

Day Break

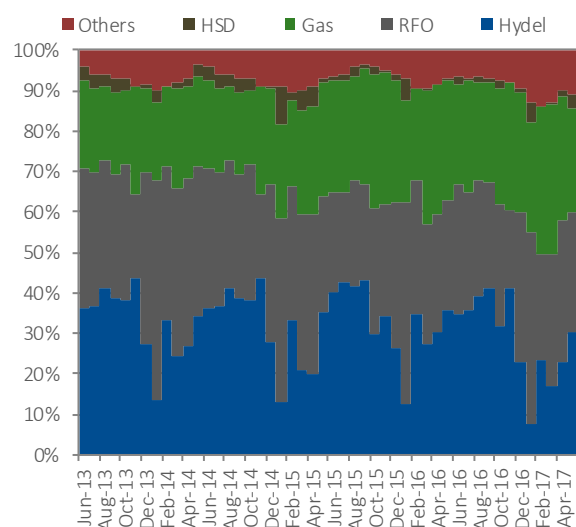
Thursday, 06 July 2017

Sector Update

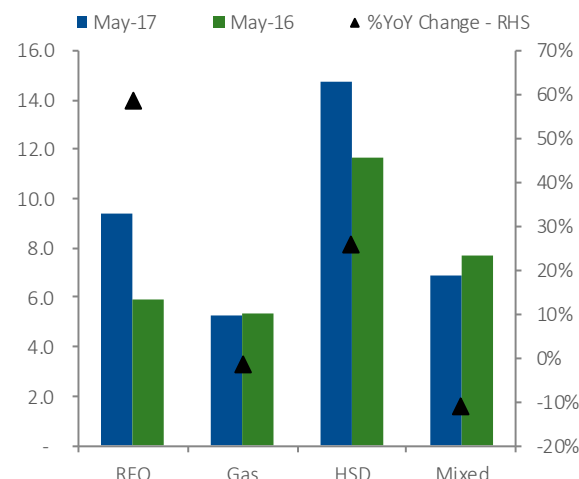
Monthly Power Generation Mix (May-17) - Gwh

Source	May-17	May-16	YoY	Apr-17	MoM
Hydel	3,326	3,584	-7%	2,026	64%
RFO	3,306	2,733	21%	3,081	7%
Gas	2,802	2,964	-5%	2,724	3%
HSD	407	23	1702%	138	195%
Others	1,184	700	69%	873	36%
Total	11,024	10,003	10%	8,842	25%

Fuel Wise Generation Mix (%)



Fuel Wise Cost of Generation - May-17 (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 up by +10%YoY in May-17; Highest ever generation

- As per latest data available on NEPRA's website, overall power generation witnessed highest power production in over 5 years during the month of May-17 surged by +10%YoY to 11,024Gwh.
- Power generation through RFO in May-17 augmented by +21%YoY (+573Gwh) to 3,306Gwh, while Gas based power generation declined by 5%YoY (162Gwh) to 2,802Gwh in May-17 in the absence of power generation through gas from Orient, Saif, Sapphire and Halmore power plants. Power generation through coal and HSD picked up by 22xYoY and 17xYoY during May-17.
- We expect generation on gas to increase due to higher LNG import going forward, however in the coming month generation is expected to remain on the lower side owing to non-availability of gas. RFO based generation is expected to slowdown from May-17 onwards as Hydel based generation picks up. We have "BUY" call on HUBC and "HOLD" call on KAPCO with our Dec-17 Target Price of PKR 137/share and PKR 77/share offering +13.8% and +7.5% upside, respectively.

Highest ever generation recorded during May-17, depicting +10%YoY growth

As per latest data available on NEPRA's website, overall power generation witnessed highest power production during the month of May-17 to 11,024Gwh (up by +10%YoY). Power production through RFO clocked in at 3,306Gwh up by +21%YoY, while generation through Hydel/gas decreased by 7%/5%YoY to 3,326/2,802Gwh during May-17. For FY17TD, generation is up by +6%YoY to 95,601Gwh primarily led by +9%/+5%YoY rise in production through RFO/Gas contributing 60% of the total power generation, while contribution from Hydel based power generation is down to 30% as compared to 32% in FY16TD.

Exhibit:

Power Generation Mix (May-17)

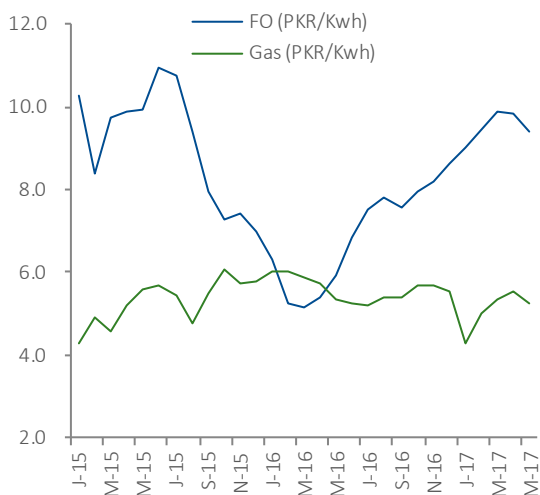
GWH	May-17	May-16	YoY	Apr-17	MoM	FY17TD	FY16TD	YoY
Hydel	3,326	3,584	-7%	2,026	64%	28,296	30,532	-7%
RFO	3,306	2,733	21%	3,081	7%	29,398	26,866	9%
Gas	2,802	2,964	-5%	2,724	3%	27,614	26,247	5%
HSD	407	23	17x	138	195%	1,493	1,230	21%
Others	1,184	700	69%	873	36%	8,800	5,510	60%
Total	11,024	10,003	10%	8,842	25%	95,601	90,385	6%

Source: IGI Research, NEPRA

FO: Generation up by +21%YoY in May-17

Power generation through RFO in May-17 augmented by +21%YoY (+573Gwh) to 3,306Gwh, owing to higher generation overall from Nandipur, AES Lalpir, Pakgen, Liberty, Saba and smaller IPPs with a cumulative production increase of +355Gwh. However generation from Hub Plant, KAPCO Block-I & Block-II dropped by 11%, 42% and 11%YoY (cumulative decline of 472Gwh) in May-17. Increase in RFO based generation was mainly due to higher generation from WAPDA GENCO-I and smaller IPPs.

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



Gas: Supply issues to smaller IPPs drag generation through gas down, RLNG supply to KAPCO provided some support to decline in generation

Gas based power generation declined by 5%YoY (162Gwh) to 2,802Gwh in May-17 in the absence of power generation through gas from Orient, Saif, Sapphire and Halmore power plants (down by 479Gwh), while increased production from Kapco Block-1, Block-2 & Block-3 (+485Gwh) diluted the overall decline in power generation through gas during Mar-17. However, decline in power production emanated from reduced generation by smaller IPPs owing to gas supply issues.

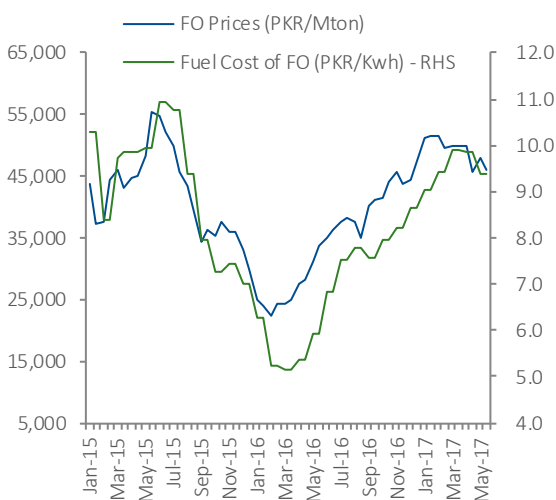
Generation on coal and HSD picked up during May-2017

Power generation through coal and HSD picked up by 22xYoY and 17xYoY during May-17 as 1320MW Sahiwal coal based power project was added to grid while Orient (+99.43Gwh), Sapphire (+93.48Gwh) and Saif (+94.77Gwh) power switched to HSD owing to non-availability of gas.

Generation cost on RFO plunges to PKR 9.40/Kwh during May-17

As per NEPRA, power cost on RFO is up by +4%MoM to PKR 9.40/Kwh as compared to PKR 5.26/Kwh for gas, as international FO prices have declined since Jun-17, while gas prices are range bound between PKR 5-6/Kwh since Feb-16 owing to lower price of LNG. For the month of Jun-17, international RFO (180cst bunker fuel) prices have averaged out at USD 292/MTon as compared to USD 298/MTon in the preceding month.

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



Outlook

We expect generation on gas to increase due to higher LNG import going forward, however in the coming month generation is expected to remain on the lower side owing to non-availability of gas. RFO based generation is expected to slowdown from May-17 onwards as Hydel based generation picks up. However, we believe growth in RFO based generation to pick up slightly on the back of recent decline in international FO prices and lower generation on gas due to supply issues. Hydel based power generation is anticipated to rise from Jun-17 as monsoon season approaches.

Recommendation

We have **“BUY”** call on HUBC and **“HOLD”** call on KAPCO with our Dec-17 Target Price of PKR 137/share and PKR 77/share offering +13.8% and +7.5% upside, respectively. HUBC and KAPCO are currently trading at forward FY18F P/E of 11.0x and 6.0x and while offering healthy dividend yield of 8.3% and 15.2%, respectively.

Source: NEPRA & IGI Research

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. 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)

Time Horizon: Dec - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DDM (Dividend Discount Model)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, 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. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **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.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

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
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Tanweer Kabeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@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) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@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	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@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 # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Phone: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Phone: (+92-99) 2408243 - 44