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PAKISTAN
POWER

REP-019
MARKET
VISTA

Generation exhibits seasonal dip

- **CPPA-G data indicated power generation in Oct'20 increased 7% YoY to 10,243GWh, but was down 22%MoM due to onset of winters. For 4MFY21, FO based generation, while up 21%YoY, contributed 5% to the generation mix with RLNG/coal based generation rising to the fore, contributing c. ~40% to the power mix.**
- **Company wise, HUBC base plant remained in-operational in 4MFY21. While less severely affected, Nishat IPPs and Narowal also operated at 30-40% utilization levels. KAPCO, being multi fueled, operated at 39% in 4MFY21 slightly below its load factor in the same period last year. HUBC's 2x660MW coal based power plant operated at 71% in 4MFY21 vs. 37% in SPLY.**
- **Power sector remains on the cusp of major transformation, with MoUs in process of being converted into formal agreements, and GoP mulling over the fate of HUBC's 1,200MW Base plant, which has remained in-operational, and extension of KAPCO's multi-fueled power plant (PPA expiry: Jun'21).**
- **However, HUBC's management has remained proactive amid shifting power sector dynamics indicated by HUBC being the only listed IPP with CPEC power projects in portfolio. With foreign sponsors on board, while downward revision in RoEs for CPEC power projects remain a possibility, we believe US$ hedged returns may likely continue (unlike a shift from US$ based return to PkR for 2002/1994 PP power projects).**

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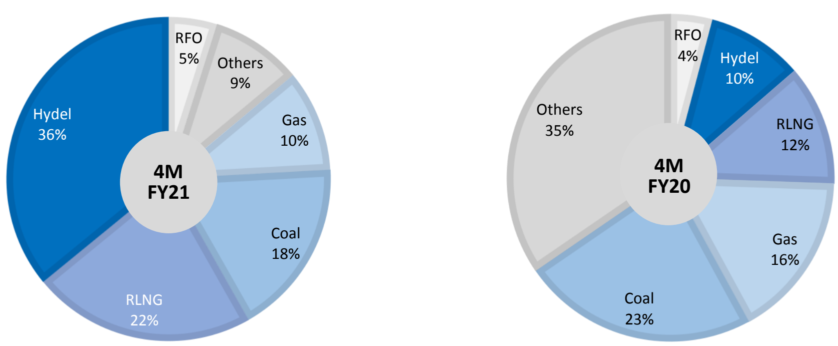
Source-wise power generation (GWh)

Source	Oct'20	YoY	MoM	4MFY21	YoY
RFO	154	702%	-80%	2,569	21%
Hydel	3,174	30%	-35%	18,923	6%
Coal	1,916	-19%	-16%	9,310	10%
RLNG	2,851	17%	2%	11,746	-2%
Gas	1,145	-2%	-14%	5,350	-13%

Source: NEPRA & AKD Research

Furnace Oil based power generation contributed 5% in 4MFY21



Source: NEPRA & AKD Research

Utilization levels 4MFY21 vs. 4MFY20

IPP	4MFY21	4MFY20	YoY
NPL	31%	34%	-3%
NCPL	40%	35%	5%
HUBC Base	1%	2%	-1%
HUBC Narowal	34%	27%	7%
HUBC Laraib	61%	25%	35%
HUBC CPHGC	71%	37%	34%
KAPCO	39%	46%	-6%

Source: NEPRA & AKD Research

FO based generation takes a backseat: The power generation in Oct'20 increased 7% YoY to 10,243GWh, but declined 22%MoM due to onset of winters. FO based generation, pushed down the merit list due to cheaper coal power capacity available, was down 80%MoM. However, on a cumulative basis, the FO based generation improved 21% YoY over 4MFY21, contributing 5% to the total energy mix. Company wise, HUBC base plant remained in-operational in the aforementioned period, carrying forward the 4QFY20 performance. While less severely affected, Nishat IPPs and Narowal also operated at 30-40% utilization levels, as opposed to peak levels of 70+% before power capacity expansion wave witnessed over FY17-20. KAPCO, being multi-fuel fired, operated at 39% in 4MFY21 slightly below its load factor same period last year. Coal based power generation witnessed a decline of 19/16% YoY/MoM during Oct'20. On a cumulative basis, however, coal based generation was up 10% YoY over 4MFY21. Importantly, the 2x660MW units of China Hub Power (CoD: FY20) operated at 71% in 4MFY21 vs. 37% in the same period last year.

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Investment Perspective: Notably, CY21 may witness finalization of ongoing deal between HUBC management and the GoP for sell-off of 1,200MW Base plant for a transaction price of PkR65bn, 6 years preceding PPA expiry; however details are still sketchy. Moreover, KAPCO's PPA is also up for expiry in Jun'21, with potential extension in pipeline (reportedly for 5-7 years based on hybrid model – "Take and Pay' as well as 'Take or Pay'). We value HUBC sans Base plant at PkR110/sh, implying an upside of 34% at last close, where we have used using a 2 ppt higher discount rate to factor in uncertainty with regards to cashflows of power projects. HUBC's management has remained proactive amid shifting power sector dynamics indicated by HUBC being the only listed IPP with CPEC power projects in portfolio. With foreign sponsors on board, while downward revision in RoEs for CPEC power projects remain a possibility, we believe US$ hedged returns will likely continue (unlike a shift from US$ based return to PkR for 2002/1994 PP power projects). We maintain our Buy call on HUBC.

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