

## Progress on MOUs of IPPs

1<sup>st</sup> January, 2021

- As per news flows, a meeting was held between Government and Independent Power Producers (IPPs) yesterday to discuss the payment schedule of outstanding amount of circular debt. To recall, an MoU was signed on 13 Aug'20 between as many as 47 IPPs and Government to resolve the issue of overdue receivables
- As decided in the meeting, the government will release PKR 450bn in three installments. The installments will be structured in a ratio of one-third cash payment and remaining two-third with PIBs at a floating rate.
- The first installment is likely to be disbursed during Jan'21, whereas, the remaining two settlements is likely to be settled during Jun'21 and Dec'21, respectively
- The overdue receivables of 47 IPPs who signed the MOUs with government stood at PKR 400bn at the end of Nov'20
- This development is expected to ease off the liquidity crunch on the books of IPPs and related energy chain (E&Ps, OMCs and gas utilities companies)

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#### Amount in PKR mn as on Sep-20

Company	Receivables	Payables	Short term		Net receivables/share	Current price	Receivables as a % of current price
			Borrowings	Net receivables			
HUBC*	109,043	79,865	38,553	(9,376)	(7.23)	79.33	-9%
KAPCO	125,386	21,468	39,750	64,168	72.90	27.20	268%
NPL*	19,620	1,062	5,345	13,213	37.32	23.61	158%
EPQL	8,833	8,791	3,254	(3,212)	(9.92)	19.90	-50%
NCPL	20,770	987	10,293	9,489	25.83	15.10	171%
PKGP	22,327	1,084	9,047	12,196	32.78	19.70	166%
LPL	20,073	1,034	12,147	6,891	18.14	12.82	142%

Source: Company Accounts, Fortune Research, \*Consolidated



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### Valuation Methodology

To arrive at period-end Target Price(s), FSL uses different valuation methodologies:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (PE, PB, PS, PCF)
- Equity and Asset return based methodologies (EVA, RI, etc.)

### Key risks

- Piling up of circular debt
- Higher capacity payments
- Fuel burning by inefficient plants
- Transmission and distribution losses

### Acronyms

bps	basis points	LCY	Local Currency
BVPS	Book Value per share	MRP	Market risk premium
CAGR	Compounded Annual Growth Rate	NAV	Net Asset Value
CAPM	Capital Asset Pricing Model	NPV	Net Present Value
DCF	Discounted Cash Flow	PB	Price-to-Book Value
DDM	Discounted Dividend Model	PCF	Price-to-cash flow
DE	Debt-to-Equity	PE	Price-to-Earnings
DPS	Dividend per share	PKR	Pakistani Rupee
DY	Dividend yield	ppt	percentage point
EPS	Earnings per share	PS	Price-to-Sales
EUR	Euro	PV	Present Value
EV	Enterprise Value	RFR	Risk-free rate
EVA	Economic Value Added	RI	Residual Income
FCF	Free Cash Flow	ROA	Return on Assets
FCFE	Free Cash Flow to Equity	ROE	Return on Equity
FCFF	Free Cash Flow to Firm	SOTP	Sum Of The Parts
FCY	Foreign Currency	TP	Target Price
g	Growth	TSR	Total Stock Return
IRR	Internal Rate of Return	USD	US Dollars
JPBV	Justified Price-to-Book Value	WACC	Weighted average cost of capital

### Rating

BUY	TSR > 15%
HOLD	-10% > TSR > 15%
SELL	TSR < -10%
NR	Not Rated

TSR = Capital gain + DY

### Old Rating

Overweight	TSR > 15%
Marketweight	0% > TSR > 15%
Underweight	TSR < 0%

### Disclosure

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