ARIF HABIB LIMITED

Pakistan Power Sector

Circular Debt agreement marks historic breakthrough

25-Sep-2025

REP-300

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PSO emerges as primary beneficiary of CD resolution

What's been the buzz of the financial circles for months has finally become a reality, with the much-discussed power circular debt resolution agreement signed yesterday, paving the way for a PKR 1.225trn loan from banks at KIBOR minus 0.9%. This is likely to lower costs by 1.5–5%, as the facility will replace higher-cost obligations, including IPPs' penal income (3M KIBOR + 200–450 bps) and PHPL interest charges (KIBOR + 2%), which will be refinanced.

PSO is expected to be the primary beneficiary

- PSO is expected to be the key beneficiary, as payments from CPPA-G to RLNG power plants (NPPMCL, QATPL, and Nandipur) will flow through SNGP and ultimately to PSO, though with some delay.
- We estimate an impact of ~PKR 100/share for PSO, on a conservative basis.
- The company is more likely to prioritize balance sheet improvement, which should support long-term financial flexibility over immediate payouts.

Government steps to strengthen PSO's liquidity position

- Since Dec'23, PSO has recovered PKR 75bn in receivables from SNGPL and PKR 14.8bn from HUBC, further enhancing its liquidity.
- The excess liquidity generated has been utilized to reduce FE-25 borrowings, which declined by PKR 89bn over the same period, standing at PKR 356bn as of Jun'25.
- Supported by debt repayments and lower interest rates, PSO's finance costs declined to PKR 34bn in FY25 from PKR 52bn in FY24.
- Moreover, recovery of power sector receivables under circular debt is expected to further strengthen PSO's liquidity and reduce finance costs, we view.

Exhibit: Estimated Receivables to PSO for Resolution of Power Circular Debt

(PKR mn)	Jun-24	Jun-23
NPPMCL	38,913	46,881
QATPL	4,929	17,562
Arbitration amount (likely payable to SNGPL)	*10,879*	*12,820*
GENCO-III – Nandipur (partial)	25,204	28,191
Payable per power company financials (To SNGPL)	**79,925**	**105,454**
Likely receivable by PSO (PKR mn)	63,857	81,739
(PKR/share)	**136.0**	**174.11**

Source (s): Company Financials, AHL Research

Exhibit: Estimated Receivables to PSO for Resolution of Power Circular Debt

(PKR mn)	Jun-24	Jun-23
NPPMCL	45,725	50,305
QATPL	25,227	29,022
GENCO-III – Nandipur (partial)	*25,204*	*28,191*
SNGPL Receivables	**283,179**	**293,928**
Pakistan State Oil Company Limited	311,442	331,639
Pakistan LNG Limited	92,436	96,217
SNGPL Payables	**1,160,521**	**1,038,818**
PSO share of RLNG payables	77.11%	77.51%
Likely receivable by PSO (PKR mn)	73,616	82,631
(PKR/share)	**156.81**	**176.01**

Source (s): Company Financials, AHL Research

HUBC, LUCK, ENGRO, FFC and THALL Other Beneficiaries

Other Beneficiaries

- The government also plans to settle outstanding dues of coal power plants, which is expected to benefit HUBC, LUCK, ENGRO, FFC and THALL in the listed space.
- HUBC's overdue trade debts for CPHGC, TEL, and TNPTL total PKR 53bn, PKR 12bn, and PKR11bn as of Jun'25 (~PKR 28/share stake-adjusted).
- LEPCL's trade debts stand at PKR 19bn (PKR 13/share) as of FY25.
- EPTL receivables stand at PKR 50bn as of CY24 (~PKR 21/share stake-adjusted)
- However, for LUCK and ENGRO, we have applied a 20% discount on trade debts to reflect the LPS waiver, though clarity is still awaited on whether CPEC IPPs have agreed to the same.
- For HUBC, no discount has been applied as we have taken overdue receivables.
- FFC and THALL are also other minor beneficiaries for the resolution of circular debt.

Exhibit: Other Beneficiaries of Resolution of Power CD

Receivables (FY25)	PKR (bn)	Stake Adjusted (bn)	Stake Adjusted PKR/share
HUBC*	**76.00**	**35.76**	**27.57**
CPHGC	53.00	24.38	18.80
TEL	12.00	7.20	5.55
TNPTL	11.00	4.18	3.22
FY25			
LUCK			
LEPCL	15.51	15.51	10.59
CY24			
ENGRO			
EPTL	40.44	20.22	16.79
FFC			
TEL	12.00	3.60	2.53
THALL			
TNPTL	11.00	2.86	35.30

Source (s): Company Financials, AHL Research

How the circular debt will be financed

- Annual payments will be financed through Debt Service Surcharge (DSS) revenues, currently set at PKR 3.23/KWh under the PHPL surcharge, with excess collections allocated to cover the loan's principal over six years.
- Through the FY26 budget, the government legislated the removal of the 10% DSS cap, mitigating risks from potential rate spikes.
- These targets are set to gradually decline to zero by FY31.
- The remaining ~PKR 436bn of circular debt is expected to be financed through the power sector subsidy of ~PKR 1trn.

Exhibit: Breakup of Resolution of Power CD

	(PKR bn)
Existing Power Circular Debt Stock	**1,661**
Payables to power producers	908
GENCOs' payable to fuel suppliers	93
Amount Parked in PHL	660
Remaining Stock of Power Circular Debt	**1,225**
Repaying all PHPL loans	660
Remaining stock of interest-bearing arrears to power producers	565
Likely to be Financed from power budget subsidiary	**436**

Source (s): IMF, AHL Research

Subsidy to Power Sector

Clarity awaited on CPEC IPP's LPS waiver

While a breakthrough has been achieved in resolution of the power circular debt, clarity is still awaited on the LPS waiver for CPEC IPPs. As per media reports, disbursements will follow a one-month assessment, after which the government will have three months to draw and fully utilize funds. However, it can be sooner than expected.

Exhibit: Subsidy to Power Sector (WAPDA/PEPCO/KESC)

(PKR mn)	FY26 Budgeted	FY25 Revised	FY25 Budgeted
Subsidies for Tariff differential to Agri Tube Wells in Balochistan (PEPCO)	4,000	9,500	9,500
Subsidies for Inter-DISCO Tariff Differential	249,136	276,000	276,000
Subsidies for Merged District of KP erstwhile FATA	40,000	65,000	65,000
Subsidies for Tariff Differential to AJK	74,000	108,000	108,000
Pakistan Energy Revolving Fund (PERA)	48,000	48,000	48,000
Provision for Power Subsidy	-	-	14,000
Subsidies to K-Electric for Tariff Differential	125,000	174,000	174,000
Subsidies to KESC for Tariff for Agriculture Tubes Wells in Balochistan	1,000	500	500
Payment to IPPs	95,000	115,000	-
Lump Provision for Power Subsidy	400,000	394,000	509,000
Subtotal (WAPDA/PEPCO/KESC)	**1,036,136**	**1,190,000**	**1,204,000**

Source (s): FBR, MOF, AHL Research

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