



## Today's Daily

### ■ Power: Devaluation benefits spoiled by sectoral issues

Providing a hedge against devaluation, IPPs possess the inherent ability to amplify the escalable component of their tariff structure directly impacting their bottom-lines. In this purview, the case of ~4.5% weighted average PkR devaluation against the US\$ in FY18F is slightly more than what we had incorporated in our models. Adjusting for currency depreciation, our earnings forecast for HUBC and KAPCO goes up slightly by PkR0.22/0.08/sh for FY18 and PkR0.45/0.08/sh for FY19. However, given the disorderly condition of power sector with regards to overdue receivables and mounting payables, we believe this upward movement in earnings will not be tracked by dividends in the short run. That said, any possibility of cash injection by GoP will only ease up things temporarily, as structural issues persist, while a TFC issue will be unable to address the liquidity issues at hand. With this in mind, we continue to push for KAPCO with FY18/19 D/Y standing at 14.3/13.9% despite the recent run by the stock.

#### KSE100 - Index

Current	45,489.62
Previous	45,172.99
Chg.	0.70%

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

Current	9,376 / 81.19
Previous	9,285 / 80.39
Chg.	0.99%

#### Daily Turnover (mn)

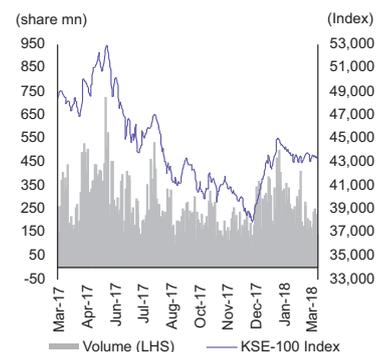
Current	296.60
Previous	248.11
Chg.	19.5%

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

Current	11,944 / 103.42
Previous	10,535 / 91.22
Chg.	13.4%

## News and Views

- In a recent visit to Pakistan, US Assistant Secretary of State has reiterated the US 'do more' stance while both countries have agreed towards working on common objective of peace and stability in the region.
- As per the recent SBP data, the country's total FX reserves fell by US\$130mn during the previous week, standing at US\$17.95bn (-0.7%WoW). The reserves held by SBP recorded at US\$11.78bn (down US\$168mn) on account of external debt servicing, while commercial bank's reverses increased by US\$37mn ending at US\$6.17bn.
- The Finance Ministry has refused to allocate supplementary grant for cash subsidy of PkR5bn on urea due to financial constraints, even though the GoP had earlier announced the subsidy in the Finance bill 2017-18 for the benefit of farmers. This would likely increase the prices of urea by PkR100 per bag.
- The authorities will likely release economic survey for FY18 on Apr 26'18, where the government expects to achieve GDP growth of 5.7% (vs. 5.2% in FY17).

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**PkR depreciation:** The recent wave of PkR devaluation have had a direct impact on the profitability of IPPs. With escalable component (PCE in case of HUBC) indexed to currency movements, 4.5% weighted average PkR devaluation in FY18 is slightly above our estimates incorporated in the models. Accommodating this, our revised EPS assumption crawls up to PkR10.04/10.68/sh for HUBC and PkR11.01/10.71/sh for KAPCO for FY18/19. However, we believe the dividend stream will not track this upward movement as liquidity issues plague sector dynamics (HUBC/KAPCO FY18 dividends: PkR7.5/9.25/sh). Moreover, the amount of foreign currency loans obtained by HUBC is insignificant posing no material risk to the company, while that of investments in subsidiaries and associates would be compensated through an adequate tariff structure which guarantees US\$ indexed RoE.

### EPS (PkR) Estimates

	FY18	FY19F
<b>HUBC</b>		
Previous	9.82	10.23
Revised	10.04	10.68
	0.22	0.45
<b>KAPCO</b>		
Previous	10.94	10.62
Revised	11.01	10.71
	0.08	0.08

Source: Company Report & AKD Research

### HUBC: Interest income (cost) spreads

As of	Receivables Overdue	Assumed interest income for next fiscal year	Payables Overdue	Assumed interest payable for next fiscal year	Actual Interest on short term borrowing	Net
Jun'13	12,890	1,522	20,520	2,616	1,337	(2,432)
Jun'14	66,316	7,230	52,608	6,224	1,564	(557)
Jun'15	63,103	5,437	49,563	4,728	1,083	(375)
Jun'16	69,823	5,794	62,072	5,742	1,553	(1,500)
Jun'17	73,542	5,622	63,484	5,396	1,894	(1,668)

Source: Company Report & AKD Research

### KAPCO: Interest income (cost) spreads

As of	Receivables Overdue	Assumed interest income for next fiscal year	Payables Overdue	Assumed interest payable for next fiscal year	Actual Interest on short term borrowing	Net
Jun'13	21,188	2,913	21,608	2,664	3,280	(3,031)
Jun'14	50,779	6,515	23,021	2,668	3,705	142
Jun'15	59,243	6,244	19,576	2,191	2,569	1,484
Jun'16	58,646	6,011	14,063	1,238	2,854	1,920
Jun'17	76,896	7,305	30,670	2,794	4,316	195

Source: Company Report & AKD Research



**TFC issue is a face saving option:** With circular debt still clouding the sector, the GoP is mulling to clear up some of the dues of IPPs (~Pkr80bn which again overhangs due to AGP's intervention) through cash injection while issuing TFCs of appropriate value. Despite enjoying a positive spread between the penal incomes received from CPPA-G and to be paid to fuel suppliers, we understand that the IPPs suffer greatly when it comes to financing their short term debt that not only results in net negative spreads, but also exposes the sector to liquidated damages. Taking cues from the settlement achieved in 2013, wherein GoP issued TFC to OGDC to clear up its receivables and later paid up the entire principal amount, we think this mechanism would prove to be inconsequential for cash starved IPPs as apart from HUBC, no other IPP is engaged in heavy investments. In case of HUBC, TFC could create further space on its book to procure the current loan shortfall for its upcoming projects. (~Pkr21bn secured while investment stands at ~Pkr2.2bn for SECMC, ~Pkr13bn for CPHGC at 26% stake and ~Pkr20bn for TEL totaling ~Pkr36bn).

**Investment Perspective:** In the backdrop of twin deficits, we assume the GoP would not push for early commencement of CPHGC operations, keeping the dividend yield of HUBC in check for FY19 as well (at 8.7%). In this scenario, KAPCO remains a more stable play with FY18/19 D/Y of 14.3/13.9%. Additionally, any cash injection (to ease circular debt or pursuant to the arbitration proceedings begun by the company for Pkr27.7bn liquidation damages) can result in a bumper dividend as well.



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