PAKISTAN **November 23, 2022**

Foundation Alert

KEL: Analyst Briefing Takeaways

Event

- K-Electric Ltd (KEL PA) management conducted an analyst briefing yesterday to discuss their operational and financial performance of FY22 and 1QFY23 along with outlook of the company. Following are the key takeaways of the briefing.
- To highlight, the scrip is not in our formal coverage.

Impact

- Units sent out have been recorded at 19.8GWh, up 1.6% YoY, with improved fleet efficiency of 38.6%, T&D losses of 15.3% and recovery ratio of 96.7% due to investment of around Rs62.8bn in FY22. However, current socio-political challenges locally and internationally, resulted in rising commodity prices, surging inflation and reduced economic activity which resulted in decline in unit sent out by 8.9% YoY in 1QFY23.
- Recovery ratio has been improved to 96.7% in FY22 due to launch of 'Ehad scheme' and tailor made Area-Specific Rebate Scheme. However, in 1QFY23 recovery has been decreased to 88.9% due to increase in consumer tariff, imposition of taxes and current economic condition. Management is targeting to achieve 95% recovery ratio this year.
- KEL continued to operate generation fleet prudently, resulting in improvements in generation efficiency reliability and reduced forced outages. Generation efficiency of the company improved by 0.6ppt YoY each to 38.6%/38.7% in FY22/1QFY23. The reliability of the system improved to 99.5%/99.6% in FY22/1QFY23 with a significant reduction in forced outages to 749/174 in FY22/1QFY23 against 1,768/373 in FY21/1QFY22.
- On 900MW RLNG based BPQS-III power plant expansion, management expects restoration of Unit-1 by Nov'22 with operations on base load by Dec'22 while management is expecting to conduct performance test of Unit-2 by Dec'22. This also enables company to phase away from old units of BQPS-I which primarily runs on furnace oil. Besides, 500MW of renewables projects are in pipeline.
- In FY22, company profitability declined by 29.1% to Rs8.5bn due to (1) downward revision in tariff by NEPRA, (2) provision of Rs9.1bn against doubtful debts, (3) exchange losses of Rs10bn and (4) higher finance cost (up Rs4.0bn YoY).
- In 1QFY23, KEL reported loss of Rs16.3bn due to (1) 8.1% YoY reduction in units sent out, (2) increase in impairment loss by Rs4.0bn, (3) exchange loss of Rs2.6bn and (4) increase in finance cost by Rs3.4bn on account of increase in effective borrowing rate and higher level of borrowings on the back of non-payment of due by Government entities.
- Delay's in release of payments from government entities has impacted the working capital management of the company. Company's total receivables stands at Rs475bn against payables of Rs397bn, resulting into net receivable position of Rs78bn primarily stemming from TDC.
- In the meanwhile, company remains engaged with GoP and NEPRA for resolution of receivable and payable issues as well as for timely tariff adjustments.
- Construction of Dhabeji and KKI Interconnections would allow KEL to offtake 1,400MW from national grid by next summer. Moreover, transmission capacity is planned to be enhanced to around 7,200 MVA by FY23 through multiple Capacity enhancement projects.
- Company is targeting to expand distribution capacity by adding around 155 feeders and 2,600 PMT's from FY23 to FY25.

- KEL is facing the challenge that current MYT does not allow for pass-through of increased cost and sent-out adjustment. However, KE is working diligently for renewal of tariff for the new control period to start from July 01, 2023, with an aim to obtain a sustainable cost reflective tariff with robust adjustments mechanism at par with other power sector entities to enable continuity of investments.
- KEL will file application to request separate tariffs for each segment i.e. generation, transmission and distribution. Management expects that tariff split for generation capacity payments & standalone generation tariff will ensure adequate cost recovery of both variable/fixed costs and allow participation in Open Markets and Central Despatch.

Outlook

- The stock is not in our formal coverage. Resolution of circular debt, a key reform agenda of IMF program, would improve working capital position of the company and allow it to channel funds for future expansions necessary to meet growing demand and improve efficiencies across the board.
- Acquisition of the company by Shanghai Electric would provide impetus to the scrip.

Fig 1: K-Electric Limited - Financial Highlights

Rs in mn	1QFY23	1QFY22	YoY	QoQ	FY22	FY21	YoY
Net Revenue	88,614	86,954	2%	-30%	346,384	255,006	36%
Tariff adjustment	65,970	27,218	142%	-18%	172,687	70,042	147%
Revenue	**154,584**	**114,172**	**35%**	**-26%**	**519,071**	**325,049**	**60%**
Purchase of electricity	60,844	43,581	40%	-13%	207,544	112,223	85%
Consumption of fuel and oil	78,530	47,611	65%	-22%	212,488	127,958	66%
Operation expenses	7,119	6,307	13%	-4%	26,330	25,673	3%
Other cost of sales	39	29	34%	-86%	271	-	na
Gross Profit	**8,053**	**16,643**	**-52%**	-72%	**72,438**	**59,195**	**22%**
Admin expenses	7,923	6,892	15%	10%	27,691	25,242	10%
Impairment loss against trade debts	7,896	3,855	105%	-34%	24,848	15,743	58%
Other Operation expense	4,290	1,810	137%	-17%	9,414	1,560	504%
Other Income	3,236	2,886	12%	43%	10,207	9,791	4%
Finance cost	6,415	2,988	115%	18%	15,123	11,113	36%
PBT	**(15,235)**	**3,984**	**na**	na	**5,570**	**15,328**	**-64%**
Taxation	1,118	1,099	2%	-120%	(2,899)	3,348	na
PAT	**(16,353)**	**2,885**	**na**	na	**8,469**	**11,980**	**-29%**
EPS	**(0.59)**	**0.10**			**0.31**	**0.43**	
Gross Margin	5%	15%			14%	18%	
Net Margin	-11%	3%			2%	4%	
Tax Effect	-7%	28%			-52%	22%	

Source: Company account, Foundation Research, November 2022

About the company

K-Electric (KE) is a public listed company incorporated in Pakistan in 1913 as KESC. Privatized in 2005 KE is the only vertically integrated utility in Pakistan supplying electricity within a 6500 square kilometers territory including Karachi and its adjoining areas. The majority shares (66.4%) of the company are listed on the PSX and are owned by KES Power, a consortium of investors including Aljomaih Power Limited of Saudi Arabia, National Industries Group (Holding), Kuwait, and the Infrastructure and Growth Capital Fund (IGCF). The Government of Pakistan is also a minority shareholder (24.36%) in the company.

Auditors: Messrs A.F. Ferguson & Co.

Board of Directors and Key Management	
Board of Directors	
Mark Gerard Skelton	Chairman
Syed Moonis Abdullah Alvi	Chief Executive Officer
Adeeb Ahmad	Director
Arshad Majeed Mohmand	Director
Boudewijn Clemens Wentink	Director
Ch. Khaqan Saadullah Khan	Director
Dr Imran Ullah Khan	Director
Mubasher H. Sheikh	Director
Muhammad Kamran Kamal	Director
Muhammad Zubair Motiwala	Director
Saad Amanullah Khan	Director
Sadia Khuram	Director
Shan A. Ashary	Director
Key Management	
Syed Moonis Abdullah Alvi	Chief Executive Officer
Muhammad Aamir Ghaziani	Chief Financial Officer
Rizwan Pesnani	Company Secretary

Source: KEL, Foundation Research, November 2022

Analyst

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Abbreviations

ABC	Aerial Bundling Cabling
CAGR	Compound Annual Growth Rate
DISCO	Distribution Company
GoP	Government of Pakistan
GoS	Government of Sindh
GWh	Giga Watt hour
IPO	Initial Public Offering
KWSB	Karachi Water and Sewerage Board
LSM	Large Scale Manufacturing
MYT	Multi Year Tariff
MW	Mega Watt
MVA	Mega-volt-amperes
NTDC	National Transmission and Despatch Company
SEP	Shanghai Electric Power
SPIC	State Power Investment Corporation of China
TDC	Tariff Differential Claims

Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.