

Circular Debt Resolution

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Circular Debt

Resolution on the Cards

- According to sources, the resolution of the circular debt of IPPs with the government is almost finalized with the following road map for the payment of outstanding receivables;
 - **1st Installment:** 33.3% of outstanding amount (breakup will be; 33.3%: Cash and 66.7%: Floating PIBs) in Jan'21
 - **2nd Installment:** 33.3% of outstanding to be paid in Jun'21 (breakup will be; 33.3%: Cash and 66.7%: Floating PIBs) and,
 - **Final amount** in Dec'21 (breakup will be; 33.3%: Cash and 66.7%: Floating PIBs)
- Out of the total outstanding amount of PKR 1.1trn (as at Jun'20), ~ PKR400-450bn pertains to IPPs.
- We believe this development will ease off the liquidity position of IPPs significantly. For current receivable and payable position of energy chain companies, kindly see below table and on next page table summarized impact on listed companies.

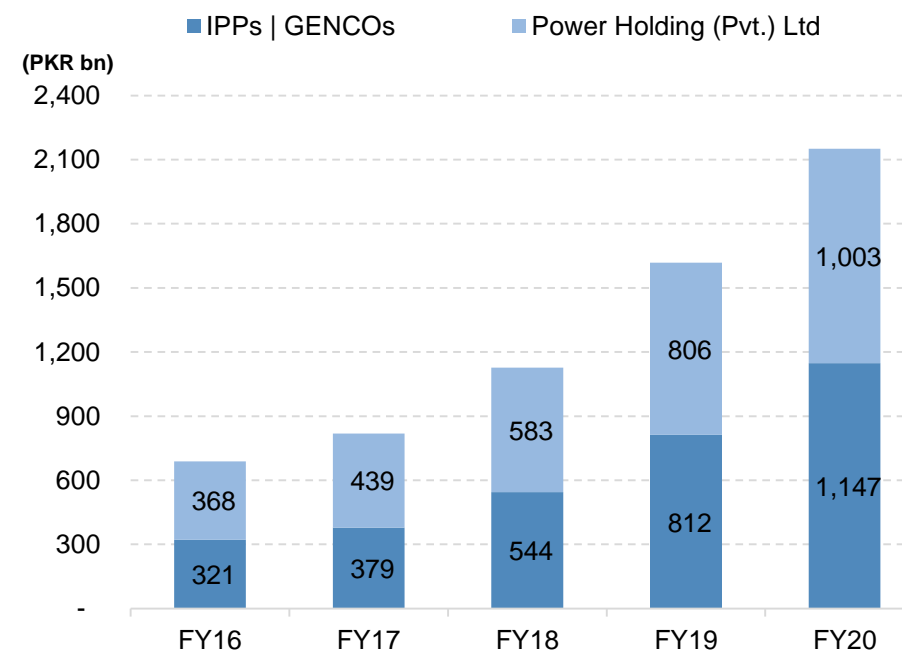
Table: Circular Debt Payment Road Map

PKR bn

	Cash	Floating PIBs	Total
1st Installment (Jan'21)	50	100	150
2nd Installment (Jun'21)	50	100	150
Final Installment (Dec'21)	50	100	150
Total	150	300	450

Source (s): AHL Research

Exhibit: Historical Trend of Circular Debt



Source (s): State of Industry Report, AHL Research

Circular Debt

Receivables and Payables Position

Exhibit: Receivables and Payables Position of Listed Energy Chain Companies

PKR mn	Receivables	Payables	Short term Borrowings	Net Receivables	Net Receivables/Share	Overdue Receivables	% of Total Receivables	Govt. Holdings
KAPCO	125,386	21,468	39,750	64,168	72.9	106,831	85.2%	45.7%
NPL	19,620	1,062	5,345	13,213	37.3	14,787	75.4%	0.0%
PKGP	22,327	1,084	9,047	12,196	32.8	14,182	63.5%	0.0%
NCPL	20,770	987	10,293	9,489	25.8	14,260	68.7%	0.0%
KOHE	7,730	38	4,788	2,904	17.1	6,021	77.9%	6.0%
LPL	20,073	1,034	12,147	6,891	18.1	12,417	61.9%	0.0%
EPQL	13,483	8,791	3,254	1,437	4.4	7,640	56.7%	0.0%
HUBC*	109,043	79,865	38,553	9,376	-7.2	92,104	84.5%	7.0%
OGDC	342,872	66,206	-	276,665	64.3	286,087	83.4%	85.0%
PPL	329,180	116,101	-	213,079	78.3	289,679	88.0%	74.9%
MARI**	32,049	39,711	-	(7,662)	(57.4)	n/a	n/a	38.4%
PSO***	265,959	177,490	42,196	46,273	98.6	156,621	58.9%	43.3%
APL	13,943	29,060	-	(15,118)	(151.9)	7,689	55.1%	0.0%

Source(s): Company Financials, AHL Research, *Consolidated, **receivables from SSGC, SNGP and CPGC, Payables ex GIDC, ***including PKR 50bn LPS

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Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as Dec'21 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
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Equity Valuation Methodology

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

- Discounted Cash Flow (DCF)
- Dividend Discounted Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks

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

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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