

Second tranche to IPPs approved

- Federal Government gave green light to the 2nd payment to be made to IPPs in lieu of their outstanding receivables. The approval of the same by the Cabinet would pave way for disbursement of Pkr134bn to IPPs.
- This follows the 1st installment of Pkr89.8bn made to the IPPs (of which ~30bn was made in cash) in Jun'21 and will take the total payments, made under the tariff re-negotiation agreement back in Feb'21, to Pkr225bn.
- As per news reports, the amount is likely to be transferred to the IPPs by Dec 3 where HUBCO is expected to receive Pkr34.8bn, KAPCO Pkr59.4bn, Rousch Power Pkr8.5bn, Fauji Pkr2.6bn, PakGen Pkr9.8bn and Lalpir Pkr9.3bn. While another Pkr6bn is to be shared between KEL, Saba Power and FFC.
- While the details of the structure of the 2nd tranche are scant, we expect the GoP to structure the transaction such that only a partial payment is made in cash while the remaining payments will be made in kind (through PIBs and Sukuks).
- As seen in the immediate aftermath of the last settlement where the IPPs announced a dividend payout (HUBC Pkr5.0/sh and KAPCO 3.5/sh), second tranche of the settlement may again trigger a dividend payment from these IPPs which may bring them in limelight again.

GoP to inject another Pkr134bn to settle circular debt: After it paid Pkr89.2bn in the first tranche to IPPs, the GoP is readying another tranche of Pkr134bn to IPPs after PM approved the summary presented in a federal cabinet meeting yesterday. This will take the total payment made to the sector to Pkr225bn under the tariff re-negotiation agreement back in Feb'21. To recall, the GoP settled 40% of the outstanding receivables of the listed IPPs (under 94 policy) where the transaction was structured such that 33% of receivable (Pkr30bn) were settled through cash payments while the remaining 67% was paid through PIBs and Sukuks. While the details of the 2nd transaction are scant, we expect this transaction to be structured on similar footings as the last transaction. To this end, the GoP has only budgeted a payment of Pkr136bn to IPPs in the fiscal budget FY22 which also give credence to our opinion that only partial payment will be made in cash.

Another round of cash dividend on the horizon: As per the sources, the amount is likely to be transferred to the IPPs by Dec 3 where Hubco is expected to receive Pkr34.8bn, KAPCO Pkr59.4bn, Rousch Power Pkr8.5bn, Fauji Pkr2.6bn, PakGen Pkr9.8bn and Lalpir Pkr9.3bn. While another Pkr6bn is to be shared between KEL, Saba Power and FFC. A part of this liquidity injection is likely to be used to retire some receivables owed to PSO, the remaining cash maybe used to announce dividends in the Dec'21 quarter. To this end, PSO's current receivables from HUBC stand at Pkr21bn while its outstanding receivables from KAPCO (principal outstanding) had been completely retired as per latest accounts. Therefore, given the size of cash injection and the outstanding dues towards PSO, KAPCO may be best placed to announce a significant dividend with the next result announcement.

PSO expected to receive Pkr13bn from HUBC's second tranche: Pakistan State Oil (PSO) receivables from IPPs stand at Pkr21bn as of Sep'21 which is mainly from HUBC. To recall, during the last settlement, PSO's receivables from HUBC reduced by Pkr10bn to Pkr13bn from Pkr23bn hence we expect the other Pkr13bn to be settled from the current tranche. Cash balance of PSO already standing at Pkr45bn as of Sep'21 against short term borrowing of Pkr88bn does provide some comfort however increased production on Furnace Oil is only going to increase short term borrowings and debt buildup on the balance sheet. To note, receivables from HUBC increased by Pkr7.4bn during 1QFY22. However, major impact will of late payment surcharge which is recorded on cash basis where after the last settlement, PSO recorded Pkr14bn in other income for 4QFY21. We expect the recent settlement to contribute towards financing increased buildup of circular debt while also keeping the hopes of a payout alive.

Investment perspective: As seen in the immediate aftermath of the last settlement where the IPPs announced a dividend payout (HUBC Pkr5.0/sh and KAPCO 3.5/sh), second tranche of the settlement may again trigger a dividend payment from these IPPs which may bring them in limelight again. KAPCO maybe in position to announce higher payout owing to the size of cash injection it is likely to receive, and its considerably lower outstanding dues towards PSO.

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Liquidity Situation of IPPs

	OS Receivables (Pkrbn)	Liquidity Injection (Pkrbn)	Cash/Sh injection
HUBCO	80.37	34.8	26.83
KAPCO	113.77	59.4	67.48
PKGP	17.00	9.8	26.34
LPL	15.65	9.3	24.49

Source: AKD Research, Company Accounts



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