

June, 2018

Company Name:	Nishat Power Limited
Symbol	NPL
Target Price	PKR 34
Upside	21%
Key Statistics	
Current Price*	PKR 28
Outstanding Shares	354.09mn
52 Week High	PKR 48.25
52 Week Low	PKR 26.52
Market Capitalization*	PKR 9,772.84 mn
1 year Avg. Daily Volume	186,625
Valuation Methodology	DDM
Free Float	141.64 mn

Source: PSX & WE Research

* Prices as of June 25, 2018

Key Numbers					
	FY17A	FY18E	FY19F	FY20F	FY21F
EPS	8.14	9.45	7.87	8.56	10.09
DPS	5.50	4.00	4.62	4.88	4.98
BVPS	39.25	41.51	40.14	38.94	39.06
P/Ex*	4.17	3.59	4.31	3.96	3.36
P/BV (x)*	0.71	0.82	0.85	0.87	0.87
DY*	20%	14%	17%	17%	18%
ROE %	21%	23%	20%	22%	26%

Source: Company Accounts & WE Research

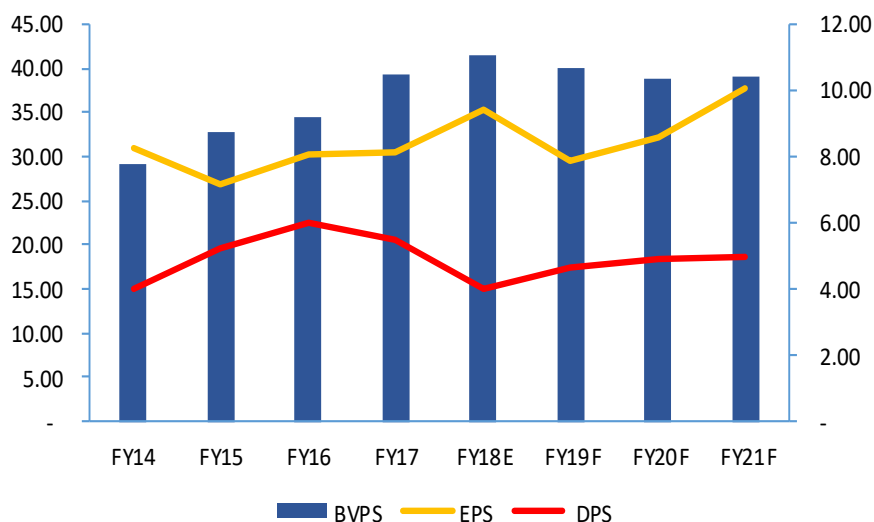
* Prices as of June 25, 2018

We initiate our research on Nishat Power Limited, an Independent Power Plant (IPP) with a BUY rating by incorporating FY financial data, PKR/USD exchange rate, FO prices and updated indexation referred by NEPRA. At the current price level, it is forecasted that NPL offers earnings of PKR 5.86/share and dividend payout to remain at ~14% in FY18. Our target price for June 2018 stands at PKR 34 per share based on DDM valuation, offering an upside potential of 21% from current market value of PKR 28 per share, hence providing a positive stance on the scrip.

Nishat Power Limited– Attractive for investors:

During 3QFY18, NPL plant operated at optimal efficiency of 66.44% and dispatched units totaling 853 GWH. Total receivables from NTDC in current quarter stands at PKR 11,517 million, out of which overdue receivables are PKR 10,832 million. Based on company’s project equity, it is estimated that NPL would dispatch 770 GWH (optimal capacity of 45%) in FY19, leading to higher efficiency gains, increase in ROE, fuel savings and O&M savings. Further in FY18, attractive ROE of 23% based on thermal power project has potential to add 2.5/share to the company’s earnings and current valuation of PKR 34/share.

It is expected that in FY18, the dividend would marginally decline to 14% due to outstanding payment for short and long term debt. In upcoming years, NPL will likely overcome cash strain and allow company to resume dividend payout once it receives overdue payment from NTDC, which is expected at the end of 4QFY18 or early FY19. Further, our recommendation is based on the prospect of 1) increase in profitability; 2) increase in EPS; 3) sustainability of dividend payout; 4) increase in capacity utilization; 5) decrease in trade debts. Further, fuel and O&M savings are likely to increase despite high FO price leading to positive results.



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“Earnings contribution of O&M and fuel saving is likely to increase, due to normalization of O&M cycle and higher FO prices”.

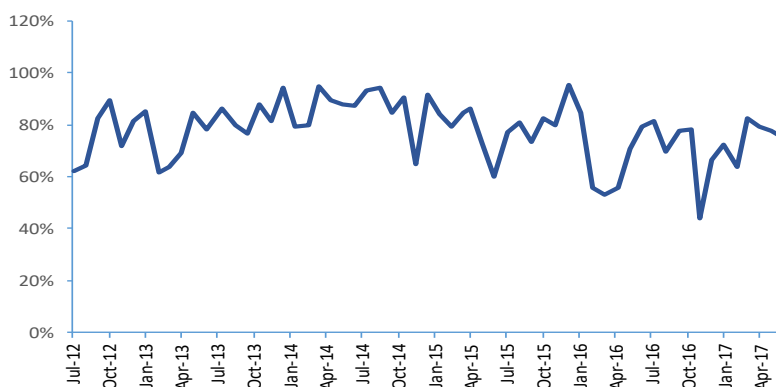
“Sales declined by 9% & 3% in FY18 & FY19 respectively, as compared to 8% up.in FY17”.

Higher Thermal efficiency:

As per our discussion with management, Nishat Power limited continues to enjoy higher levelized thermal efficiency life of 45% approved in tariff, translation of 194 GWH units generation with average fuel consumption of 192.4 Gms/KWH, (results in fuel saving of PKR 0.22/share) in FY19. Further, it is anticipated that the efficiency level may reduce from its optimal capacity in the upcoming years but it would not impact the profitability of the company in face of fuel and O&M saving despite a surge in FO prices.

NPL has entered into a 25 years contract with National Transmission and Dispatch Company Ltd (NTDCL) since April 2008. NTDCL has contracted to supply total net capacity of 195.305 MW generated by the company.

Further, the power plant is operating at its maximum capacity factor of 66.44% and dispatched 853 GWH of electricity to its sole purchaser, NTDCL during FY17 and dispatches are expected to improve further in coming period.



Efficiency Gain leads to Profitability:

We expect NPL will report PAT PKR 3,346 mn (EPS: 9.45/share) in FY18E against PAT PKR 2,884 mn (EPS: 8.14/share) in FY17 up by 16%, on the back of high O&M savings with 45% life efficiency of load factor which is expected to dispatch on average 770 GWH along with increase in indexation in FY18E.

Further in 4QFY18 or early FY19 lump sum amount is expected from NTDCL (NPL’s sole purchaser of power) that would decrease sales to 3% in FY19F due to decline in panel income. Based on our estimation, receivables would decline to 5.528bn in FY18E against 8.9 bn in FY17 resultantly overdue amount will decrease to 2.35 bn.

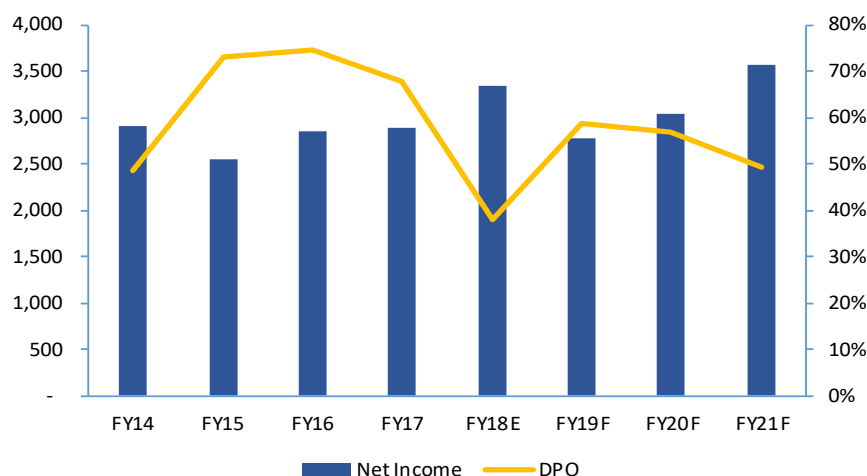
Year	DPS	EPS	DPO	DY
FY14	4.00	8.24	49%	14%
FY15	5.25	7.20	73%	19%
FY16	6.00	8.06	75%	21%
FY17	5.50	8.14	68%	20%
FY18E	4.00	9.45	38%	14%
FY19F	4.62	7.87	59%	17%
FY20F	4.88	8.56	57%	17%
FY21F	4.98	10.09	49%	18%
FY22F	5.32	10.86	49%	19%
FY23F	5.47	11.49	48%	20%
FY24F	5.74	12.29	47%	21%
FY25F	6.01	13.07	46%	21%
FY26F	6.24	13.90	45%	22%
FY27F	6.55	14.83	44%	23%
FY28F	6.83	15.22	45%	24%
FY29F	7.08	14.18	50%	25%
FY30F	7.42	15.02	49%	26%
FY31F	7.81	15.94	49%	28%

Source: Company Accounts & WE Research

Dividends to remain stable:

The power sector, especially the Independent Power Plants (IPPs) are identified for their regular and higher dividend payouts wherein the last, dividend payout ratio of NPL was ~70% in FY2017. It is estimated that NPL would be able to maintain an average payout ratio of ~50% in the upcoming years.

NPL had to curtail their dividends in last previous years on account of rise in circular debt. We anticipate declining trend of dividend yield to continue in FY18E (expected DPS of PKR 4 from PKR 5.5 in FY17), owing to increase in Furnace Oil (FO) Prices and PKR value depreciation. NPL has remained a modest dividend payer and it uses internal generated earnings for dividends instead of relying on short term borrowings. It is observed that in previous years company had overhauling Capex total of 11.291 mn in FY17 based on company financials, that limits the payout ratio in FY18E. Hence after of Capex normalization, NPL would continue to pay out regular dividends in upcoming years.



Trade debt /circular debt:

For IPPs, circular debt poses a major hurdle to their maximum capacity utilization, earnings growth and shareholders returns. Due to delay in the payment obligations from NTDC, NPL’s accounts receivables ballooned to PKR 8.94bn in FY17 as compared to PKR 6.38bn in FY16, leading to the company resorting to short term borrowings of PKR 1.8 billion to finance their cash flow requirements.

Further, as pointed above, NPL’s management anticipates partial payment at the end of 4QFY18 from GOP leading to our estimated reduction in receivables to 5.53bn that will decrease the overdue by 43% by amount of 2.35bn.

“Trade debts to decline by 38% (based on our calculation) and management estimation”.

“Investment diversification in Lalpir Solar Power Ltd”.

Company Profile & Major Shareholdings:

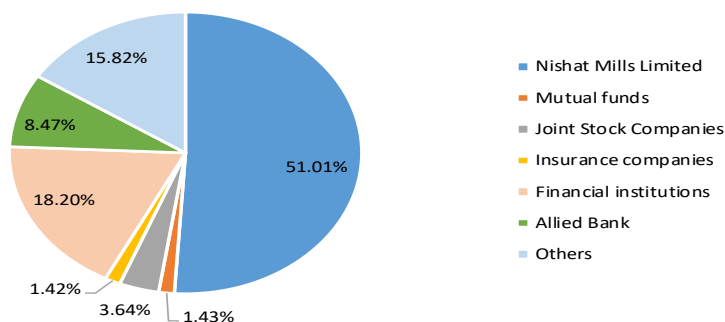
Nishat Power Limited (NPL) is a third Independent Power Plant (IPP) to be set up under the Power Policy - 2002, engaged in the generation and distribution of thermal power which completed Reliability Run Test (RRT) as required under Power Purchase Agreement (PPA) in its first attempt at 132 KV transmission lines.

NPL is a subsidiary of Nishat Mills limited which owns 51% of shares in NPL and second highest major shareholding is of Financial Institutions with 18.2% shares in the company. The principal activity of the company is to build, own, operate and maintain a fuel fired power station having gross capacity of 200 MW with net generation capacity of 195.305 in Jamber Kalan, Tehsil Pattoki, District Kasur, Province of Punjab -Pakistan.

Diversification into Solar Power:

Nishat Power Ltd plans to emerge as the main sponsor of Lalpir Solar Power Limited (LSPL) by investing in its equity at PKR 500,000/- (50,000 shares of 10 each), every quarter.

Shareholder Pattern



NPL Reference Tariff:

The reference tariff of IPP is organized with two components: 1) Energy purchase price; which shows energy dispatched as per the actual cost per KWH. 2) Capacity Components; which shows the charges based on the actual level of operations or available capacity. This reference tariff is adjusted for the 25 years of operating life of power plant.

Further, the capacity component is divided into three factors; a) Debt Repayment of principal and interest in construction of the project; b) Sponsors investment in ROE; c) Fixed O&M cost that is independent of energy dispatched. The Reference tariff refers to the capacity payments that would be recovered through fixed costs, returns, principal and interest payments if there is any decrease in the sales of electricity by WAPDA. On the other hand, the energy charges would be maintained by the supply of electricity to WAPDA based on the cost incurred for fuel.

“Increase indexation leads to profitability in NPL”.

Assumptions	
Risk Free Rate	9%
Market Risk Premium	6%
Beta	0.66
Growth estimated	2%
Cost of equity	12.9%
Target Price	PKR 34/share

Valuation:

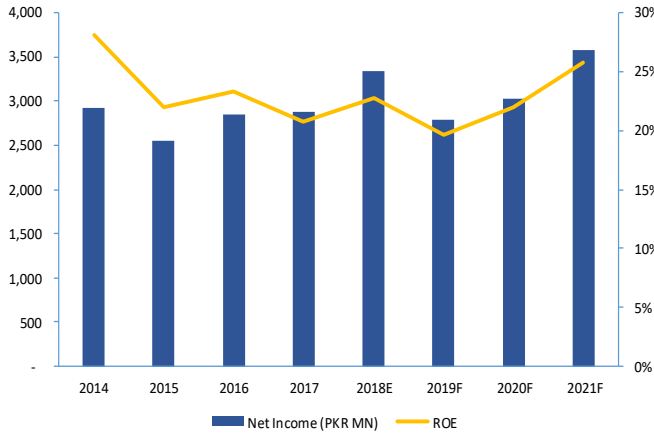
We have valued NPL by using Dividend Discount Model to arrive at target price of 34/share in FY18 and discounted at cost of equity of 12.9% with 2% sustainable growth rate, risk free rate of 9% , beta of 0.655 and market risk premium of 6%.

Key risks:

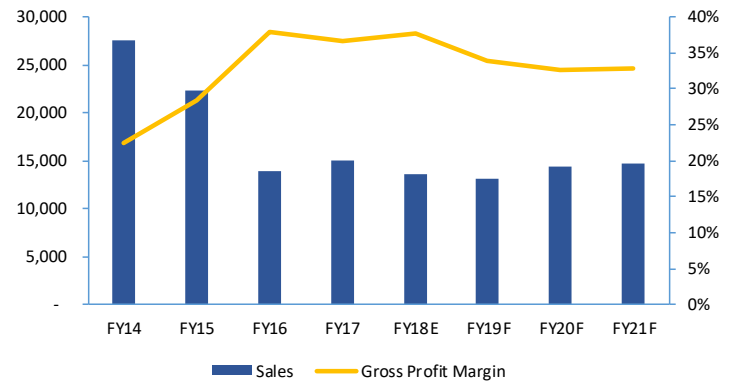
The downside risk in our valuation:

- 1) increase in overdue receivables
- 2) lower than anticipated thermal efficiency
- 3) PKR depreciation.

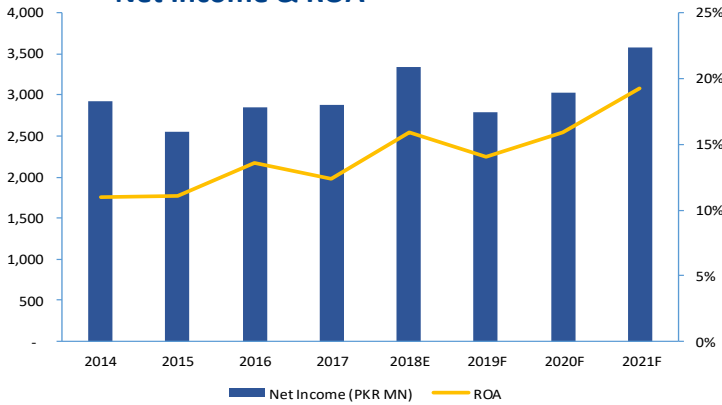
Net Income & ROE



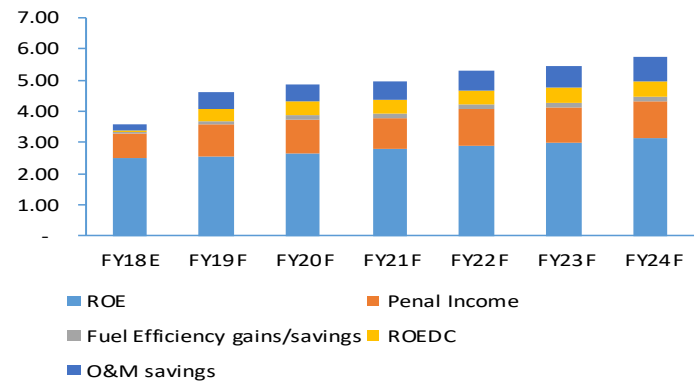
Sales & Gross Profit Margin



Net Income & ROA



ROE, ROEDC, Fuel and O&M savings /Share



REFERENCE TARIFF AT COD												
Year	Variable Charge (PKR/Kwh)			Capacity Charge (PKR/KW/Hr)								
S.No	Fuel	Var O&M	Total	Fixed O&M	orking Cap	Insurance	ROE	ROEDC	W/tax	Loan Repay	Interest	Total
1	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.1750	0.3221	1.4526
2	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.1951	0.3021	1.4526
3	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.2174	0.2797	1.4526
4	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.2423	0.2548	1.4526
5	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.2701	0.2270	1.4526
6	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.3011	0.1960	1.4526
7	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.3356	0.1615	1.4526
8	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.3741	0.1231	1.4526
9	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.4169	0.0802	1.4526
10	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	0.4647	0.0324	1.4526
11	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
12	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
13	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
14	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
15	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
16	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
17	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
18	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
19	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
20	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
21	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
22	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
23	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
24	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555
25	10.2586	0.2319	10.4905	0.1686	0.1181	0.0970	0.4643	0.0808	0.0267	-	-	0.9555

Source: NEPRA & WE Financial Reserach

Profit & Loss Items	FY14A	FY15A	FY16A	FY17A	FY18F	FY19E	FY20E	FY21E	FY22E
Turnover	27,479	22,313	13,896	15,042	13,651	13,175	14,384	14,756	15,261
Operating Cost	(21,909)	(17,367)	(9,223)	(10,466)	(8,798)	(8,904)	(9,903)	(10,140)	(10,416)
Gross Profit	5,570	4,946	4,673	4,575	4,853	4,271	4,480	4,615	4,845
Operating Profit	4,499	3,944	3,686	3,612	3,870	3,291	3,503	4,000	4,230
Finance Cost	(1,612)	(1,430)	(867)	(749)	(560)	(543)	(508)	(468)	(424)
PAT	2,917	2,548	2,853	2,886	3,352	2,791	3,038	3,578	3,854
Balance Sheet Items	FY14A	FY15A	FY16A	FY17A	FY18F	FY19E	FY20E	FY21E	FY22E
Total Equity	10,355	11,613	12,251	13,898	14,699	14,212	13,789	13,831	13,910
Long Term Financing - Secured	9,683	8,376	6,858	5,092	4,319	3,662	3,106	2,634	2,234
Short Term Borrowing - Secured	3,042	932	-	1,799	570	550	601	616	638
Accrued Finance Cost	401	270	196	185	271	356	383	360	414
Total Current Liabilities	6,484	3,040	1,966	4,273	2,024	1,958	2,142	2,065	2,089
Property, plant and equipment	13,259	12,319	11,655	11,387	10,257	9,225	8,196	7,530	6,863
Stock in trade	969	1,269	703	976	976	932	935	935	935
trade debts	10,348	8,050	6,384	8,944	5,528	6,944	7,189	6,876	7,836
Total Current Assets	13,263	10,709	9,415	11,872	10,781	10,603	10,837	10,996	11,366
Total Assets	26,523	23,030	21,075	23,263	21,041	19,832	19,037	18,530	18,233
Ratios	FY14A	FY15A	FY16A	FY17A	FY18F	FY19E	FY20E	FY21E	FY22E
EPS (PkR)	8.24	7.20	8.06	8.14	9.45	7.87	8.56	10.09	10.86
EPS Growth (%)	6%	-13%	12%	1%	16%	-17%	9%	18%	8%
PE (x)	4.12	4.71	4.21	4.17	3.59	4.31	3.96	3.36	3.12
BVPS (PkR)	29.25	32.80	34.60	39.25	41.51	40.14	38.94	39.06	39.28
PBV (x)	0.96	0.85	0.81	0.71	0.82	0.85	0.87	0.87	0.86
DPS (PkR)	4.00	5.25	6.00	5.50	4.00	4.62	4.88	4.98	5.32
DY	14%	19%	21%	20%	12%	14%	14%	15%	16%
ROE (%)	28%	22%	23%	21%	23%	20%	22%	26%	28%
ROA (%)	11%	11%	14%	12%	16%	14%	16%	19%	21%
LTDebt to Equity (%)	94%	72%	56%	37%	29%	26%	23%	19%	16%
EV/EBITDA (x)	3.41	4.02	3.95	4.12	3.43	3.94	3.54	3.24	3.14
EBITDA Margin	20%	22%	34%	30%	36%	32%	31%	31%	32%
Net Profit Margin	11%	11%	21%	19%	25%	21%	21%	24%	25%
EV (PkRmn)	18,999	19,886	18,435	18,828	16,661	16,813	15,864	14,965	15,234
Penal Interest Receivable	655	642	544	406	271	356	383	360	414

Source: Company Accounts & WE Research

Analyst Certificate:

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Stock Ratings

WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as June 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

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

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

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

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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