

Day Break

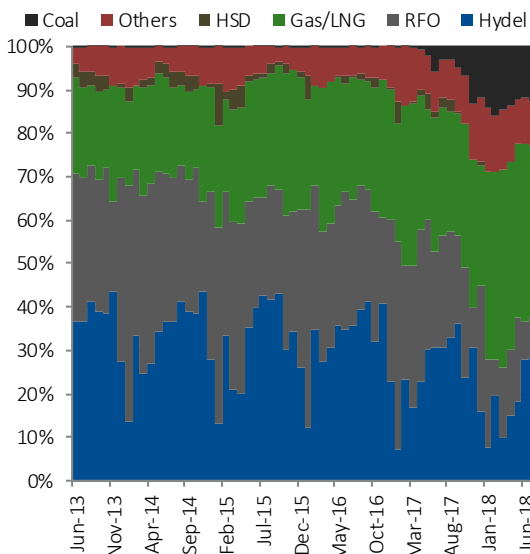
Thursday, 30 August 2018

Sector Update

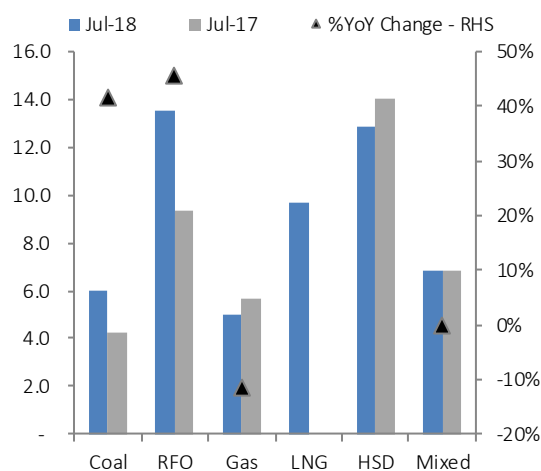
Monthly Power Generation Mix (Jul-18) - Gwh

Source	Jul-18	Jul-17	YoY	CY18TD	YoY
Hydel	3,892	3,848	1%	14,061	-12%
RFO	1,284	3,199	-60%	9,957	-49%
Gas/LNG	5,416	3,660	48%	30,354	54%
HSD	11	336	-97%	16	-99%
Coal	1,737	368	372%	9,640	617%
Others	1,412	1,087	30%	8,591	30%
Total	13,751	12,497	10%	72,620	12%

Fuel Wise Generation Mix (%)



Fuel Wise Cost of Generation - Jul-18 (PKR/Kwh)



Source: NEPRA & IGI Research

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Power Generation & Distribution

Jul-18: Generation up by +10%YoY as LNG and Coal lead the way

- As per latest data available on NEPRA's website, overall power generation during the month of Jul-18 surged by +10%YoY to 13,751Gwh. Power production through Coal/Gas-LNG clocked in at 1,737/5,416Gwh up by +4.7x/+48%YoY, while generation through FO decreased by 60%YoY to 1,284Gwh during Jul-18,
- Power generation through RFO in Jul-18 dropped by 60%YoY (down by 1,915Gwh) to 1,284Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 980Gwh), lower generation from smaller IPPs (down by 403Gwh) and drop in generation from Hub plant (down by 79%YoY or 528Gwh),
- Gas/LNG based power generation augmented by +48%YoY (+1,756Gwh) to 5,416Gwh in Jul-18 on the back of a) resumption of production from Orient, Saif, Sapphire and Halmore cumulatively adding 493Gwh, b) commencement of production from Baloki Power Plant adding 331Gwh and, c) +56%/+86%YoY higher production from QATPL/Haveli Bahadur Shah (up by cumulative +599Gwh),
- We maintain HUBC as our top pick with our Dec-18 target price of PKR 139.1/share offering +46% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 68.7/share offering +20% upside from last close.

Power production depicts +10%YoY growth in Jul-18

As per latest data available on NEPRA's website, overall power generation during the month of Jul-18 surged by +10%YoY to 13,751Gwh. Power production through Coal/Gas-LNG clocked in at 1,737/5,416Gwh up by +4.7x/+48%YoY, while generation through FO decreased by 60%YoY to 1,284Gwh during Jul-18. This brings total generation for CY18TD to 72,620 up by +12%YoY primarily led by +7.2x/+54%YoY rise in production through Coal/Gas-LNG contributing 55% of the total power generation while contribution from FO/Hydel based power generation is down to 33%YoY as compared to 55% in CY17TD.

Exhibit:

Power Generation Mix (Jul-18)

GWH	Jul-18	Jul-17	YoY	Jun-18	MoM	FY18	FY17	YoY
Hydel	3,892	3,848	1%	3,589	8%	14,061	15,979	-12%
RFO	1,284	3,199	-60%	1,163	10%	9,957	19,616	-49%
Gas/LNG	5,416	3,660	48%	5,278	3%	30,354	19,736	54%
HSD	11	336	-97%	4	169%	16	1,441	-99%
Coal	1,737	368	372%	1,522	14%	9,640	1,344	617%
Others	1,412	1,087	30%	1,358	4%	8,591	6,621	30%
Total	13,751	12,497	10%	12,914	6%	72,620	64,737	12%

Source: IGI Research, NEPRA

FO: Generation down by 60%YoY in Jul-18

Power generation through RFO in Jul-18 dropped by 60%YoY (down by 1,915Gwh) to 1,284Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 980Gwh), lower generation from smaller IPPs (down by 403Gwh) and drop in generation from Hub plant (down by 79%YoY or 528Gwh). This brings total generation for CY18TD to 9,957Gwh down by 49%YoY owing to lower generation from Hub Plant, KAPCO Block I & II and GENCO I & III along with lower generation from smaller inefficient IPPs.

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

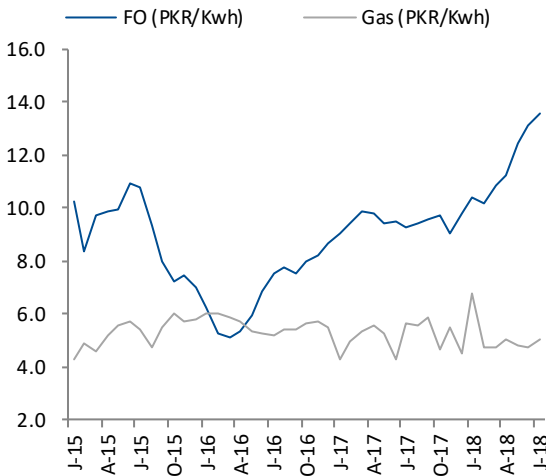
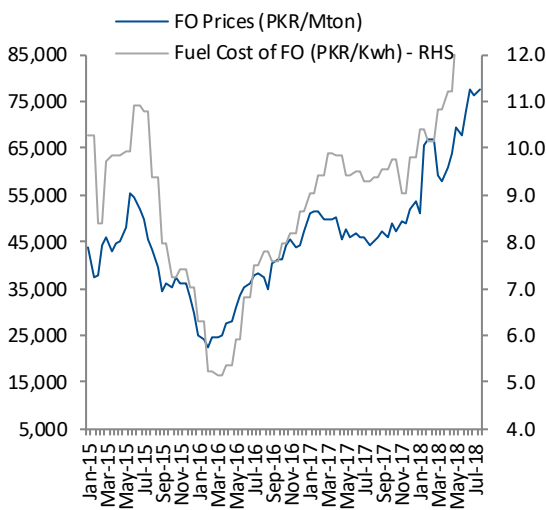


Exhibit: FO Prices (PKR/Mton) and Fuel Cost of FO-PKR/Kwh
(According to Data released by NEPRA)



Gas/LNG generation up by +48%YoY in Jul-18 on availability of LNG and commencement of production from new plants

Gas/LNG based power generation augmented by +48%YoY (+1,756Gwh) to 5,416Gwh in Jul-18 on the back of a) resumption of production from Orient, Saif, Sapphire and Halmore cumulatively adding 493Gwh, b) commencement of production from Baloki Power Plant adding 331Gwh and, c) +56%/+86%YoY higher production from QATPL/Haveli Bahadur Shah (up by cumulative +599Gwh). KAPCO Block I, Rousch Power and Guddu further contributed to rise in gas production. This brings total generation in CY18TD to 30,354Gwh up by +54%YoY led by commencement of production from Baloki and higher generation from QATPL, Haveli Bahadurshah, KAPCO Block I-III and smaller IPPs.

Generation cost on RFO further mounts to PKR 13.55/Kwh during Jul-18

As per NEPRA, power cost on RFO is up by +3%MoM (or +46%YoY) to PKR 13.55/Kwh as international FO prices have been on the rising trajectory, compared to PKR 5.02/Kwh for gas and PKR 9.72/Kwh for LNG. Generation cost on LNG has also increased due to rise in international oil prices and lower efficiency of conglomerate power plants previously operating on gas. For the month of Aug-18, international RFO (180cst bunker fuel) prices have averaged out at USD 436/MTon (or PKR 81,221/Mton) as compared to USD 445/Mton (or PKR 76,775/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 heavy rains leading to restoration of water levels for higher generation through Hydel. With delays in LNG power plants due to technical issues and rise in demand, we believe FO based power plants to remain operational during peak demand while only efficient plants to remain online during low demand in winters. 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 Dec-18 target price of PKR 139.1/share offering +46% upside from its last close. We also have a 'BUY' stance on KAPCO with our Dec-18 target price of PKR 68.7/share offering +20% upside from last close. HUBC and KAPCO are currently trading at FY19 P/E of 7.7x and 4.7x and offer a healthy dividend yield of 7.9% and 20.0% respectively.

Source: NEPRA & IGI Research

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Time Horizon: Dec – 2018

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