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MARKET VISTA

PAKISTAN POWER

Payout exuberance on horizon

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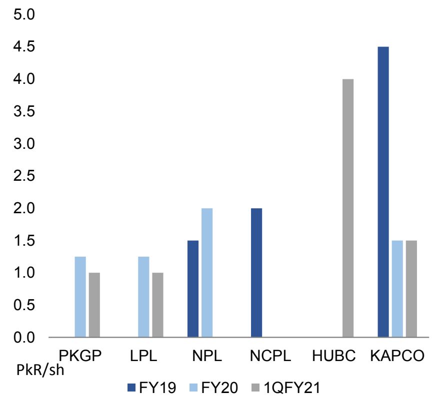
- **The GoP and IPPs have reportedly reached an amicable solution with regards to settlement of overdue receivables (PkR450bn) in three installments by Dec'21. This is in contrast to settlement timeline of 3 years which was proposed by GoP earlier. The catch however is, each installment is expected to be paid one third in cash and the remaining two thirds in the form of T-bills.**
- **The Nishat IPPs have resumed piecemeal payouts ever since the issuance of Energy Sukuk-I in FY19, while managing their liabilities. Going forward, NPL seems to best placed in terms of payout potential, with liabilities amounting to 33% of receivables. Assuming 50/100% of short term debt retirement and payables, NPL boasts of payout potential of PkR6.0/sh.**
- **HUBC and KAPCO's liabilities stand at 109/49% of outstanding receivables, indicating better liquidity situation for the latter. However, both need to be seen in the context of potential asset sell-off (HUBC) and impending PPA expiry (KAPCO). We maintain our liking for HUBC, (SoTP based TP excluding base plant: PkR110/sh), being the only listed IPP with exposure to dollar hedged, CPEC power projects.**

Timeline and mode of payment finalized: The GoP and IPPs have reportedly reached an amicable solution with regards to settlement of overdue receivables (PkR450bn) in three installments: Jan'21, Jun'21 and Dec'21. This is in contrast to settlement timeline of 3 years which was proposed by GoP earlier. The catch however is, each installment is expected to be paid one third in cash and the remaining two thirds in the form of T-bills. Assuming 33% settlement of receivables in cash, we expect the payouts to still remain sporadic as IPPs manage their liabilities. HUBC and KAPCO's liabilities stand at 109/49% of outstanding receivables, indicating better liquidity situation for the latter. Meanwhile, amongst Nishat IPPs, NPL seems to best placed, with liabilities amounting to 33% of receivables. PKGP follows closely with regards to payout potential, especially on the back of low working capital requirement, courtesy closed plant (refer to table). The GoP and IPPs are expected to fine tune other details in meetings to be held between 4th to 6th Jan'21.

Energy Sukuks have revitalized payouts



Source: Company reports & AKD Research

*Potential payouts in case of 30% settlement**

IPP	Settlement	Receivable	Settlement amount	Payable	Short Term Borrowing	Potential Payout	PkR/sh
KAPCO	30%	125,386	37,616	21,468	39,750	6,210	7
NPL	30%	19,620	5,886	1,062	5,345	3,488	10
PKGP	30%	22,327	6,698	1,084	9,047	3,352	9
ALTN	30%	16,222	4,866	880	2,411	3,384	9
NCPL	30%	20,770	6,231	987	10,293	2,670	7
LPL	30%	20,073	6,022	1,034	12,147	1,951	5
KOHE	30%	7,730	2,319	38	4,788	1,084	6
SPWL	30%	11,137	3,341	1,040	7,040	541	1
HUBC	30%	109,043	32,713	79,865	38,553	-56,790	n.a.
EPQL	30%	8,833	2,650	8,791	3,254	-6,954	n.a.

*assuming 100/25% retirement of payables/short term borrowing

Source: Company reports & AKD Research

Energy Sukuks revitalized payouts from select IPPs: The first tranche of circular debt clearance entailed 20% of PkR200bn of cash injection to IPPs (Energy Sukuk-I issued in 3QFY19), transpiring into 10-30% settlement of receivables of HUBC, KAPCO, NPL and NCPL. HUBC and KAPCO mostly used the settlement amount to retire payables towards PSO, while the latter also paid out PkR4.5/sh as payout during FY19. Nishat IPPs, on the other hand, utilized approximately half of the cash received to retire short term borrowing, and paid out dividends after a dry spell since FY16. Following Energy Sukuk II in Jun'20, NPL, LPL and PKGP continued piecemeal payouts in line with capacity payments received, while NCPL skipped payouts in FY20, as well as 1QFY21, most likely on the back of working capital requirement and hefty short term borrowing. While LPL and PKGP also had comparable liabilities, low working capital requirement enabled them to

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pay decent payouts in past 12 months. HUBC surprised the market with a PkR4.0/sh payout in 1QFY21 after a dry spell over FY19-20.

HUBC and KAPCO must be seen in a different context: CY21 may witness further progress of ongoing deal between HUBC management and the GoP for sell-off of 1,200MW Base plant for a transaction price of PkR65bn, where PPA is set to expire in FY27. While there are lots of ifs and buts, our back of the envelop calculations and sensitivity analysis suggests HUBC may be able to weather through the current uncertain times (SoTP excluding Base plant comes at PkR110/sh). On the other hand, KAPCO's PPA is 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'). Similar to HUBC, KAPCO's receivable settlement may not be as straight forward as for Nishat IPPs, given impending PPA expiry as well as PkR27bn of liquidated damages still being a sub-judice matter.

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