



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



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### Today's Daily

#### ■ Power: Latest generation and State of Industry are healthy

After the release of the much delayed State of the Industry 2016 report by NEPRA, we highlight major policy measures adopted by the regulator, contrasting data sets and performance of power sector intermediaries. Concurrently we assess electricity generation (CPPA data) during the months of April/May'17 (8.84/11.02TWh generated), which jumped +13.2%/15.4%YoY, as the weightage average cost of generation was recorded at PkR6.21/5.20/KwH, marking a sharp rise of 38.6/1.5%YoY for April/May'17. Highlighting capacity additions to the grid, update on generation projects nearing completion, performance of DISCOs on key performance metrics and outlook in terms of demand, debt build ups and headwinds hampering development. Based on these developments, we reiterate our bullish case on KAPCO, where recent commentary continues to highlight strong demand prospects and transmission investments furthering the case for an extension beyond FY21F.

#### KSE100 - Index

Current 45,222.15  
Previous 44,823.11  
Chg. 0.89%

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

Current 9,280 / 87.46  
Previous 9,207 / 86.78  
Chg. 0.78%

#### Daily Turnover (mn)

Current 132.37  
Previous 146.62  
Chg. -9.7%

#### Value Traded (PkRmn/US\$m)

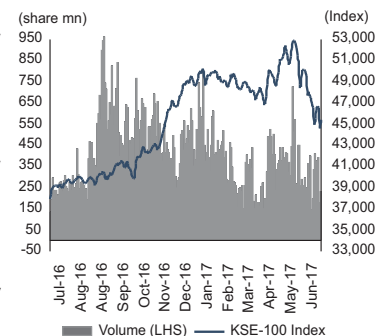
Current 6,982 / 65.81  
Previous 8,397 / 79.15  
Chg. -16.9%

AKD Daily

Monday, Jul 10, 2017

### News and Views

- The Joint Investigation Team (JIT) formed by the Supreme Court to probe Panama gate, will submit its final report before three-judge bench today (Monday).
- Cement sales rose 3.71%YoY to 40.315mn tons during the last FY17, where annual capacity utilization remained at 86.90%. On a monthly basis, cement dispatches during Jun'17 declined 18.6%YoY to 2.727mn tons.
- The Drug Regulatory Authority of Pakistan (DRAP) and the Health Ministry have decided to increase prices of hepatitis drugs by 15 %.
- The Oil and Gas Regulatory Authority (OGRA) has imposed an accumulative penalty of PkR257mn on Shell Pakistan Ltd, holding it responsible for the Bahawalpur oil tanker tragedy that claimed over 200 lives and injured over 100 others.



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

**M Daniyal Kanani**  
daniyal.kanani@akdsecurities.net  
111-253-111 Ext: 602

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## Power: Latest generation and State of Industry are healthy

After the release of the much delayed State of the Industry 2016 report by NEPRA, we highlight major policy measures adopted by the regulator, contrasting data sets and performance of power sector intermediaries. Concurrently we assess electricity generation (CPPA data) during the months of April/May'17 (8.84/11.02TWh generated), which jumped +13.2%/15.4%YoY, as the weightage average cost of generation was recorded at PkR6.21/5.20/KwH, marking a sharp rise of 38.6/1.5%YoY for April/May'17. Highlighting capacity additions to the grid, update on generation projects nearing completion, performance of DISCOs on key performance metrics and outlook in terms of demand, debt build ups and headwinds hampering development. Based on these developments, we re-iterate our bullish case on KAPCO, where recent commentary continues to highlight strong demand prospects and transmission investments furthering the case for an extension beyond FY21F.

### Power mix snapshot

	April'17		May'17		11MFY17	
	Dependable Capacity	PKR/KwH	Dependable Capacity	PKR/KwH	Dependable Capacity	PKR/KwH
Hydel	2,813	0.60	4,618	0.11	3,573	0.2
Coal	18	4.71	329	0.12	39	1.2
HSD	191	15.49	565	15.22	189	14.0
FO	4,280	10.66	4,591	9.81	3,712	9.1
Gas	2,692	4.56	2,701	4.72	2,912	5.0
RLNG	1,091	8.33	1,191	7.42	677	7.3
Nuclear	612	1.01	674	1.05	658	1.1
Import	62	10.63	69	10.64	56	10.6
Wind	207	1.12	292	1.23	147	0.5
Solar	87	2.47	87	2.09	76	2.1
Bagasse	185	5.66	158	6.38	105	5.7
Mixed	41	6.88	35	6.88	31	6.8
Total/Weigh. Avg	12,281	6.21	15,310	5.20	12,173	5.3

Source: CPPA G, NEPRA & AKD Research

**Generation capacity additions around the corner:** NEPRA citing PPIB project data has shown a breakup of progress on CPEC related energy projects expected to add ~6,900MW in installed capacity (ex-hydel) to the national grid by CY19F. Apart from projects under CPEC, ~3600MW are to be supplied by three RLNG projects expected to be operational by 1QCY18. Coal and RLNG based capacity additions are set to increase the weight of these energy sources in the country's power mix, impacting weighted average costs, as the Authority continues to express concern over the performance of public GENCOs, disallowing additional costs to be passed on to consumers.

**DISCOs report card:** Looking at the performance of 10 DISCOs in the PEPCO system and KEL during FY16, lower losses with improved collections are evident (average losses/collection ratio at 19.7/86.5% vs. 20.4/80.8%

### CPEC Projects Nearing Completion

Project	Capacity	Civil Works	Power Island	Balance of Plant	Expected COD
Sahiwal Project Plant	1320	80%	70%	80%	May-17
Port Qasim	1320	60%	60%	60%	Dec-17
Engro Thar Powergen	660	0.93%	1.33%	2.67%	Jun-19

Source: PPIB & NEPRA

### Non CPEC Projects Nearing Completion

Project	Capacity	Progress	Expected COD
Bhikki	1180	52.30%	Dec-17
Balloki	1223	38.10%	Jan-18
Haveli Bahadur Shah	1230.5	35.78%	Jan-18

Source: PPIB & NEPRA



in FY15). Their performance over FY16 is a continuation of improved performance metrics during FY14-16, where major DISCOS have improved collections to curtail debt accumulation through DISCO collections. On a broad note, NTDC has amended the systems power demand and supply growth rates, while maintaining its previous forecasts of surplus power situation by FY19F.

### DISCO Performance FY14-16

	2014		2015		2016	
	%Losses	%Collections	%Losses	%Collections	%Losses	%Collections
LESCO	13.4%	98%	14.1%	96%	13.94%	99.20%
GEPCO	10.8%	96%	10.7%	97%	10.58%	99.41%
FESCO	11.1%	100%	11.0%	100%	10.24%	100.06%
IESCO	9.5%	90%	9.4%	91%	9.09%	91%
MEPCO	17.5%	96%	16.8%	102%	16.45%	99.99%
PESCO	34.5%	86%	34.8%	88%	33.76%	88.49%
TESCO	18.3%	8%	21.4%	76%	18.96%	437.03%
HESCO	26.5%	79%	27.1%	78%	26.46%	72.09%
SEPCO	38.7%	59%	38.3%	58%	37.87%	55.02%
KEL- Export	0.0%	98%	0.0%	70%	25.66%	87.63%
QESCO	24.5%	42%	23.9%	33%	23.92%	71.63%
Average	18.6%	77.5%	18.9%	80.8%	20.6%	86.5%

Source: NTDC & NEPRA

### NTDC & KEL

Financial year ending Jun-30	NTDC Projected Demand growth Rate (%)	NTDC Projected Demand growth Rate (%)	NTDC Projected Demand during peak hours (MW)	Surplus/Deficit (MW)
2017	20106	6.05	23816	-3710
2018	24640	5.56	25140	-500
2019	26663	5.17	26439	224
2020	29059	4.86	27725	1334
2021	33776	4.89	29082	4694

	Planned Generation as per KEL (MW)	KEL's Projected Demand growth Rate (%)	KEL's Projected Demand during peak hours (MW)	Surplus/Deficit (MW)
2017	3128	5.00	3359	-231
2018	3666	5.00	3528	138
2019	4019	5.00	3699	320
2020	4719	5.00	3894	825

Source: NTDC & KEL

**Cumulative Generation rising:** Overall generation figure for 11MFY17 was pushed to 96.41TWh, depicting an increase of +12.6% over the SPLY. This came on the back of higher R-LNG based generation (5.56% contribution), which filled in the gap of 7.01% created by FO and Hydel production, both down by approx. 3.5%YoY each. Moreover, building upon GoP's cognizant power policy, renewable energy sources (solar, wind and bagasse) marked their presence with 2.62% share of the pie vs. 0.72% in SPLY. While the overall size of the generation pie is enlarged by 12.60%YoY for 11MFY17, dependence on FO is being lessened: from 34.06% in 11MFY16 to 30.49% in 11MFY17. Flow of R-LNG in the system inched up as PSO started importing 600MMCFD gas from Jan'17, higher by 200MMCFD as compared with the earlier months. Resultantly, R-LNG



based generation went up considerably (>8% on average since Jan'17) and has occupied 5.56% of the pie in the period under consideration. Renewable energy (solar, wind and bagasse) also made a leap forward with 2.69% against a meagre 0.72% for the SPLY.

**Dip in FO prices beneficial:** Per unit cost of generated electricity went down by ~18%YoY for the 11M period, largely due to a fall in Intl. oil prices having a trickledown effect on FO prices. Our calculation suggests that average cost for FO based production was recorded at PkR12.8/KwH in 11MFY16, while it slipped to PkR9.1/KwH in the current 11MFY17 period. Cost of generation from hydropower plants shot up by PkR0.04/KwH to PkR0.15/unit, though still remaining the cheapest source of energy. Hence, on overall basis, per unit cost came in at PkR5.31/KwH as against PkR6.47/KwH in SPLY. On monthly basis, April'17 weightage average cost of generation clocked in at PkR6.21/KwH, rising by 38.6%YoY; while that of May'17 stood at PkR5.20/KwH, remaining largely stable on yearly basis.

**Outlook:** NEPRA report continues to drive home concerns of the Authority over generation capacity additions failing to reach consumers due to obsolete and below par T&D infrastructure. Moving towards competitive bidding, implementation of net metering and granting of licenses for HVDC/special purpose transmission projects are highlighted as steps taken to mitigate this issue. Based on these developments, we re-iterate our bullish case on KAPCO, where recent commentary continues to highlight strong demand prospects and transmission investments furthering the case for an extension beyond FY21F. Our DDM based price for the current tariff stands at PkR83.8/sh with a 15yr extension adding PkR32.7/sh, where current price levels imply NEUTRAL stance for our base case (14.8% upside) with additional upsides from an extension (60% upside).



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