AKD Daily

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Today's Daily

Power: Same old story, different cover

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KSE100 - Index

Current	42,330.32
Previous	42,810.04
Chg.	-1.12%

Mkt Cap. (PkRbn/US$bn)

Current	8,699 / 70.13
Previous	8,791 / 70.87
Chg.	-1.05%

Daily Turnover (mn)

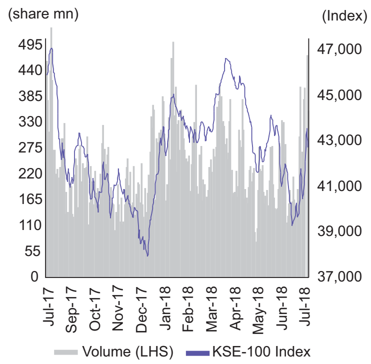
Current	284.51
Previous	278.40
Chg.	2.2%

Value Traded (PkRmn/US$mn)

Current	11,370 / 91.65
Previous	10,541 / 84.97
Chg.	7.9%

News and Views

- During Multi-party conference, leaders of various political parties expressed grievances over the election results and decided to protest within and outside the parliament. However, they voiced their intention to form the government with their own representatives including Prime Minister from PML-N while Speaker of National Assembly from PPP.
- Owing to ~US$2.0bn inflow from China, FX reserves held by the central bank surged to US$10.3bn (up 14.9%WoW). Total country's liquid FX reserves ended at US$17.1bn (up 8.6%WoW) while reserves held by the commercial bank remained stable at US$6.7bn.
- Pakistan Tehreek-e-Insaaf's newly-elected MNA and expected Finance Minister Asad Umar put forward 100 days' plan which included all state owned companies to be transferred into a sovereign wealth fund to restore them. Additionally, to shore up depleting FX reserves, raising money from overseas Pakistanis, issuing bonds and defer oil payment arrangements remain probable options.



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Source Wise Installed Capacity by type (MW)

As on Jun'30	2016	2017	Variation Capacity	Variation %
Hydel				
Wapda	6,902	6,902	-	-
IPPs Hydel	214	214	-	-
Thermal				
Gencos with Pepco	5,897	5,897	-	-
KEL Own	1,874	1,874	-	-
IPPs (Connected with Pepco)	8,643	10,566	1,923	22.25
IPPs (Connected with KEL)	252	252	-	-
CPPs/SPPc connected with KEL	35	87	52	148.57
Nuclear				
Chasnupp (I,II, & III)	615	1,005	390	63.41
Kanup	137	137	-	-
Renewable energy (Wind, Solar & Bagsse)				
Re Power Plants connected with PEPCO	852	1,465	613	71.94
Total Installed Capacity of the country	**25,421**	**28,399**	**2,978**	**11.71**

Source: NEPRA & AKD Research

Sector overview: As of Jun 30'17, the overall installed capacity of the country stood at 28,399MW including 2,213MW of KEL. Of this, 34% is represented by Gas/RLNG, while 26% is accounted for by Oil based facilities. Also, hydro makes up 27% of the total mix. Peak demand in the same period stood at 24,138MW where structural issues resulted in lower than peak utilization. Also, as of Jan 1'18, NTDC's transformation capacity (of 500Kv lines) stood at 19,650 MVA (16,703MW), lacking the capacity to meet demand. The overall situation, as per NEPRA, is set to improve with the induction of new capacities of ~19,000MW by FY21 and a further 17,000MW by FY25, although it remains concerned about the actual implementation of large hydropower projects (totaling ~10,000MW). This remains contingent upon timely completion of projects both on the generation part and the transmission part (by NTDC). As per recent news, HUBC's CPHGC (1,320MW) and Engro's ETPL (660MW) both have been connected to the NTDC system.

NTDC source wise projected capacities (MW)

Technology	Installed capacity as of Jun' 2017	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total*
Oil	6,785	-	-	-	-	-	-	-	-	-
Coal	810	1,980	1,320	823	3,300	2,610	1,320	-	-	11,353
Gas/RLNG	8,868	2,508	830	420	-	-	-	-	-	3,758
Wind	785	149	299	-	1,224	-	-	-	-	1,672
Solar	400	12	600	600	-	-	-	-	-	1,212
Bagasse	280	77	583	144	-	-	-	-	-	804
Hydro	7,116	2,709	41	201	177	824	3,080	4,325	2,203	13,560
Nuclear	1,142	340	-	-	1,100	1,100	-	-	1,100	3,640
Year wise Addition	-	7,775	3,673	2,188	5,801	4,534	4,400	4,325	3,303	35,999
Total Cap	26,186	33,961	37,634	39,822	45,623	50,157	54,557	58,882	62,185	62,185

*Technology wise installed capacity addition from FY2017-18 till 2024-25
Note: Import not shown of 1,000 MW CASA in year 2021-22 and MW exiting from Iran
capacity surplus in the later yearsi.e 2022 to 2025 may not be available
due to multiple issues and resulting uncertainties in completion of large hydro-power projects.

Source: NEPRA & AKD Research

Structural issues continue to haunt: Despite continuous improvement efforts, the sector remains infected by a host of structural issues. Extremely low efficiency levels of GENCOs (~28%), transmission & distribution losses at 17.95% (flat YoY), poor recovery rates averaging 92.65% (vs. 94.48% in FY16) and overloading of transformers are some of the core issues prevalent. Moreover, the use of imported fuel continues to raise costs, where the regulator estimates an additional PkR4bn of import bill for every PkR1/US$ slippage in exchange rate. Also, capacity payments are bound to increase as additional capacities are brought online with estimated number at PkR490bn for FY18 (vs PkR350bn for FY17). Lastly, policy inaction on the Ministry's part and Alternate Energy Board (AEDB) also adds to the woes of power sector.

Shift towards cheaper fuels: NTDC has projected Pakistan's power demand to grow annually at ~4.3%, with a peak demand of 28,601MW in FY21. In this backdrop, significant capacity additions are planned in coal, and hydro segments specifically. Maintaining a conservative stance, we believe a 27% reliance on hydro and RLNG each followed by 21% on coal can reduce Pakistan's average cost of generation by PkR0.9/KwH by FY21, given oil prices sustain at these levels. Even if T&D losses are maintained at current levels, a cut in consumer (industrial) tariff by ~PkR1.0/KwH from ~PkR13/KwH currently will represent ~7.7% lower tariff which can boost industrial activity.

NTDC's projected power snapshot

Jun'30	Installed Capacity (NTDC system) (MW)	Planned Generation Capacity NTDC (MW)	NTDC's Projected Demand Growth (%)	NTDC's Projected Demand during peak hours (MW) (%)	Surplus/Deficit (MW)
2018	33,961	26,135	4.51	25,227	908
2019	37,633	28,357	4.44	26,348	2,009
2020	39,821	29,314	4.07	27,420	1,897
2021	45,622	34,124	4.31	28,601	5,523
2022	50,156	36,422	4.27	29,822	6,600
2023	54,556	39,345	4.27	31,095	8,250
2024	58,881	41,197	4.29	32,429	8,768
2025	62,184	47,750	4.28	33,816	13,934

Source: NTDC & AKD Research

Investment Perspective: The overall power sector provides lucrative RoE and IRR for investors, with RoE going as high as 29.5% for local coal projects. In the listed space, while there is a confluence of oil based IPPs, HUBC provides a unique mix with 1) its U shaped tariff of base plant, 2) efficient Narowal plant set to procure capacity payments uptil FY26, 3) commissioning of imported coal based CPHGC (@ 27.2% RoE), 4) setup of Thar coal based 330MW plant (@ 29.5% RoE), and 5) partial stake in SECMC which will ensure consistent dividend stream till FY50. At current levels, the scrip provides an overall capital upside of ~47%, and FY19F D/Y of 9.2%.

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Neutral	≤ 5% to ≥ -5% potential
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Sell	≤ -20% downside potential

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