



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REK-216  
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### Today's Daily

#### ■ KEL: Kicking the can down the hill

Developments surrounding the sponsor handoff at the utility continue to drive sentiment, while minor price slippages signal growing impatience. Concrete developments include: 1) passing of resolution by shareholders of Shanghai Electric Power Co. Ltd (SEP) on Dec'22nd approving acquisition of 66.2% shares in KEL, 2) submission of documents and supporting financial reports of SEP to NEPRA for approval, and 3) news reports regarding the approval process for KEL's stake sale, ongoing MYT negotiations, sum up the long and arduous process for shifting sponsors at KEL. Highlighting the operational credentials of SEP, we re-iterate the benefits from this planned change in ownership, using past actions by the entity as a blueprint for possible actions by SEP post acquisition in KEL. At a TP of Pkr13.9/sh. the stock remains a BUY.

#### KSE100 - Index

Current 49,038.23  
Previous 48,713.63  
Chg. 0.67%

#### Mkt Cap. (PKRbn/US\$bn)

Current 9,795 / 93.48  
Previous 9,754 / 93.09  
Chg. 0.42%

#### Daily Turnover (mn)

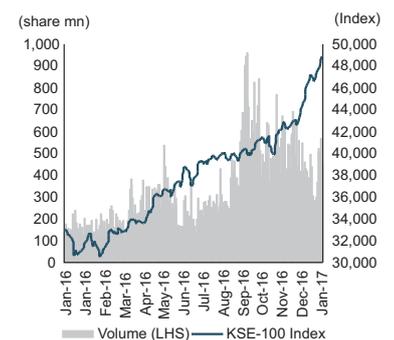
Current 430.72  
Previous 329.24  
Chg. 30.8%

#### Value Traded (PKRmn/US\$mn)

Current 20,663 / 197.20  
Previous 18,004 / 171.83  
Chg. 14.8%

### News and Views

- As per APCMA, the cement industry has posted a growth of 11.07%YoY during the 1HFY17, while exports recorded a decline of 3.53%YoY in 1HFY16. In Dec'16, domestic dispatches were 3.186mn tons registering a growth of 6.74%YoY while the exports amounted to 0.369mn tons reflecting negative growth of 18.98%YoY.
- As per SBP, banking sector deposits were up 20%YoY to Rs11.2 trillion in CY16. This is significantly higher than historical average growth of 12% during last 3yrs. Deposits have also jumped 7% surprisingly on monthly basis in Dec'16. Advances of the sector have also risen by 17%YoY/ 6%MoM to Rs5.6tr in Dec'16, whereas investments are up 8%YoY/3%MoM to Rs7.2tr.
- The price of sugar has been increased from Pkr59 to Pkr6/ kg in the whole sale market. Ministry of Industries and Production told in the meeting of ECC that sugar mills held 1.23mn ton sugar reserves till Dec'16 which were enough to meet the demand of 400k ton/month till Feb'17.
- PSO on Saturday imported the first vessel of 55,000MT low-sulfur diesel vessel from Kuwait that ensures a healthier environment and better performance of vehicles.



Ali Asghar Poonawala  
ali.poonawala@akdsecurities.net  
11-253-111 Ext:646

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## KEL: Kicking the can down the hill

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**Long road to handover:** Using the recent completion of the acquisition of controlling interest in EFOODS as a crude proxy for the KEL stake sale, we arrive at an ~9month timeline for completion of public tender process beginning with the release of public intention on 23rd March'16, concluding with the completion of public offer disclosed on 19th December'16. KEL will have to navigate tougher stakeholders, where approval from various regulators (SECP, NEPRA, CCP, SBP) and Ministries will be necessary. Additional legal hurdles may arise from with creditors, minority shareholders, authorities or even consumers, which may delay the handover process, in our view.

**SEP's operational history:** SEP has been a key beneficiary of reforms in the Chinese power market beginning in 1992, leading to unbundling of generation and distribution (2002-2005), going forward to more efficient (supercritical and ultra-supercritical coal units recently launched in Caojing, Tinaji), technologically advanced (cogeneration, conversion to gas) projects in the generation sphere. Transmission and distribution projects are recent addition to SEP's operational profile, where smart grid implementation in China (largely to manage supply side), expansion of Enemalta's transmission network and acquisition of analytics software to monitor consumption patterns, isolating irregularities are a few key initiatives successfully implemented by SEP globally.

**Enemalta case study:** The case of SEP's acquisition of 33% stake in Enemalta Plc (Malta's state grid) for US\$432mn in Dec'2014 may be an effective blueprint for actions SEP may enact in KEL post acquisition. Firstly, Enemalta was unbundled (2014-16)) by the state of Malta (majority shareholder), where SEL was given majority stake in operating generation assets (US\$150mn earmarked for 90% of 149MW Delimara 3 plant) enhancing efficiencies (US\$94.5mn conversion of the plant from FO to gas). SEP was also given ownership in JV's covering renewable energy

KATS Code	KEL
Bloomberg Code	KEL.PA
Price PkR	9.29
Market Cap (PkRmn)	21,053
Market Cap (US\$m)	200.64
Shares (mn)	2,266.22
3M High (PkR)	9.60
3M Low (PkR)	8.99
1Yr High (PkR)	9.60
1Yr Low (PkR)	6.74
3M Avg Turnover '000	14,944.31
1 Yr Avg Turnover '000	16,201.15
3M Avg DT Value (PkRmn)	138.87
3M Avg DT Value (US\$m)	1.32
1Yr Avg DT Value (PkRmn)	136.25
1Yr Avg DT Value (US\$m)	1.30

KEL vs. KSE100 Index



Source: Co. Report & AKD Research



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and O&M servicing, while the distribution network underwent US\$135mn in CAPEX over two years. T&D in the electricity grid was reduced to 9% in Dec'15 vs. 15% in Dec'14, largely through investments in building grid capacity, expanding feeders, grid stations, installing smart meters and anti-theft measures. However, differences are apparent with the operational environment of Karachi, where high loads, consumer density and grid constraints stand in stark comparison, requiring a proportionate, tailored response.



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Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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