

# Day Break

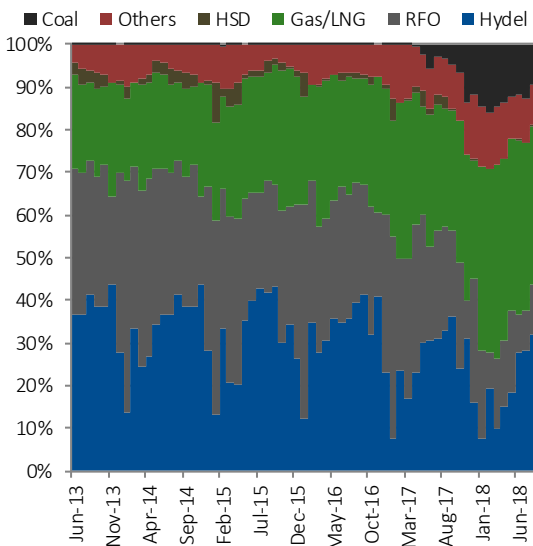
Tuesday, 25 September 2018

## Sector Update

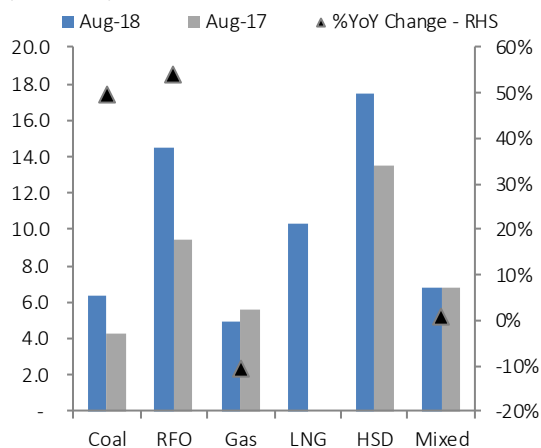
### Monthly Power Generation Mix (Aug-18) - Gwh

Source	Aug-18	Aug-17	YoY	CY18TD	YoY
Hydel	4,478	4,197	7%	18,540	-8%
RFO	1,644	3,123	-47%	11,601	-49%
Gas/LNG	5,227	3,516	49%	35,581	53%
HSD	6	336	-98%	22	-99%
Coal	1,344	405	232%	10,984	528%
Others	1,318	1,178	12%	9,909	27%
Total	14,017	12,754	10%	86,637	12%

### Exhibit: Fuel Wise Generation Mix (%)



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



Source: NEPRA & IGI Research

### Analyst

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## Power Generation & Distribution

### Aug-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 Jul-18 surged by +10%YoY to 14,017Gwh. Power production through Coal/Gas-LNG clocked in at 1,344/5,227Gwh up by +3.3x/+49%YoY, while generation through FO decreased by 47%YoY to 1,644Gwh during Aug-18,
- Power generation through RFO in Aug-18 dropped by 47%YoY (down by 1,479Gwh) to 1,644Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 907Gwh), lower generation from smaller IPPs (down by 136Gwh) and drop in generation from Hub plant (down by 70%YoY or 439Gwh),
- Gas/LNG based power generation augmented by +49%YoY (+1,712Gwh) to 5,227Gwh in Aug-18 on the back of a) resumption of production from Orient, Saif, Sapphire and Halmore cumulatively adding 535Gwh, b) higher generation through gas by KAPCO Block I, II & III cumulatively adding 385Gwh and, c) +5.3x/+75%YoY higher production from Haveli Bahadur Shah/QATPL (up by cumulative +872Gwh),
- 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 Aug-18

As per latest data available on NEPRA's website, overall power generation during the month of Aug-18 surged by +10%YoY to 14,017Gwh. Power production through Coal/Gas-LNG clocked in at 1,344/5,227Gwh up by +3.3x/+49%YoY, while generation through FO decreased by 47%YoY to 1,644Gwh during Aug-18. This brings total generation for CY18TD to 86,637 up by +12%YoY primarily led by +6.3x/+53%YoY rise in production through Coal/Gas-LNG contributing 54% of the total power generation while contribution from FO/Hydel based power generation is down to 35%YoY as compared to 55% in CY17TD.

Exhibit:

### Power Generation Mix (Aug-18)

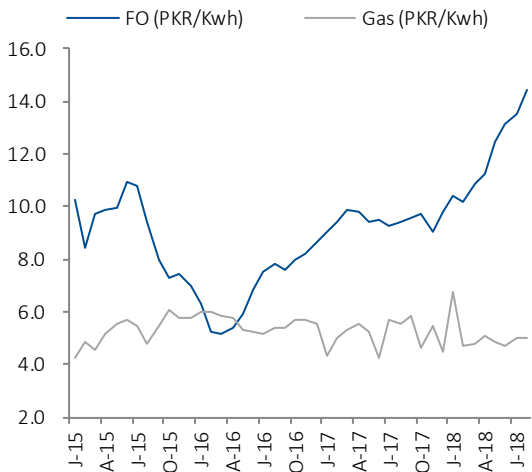
GWH	Aug-18	Aug-17	YoY	Jul-18	MoM	CY18TD	CY17TD	YoY
Hydel	4,478	4,197	7%	3,892	15%	18,540	20,175	-8%
RFO	1,644	3,123	-47%	1,284	28%	11,601	22,739	-49%
Gas/LNG	5,227	3,516	49%	5,416	-3%	35,581	23,251	53%
HSD	6	336	-98%	11	-43%	22	1,777	-99%
Coal	1,344	405	232%	1,737	-23%	10,984	1,750	528%
Others	1,318	1,178	12%	1,412	-7%	9,909	7,799	27%
Total	14,017	12,754	10%	13,751	2%	86,637	77,491	12%

Source: IGI Research, NEPRA

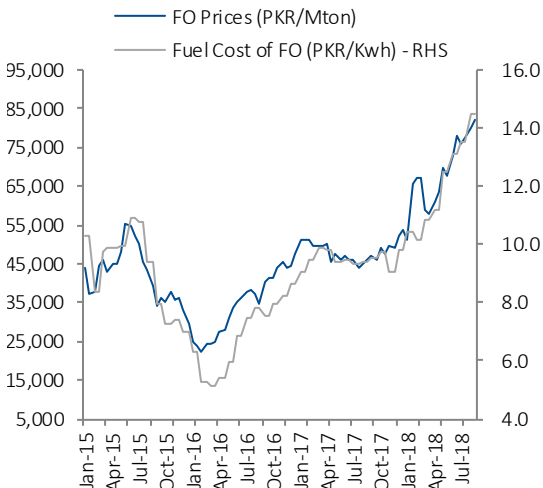
### FO: Generation down by 47%YoY in Aug-18

Power generation through RFO in Aug-18 dropped by 47%YoY (down by 1,479Gwh) to 1,644Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 907Gwh), lower generation from smaller IPPs (down by 136Gwh) and drop in generation from Hub plant (down by 70%YoY or 439Gwh). This brings total generation for CY18TD to 11.601Gwh 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 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)



**Gas/LNG generation up by +49%YoY in Aug-18 on availability of LNG and commencement of production from new plants**

Gas/LNG based power generation augmented by +49%YoY (+1,712Gwh) to 5,227Gwh in Aug-18 on the back of a) resumption of production from Orient, Saif, Sapphire and Halmore cumulatively adding 535Gwh, b) higher generation through gas by KAPCO Block I, II & III cumulatively adding 385Gwh and, c) +5.3x/+75%YoY higher production from Haveli Bahadur Shah/QATPL (up by cumulative +872Gwh). This brings total generation in CY18TD to 35,581Gwh up by +53%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 14.47/Kwh during Aug-18**

As per NEPRA, power cost on RFO is up by +7%MoM (or +54%YoY) to PKR 14.47/Kwh as international FO prices have been on the rising trajectory, compared to PKR 4.99/Kwh for gas and PKR 10.37/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 Sep-18, international RFO (180cst bunker fuel) prices have averaged out at USD 436/MTon (or PKR 80,381/Mton) as compared to USD 436/Mton (or PKR 81,221/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 Dec-18 target price of PKR 139.1/share offering +53% 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 7.4x and 4.7x and offer a healthy dividend yield of 8.3% and 20.0% respectively.

Source: NEPRA & IGI Research

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**Time Horizon:** Dec – 2018

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