Day Break

Tuesday, 17 March 2020

IGI Securities

Sector Update

Monthly Power Generation Mix (Mar-20) - Gwh

Source	Jan-20	Jan-19	YoY	FY20TD	YoY
Hydel	868	478	82%	23,280	20%
RFO	801	1,722	-53%	3,291	-55%
Gas/LNG	2,611	2,848	-8%	24,434	-12%
HSD	1	12	-95%	1	-98%
Coal	2,501	1,452	72%	15,204	62%
Others	1,012	1,252	-19%	8,051	-9%
Total	7,794	7,764	0%	74,261	2%

Exhibit: Fuel Wise Generation Mix (%)

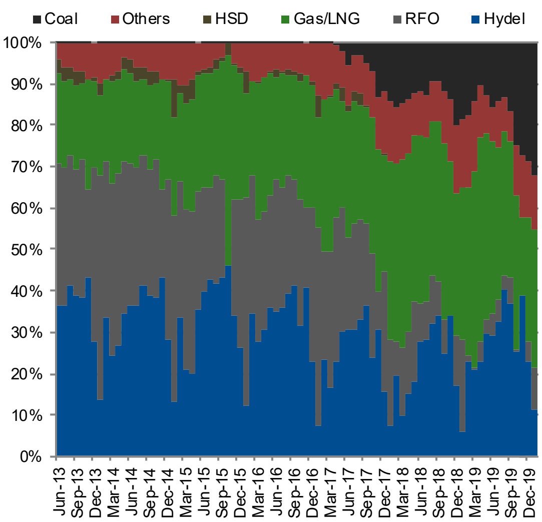
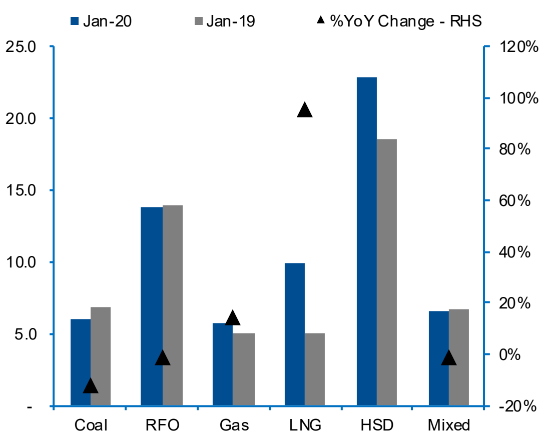


Exhibit: Fuel Wise Cost of Generation - Mar-20 (PKR/Kwh)



Source: NEPRA & IGI Research

Analyst
Abdullah Farhan
abdullah.farhan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 912

Power Generation & Distribution

Generation remained flat during Jan-20, however coal contribution touched 32%

- ✓ As per latest data available on NEPRA's website, overall power generation during the month of Jan-20 remained flat at 7,794Gwh. Power production through Coal/Hydel clocked in at 2,501/868Gwh up by +72%/+82%YoY,
- ✓ Power generation through RFO in Jan-20 dropped by 53%YoY (down by 921Gwh) to 801Gwh. Gas/LNG based power generation dropped by 8%YoY (236Gwh) to 2,611Gwh in Jan-20 on the back of lower generation from a) QATPL and Baloki (contributing 500Gwh) and, b) other smaller IPPs cumulatively contributing 123Gwh,
- ✓ As per NEPRA, power cost on RFO during Jan-20 is down by 1%YoY (or up by +1%YoY) to PKR 13.77/Kwh. However, gas price rose to PKR 5.79/Kwh up by +14%YoY (down by 9%MoM) while generation cost through LNG stood PKR 9.92/Kwh, up by +1%MoM,

Power production remained flat at 7,794Gwh during Jan-20

As per latest data available on NEPRA's website, overall power generation during the month of Jan-20 remained flat at 7,794Gwh. Power production through Coal/Hydel clocked in at 2,501/868Gwh up by +72%/+82%YoY, while generation through RFO/Gas-LNG decreased by 53%/8%YoY to 2,611/801Gwh during Jan-20. This in our view is likely due to down turn in economy along with rising fuel costs leading to lower demand. Moreover, extended winter season also kept a lid on demand. This brings total generation for FY20TD to 74,261 up by +2%YoY primarily led by +62%/+20%YoY rise in production through Hydel/Coal contributing 31%/21% of the total power generation while contribution from FO based power generation is down to 4%YoY as compared to 7% in FY19TD.

FO: Generation down by 53%YoY in Jan-20

Power generation through RFO in Jan-20 dropped by 53%YoY (down by 921Gwh) to 801Gwh, owing to lower generation from GENCO III, Nishat Power, Narowal, Hub Plant, Attock Gen, Pakgen and AES Lalpir (cumulatively down by 802Gwh) while generation from smaller IPPs was down by 119Gwh. This brings total generation for FY20TD to 3,291Gwh down by 55%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.

Gas/LNG generation down by 8%YoY during Jan-20

Gas/LNG based power generation dropped by 8%YoY (236Gwh) to 2,611Gwh in Jan-20 on the back of lower generation from a) QATPL and Baloki (contributing 500Gwh) and, b) other smaller IPPs cumulatively contributing 123Gwh. However, generation from Haveli Bahadurshah contributed positively by 343Gwh to total Gas/LNG generation This brings total generation in FY20TD to 24,434Gwh down by 12%YoY led by higher generation from QATPL, Haveli Bahadur Shah, Baloki and smaller IPPs.

Generation cost on RFO slightly down by 1%YoY to PKR 13.77/Kwh during Jan-20

As per NEPRA, power cost on RFO during Jan-20 is down by 1%YoY (or up by +1%YoY) to PKR 13.77/Kwh. However, gas price rose to PKR 5.79/Kwh up by +14%YoY (down by 9%MoM) while generation cost through LNG stood PKR 9.92/Kwh, up by +1%MoM. For the month of Mar-20 to date, international RFO (180cst bunker fuel) prices have averaged USD 265/MTon as compared to USD 304/Mton in the preceding month (average of USD 301/MT in Jan-20). The import price for FO remains unchanged owing to no imports of FO since Jul-19.

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

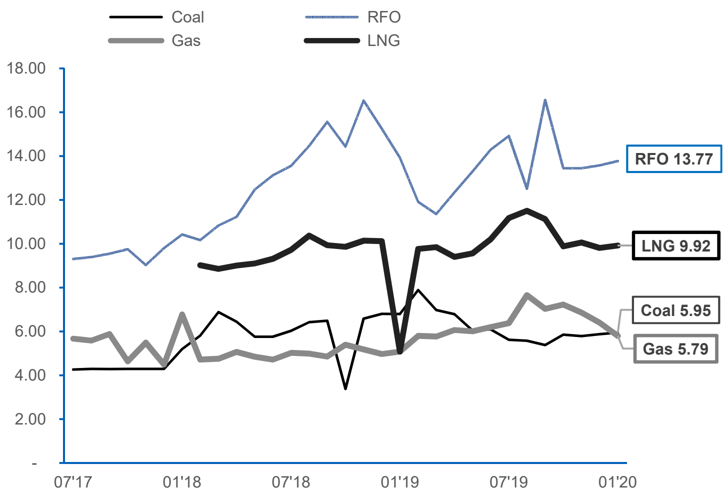
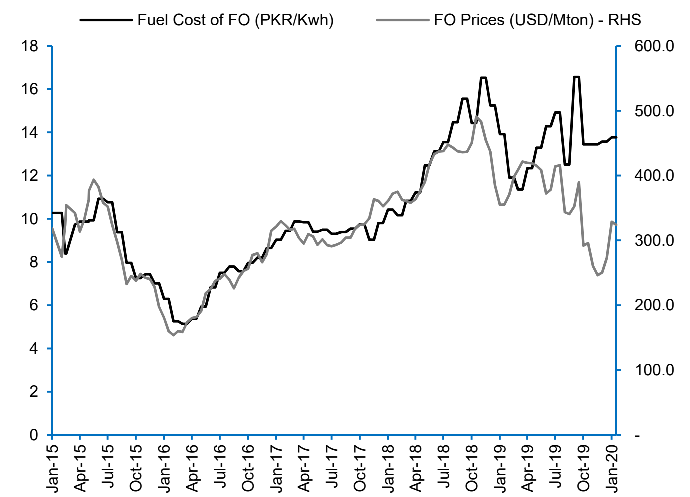


Exhibit: FO Prices (USD/Mton) and Fuel Prices (PKR/Mton)



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. Post commencement of operation by CPHGC in Aug-19 coal contribution in total generation mix is up to 32% in Jan-20 from 13% in FY19. Though post IMO-20, substantial drop in FO prices further helped by recent drop in crude oil prices would substantially reduce cost of generation for FO plants. However, for few FO plants having high efficiency and lower fuel cost have PKR 1-3/Kwh higher cost compared to other FO and LNG based power plants. Thus even at fuel cost of PKR 10/kwh these FO plants still have EPP of PKR 11-13/kwh. Thus we foresee some FO plants to become operation however Coal/Gas/LNG plants are likely to remain high in merit order list.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to subject company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	**Islamabad Office** Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**Rahim Yar Khan Office** Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	