

## Foundation Alert

### Power: Disbursement of payment to IPPs

#### Event

- Power division disbursed payment of Rs142bn on Jun 27'2023 to clear outstanding dues of Independent Power Producers (IPPs).

#### Impact

- Power division disbursed an amount of Rs142bn in order to clear outstanding dues of Independent Power Producers (IPPs).
- In our universe, HUBC, including share of subsidiaries, received largest chunk followed by KAPCO, NPL and NCPL.
- HUBC received an amount of Rs11.1bn (Rs8.7/sh).
  - ✓ Base plant received Rs2.0bn
  - ✓ Narrowal Energy Limited (NEL) received Rs2.5bn
  - ✓ ThalNova Power Thar (Private) Limited (TNPL) received Rs1.3bn
  - ✓ Thar Energy Limited (TEL) received Rs2.7bn
  - ✓ Laraib Energy Limited (LEL) received Rs0.12bn
  - ✓ China Power Hub Generation Company (Private) Limited (CPHGC) received an amount of Rs9.5bn
- KAPCO received an amount of Rs4.2bn (Rs4.8/sh) followed by NPL of Rs2.0bn (Rs5.6/sh) and NCPL of Rs1.6bn (Rs4.4/sh).
- The disbursement to IPPs would help to reduce circular debt position of power sector which has jumped to Rs2.6tn at the end of May'23 with an addition of Rs394bn in 11MFY23. Gov't has already settled an amount of Rs128bn through fiscal space for PHPL principal and stock payments.

#### Outlook

- IPPs are going to remain beneficiary of circular debt resolution, a key reform agenda of IMF program. However, the benefit of reforms may be lower for companies under our coverage or those listed on PSX given their higher ranking in merit order list amid least priority of gov't to run Furnace oil (FO) plants due to expensive generation cost compared to alternatives.
- Moreover, establishment of competitive market would require shifting of current PPA to take and pay basis which would substantially reduce capacity payments amid lower reliance of national grid on FO based generation, in our view.
- We have an "Outperform" stance on KAPCO and NPL; while "Neutral" stance on HUBC and NCPL as former has rallied by 27% in CY23TD.

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Table 1: Disbursement to IPPs

	Cash Disbursement	Receivables	Short term Borrowing	Payables	Cash	Net Position (Rs mn)	Net Position (Rs sh)	Disbursement (Rs sh)
HUBC*	11,097	62,587	32,920	65,209	6,651	(28,891)	(22.7)	8.7
Base plant	2,000							
NEL	2,500							
TNPL	1,302							
TEL	2,716							
CPHGC	9,210							
LEL	125							
KAPCO	4,250	34,944	32,616	9,232	51,629	44,724	50.8	4.8
NCPL	1,600	15,151	5,069	1,148	1,358	10,292	28.0	4.4
NPL	2,000	15,624	1,236	721	1,957	15,624	44.1	5.6

Source: Company Accounts, Foundation Research, July 2023

\* adjusted for subsidiaries stake

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