

Sector Performance

	1M	3M	12M
Absolute %	-1.7	-11.9	7.5
Relative to KSE %	(6.5)	(12.5)	(31.2)

Power Industry Earnings Estimates

EPS	FY16	FY17F	FY18F	FY19F
NCPL	7.5	7.8	8.4	9.4
NPL	8.1	8.1	8.9	10.1
KAPCO	10.3	10.5	11.5	11.6
HUBC	10.3	9.0	10.0	10.6

Source: BIPL Research

Power Industry Dividend Estimates

DPS	FY16	FY17F	FY18F	FY19F
NCPL	7.3	2.8	5.0	5.0
NPL	6.0	3.3	5.0	5.3
KAPCO	9.0	9.6	10.3	10.8
HUBC	11.0	7.0	8.0	8.0

Source: BIPL Research

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REP 039

We initiate coverage of the BIPL Power Sector with a "HOLD" stance. The BIPL Power Universe (HUBC, KAPCO, NPL, and NCPL) offers a healthy FY18 forward dividend yield of around 8.9% relative to 3 year PIB yield of 6.5% and trades at a P/E of 10.0x. In addition to an attractive dividend yield, the power sector offers a hedge against PKR depreciation and abrupt changes in government tax policies. Currently the industry is moving towards capacity addition in order to capitalize on lucrative returns offered by the government and in the process help reduce the country's electricity shortfall. However, significant increase in name plate capacity can lead to an ordinate increase in the quantum of circular debt. While a heightened level of circular debt would place burden on the companies' cash-flows, it would likely support the bottom-line of the respective companies. Within the power universe we highlight HUBC as our top pick backed by lucrative investments in CPEC projects. The stock offers an upside of 28% at our TP of PKR158/sh and offers a forward dividend yield of around 6.3%. Furthermore, the potential inclusion of the stock in the MSCI Emerging Market Index can create the possibility of further rerating.

(Detailed report to follow shortly)

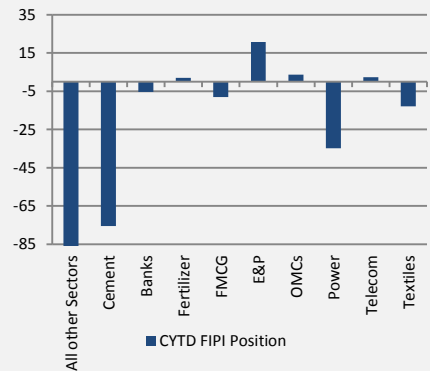
Attractive yield along with multiple risks hedge: BIPL Power Universe not only offers an attractive FY18 forward dividend yield of around 8.9% but also offers a hedge against Pak Rupee depreciation to foreign investors. With SBP's Mar'17 Real Effective Exchange Rate (REER) at 126.7, the impact of rupee depreciation for local investors can be significant. Furthermore, being exempt from income tax (other than KAPCO), any abrupt change in government tax policies does not affect this sector.

Industry moving towards capacity additions: Lucrative returns offered on new investments have attracted several private sector power projects which can be expected to bridge the country's supply-demand electricity gap in the future. Among these around 22,000MW of power projects have either achieved financial close or their construction has started. CPEC related projects account for around 37% of the capacity addition, whereas WAPDA hydropower projects account for 31% of new capacity additions. While these power projects can be expected to solve the issue of electricity shortfall, they would likely result in a rise in flow of circular debt.

Circular debt; a recurring problem: Circular debt has historically been a burden on the operating cash-flows of companies, especially on those without a fuel supply guarantee. However, this does elevate the bottom-line of power companies (especially those with a positive net penal spread) through net penal income. Hence, a one off resolution of circular debt can be expected to reduce the bottom-line of NCPL, NPL, KAPCO & HUBC by around 6%, 18%, 4% & 7% respectively.

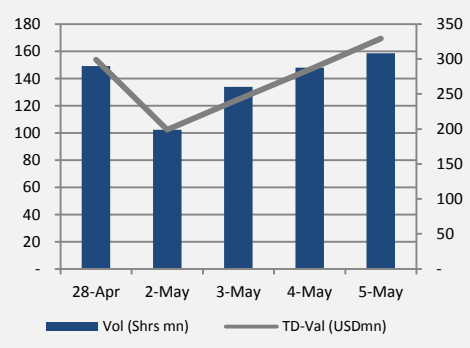
Investment Perspective: BIPL Power Universe trades at a FY18 forward P/E of 10.0x largely in line with the market average. Within our power universe we highlight HUBC as our top pick; at a TP of PKR158/sh the stock offers an upside of 28%. Additionally, the stock not only offers the opportunity to participate in the highly lucrative CPEC investments but also offers partial immunity to circular debt on account of its fuel supply guarantee (on the base plant). Furthermore, the potential inclusion of the stock in the MSCI Emerging Market Index can create the possibility of further rerating.

Sector wise Net FIPI (USDmn)



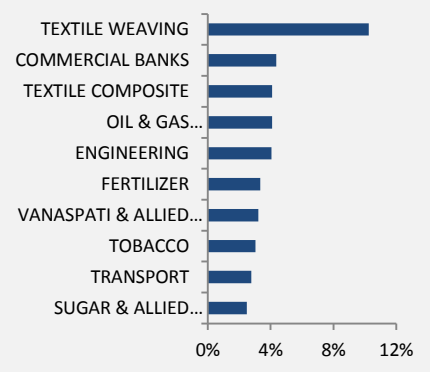
Source: NCCPL

KSE Market Participation



Source: PSX

Sector Performance WoW



Source: PSX

Morning News

FBR collects PKR2.52trn during 10MFY17 (Recorder): FBR has collected PKR2.52trn during 10MFY17. FBR will have to collect PKR1.1trn in the remaining two months to meet the annual target of PKR3.6trn.

Cement dispatches grow by 6.21% in 10MFY17 (Recorder): During 10MFY17 domestic consumption of cement surged by 10.74% while export declined by 18.63%.

Engro to venture into pesticide business (Tribune): Engro Fertilizers Limited is expected to begin commercial operation of its pesticide business by the end of current year.

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Last trading session's)

	Price	Abs. Chg.	% Chg.
All Ordinaries	5,863.81	-40.7	-0.69
Shanghai Composite	3,103.04	-24.3	-0.78
Hang Seng	24,476.35	-207.5	-0.84
BSE 30	29,858.80	-267.4	-0.89
Jakarta Composite	5,683.38	13.9	0.25
KLSE Composite	1,762.74	4.1	0.23
Nikkei 225	19,445.70	135.2	0.70
NZSE 50	7,365.50	-12.9	-0.18
Straits Times	3,229.73	1.1	0.03
Seoul Composite	2,241.24	21.6	0.97
Taiwan Weighted	9,899.94	-67.7	-0.68
KSE-100 Index	49,851.13	567.48	1.15

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	3,068.28	70.9	2.4
BEL-20	4,037.94	105.1	2.7
CAC 40	5,432.40	131.4	2.5
DAX	12,716.89	189.0	1.5
AEX General	533.27	8.1	1.5
Swiss Market	9,016.66	124.8	1.4
FTSE 100	7,297.43	62.9	0.9
American Markets			
Dow Jones Ind. Average	21,006.94	49.0	0.2
NASDAQ Composite	6,100.76	28.2	0.5
NASDAQ -100	5,646.09	20.9	0.4
S&P 500 Index, RTH	2,399.29	11.2	0.5

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	12M (US\$m)	Date
Pakistan	-4.7	-19.2	-19.2	-217	-460	05-05
India	-21.8	-88.3	-433.1	6,265.6	7,484.0	04-05
Indonesia	51.9	116.5	1,166.5	1,792.6	2,828.1	05-05
Japan	-	2,368.7	9,239.8	-8,721.9	-3,603.6	21-04
Philippines	29.4	39.7	237.9	-111.0	-53.3	05-05
South Korea	188.0	188.0	708.3	6,425.8	14,170.2	05-05
Sri Lanka	0.5	1.1	1.1	109.1	141.8	08-05
Taiwan	-77.1	665.2	665.2	7,404.7	14,211.5	05-05
Thailand	-61.2	-90.3	-90.3	146.4	2,029.4	05-05
Vietnam	-1.4	-10.7	-10.7	232.3	-21.4	05-05
Abu Dhabi	-0.5	-0.5	22.1	369.0	624.6	05-07

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Abs. Chg.	% Chg.
6-Month KIBOR (Offer)	6.04	6.04	0.00
12-M T-Bill (Average)	6.05	6.05	0.00
10- year PIB (Average)	8.20	8.20	0.00
PkR/ US\$	104.80	104.85	-0.05

Source: Bloomberg

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	46.22	0.70	1.5
Gold	1221.6	-6.50	-0.5
CRB Index	177.9244	0.92	0.5

Source: Bloomberg

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The rating system

Rating Definition	
Buy	Total stock return \geq 15%
Hold	0% \leq Total stock return < 15%
Sell	Total stock return < 0%

* Total stock return = capital gains + dividend yield

Valuation Methodology

To arrive at our period end target prices, BIPL Securities uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)