

Sector update

Exhibit: Breakup of Sukuk-II disbursements

In PKRbn	Total
Port Qasim Electric Power Company	22.7
Central Power Generation Company Ltd	15.2
WAPDA Hydel	15.0
National Power Parks Management Company	13.3
Huaneng Shandong Ruyi Energy Ltd.	13.2
Quaid-e-azam Thermal Power Limited	12.2
National Power Parks Management Company	13.3
Kot Addu Power Company Ltd.	11.7
China Power Hub Generation company	8.7
Engro Powergen Thar (Pvt) Limited	7.3
Total of Top 10	132.6
FO Based	
Liberty Power Tech Limited	2.0
Nishat Chunian Power Limited	1.6
Nishat Power Limited	1.4
Narowal Energy Limited	0.6
Attock Gen Limited	0.4
Pak Gen Power Limited	0.3
The Hub Power Company Limited	0.1
Lalpir Power (Private) Limited	0.0
Saba Power Company (Pvt) Ltd.	0.0
Atlas Power Limited	0.4
Gulf Powergen (Pvt) Ltd	-
Kohinoor Energy Ltd.	0.5
Total FO plants	7.3
PSO	-
Laraib Energy Limited	2.0
Others	59.0
Total Sukuk-II Disbursements	200.9

Source: PSX, Bloomberg, PBS & IGI Research

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Energy Sector

Energy Sukuk II disbursement skewed towards CPEC projects

- ✓ As per sources, the Government of Pakistan has disbursed PKR201bn funds to the power sector under the Energy Sukuk II. This Sukuk issue is government guaranteed, has a 10yr tenure with bi-annual profit payments (at 6M KIBOR minus 10bps), and will be subsequently listed on the PSX,
- ✓ Bulk of the disbursement (over 50%) has been made to hydel companies, WAPDA and coal power companies. The GoP has followed the merit order dispatch list (based on efficiency and cost) where RFO based plants have received very little payment,
- ✓ In the listed space, HUBC's associate – CPHGC received PKR8.7bn (4% of total as Energy Payments) while its subsidiary Laraib received PKR2.0bn (1% of total as EPP). Among HUBC's RFO based units Narowal received only PKR0.6bn (0.3% of total) did not receive any disbursement.

Government of Pakistan disburses payment for Energy Sukuk II

As per sources, the Government of Pakistan has disbursed PKR201bn funds to the power sector under the Energy Sukuk II. This Sukuk issue is government guaranteed, has a 10yr tenure with bi-annual profit payments (at 6M KIBOR minus 10bps), and will be subsequently listed on the PSX. The issue followed the first Sukuk issue in March 2019 (also PKR200bn).

Bulk of the disbursement has gone to CPEC and GOP projects

Bulk of the disbursement (over 50%) has been made to hydel companies, WAPDA and coal power companies. The GoP has followed the merit order dispatch list (based on efficiency and cost) where RFO based plants have received very little payment. The Sukuk II was initially expected to be used to retire the outstanding capacity payments (CPP) of the power companies; however, +60% of the Sukuk proceeds have been issued for the Energy payments (EPP) of these plants.

Circular debt has ballooned – Sukuk-II should help ease cash crunch

Circular debt has touched a high of whopping PKR 1.9-2.0tn whereas closure of FO plants have already led to delays in Capacity Payments (CPP) of these IPPs, thus leading to severe liquidity crunch for the entire Energy chain. To further aggravate the issue, LNG receivables have also piled up to whopping PKR ~87bn. This has led to curtailment of cash payout by most companies. The Sukuk-II issuance should serve to benefit the entire energy chain and reduce the severity of liquidity crunch, but may not lead to meaningful change in payout policies.

RFO plants have received a very negligible amount

In the listed space, HUBC's associate – CPHGC received PKR8.7bn (4% of total as Energy Payments) while its subsidiary Laraib received PKR2.0bn (1% of total as EPP). Among HUBC's RFO based units Narowal received only PKR0.6bn (0.3% of total) did not receive any disbursement, displaying the GOP's partiality towards relatively newer, more cost effective plants. Among other listed names,

KAPCO received a substantial PKR11.7bn (6% of total as EPP), EPQL received PKR3.0bn while NCPL and NPL received PKR1.4bn and PKR1.6bn respectively.

Exhibit: Disbursement of Sukuk-II Payments									
PKRmn		Amount Paid			Break-up		% of Total		
Company	Source	EPP	CPP	Total	EPP	CPP	EPP	CPP	Total
Port Qasim Electric Power Company	Coal	10,203	12,514	22,717	45%	55%	8%	17%	11%
Central Power Generation Company Ltd	Gas	9,971	5,243	15,214	66%	34%	8%	7%	8%
WAPDA Hydel	Hydel	-	15,000	15,000	0%	100%	0%	20%	7%
National Power Parks Management Company	RLNG	12,871	449	13,320	97%	3%	10%	1%	7%
Huaneng Shandong Ruyi Energy Ltd.	Coal	8,619	4,566	13,185	65%	35%	7%	6%	7%
Quaid-e-azam Thermal Power Limited	Hydel	11,956	200	12,156	98%	2%	9%	0%	6%
National Power Parks Management Company	RLNG	12,871	449	13,320	97%	3%	10%	1%	7%
Kot Addu Power Company Ltd.	RLNG/FO	11,675	-	11,675	100%	0%	9%	0%	6%
China Power Hub Generation company	Coal	8,705	-	8,705	100%	0%	7%	0%	4%
Engro Powergen Thar (Pvt) Limited	Coal	2,949	4,331	7,280	41%	59%	2%	6%	4%
Total of Top 10		89,821	42,752	132,573	68%	32%	71%	58%	66%
FO Based									
Liberty Power Tech Limited	RFO	842	1,154	1,996	42%	58%	1%	2%	1%
Nishat Chunian Power Limited	RFO	823	762	1,585	52%	48%	1%	1%	1%
Nishat Power Limited	RFO	720	678	1,398	52%	48%	1%	1%	1%
Narowal Energy Limited	RFO	619	-	619	100%	0%	0%	0%	0%
Attock Gen Limited	RFO	375	-	375	100%	0%	0%	0%	0%
Pak Gen Power Limited	RFO	278	-	278	100%	0%	0%	0%	0%
The Hub Power Company Limited	RFO	-	100	100	0%	100%	0%	0%	0%
Lalpir Power (Private) Limited	RFO	24	-	24	100%	0%	0%	0%	0%
Saba Power Company (Pvt.) Ltd.	RFO	9	-	9	100%	0%	0%	0%	0%
Atlas Power Limited	RFO	435	-	435	100%	0%	0%	0%	0%
Gulf Powergen (Pvt) Ltd	RFO	-	-	-	0%	0%	0%	0%	0%
Kohinoor Energy Ltd.	RFO	487	19	506	96%	4%	0%	0%	0%
Total FO plants		4,612	2,713	7,325	63%	37%	4%	4%	4%
PSO		-	-	-	0%	0%	0%	0%	0%
Laraib Energy Limited	Hydel	1,920	52	1,972	97%	3%	2%	0%	1%
Others		29,574	27,959	59,033	50%	47%	23%	38%	29%
Total Sukuk-II Disbursements		125,926	73,477	200,903	63%	37%	100%	100%	100%

Source: IGI Research, Industry Sources

Exhibit: Comparison of Sukuk-I and Sukuk-II disbursements				
PKR bn	% of total	Sukuk-I Allocation	% of total	Sukuk-II Allocation
PSO	30.0%	60	0.0%	-
HUBC	8.5%	17	5.7%	11
KAPCO	10.8%	22	5.8%	12
NCPL	1.6%	3	0.8%	2
NPL	1.7%	3	0.7%	1
LPL	1.3%	3	0.0%	0
PKGP	1.3%	3	0.1%	0
EPQL	1.0%	2	1.5%	3
SPWL	0.8%	2	0.3%	1
KOHE	0.7%	1	0.3%	1

Accumulation of circular debt has slowed down

Besides the outstanding dues which have piled up to historic highs, the accumulation of circular debt has slowed down to PKR 12-15bn/month compared to PKR 20-30bn/month since 2018. The primary reason behind slowdown in circular debt was the increase in power tariff in Jun-19 which led to substantial drop in accumulation. This was further helped by drop in power generation on RFO which dropped by 55% YoY in Jul-Nov 2019.

Issues for the RFO plants are far from over

The Government of Pakistan continues to engage with IPPs over the issue of recovery of overpayment and tariff reduction where a new committee has been formed to take up this case. The government has constituted a sub-committee for negotiation with IPPs for recovery of a massive PKR5tn overpayment to them and renegotiating formula of their profits. The body will also negotiate with IPPs with respect to modalities and mechanism for shifting from take or pay contract terms to take and pay contract terms.

Current receivables position of companies

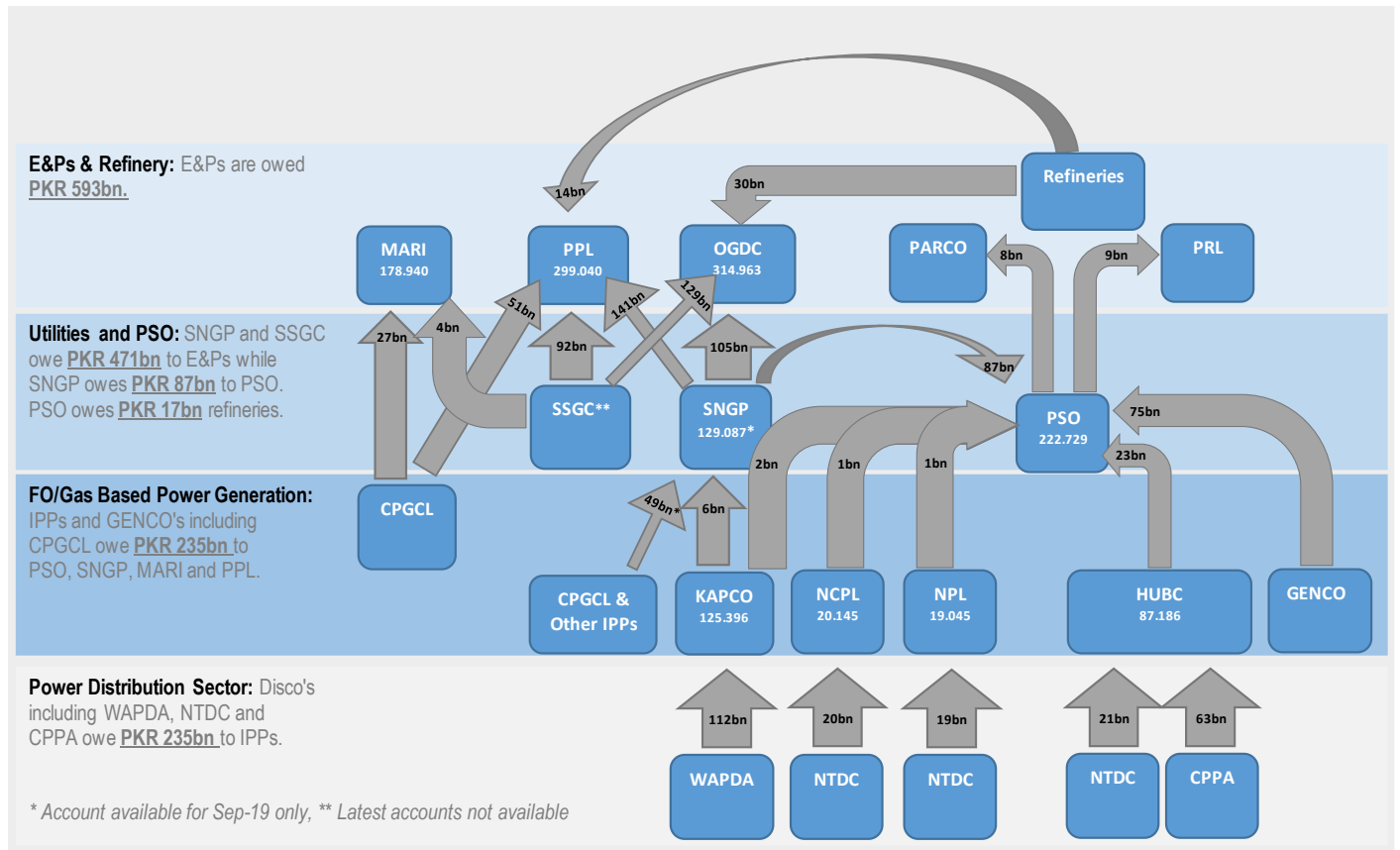
As accumulation of circular debt remained high at PKR 20-30bn/month till Sep-19, the receivables position of IPPs, OMCs, refineries and E&Ps worsened between Mar-19 to Mar-20 after improving post issuance of PKR 200bn Sukuk in Jan-19. As a result, total receivables of HUBC, KAPCO, NCPL and NPL from NTDC, CPPA and WAPDA stand at PKR 235bn while total receivables of PSO from these IPPs and GENCO stand at PKR 102bn. Whereas total receivables of OGDC, PPL and MARI from SSGC and SNGP stand at PKR 471bn whereas PKR 44bn and PKR 78bn from Refineries and CPGCL respectively.

Minimal payments to keep liquidity issues at float

Power sector remained under severe cash constraints during FY19/CY18 owing to substantial rise in receivables. As a result, cash payouts dropped significantly during FY19/CY18 to below 50% where previously these companies used to payout close to 90%. Working capital requirement stood in the range of negative 17-21% of turnover for NCPL, NPL, KAPCO, HUBC, LPL, PKGP and SPWL however for KOHE it was relatively better at 1%.

As a result of minimal EPP payments and negligible CPP payments to FO based IPPs along with no payment to PSO, cash constraints for PSO and FO based IPPs (such as HUBC, KAPCO, NCPL, NPL, LPL and PKGP) are likely to remain where we expect these companies to keep on withholding cash payouts.

Exhibit: Pakistan Energy Sector Circular Debt for Listed Companies (as at Mar-20)



Source: IGI Research, Company Financials

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