

April 23, 2010

Pakistan Market**Power Summit: Key takeaways & impact****MORNING BRIEFING**

KSE100 Index: Closing 10615.15 ↑ (+24.94)

After concluding the three day energy conference, the Prime Minister has announced various measures for conservation of electricity in the country. These include...

- Reducing number of working days from 6 to 5.
- Shutting down high street shops by 8pm.
- Public offices are instructed to use ACs conservatively.
- And use of wedding halls is restricted to 3 hours.

Moreover, the government also intends to increase power generation capacity in short and medium term and announced to pay Rs116bn to clear the backlog of Inter corporate debt. Encouragingly, the conservation plan is the consensus view of all provinces & stake holders and is expected to be implemented efficiently. However, we believe question marks remain on government's ability to pay Rs116bn to clear the backlog.

Additional capacity from private producers

As per the statement, the government expects 300MW to be added by the RPPs, whereas the additional 1,300MW is likely to be added by the end of 2010 as around 10 new IPPs are expected to commence operations. A few amongst them include Nishat Power (220MW capacity), Nishat Chunian Power (220MW capacity) and Hubco's Narowal project (225 MW capacity) which are expected to come online by June and September 2010. In addition, further 600MW would be added to the system by year end. Keeping the questions of generation cost aside, we believe the upcoming capacity addition plans, if materialized would significantly reduce the power shortage in the country.

Payment of Rs116bn remains question mark

In addition to the proposed measures for better load management and expected capacity additions, the government has also announced to pay the energy sector Rs116bn by June 2010 in order to clear the circular debt effecting the operations of entire energy chain. However, the key question remains regarding the source of funding. With

banks being in relatively better liquidity situation, the government could raise part of this amount as TFCs. Offloading previous year wheat stock would also provide some room to the banks. In addition, the government is looking for waiver of the budget deficit target from the IMF and if approved it would pave the way for GoP to approach Central Bank for further borrowings. On top of that, US, in the strategic dialogue agreed to support Pakistan in clearing the circular debt backlog. We believe, the payment of the announced Rs116bn would be financed though a blend of the above mentioned options. However, the entire amount seems a little difficult to be arranged and released before June 2010.

The impact

- We see PSO, HUBCO, KAPCO, OGDC and refineries to be the biggest beneficiaries if the circular debt comes to a resolution.
- With better load management, power supply to industries would improve that would lead to better production, going forward. We expect FY11 GDP growth to stand at 4.5%.

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Also in focus**KAPCO shelves plan for 280MW expansion**

In a notification yesterday, KAPCO stated that it has discontinued plans for its planned 280MW power plant due to concerns over rising circular debt among the energy companies. We had not incorporated the project in our valuations, and maintain our 'Hold' recommendation on the scrip.

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