**AKD Daily**

Monday, Mar 12, 2018

# *Today's Daily*

## Power: Coal, RLNG continue to substitute FO

**Electrical output continued its upward trajectory moving into the first month of CY18, where generated units totaled 7.98TwH (~10,729MW) vs. 6.91TwH (9,603MW) in Jan'17 as the demand for power increases amidst increasing economic activity (establishment of new industrial complexes). The generation slate now depicts a mix of fuels, with indigenous gas taking the lead at 23.2%, followed by FO, RLNG and coal at 20.4%, 20.1% and 14.3%, respectively. Though imports of RLNG have gone up post commencement of operations of 2nd RLNG terminal, gas is temporarily being routed to KAPCO and other IPPs as plants at Bhikki, Balloki and Haweli Bahadur are facing technical issues. During the month, nuclear remained the cheapest source of energy at PkR1.05/unit (amongst the non-renewables) while indigenous gas based generation cost stood at PkR4.90/unit. FO and RLNG costs shot up in line with intl. oil price movements at PkR10.92/9.57 per unit. As demand for power grows further amidst summers, we believe generation on FO will continue to absorb local production as news flow suggests RLNG imports will be suppressed going forward unless the 3 RLNG plants start functioning on combined cycle. That said, while HUBC will continue to operate around ~55% load factor, its relatively inefficient base plant along with an aggressive growth strategy can keep a lid on earnings and payouts respectively. We prefer KAPCO on account of its stable operations and superior D/Y consequently (forward D/Y: 16%, upside: 6.5%).**

**KSE100 - Index**

| | |
|---|---|
| Current | 43,011.26 |
| Previous | 43,072.74 |
| Chg. | -0.14% |

**Mkt Cap. (PkRbn/US$bn)**

| | |
|---|---|
| Current | 8,989 / 81.32 |
| Previous | 8,993 / 81.35 |
| Chg. | -0.04% |

**Daily Turnover (mn)**

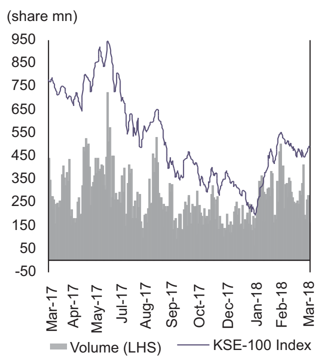
| | |
|---|---|
| Current | 139.90 |
| Previous | 163.27 |
| Chg. | -14.3% |

**Value Traded (PkRmn/US$mn)**

| | |
|---|---|
| Current | 6,045 / 54.68 |
| Previous | 7,405 / 66.98 |
| Chg. | -18.4% |

## News and Views

- Latest data from Commerce division shows that the country's exports during Feb'18 grew 16%YoY to reach at US$1.9bn, while imports were up 8.43%YoY to stand at US$4.8bn. On a cumulative basis, 8MFY18 exports now stand 11.98%YoY higher at US$14.86bn, while import bill during the same period has reached US$39.3bn (up 17.5%YoY).
- As per recent data released by SBP, foreign workers' remittances rose 3.4%YoY to US$12.83bn in 8MFY18. On a monthly basis, Pakistani workers abroad sent home US$1.45bn in Feb'18, down 11.47%MoM (though up 2.10%YoY).
- DG Oil of the Ministry of Petroleum and Natural Resources has stated that gov't will not stop using furnace oil for energy generation but will only rely on local supplies and stop its import. To highlight, BYCO Petroleum Pakistan Limited and Pak Arab Coastal Refinery are planning to establish new refineries.

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## Power: Coal, RLNG continue to substitute FO

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### Power Generation Snapshot

| | Jan'18 | | | Jan'17 | | | Jan'16 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Power Gen. MW | Cost of Gen. (Rs/KWh) | Weight (%) | Power Gen. MW | Cost of Gen. (Rs/KWh) | Weight (%) | Power Gen. MW | Cost of Gen. (Rs/KWh) | Weight (%) |
| Hydel | 815 | 0.09 | 7.6% | 711 | 0.11 | 7.4% | 864 | 0.13 | 9.8% |
| Coal | 1,539 | 5.32 | 14.3% | 12 | 4.71 | 0.1% | 17 | 4.63 | 0.2% |
| HSD | - | - | 0.0% | 503 | 14.22 | 5.2% | 494 | 12.95 | 5.6% |
| FO | 2,191 | 10.92 | 20.4% | 4,579 | 9.47 | 47.7% | 4,553 | 6.72 | 51.6% |
| Gas | 2,489 | 4.90 | 23.2% | 2,531 | 4.50 | 26.4% | 2,309 | 6.25 | 26.1% |
| RLNG | 2,154 | 9.57 | 20.1% | 62 | 7.64 | 0.6% | - | - | - |
| Nuclear | 1,103 | 1.05 | 10.3% | 806 | 0.81 | 8.4% | 377 | 1.12 | 4.3% |
| Import | 51 | 11.06 | 0.5% | 48 | 10.63 | 0.5% | 45 | 10.60 | 0.5% |
| Wind | 98 | 1.74 | 0.9% | 148 | 0.60 | 1.5% | 37 | 0.00 | 0.4% |
| Solar | 74 | 2.42 | 0.7% | 55 | 2.48 | 0.6% | 12 | 2.47 | 0.1% |
| Bagasse | 117 | 5.82 | 1.1% | 102 | 5.28 | 1.1% | 80 | 6.27 | 0.9% |
| Mixed | 97 | 6.83 | 0.9% | 45 | 6.52 | 0.5% | 44 | 7.18 | 0.5% |
| Overall | 10,729 | 6.38 | - | 9,603 | 6.74 | - | 8,831 | 6.04 | - |

Source: CPPA & AKD Research

**Varied fuel sources in the mix:** Since the introduction of RLNG and coal based power plants into the system, the generation slate has now become diversified having a mix of gas, RLNG, coal, and FO with contribution coming in from nuclear and hydel as well. For the month of Jan'18, indigenous gas based generation took lead with 23.2% share, followed by FO and RLNG at 20.4% and 20.1%, respectively. With regards to new projects, Sahiwal coal fired power plant is in full swing, with ~961MW of electricity generated in Jan'18, while the one at Port Qasim generated ~576MW through unit 1 (still in the testing phase before its CoD). Apart from this, the RLNG plants at Bhikki, Balloki and Haveli Bahadur Shah are reportedly suffering due to issues with the gas turbines, and jointly generated just ~375MW vs. net capacity of ~3,600MW. Moreover, the GoP seemed to further dispose the FO glut, and allowed ~2,191MW generation in Jan'18 against our assumed ~1,500MW to make use of the excess local production. Nuclear energy marked its footprints with ~1,100MW of electricity (~10.3%) with all 4 units of Chashma plant generating optimal energy. Hydel, however, remained on the sideline due to winters with contribution standing at 7.6%.

**Coal and nuclear control unit cost:** Indigenous gas remained the cheapest source of generation amongst the non-renewables (barring nuclear energy), with an average unit costing PkR4.9/unit while imported coal came followed costing PkR5.32/KwH. FO and RLNG both tracked intl. oil price movements, where average FO prices were up 28.0%YoY in Jan'18, while a brief spike in crude late Dec'17 lifted average 6 month prices (by 17.9%YoY ) used in RLNG's base calculations in Jan'18. Nuclear clocked in as the most inexpensive source of non-renewables with an average unit costing just PkR1.05/unit. Overall unit price during the month came in at PkR6.38 excl. previous adjustments of ~PkR0.81/unit largely attributable to Rousch and Uch plants as gas pricing dispute continued for some of the fields.

**Investment Perspective:** While cheaper modes of generation have controlled overall generation costs, the circular debt issue continue to mount, peaking at ~PkR970bn (inclusive of PHPL). In this regard, surcharges in lieu of debt financing can result in incremental unit price going forward. Moreover, production of furnace oil continues in the country, where the up-gradation of local refineries seems both expensive and time-taking. Keeping this and DG oil's latest comments in view, we believe generation on FO will continue as the demand for power increases to ~1.8x in summers further exacerbated by teething issues at the new RLNG complexes. In such a scenario, KAPCO merges out as our favored pick (FY18 D/Y: 16.1%, upside: 6.5%) as HUBC's relatively inefficient base plant will keep a lid on earnings and payouts.

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| | |
|---|---|
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