%/+19%/+8%YoY rise in production through Coal/Gas-LNG/Hydel contributing 78% of the total power generation while contribution from FO based power generation is down to 9%YoY as compared to 21% in 9MFY19.

Exhibit:

Power Generation Mix (Mar-19)

GWH	Mar-19	Mar-18	YoY	Feb-19	MoM	FY18	FY17	YoY
Hydel	1,601	872	84%	1,523	5%	22,539	20,924	8%
RFO	40	1,410	-97%	112	-64%	7,518	17,720	-58%
Gas/LNG	3,617	3,986	-9%	2,724	33%	34,218	28,804	19%
HSD	-	-	n/m	-	n/m	31	784	-96%
Coal	1,069	1,264	-15%	1,168	-8%	11,641	7,393	57%
Others	1,295	1,208	7%	1,160	12%	11,283	9,926	14%
Total	7,621	8,741	-13%	6,687	14%	87,230	85,552	2%

Source: IGI Research, NEPRA

FO: Generation down by 97%YoY in Mar-19

Power generation through RFO in Mar-19 dropped by 97%YoY (down by 1,370Gwh) to 40Gwh, owing to no generation from GENCO I-III, AES Lalpir, Saba Power, Hub Plant, Attock Gen and Resham (cumulatively down by 765Gwh) while lower generation from KAPCO Block I, Atlas, Nishat Power/Chunian, Liberty and Narowal cumulatively dragged generation down by 598Gwh. This brings total generation for 9MFY19 to 7,518Gwh down by 58%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)

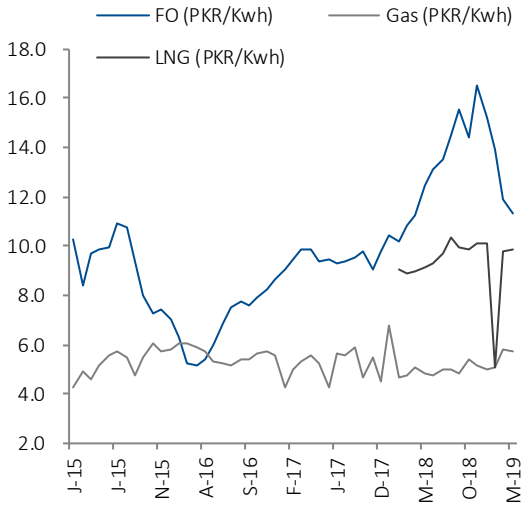
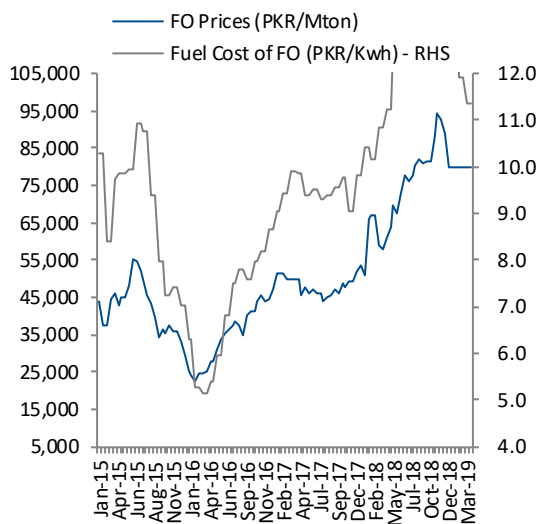


Exhibit: FO Prices (PKR/Mton) and Fuel Cost of FO - PKR/Kwh
(According to Data released by NEPRA)



Source: NEPRA & IGI Research

Gas/LNG generation down by 9%YoY in Mar-19

Gas/LNG based power generation plummeted by 9%YoY (370Gwh) to 3,617Gwh in Mar-19 on the back of a) lower generation by KAPCO Block I, II & III cumulatively down by 554Gwh and, b) lower generation from GENCO I, II & III (cumulatively down by 92Gwh) along with lower generation from smaller IPPs, despite higher generation from Haveli Bahadurshah and Baloki Power plants cumulatively adding 776Gwh. This brings total generation in FY19TD to 34,218Gwh up by +19%YoY led by higher generation from QATPL, Haveli Bahadur Shah, Baloki and smaller IPPs.

Generation cost on RFO drops to PKR 11.36/Kwh during Mar-19

As per NEPRA, power cost on RFO is down by 5%MoM (or up by +5%YoY) to PKR 11.36/Kwh. However, gas price rose to PKR 5.79/Kwh up by +21%YoY (flat on monthly basis) due to increase in gas tariff for IPPs while generation cost through LNG increased to PKR 9.85/Kwh, up by +11%YoY (or +1%MoM) due to rise in international Brent oil price. For the month of Apr-19 to date, international RFO (180cst bunker fuel) prices average USD 419/Mton (or PKR 79,842/Mton) as compared to USD 421/Mton (or PKR 79,842/Mton) in the preceding month. The price for Feb-19 remains unchanged owing to no imports of FO during the last few months. Furthermore PKR has remained stable as well since end of Dec-18. International FO prices are expected to come under pressure owing to lower demand from Pakistan.

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. ENGRO's Thar plant Unit I has already commenced operations while HUBC CPHGC plant is likely to start generation by Aug-19. In the medium term we anticipate coal based generation to reach up to 18% from current 13% in FY19TD. 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-19 target price of PKR 120.23/share offering +58% upside from its last close. We are currently revisiting our investment case for HUBC. The Company is trading at FY19/20F P/E of 7.1/5.5x and offers dividend yield of 2.6%/13.2%.

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Time Horizon: Dec – 2019

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