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Today's Daily

Power: FO on the sidelines

Subdued demand at the tail-end of winters restricted overall output in Feb'18 to 6.98TwH, reflecting additional generation of 9.4%YoY. FO vacuum (865MW vs. 2,496MW in Feb'17) was largely filled by the inclusion of coal and RLNG in the system where both fuels contributed 15.8% and 19.2% towards the total generation. Despite having a pure RLNG based generation capacity of ~3,600MW which includes Bhikki, Balloki and Haveli Bahadur Shah, almost 91% of the total RLNG based generation of 1,995MW came from IPPs including KAPCO (558MW), Rousch (291MW), Saif (~160MW) and others as the new plants continue to suffer from teething issues. During the month, HUBC's base plant operated at a meagre 8.6% load factor while the Narowal plant was able to operate at 55%, KAPCO, on the other hand delivered 625MW of energy with RLNG as the preferred source. At current levels, we continue to vouch for KAPCO with an attractive FY18/19E D/Y of 15.4%/15.0% while the stock trades at a discount of 5.9% from its fair value of PkR63.78/sh.

KSE100 - Index	
Current	46,637.62
Previous	46,560.82
Chg.	0.16%

Mkt Cap. (PkRbn/US$bn)	
Current	9,532 / 82.46
Previous	9,494 / 82.14
Chg.	0.39%

Daily Turnover (mn)	
Current	248.15
Previous	233.35
Chg.	6.3%

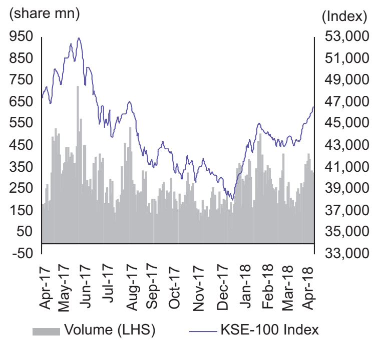
Value Traded (PkRmn/US$mn)	
Current	14,557 / 125.94
Previous	12,686 / 109.75
Chg.	14.8%

News and Views

- President Mamnoon Hussain has promulgated four ordinances to implement the Economic Reforms Package (ERP) envisaging "one-time" amnesty scheme to whiten undeclared assets at home and abroad, reduction in income tax rates, issuance of dollar-denominated bonds and barring cash transactions in non-filer accounts.

- Recent PBS statistics show that the large scale manufacturing sector posted 5.52%YoY growth in Feb'18. Sector wise, non-metallic mineral products, including cement (up 11.3pc), automobiles (7.99pc) and iron and steel products (12.6pc) were the main catalysts of monthly growth in the industrial outputs. On a cumulative basis, LSM growth in 8MFY18 clocked in at 6.24%YoY (in line with GoP's target of 6.3%YoY).

- The federal gov't is likely to sign a contract agreement with a Chinese company by Apr 20'18 for laying the US$2bn Matiari-Lahore high-voltage direct current (HVDC) transmission line. The 878km long transmission line is part of the China-Pakistan Economic Corridor (CPEC) and is the country's first project based on direct current (DC).



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Generation in Feb went up 9.4%YoY: With total electricity generation at 6.98TwH, gas (both indigenous/RLNG) remained the foremost fuel of generation in Feb'18 (24%/19.2% share), leaving hydel, coal and FO behind in the power mix. But despite the inclusion of pure RLNG based plants: Bhikki, Balloki and Haveli Bahadur Shah in the system, the imported cargoes were largely utilized to operate other IPPs including KAPCO (558MW), Rousch (291MW), Saif (291MW) as new plants continue to face technical issues. Apart from this, hydel supplied 2,019MW of power with 19.4% contribution while coal based generation clocked-in at 1,640MW (15.8%) with Sahiwal coal plant in full swing (1,162MW of power) supplemented by Port Qasim coal plant. FO based generation remained suppressed (at 865MW) supplied by a mix of HUBC (both base plant and Narowal), NPL, NCPL, and other IPPs.

Power Generation Snapshot

	Feb'18			Feb'17			Feb'16		
	Power Gen. MW	Cost of Gen. (Rs/KWh)	Weight (%)	Power Gen. MW	Cost of Gen. (Rs/KWh)	Weight (%)	Power Gen. MW	Cost of Gen. (Rs/KWh)	Weight (%)
Hydel	2,019	0.10	19.4%	2,222	0.12	23.4%	3,180	0.09	34.6%
Coal	1,640	6.01	15.8%	7	4.71	0.1%	7	4.63	0.1%
HSD	1	14.75	0.0%	9	15.45	0.1%	5	12.18	0.1%
FO	865	10.88	8.3%	2,496	9.88	26.3%	3,065	5.66	33.3%
Gas	2,489	4.97	24.0%	2,674	4.51	28.1%	2,098	6.57	22.8%
RLNG	1,995	9.34	19.2%	800	7.87	8.4%			
Nuclear	905	1.08	8.7%	865	1.12	9.1%	581	1.16	6.3%
Import	52	11.02	0.5%	50	10.63	0.5%	47	10.60	0.5%
Wind	126	1.45	1.2%	121	0.00	1.3%	56	0.00	0.6%
Solar	81	2.49	0.8%	81	2.47	0.8%	20	2.47	0.2%
Bagasse	120	6.73	1.2%	120	4.59	1.3%	89	6.25	1.0%
Mixed	91	6.77	0.9%	54	6.55	0.6%	44	7.18	0.5%
Overall	10,386	5.18		9,498	4.86		9,192	3.66	

Source: CPPA & AKD Research

Hike in commodity prices lift generation costs: RLNG remained the second most expensive source of energy (ex. of negligible HSD and import mix) with per unit cost of PkR9.34 as compared with FO (PkR10.88/KwH). This came as a result of rising commodity prices where Brent linked RLNG moves in tandem with intl. oil price movements. Moreover, cost of coal based generation hit PkR6.0/KwH, the highest ever since its inclusion pushing the overall cost of generation to PkR5.18/KwH as compared with PkR4.86/KwH in Feb'17.

Investment Perspective: Data reflects that HUBC's base plant operated at ~8.6% load factor in Feb'18, while its Narowal plant was able to operate at 55%. Despite a wave of upcoming projects with news flows suggesting that CPHGC would be commissioned earlier than its stipulated commissioned date of Aug'19, we believe the temporary curtailment of dividends (to finance its investments) would keep a lid on its price performance in the near term. In this backdrop, we continue to push for KAPCO on the back of its superior D/Y at 15.4/15% for FY18/19F. In addition, the stock is trading at a discount of 5.9% from our target price.

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