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MARKET VISTA

PAKISTAN
POWER

Striding towards the new normal

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- **As per news reports, the government has finalized templates for five master agreements for turning MoUs with IPPs operating under 1994, 2002 and 2006 power policies into legal, amended power purchase agreements. Pertinently, 25-30% of outstanding receivables are expected to be disbursed at the time of signing of amended PPAs.**
- **With upcoming payments expected not to be biased towards operational plants, unlike Energy Sukuk II, 25-30% receivables settlement indicates LPL and PKGP likely to remain at the forefront in terms of payout (lower working capital needs and receivables likely to comprise mostly of capacity payments), preferring PKGP due to higher net receivables.**
- **Payables and short term borrowing are also expected to be determining factors for payout potential, with NPL seeming to be in the most comfortable position in terms of liquidity (liabilities only at 33% of the total receivables).**
- **We maintain our liking for HUBC as Narowal (2002 PP) comprises only 15% of FY21F EPS, while base plant (1994 PP) has only 7 years remaining before PPA expiry, thus diluting the impact of aforementioned MoUs on the IPP's earnings.**

Master agreement templates finalized: As per news reports, the government has finalized templates for five master agreements for turning MoUs with IPPs operating under 1994, 2002 and 2006 power policies into legal, amended power purchase agreements with varying degrees of differences based on fuel source, renewable plants etc. The government has also hinted at timeline and mode of clearance of receivables for the IPPs, which will be paid in three (nearly equal) installments over the next two years. Pertinently, 25-30% of outstanding receivables are expected to be disbursed at the time of signing of amended PPAs. Staggered payments for outstanding dues are supposedly in response to IMF's reported refusal to allow for issuance of sovereign backed zero coupon bonds, where the present proposal is expected to be approved with SBP guaranteeing payments. To recall, the MOUs to alter PPAs came into force in Aug'20 with a stated expiration of six months, during which amended PPAs are expected to be inked in Feb'21.

Payout potential – the story beyond numbers: With one-third of the receivables expected to be settled in 1QCY21, we conduct scenario analysis to determine the IPPs' payout ability. To recall, the payouts from the power sector have already resumed in CY20, with HUBC, LPL and PKGP in the forefront, despite most of the 'Energy Sukuk II' payments comprising of energy payments. LPL and PKGP, having inefficient, FO based plants, have operated at ~10% in 9MCY20. Closure of LPL and PKGP plants indicate (i) lower working capital needs, and (ii) higher chunk of total receivables to be capacity payments. With upcoming payments expected not to be biased towards operational plants, unlike Energy Sukuk (refer to table), 25-30% receivables settlement indicates LPL and PKGP likely to remain at the forefront in terms of payout. Payables and short term borrowing are also expected to be a determining factors for payout potential, with NPL seeming to be in the most comfortable position in terms of liquidity (liabilities only at 33% of the total receivables).

CTBCM implementation – road map for Take and Pay agreements: The recently inked MoUs also included conversion of existing PPAs from 'Take or Pay' to 'Take and Pay' agreements for 2002 PP IPPs, after the implementation of competitive marketing system. In this regard, the NEPRA has recently approved an 18 month road map to convert existing single buyer market (NTDC) into a liberal multi-buyer market by Jun'22. Under Competitive Trading Bilateral Contract Market (CTBCM), existing PPAs between IPPs and NTDC/CPPA G (on behalf of discos) will be converted into bilateral contracts between each IPP and all DISCOs. The MoUs would thus imply an end to guaranteed dollar hedged returns for 2002 PP IPPs. However, a complete settlement of outstanding receivables is likely to precede the CTBCM implementation. While payments have been prioritized to clear the outstanding dues to PSO until now, cash injections are more likely to comprise of capacity payments over FY21-23F. We maintain our liking for HUBC as Narowal (2002 PP) comprises only 15% of FY21F EPS, while base plant (1994 PP) has only 7 years remaining before PPA expiry, thus diluting the impact of aforementioned MoUs on the IPP's NPAT.

Energy Sukuk II: Mostly EPP payments

	EPP	CPP	Total	EPS impact
EPQL	2,072	926	2,998	2.9
ENGRO	2,949	4,331	7,280	3.8
HUBC (CPHGC)	8,705	-	8,705	-
HUBC (NEL)	619	-	619	-
HUBC (Base plant)	-	100	100	0.1
KAPCO	11,675	-	11,675	-
LPL	24	-	24	-
NCPL	823	672	1,495	1.8
NPL	720	678	1,398	1.9
PKGP	278	-	278	-
Total	**27,865**	**6,707**	**34,572**	-

Source: News Reports & AKD Research

Net Receivables as of Sep'20

(PkRmn)	Receivable	Payable	Short term borrowing	Net Receivable	PkR/sh
KAPCO	125,386	21,468	39,750	64,168	73
NPL	19,620	1,062	5,345	13,213	37
PKGP	22,327	1,084	9,047	12,196	33
NCPL	20,770	987	10,293	9,489	26
LPL	20,073	1,034	12,147	6,891	18
HUBC	109,043	79,865	38,553	-9,376	-7

Source: Company reports & AKD Research

Details of MoUs inked in Aug'20

2002
Sharing of power efficiency for oil fired plants from 30-60%
O&M savings will be shared 50:50 for oil fired plants
LPS lowered to 2% from 4.5%
ROE changed to 17% in PkR terms (USD/PKR of 145)
Take and Pay
1994
Existing capacity payments shall be reduced by 11%
Indexations w.r.t exchange rate and inflation to be discontinued for 50% of the reduced component
Possibility of termination of existing plants

Source: News Reports & AKD Research

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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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