

PAKISTAN POWER

MARKET VISTA

REP-019

Circular debt settlement: 2002 IPPs next in line

- In a follow up to the MoUs signed with IPPs in Aug'20, CCoE has recently directed power division to clear the outstanding payments for the IPPs operating under 2002 PP, as per news reports. The second installment for 1994 and pre 1994 PP IPPs is expected in Nov'21; we believe 2002 IPPs' first tranche of circular debt settlement will likely be clubbed with it.
- KAPCO received Pkr13bn in cash in the first settlement and paid out Pkr7.5bn (Pkr8.5/sh) or ~60% in terms of payout in 4QFY21. In similar vein, HUBC received Pkr7.6bn in cash, and paid out entirely in form of dividends (Pkr5.0/sh). The IPPs operating under 2002 PP may also be able to liquidate PIBs and Sukuks, unlocking payout potential.
- NPL and NCPL are expected to receive Pkr7/sh and Pkr4/sh in terms of cash, respectively in first tranche, which could translate into DY of 36% and 30%, respectively. NCPL, however, is still facing investigations as per news reports, underscoring our preference for NPL.
- Meanwhile, adjusting total receivables for liabilities, fixed cost and payouts already announced, KAPCO still has a potential to pay out Pkr30bn in next 12 months, especially if it manages to liquidate PIBs and Sukuks in entirety. In case of HUBC, payables and short term debt at 180% of total settlement amount keeps us skeptical at the sustainability of healthy payout witnessed in FY21.

Payment to materialize for 2002 IPPs: In a follow up to the MoUs signed with IPPs in Aug'20, CCoE has recently directed power division to clear the outstanding payments for the 2002 PP IPPs. To recall, the GoP settled 40% of the overdue receivables of Pkr200bn for listed IPPs operating under 1994 and pre-1994 power policies (KAPCO, HUBC, LPL and PKGP) in Jun'21. However, 2002 PP IPPs did not receive any cash flow due to GoP's claims of these entities having earned excess profits over and above agreed upon return on investment, in the form of fuel and O&M savings. The settlement structure for 2002 IPPs is expected to follow that of earlier transaction – comprising of one-third cash, one-third PIBs and one-third Sukuk. The second installment for 1994 and pre 1994 PP IPPs is expected in Nov'21; we believe 2002 IPPs' first tranche of circular debt settlement will likely be clubbed with it. Listed names to benefit from the development include: Nishat Power Ltd (NPL), Saif Power Ltd (SPWL); Hub Power Company Ltd (HUBC) will marginally benefit, as outstanding receivables to its Narowal plant stand at Pkr4.8bn, much lower than Pkr19bn at FY20 end. Nishat Chunian Power Ltd (NCPL) is still involved in investigations – and settlement to NCPL may transpire after a deduction of Pkr8.6bn of excess profits, as per news reports.

Power Sector Circular Debt Settlement 2021

IPPs	Power Policy	Receivable	Liabilities	Net Receivables		First Tranche	Second Tranche	4QFY21 Payouts
		PkrRmn	PkrRmn	PkrRmn	Pkr/sh	Pkr/sh	Pkr/sh	Pkr/sh
KAPCO	1994	99,002	58,302	40,699	46	18	28	8.5
NPL*	2002	18,491	4,370	14,121	40	16	24	1.0
PKGP	1994	16,337	6,866	9,471	25	10	15	1.0
ALTN	1994	8,531	2,041	6,489	18	7	11	0.0
NCPL*	2002	12,060	10,939	1,122	3	1	2	0.0
LPL	1994	15,483	11,841	3,642	10	4	6	1.0
KOHE	1994	7,730	4,825	2,904	17	7	10	5.3
SPWL*	2002	11,137	8,080	3,057	8	3	5	0.0
HUBC	Pre-1994	57,982	103,416	-45,434	n/a	n/a	n/a	5.0

*First Tranche approved by CCoE but not received yet

Source: AKD Research & Company Reports

Dividend potential from power space: Taking cue from the settlement to 1994 and pre-1994 PP IPPs, the IPPs operating under 2002 PP may also be able to liquidate PIBs and Sukuks, unlocking payout potential. KAPCO received Pkr13bn in cash in the first settlement and paid out Pkr7.5bn (Pkr8.5/sh) or ~60% in terms of payout. Eventhough, KAPCO's liabilities stand at 60% of its liabilities, and KAPCO is expected to pay for fixed costs till Oct'22 as a way to settle the

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liquidity damages issue in absence of capacity payments (Pkr4-5bn), payouts were driven by selling off PIBs and Sukuks received as part of the first tranche. Adjusting KAPCO's total receivables for liabilities, fixed cost and payouts already announced, KAPCO still has a potential to pay out Pkr30bn in next 12 months, especially if it manages to liquidate PIBs and Sukuks in entirety. In similar vein, HUBC received Pkr7.6bn in cash, and paid out entirely in form of dividends (Pkr5.0/sh) in 4QFY21. We believe HUBC has been aggressive in payouts despite significant liabilities on books, expecting better liquidity in CPEC power projects. Payables and short term debt at 180% of total settlement amount keeps us skeptical at the sustainability of payout ratio witnessed in FY21. Amongst the IPPs operating under 2002 PP, payout potential is thus highest for those with lowest liabilities to receivables ratio. NPL and NCPL are expected to receive Pkr21/sh and Pkr13/sh, respectively in first tranche (NPL—Pkr7/sh and NCPL—Pkr4/sh in cash); however total liabilities for NPL are much lower than NCPL, which has also resulted in NCPL lagging in payouts over last few years.

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