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PAKISTAN POWER

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MARKET VISTA

Generation climbs unabated – Reforms are WIP

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- **CPPA-G data indicated power generation in Aug'20 increased 4% YoY to 14,630GWh. For 2MFY21, FO based generation, while up 28%YoY, contributed 5.6% to the generation mix with RLNG/coal based generation rising to the fore, contributing c. ~40% to the power mix.**
- **Company wise, HUBC base plant remained in-operational in 2MFY21. While less severely affected, Nishat IPPs and Narowal also operated at 20-40% utilization levels, with NCPL lagging the rest, depicting a decline of 31ppt YoY in terms of load factors. KAPCO, being multi fueled, operated at 50% in 2MFY21 vs. 64% in the same period last year.**
- **If Take and Pay becomes effective, as per the recent MoUs signed with 2002 IPPs, the linkage of capacity payments with load factors vs. availability, will be materially negative for profitability. We highlight HUBC as our top pick, due to multi-project exposure through its diverse power portfolio.**
- **Assessing the impact of recently signed MoUs by HUBC, our back of the envelop calculations suggest potential downward revision in TP by PkR10.0/sh, for fixing RoE/PCE component of Narowal/Base plant at US$/PkR rates of 168/148. Even if Narowal plant switches to 'Take and Pay' agreement, this would result in another downward revision of PkR7.0/sh in our valuation, still keeping us Bullish on the scrip (TP: PkR160/sh).**

Source-wise power generation (GWh)

Source	Aug'20	YoY	MoM	2MFY21	YoY
RFO	792	56.6%	-7.8%	1,652	28.2%
Hydel	5,470	-3.5%	1.2%	10,877	5.6%
Coal	2,530	35.0%	-2.0%	5,111	30.8%
RLNG	3,058	-4.9%	0.8%	6,091	-9.5%
Gas	1,402	-51.0%	-5.1%	2,881	-14.0%
Others	1,377	23.0%	1.9%	2,729	1.0%
Total	14,630	4.4%	-0.5%	29,341	3.8%

Source: NEPRA & AKD Research

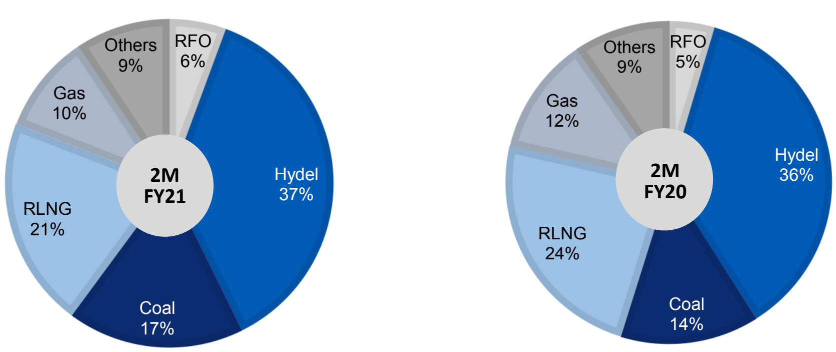
FO based generation exhibit consistent decline: The power generation in Aug'20 increased 4% YoY to 14,630GWh. FO based generation continued to see visible decline - FO based power plants contributed 5.4% to the total generation mix during the month vs. 18.9% in the month over last 5 years on average. For 2MFY21, the FO based generation improved 28% YoY, however contributing only 5.6% to the total generation mix, indicating the stagnant slowdown in FO based generation. Company wise, HUBC base plant remained in-operational in the aforementioned period, carrying forward the 2QFY20 performance. While less severely affected, Nishat IPPs and Narowal also operated at 20-40% utilization levels, with NCPL lagging the rest depicting a decline of 31ppt YoY in terms of load factors. KAPCO, being multi-fuel fired, operated at 50% in 2MFY21 vs. 64% in the same period last year.

Utilization levels 2MFY21 vs. 2MFY20

	2MFY21	2MFY20	YoY
NPL	35.6%	44.4%	-8.8%
NCPL	18.7%	49.9%	-31.2%
HUBC Base	0.0%	3.4%	-3.3%
HUBC Narowal	39.8%	37.1%	2.7%
HUBC Laraib	41.5%	19.9%	21.6%
HUBC CPHGC	63.3%	19.3%	44.0%
KAPCO	49.6%	64.3%	-14.7%
EPTL	41.4%	38.4%	3.0%

Source: NEPRA & AKD Research

Furnace Oil based power generation contributed 6% in 2MFY21



Source: NEPRA & AKD Research

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Coal and RLNG now contribute ~40% to generation mix: RLNG based generation, on the other hand contributed 21% to the total generation mix in 2MFY21, courtesy 3,600MW addition of LNG plants on Take or Pay basis. Going forward, the removal of 66% guaranteed offtake agreement with the RLNG players may reduce reliance on RLNG, more in favor for coal power plants, in our view, with the latter still cheaper than RLNG based generation. Coal based generation has also come to the forefront in Pakistan's power space, courtesy 3,720MW of capacity additions (including ENGRO and HUBC's 2x330MW units). Importantly, the 660MW units of China Hub Power (CoD: Dec'18) and Engro Thar (CoD: Feb'19) operated at 63% and 41%, respectively in 2MFY21 vs. 19% and 38% in the same period last year. To recall, Hub Power Company Ltd's (HUBC) second 660MW unit commenced operations in Aug'19, where gestation phase also contributed to lower load factor during the same period last year.

Investment Perspective: Assessing the impact of recently signed MoUs by HUBC, our back of the envelop calculations for fixing RoE/PCE component of Narowal/Base plant at US$/PkR rates of 168/148 suggest potential downward revision in TP by PkR10.0/sh. Meanwhile, Narowal plant is expected to switch to 'Take and Pay' agreement after competitive trading agreement comes into effect, which would result in another downward revision of PkR7.0/sh in our valuation (assuming capacity payments linked to load factor of 20% vs. plant availability factor of 95%). Renegotiations of RoEs of the CPEC power projects (46% owned CPHGC and 60% owned TEL) is expected to have more serious repercussions, where the two plants contribute 36/75% to HUBC's power portfolio's cumulative RoE in FY22/FY28F (base plant PPA expires in FY27). We await clarity on RoEs of CPEC power projects before updating our investment case. Meanwhile, the impact of current MoUs for Narowal/Base plant will not deter us from our Bullish stance on the scrip.

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