

SECMC Phase 3 COD: A New Growth Catalyst for LUCK, HUBC and ENGROH

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SECMC Phase 3 COD: A New Growth Catalyst for SECMC

Thar Coal Expansion to Drive Earnings Growth

- SECMC was established in 2009 as a public-private partnership between the Government of Sindh and ENGRO and operates the 95.5 sq. km Thar Block-II coalfield. The Government of Sindh holds 54.7%, while ENGRO and its affiliates own the remaining 45.3%, including ENGROH (11.9%), Thal (11.9%), HUBCO (8.0%), HBL (9.5%) and CMEC (4.0%).
- Following Phase I (3.8 MTPA; COD Jul'19) and Phase II (7.6 MTPA; COD Sep'22), the mine currently has 7.6mn tons/year capacity, SECMC is now expanding capacity to 11.2 MTPA, supported by a Coal Supply Agreement with LEPCL for its 660MW power plant.
- The additional 3.6mn tons/year supply should enable LEPCL to fully switch to Thar coal, potentially increasing utilization from ~37% currently to ~60–65%, subject to system demand and transmission constraints.
- Meanwhile, the conversion has raised LEPCL's regulated ROE from 27.2% to 29.5%, with ROE per kWh increasing from PKR 1.188 to PKR 1.289. Based on AHL estimates, this translates into incremental ROE of PKR 1.55bn in FY27, rising to PKR 1.80bn by FY30, equivalent to PKR 1.06–1.23/share for LUCK, providing a recurring earnings uplift.
- NEPRA's latest merit order highlights the significant cost advantage of Thar coal, with local-coal plants generating at PKR 5.39–5.83/kWh versus PKR 12.75/kWh for LEPCL on imported coal. This cost differential places Thar-based plants much higher in the merit order, reflected in their stronger FY26 utilization of ~70–80%, compared with 11% for CPHGC, 31% for Port Qasim and 36% for LEPCL. While imported-coal plants also face north-south transmission constraints, LEPCL's conversion to Thar coal should materially improve its dispatch economics.
- Phase III is expected to increase SECMC's ROE from PKR 11.45bn to PKR 17.27bn in FY27, a ~51% uplift, with incremental ROE reaching PKR 6.77bn by FY30. This translates into incremental earnings of PKR 465–541mn for HUBC (PKR 0.36–0.42/share) and PKR 692–805mn for ENGROH (PKR 0.57–0.67/share) over FY27–30.

Exhibit: Phase Wise Customers

Phase I (0 - 3.8 MTPA)	Phase II (3.8 - 7.6MTPA)	Phase III (7.6 - 11.2MTPA)
EPTL	TEL/TNPTL	LEPCL
660 MW	330 MW+330 MW	660 MW
Power Plant Facilitated	Two Power Plants Facilitated	CSA signed with LEPCL

Source: Thar Coal Energy Board, AHL Research

SECMC Phase 3 COD: Thar Coal to Drive Higher LEPCL Dispatch

LEPCL to Benefit from Thar Coal Cost Advantage

- NEPRA's latest merit order highlights the significant cost advantage of Thar coal over imported coal, with Thar-based plants ranking among the cheapest generators at only PKR 5.39–5.83/kWh in specific cost, compared with PKR 12.75/kWh for LEPCL, which runs on imported coal.
- This implies that LEPCL's shift to locally sourced Thar coal should materially improve its dispatch economics, as its variable generation cost could fall by around PKR 6.9/kWh before considering transportation costs.

Local Thar Coal Plants Run at Higher Utilization

- The utilization demonstrates the cost advantage of locally sourced Thar coal. Thar-based plants such as EPTL, TEL, Thar Coal Block-1 and ThalNova have consistently operated at around 70–80% utilization in FY26, compared with much lower utilization at imported-coal plants, particularly CPHGC at 11%, Port Qasim at 31% and LEPCL at 36%.
- Thar coal plants sit higher in NEPRA's merit order, increasingly displacing imported-coal plants and reducing their dispatch. This pressure is further amplified by north-south transmission constraints, which limit the evacuation of cheaper southern generation to northern load centres.
- LEPCL's switch to 3.6mn tons/year of Thar coal should materially improve dispatch, with utilization potentially rising from ~37% in FY26 to ~60–65% as cheaper local coal moves the plant higher up the merit order. Higher utilization should strengthen earnings while also making LEPCL's regulated ROE more defensible, reducing the scope for public criticism and pressure for downward ROE revisions going forward.

Exhibit: NTDC latest merit order

S.No	Plant Name	Fuel Type	Other Cost	Fuel Cost	VO&M Cost	Specific Cost	Status in Last Merit Order
				PKR/kWh			
2	Thar coal block 1	Thar coal	-	4.15	1.23	5.39	3
3	EPTL	Thar coal	-	4.22	1.59	5.81	4
4	TEL	Thar coal	-	4.24	1.59	5.83	5
5	TNPTL	Thar coal	-	4.24	1.59	5.83	6
11	LEPCL	Imported coal	-	12.02	0.73	12.75	11

Source: NTDC, AHL Research

Exhibit: Coal power plant utilization (%)

			FY22	FY23	FY24	FY25	FY26
Huaneng Shandong Ruyi Energy	Imported Coal		66%	27%	20%	40%	60%
Port Qasim Electric Power	Imported Coal		70%	30%	7%	26%	31%
CPHGC	Imported Coal		64%	15%	4%	6%	11%
EPTL	Local Coal		69%	69%	72%	73%	73%
LEPCL	Imported Coal		33%	63%	32%	19%	36%
TEL	Local Coal		0%	47%	74%	61%	69%
Thar Coal Block-1	Local Coal		0%	38%	71%	78%	78%
TNPTL	Local Coal		0%	35%	75%	68%	69%

Source: NEPRA, AHL Research

SECMC Phase 3 COD:

LEPCL Phase III: ROE to rise from 27.2% to 29.5%

Phase III COD to materially lift SECMC earnings

- The Phase III COD is expected to materially enhance SECMC's ROE, with total ROE increasing from PKR 11.45bn to PKR 17.27bn in FY27, implying an incremental PKR 5.82bn or ~51% uplift.
- The benefit is expected to remain sustainable, with incremental ROE rising to PKR 6.77bn by FY30, as the expanded mine operates at higher capacity.
- For HUBC, the additional ROE contribution is estimated at PKR 465mn in FY27, rising to PKR 541mn by FY30, translating into PKR 0.36–0.42/share of incremental earnings.
- For ENGROH, the impact is more meaningful, with incremental ROE contribution of PKR 692mn in FY27, increasing to PKR 805mn by FY30, equivalent to PKR 0.57–0.67/share.

LEPCL Phase III: ROE to rise from 27.2% to 29.5%

- LEPCL's project cost was estimated at USD 956mn under NEPRA's upfront tariff, financed through 75% debt (USD 717mn) and 25% equity (USD 239mn). Under the approved tariff framework, the conversion to Thar coal was expected to increase LEPCL's ROE from 27.2% to 29.5%, which has now been implemented following the Phase III conversion.
- The expansion is expected to increase LEPCL's regulated ROE from PKR 1.188/kWh to PKR 1.289/kWh, lifting ROE by 8.5% from 27.2% to 29.5%. Based on AHL estimates, this translates into an incremental PKR 1.55bn of ROE in FY27, rising to PKR 1.80bn by FY30, equivalent to PKR 1.06–1.23/share for LUCK.
- The higher ROE reflects the additional return allowed on the expanded project investment and should therefore provide a recurring earnings uplift for LEPCL, rather than merely a one-off benefit.

Exhibit: ROE Impact of phase 3 COD

PKR mn	FY27e	FY28e	FY29e	FY30e
Base ROE	11,452	11,915	12,552	13,323
ROE after phase 3 COD	17,269	17,968	18,929	20,091
HUBC				
Base ROE	916	953	1,004	1,066
ROE after phase 3 COD	1,382	1,437	1,514	1,607
Difference	465	484	510	541
HUBC (PKR/sh)	0.36	0.37	0.39	0.42
ENGROH				
Base ROE	1,363	1,418	1,494	1,585
ROE after phase 3 COD	2,055	2,138	2,253	2,391
Difference	692	720	759	805
ENGROH (PKR/sh)	0.57	0.60	0.63	0.67

Source: Thar Coal Energy Board, AHL Research

Exhibit: ROE Increase for LEPCL

USD MN	LEPCL	
	Upfront	Upfront
Capital Cost	768	768
Total Project Cost	956	956
Debt	717	717
Equity	239	239
Debt (%)	75.0%	75.0%
Equity (%)	25.0%	25.0%
ROE in USD MN	65.01	70.51
ROE (PKR/kWh)	1.19	1.29
Net Capacity (MW)	606.59	606.59
Exchange Rate (USD/PKR)	97.10	97.10
ROE in USD MN	65.01	70.51
ROE (%)	27.2%	29.5%
Increase in ROE		8.5%

Source: NEPRA, AHL Research

SECMC Phase 3 COD

LUCK Sees the Largest Impact

Exhibit: Base ROE of LEPCL (LUCK)

		FY27e	FY28e	FY29e	FY30e
ROE	PKR/KWh	1.19	1.19	1.19	1.19
Indexed tariff					
PKR/USD		282	296	311	327
Indexed		2.91	3.05	3.21	3.37
Gross capacity	MW	659	659	659	659
Net capacity	MW	607	607	607	607
Max output	GWh	5,314	5,314	5,314	5,314
ROE	PKR mn	18,356	19,274	20,238	21,250

Source: NEPRA, AHL Research

Exhibit: Higher ROE impact on LEPCL (LUCK)

		FY27e	FY28e	FY29e	FY30e
ROE		1.29	1.29	1.29	1.29
PKR/USD		282	296	311	327
Indexed		2.91	3.05	3.21	3.37
Gross capacity	MW	659	659	659	659
Net capacity	MW	607	607	607	607
Max output	GWh	5,314	5,314	5,314	5,314
ROE	PKR mn	19,909	20,904	21,949	23,047
Difference in ROE	PKR mn	1,552	1,630	1,711	1,797
Difference in ROE	PKR/sh	1.06	1.11	1.17	1.23

Source: NEPRA, AHL Research

SECMC Phase 3 COD:

Thar Coal Switch to Deliver ~USD30mn Annual Import Savings

Thar Coal Switch to Deliver ~USD30mn Annual Import Savings

- At the current 35.7% utilization, LEPCL generates around 2,064 GWh annually, requiring ~0.84mn tons of imported coal at a delivered cost of USD115/ton (assuming at USD100/ton coal + USD15/ton freight and handling), resulting in an annual import bill of ~USD 97mn.
- Following the switch to Thar coal, LEPCL would require ~1.45mn tons due to Thar coal's lower calorific value of 3,200 kcal/kg versus 5,500 kcal/kg for imported coal, but at a significantly lower coal price of USD46/ton, resulting in a local coal bill of only ~USD67mn.

Import Savings Sensitive to Global Coal Prices

- The switch to Thar coal could generate **~USD30mn in annual import savings**, assuming USD100/ton imported coal price, while potentially **reducing power tariffs by ~PKR0.08/kWh, equivalent to around 1% of CY26 fuel cost per unit**.
- Import savings increase to USD80mn at USD80/ton, USD89mn at USD90/ton, and rise to USD114mn at USD120/ton, highlighting the significant FX-saving potential and reduced exposure to international coal prices.
- Importantly, these savings are based on the current 35.7% utilization; higher LEPCL dispatch following the conversion would further increase the import-substitution benefit.
- The key benefit is not a reduction in physical coal consumption, LEPCL will actually require ~72% more coal by volume because of Thar coal's lower calorific value, but rather a substantial reduction in the foreign exchange cost per unit of energy generated.
- This makes the conversion particularly attractive from Pakistan's balance-of-payments and energy-security perspective, while the potential increase in LEPCL utilization would provide an additional layer of import substitution.

Exhibit: Import saving from moving to Thar coal

	Unit	
Installed capacity	MW	660
Current utilization	%	35.70%
Current generation	GWh	2,064
Current imported coal requirement	Tons	844,516
Imported coal price	USD/ton	100
Imported freight & handling	USD/ton	15
Current imported coal bill	USD mn	97

Source: NEPRA, AHL Research

Exhibit: Import bill saving at different coal prices

USD mn	Import Bill	Total Cost Saving
At USD 80	80	14
At USD 90	89	22
At USD 100	97	31
At USD 110	106	39
At USD 120	114	47

imported coal calorific value taken as 5500 kcal/kg hence the lower requirement

Source: NEPRA, AHL Research

Exhibit: Cost using Thar coal

	Unit	
Installed capacity	MW	660
Forecasted utilization	%	35.7%
Forecasted generation	GWh	2,064
Forecasted local coal requirement	Tons	1,451,512
local coal price	USD/ton	46
Forecasted local coal bill	USD mn	67

thar coal calorific value taken as 3200 kcal/kg hence the higher requirement

Source: NEPRA, AHL Research

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