

Power Generation & Distribution

Higher Contribution from RLNG and Coal with Lower Hydel Generation!

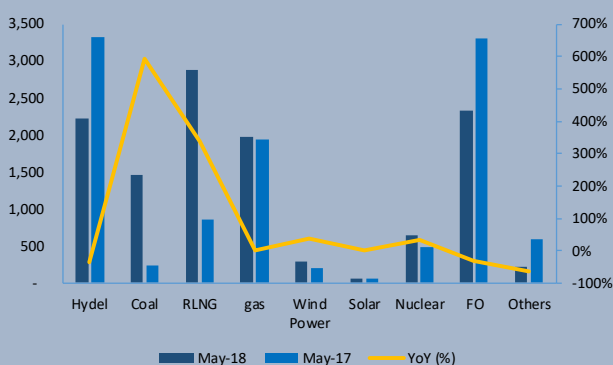
July, 2018

Source Wise Generation

PKR/KWH	May-18	May-17	YoY
Coal	5.76	0.2441	23.6x
HSD	n/a	14.71	n/a
RFO	12.47	9.4	33%
RLNG	9.10	5.25	73%
Nuclear	1.02	1.05	-3%
Import Iran	11.57	10.63	3%
Mixed	6.86	6.88	-0.29%
Baggasse	6.21	6.23	-0.32%
Total Average	6.26	4.87	28.54%

Source: NEPRA & WE Research

Source Wise Generation



Source: NEPRA & WE Research

The Power Generation & Distribution Sector expanded not only in *generation* and *transmission* capacity but also in terms of *distribution*. In the last five years, the sector has witnessed 30% growth in installed capacity (standing at 29,573 MW in March 2018 versus 22,812 MW in FY13), whereas generation increased by 2% (recorded at 68,956 GWH in March 2018 versus 68,592 GWH in FY13).

Power generation increased by 9.8% YoY: In 11MFY18, power generation has depicted 9.8% YoY growth (from 11,024 GWH to 12,118 GWH). However, average consumption by sector has remained static YoY with share of household, commercial, industry and agricultural recorded at 51%, 8%, 25% and 10% respectively.

Use of RLNG has increased due to installation of new power plants: Major Power generation sources are Hydel, Coal, RLNG, Gas and Nuclear where RLNG constitutes a major share surging 3.4x in May-18 from 7.8% to 23.8% YoY. 63% of RLNG was consumed by newly installed power plants namely Bhikki, Haveli-Bhadur Shah, Balloki, Halmore, Orient, Rousch, KAPCO Saif & Sapphire Power plants. The surge in RLNG and Coal came at a cost of decreasing FO demand with the latter declining from 30% to 19% YoY in May 2018.

Supply: Total installed capacity remained at 29,573 MW till March 2018 and 1700 MW is added in order to meet the surging demand during FY18. With total capacity YTD, the major energy generation sources (FY18) are thermal 64%, no change recorded YoY basis and Hydro which decreased to 27% against 30% in corresponding year.

Higher Dividend Yields : The Power sector is known for its astonishing inflation adjusted dividend yields averaging 14% p.a. making them attractive for long term investors.

Average cost increased to 6.3 PKR/KWH: Average fuel cost has increased to PKR 6.26/KWH in May-18 as opposed to PKR 4.87/KWH SPLY, primarily 33% increase in RFO to PKR 12.47/KWH and 73% increase in RLNG to PKR 9.10/KWH due to high oil prices. Coal based cost of generation also increased by 23.6x, hence cost has surged by 28.5% in May-18.

Increase in circular debt in energy sector: The downside risk in energy sector is mounting circular debt, that has reached PKR573bn in May-18, which raises questions for sustainability of power sector. Further cash strain may build if GoP resorts to raise tariffs in order to cope up with mounting deficit, leading to rise in provisions/trade debts.

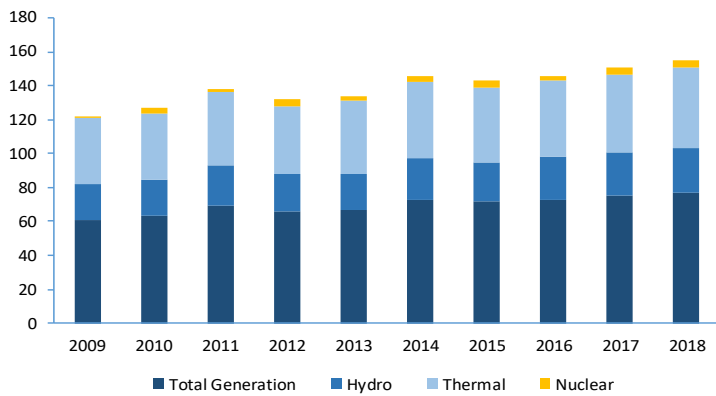
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Source Wise Generation

	May-18	Share (%)	May-17	Share (%)	YoY
Hydel	2,218	18%	3,326	30%	-33%
Coal	1,469	12%	247	2%	6x
RLNG	2,890	23.8%	857	7.8%	3.4x
Gas	1,971	16%	1,945	18%	1%
Wind Power	288	2%	210	2%	37%
Solar	63	1%	63	1%	0%
Nuclear	656	5%	485	4%	35%
FO	2,338	19%	3,306	30%	-29%
Others	224	2%	595	5%	-62%
Total	12,118	100%	11,034	100%	9.8%

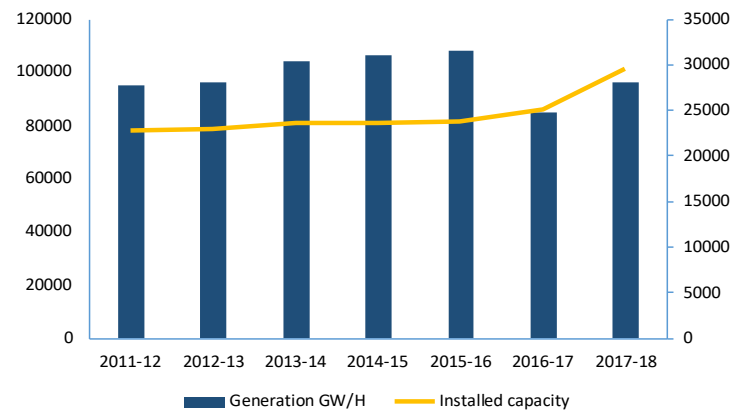
Source: NEPRA & WE Research

Total Generation (GWH ('000'))



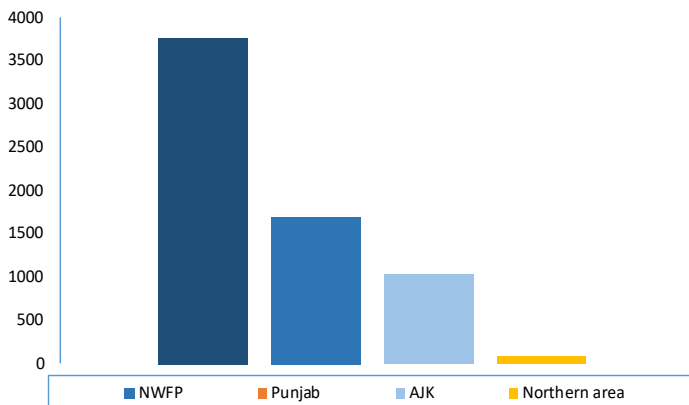
Source: Economic Survey & WE Research

Installed Capacity Vs Generation GW/H



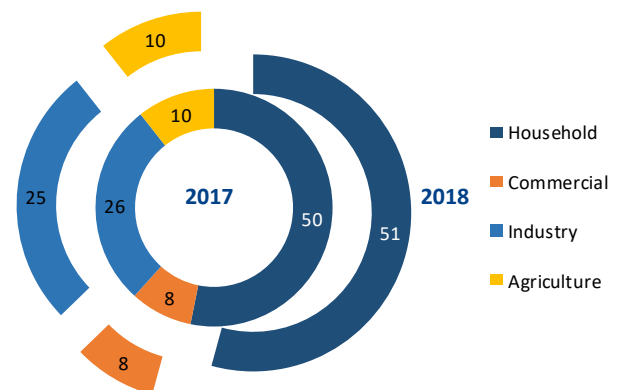
Source: Economic Survey & WE Research

Installed Capacity By Region



Source: Economic Survey & WE Research

Consumption by sectors (%)



Source: Economic Survey & WE Research

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WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as June 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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