

Day Break

Wednesday, 14 November 2018

Sector Update

Monthly Power Generation Mix (Oct-18) - Gwh

Source	Oct-18	Oct-17	YoY	FY19TD	YoY
Hydel	2,390	2,438	-2%	15,039	3%
RFO	754	2,547	-70%	4,707	-58%
Gas/LNG	4,108	3,356	22%	19,578	42%
HSD	-	-	n/m	19	-97%
Coal	1,116	687	62%	5,345	166%
Others	1,206	1,147	5%	5,206	13%
Total	9,574	10,176	-6%	49,894	6%

Exhibit: Fuel Wise Generation Mix (%)

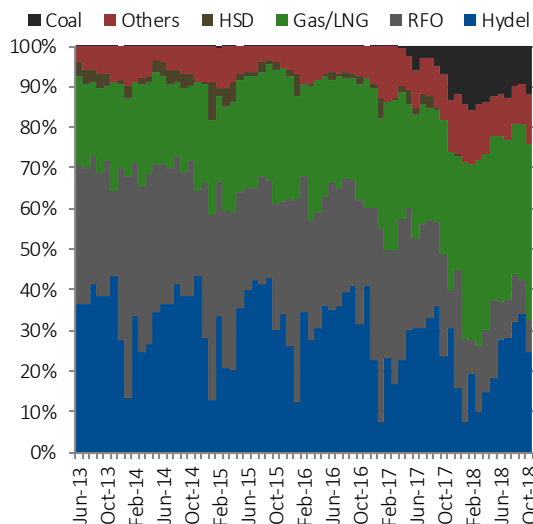
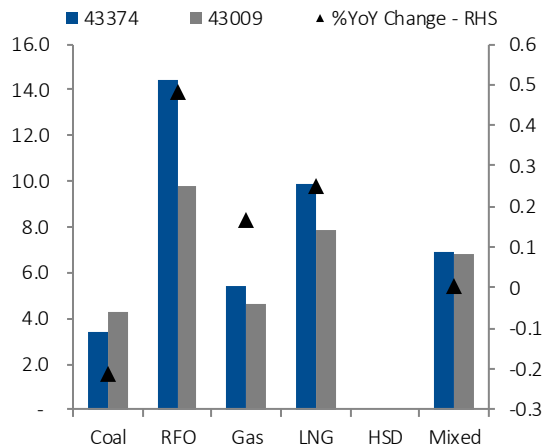


Exhibit: Fuel Wise Cost of Generation - Oct-18 (PKR/Kwh)



Source: NEPRA & IGI Research

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Power Generation & Distribution

Oct-18: Generation down by 6%YoY on account of lower demand ahead of winter season

- As per latest data available on NEPRA's website, overall power generation during the month of Oct-18 dropped by 6%YoY to 9,574Gwh. Power production through Coal/Gas-LNG clocked in at 1,913/4,108Gwh up by +3%/+47%YoY, while generation through FO decreased by 70%YoY to 754Gwh during Oct-18,
- Power generation through RFO in Oct-18 dropped by 70%YoY (down by 1,793Gwh) to 754Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 654Gwh), lower generation from smaller IPPs (down by 441Gwh) and, drop in generation from Hub plant (down by 91%YoY or 717Gwh),
- Gas/LNG based power generation augmented by +22%YoY (+752Gwh) to 4,108Gwh in Oct-18 on the back of a) resumption of production from Orient, Saif, Halmore and Sapphire cumulatively adding 251Gwh and, b) +3.7x/+7.3xYoY higher production from Haveli Bahadur Shah/QATPL (up by cumulative +907Gwh). However, generation from KAPCO Block I/II/III was down by 9%/78%/93%YoY in Oct-18,
- We maintain HUBC as our top pick with our Jun-19 target price of PKR 130.9/share offering +41% upside from its last close. We also have a 'BUY' stance on KAPCO with our Jun-19 target price of PKR 60.6/share offering +15% upside from last close.

Power production depicts 6%YoY decline in Oct-18

As per latest data available on NEPRA's website, overall power generation during the month of Oct-18 dropped by 6%YoY to 9,574Gwh. Power production through Coal/Gas-LNG clocked in at 1,913/4,108Gwh up by +3%/+47%YoY, while generation through FO decreased by 70%YoY to 754Gwh during Oct-18. This brings total generation for FY19TD to 49,894 up by +6%YoY primarily led by +2.7x/+42%YoY rise in production through Coal/Gas-LNG contributing 50% of the total power generation while contribution from FO/Hydel based power generation is down to 40%YoY as compared to 55% in FY18TD.

Exhibit:

Power Generation Mix (Oct-18)

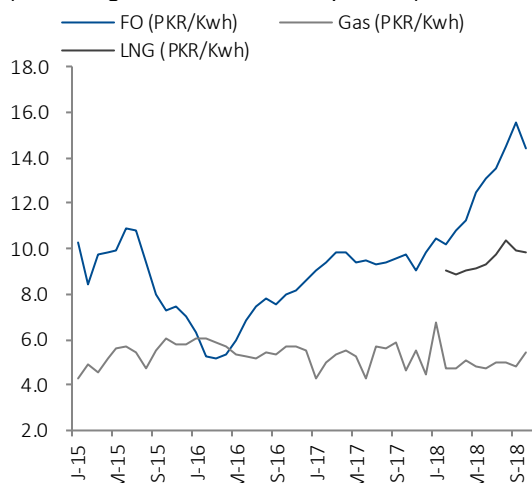
GWH	Oct-18	Oct-17	YoY	Sep-18	MoM	FY18	FY17	YoY
Hydel	2,390	2,438	-2%	4,280	-44%	15,039	14,645	3%
RFO	754	2,547	-70%	1,025	-26%	4,707	11,197	-58%
Gas/LNG	4,108	3,356	22%	4,828	-15%	19,578	13,740	42%
HSD	-	-	-	2	n/m	19	732	-97%
Coal	1,116	687	62%	1,149	-3%	5,345	2,012	166%
Others	1,206	1,147	5%	1,269	-5%	5,206	4,590	13%
Total	9,574	10,176	-6%	12,552	-24%	49,894	46,917	6%

Source: IGI Research, NEPRA

FO: Generation down by 70%YoY in Oct-18

Power generation through RFO in Oct-18 dropped by 70%YoY (down by 1,793Gwh) to 754Gwh, owing to lower generation from GENCO I & III and KAPCO Block I & II (cumulatively down by 654Gwh), lower generation from smaller IPPs (down by 441Gwh) and, drop in generation from Hub plant (down by 91%YoY or 717Gwh). This brings total generation for FY19TD to 4,707Gwh down by 58%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)



Gas/LNG generation up by +22%YoY in Oct-18

Gas/LNG based power generation augmented by +22%YoY (+752Gwh) to 4,108Gwh in Oct-18 on the back of a) resumption of production from Orient, Saif, Halmore and Sapphire cumulatively adding 251Gwh and, b) +3.7x/+7.3xYoY higher production from Haveli Bahadur Shah/QATPL (up by cumulative +907Gwh). However, generation from KAPCO Block I/II/III was down by 9%/78%/93%YoY in Oct-18. This brings total generation in FY19TD to 19,578Gwh up by +42%YoY led by higher generation from QATPL, Haveli Bahadur Shah, Baloki, KAPCO Block I-III and smaller IPPs.

Generation cost on RFO drops to PKR 14.43/Kwh during Oct-18

As per NEPRA, power cost on RFO is down by 7%MoM (or up by +48%YoY) to PKR 14.43/Kwh. However, gas price rose to PKR 5.40/Kwh for gas due to increase in gas tariff for IPPs while generation cost through LNG dropped to PKR 9.86/Kwh due to drop in international Brent oil price. For the month of Nov-18 to date, international RFO (180cst bunker fuel) prices average USD 462/MTon (or PKR 94,123/Mton) as compared to USD 487/Mton (or PKR 85,034/Mton) in the preceding month owing to PKR depreciation despite drop in international FO prices.

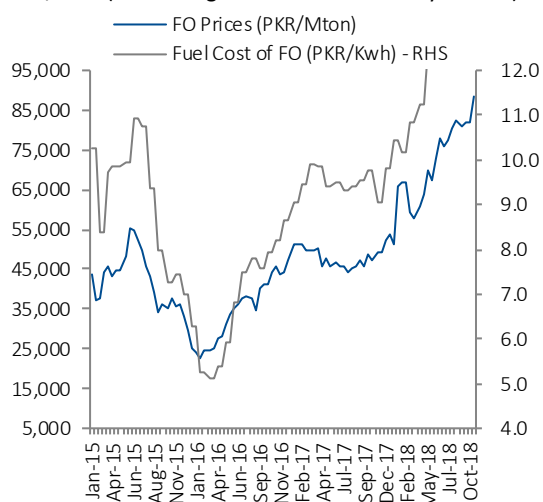
Outlook

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 Jun-19 target price of PKR 130.9/share offering +41% upside from its last close. We also have a 'BUY' stance on KAPCO with our Jun-19 target price of PKR 60.6/share offering +15% upside from last close. HUBC and KAPCO are currently trading at FY19 P/E of 8.3x and 4.4x and offer a healthy dividend yield of 8% and 18% respectively.

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



Source: NEPRA & IGI Research

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Time Horizon: Jun – 2019

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