

Nishat Power Limited

Result Preview

PSX: NPL Bloomberg: NPL: PA Reuters: NISH: KA

Pakistan Research

NPL: 2QFY23 EPS estimated to settle at PKR 2.6, up 25% YoY

- NPL's board meeting is scheduled on February 13, 2023 to consider 2QFY23 financial results. We expect the IPP to post an EPS of PKR 2.6, up 25% YoY compared to EPS of PKR 2.1 in corresponding period last year. This will take 1HFY23 EPS to PKR 5.3, up 13% YoY vs PKR 4.69 during SPLY. Along with the result, we expect the company to announce an interim cash dividend of PKR 1.0/share
- The topline of the company is expected to contract by 45% YoY to PKR 2.3bn during 2Q. This is largely due to decline in load factor to 5% vs 32% in SPLY. We anticipate IPP's power generation to decline by 92% YoY to 22 GWh as compared to 140 GWh in 2QFY22.
- Gross profit is likely to expand by 20% on account of 1) higher penal income owing to upwards revision in monetary policy and 2) higher capacity payment due to PKR depreciation against green back.
- Finance cost is expected to decrease by 79% YoY to PKR 18mn, primarily attributable to reduced short term borrowings as we anticipate the company's cashflow cycle to improve.
- We maintain our 'BUY' recommendation on the stock. Our Dec-23 PT of PKR 30/share indicates an upside of 74% along with dividend yield of 26%.

Key Data

PSX Ticker	NPL
Target Price (PKR)	30
Current Price (PKR)	17
Upside/ (Downside) (%)	+ 74%
Dividend Yield (%)	26%
Total Return (%)	+ 100%
12-month High (PKR)	29
12-month Low (PKR)	16
Outstanding Shares (mn)	354.09
Market Cap (PKR mn)	6,172
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Sales	4,142	2,289	-45%	9,871	13,736	39%
Cost of Sales	3,231	1,199	-63%	7,952	11,532	45%
Gross Profit	911	1,090	20%	1,919	2,204	15%
Admin expenses	79	93	18%	153	185	21%
Other income	3	25	747%	40	48	20%
EBIT	835	948	14%	1,806	1,921	6%
Finance cost	88	18	-79%	144	48	-67%
Profit after tax	746	930	25%	1,661	1,873	13%
EPS	2.1	2.6	25%	4.7	5.3	13%
DPS	2.0	1.0		2.0	3.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	13.76	7.57	9.38	9.41	9.69	8.03
EPS Growth	29%	-45%	24%	0%	3%	-17%
DPS	2.00	1.50	4.50	4.50	4.75	4.50
PER	1.3	2.3	1.9	1.9	1.8	2.2
Dividend Yield	12%	9%	26%	26%	27%	26%
EV/EBITDA	1.6	2.5	1.2	1.3	1.0	1.1
P/B	0.3	0.2	0.2	0.2	0.2	0.2
ROE	21%	10%	12%	11%	12%	10%

Source: Company Accounts, Akseer Research

Altamash Hemani

Altamash.hemani@alphacapital.com.pk

Valuation Basis

Our PT for Nishat Power Limited (NPL) has been computed using Dividend Discount Model (DDM) method. We have used a risk-free rate of 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 30/share. Our price target indicates an upside of 74% along with a dividend yield of 26%. Our investment case on NPL is based on (1) Expected one-off clearance of circular debt (2) PKR devaluation against USD.

Risks

Key downside risks to our investments thesis are: 1) Government not providing relief to IPPs from rising circular debt issue 2) Less than expected PKR devaluation against USD and 3) Government not fulfilling its contractual commitments towards FO based IPPs due to lower utilization levels.

Company Description

Nishat Power Limited operates as an independent power producer in Pakistan. The company builds, owns, operates, and maintains a fuel fired power station having gross capacity of approximately 200 megawatts in Jamber Kalan, Tehsil Pattoki, District Kasur in Punjab, Pakistan. It supplies electricity to National Transmission and Despatch Company Limited. The company was incorporated in 2007 and is headquartered in Lahore, Pakistan. Nishat Power Limited is a subsidiary of Nishat Mills Limited.

Financial Highlights - NPL

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	11,738	11,433	23,684	28,778	31,234	29,038
Cost of sales	5,391	7,989	19,809	24,548	26,450	24,961
Gross Profit	6,348	3,443	3,875	4,230	4,783	4,076
SG & A	337	302	334	374	389	405
Operating Profit	6,013	3,020	3,559	3,663	4,211	3,502
Other income	7	42	91	101	123	150
Other charges	5	163	73	295	307	319
Finance cost	1,143	339	236	330	780	660
Profit before tax	4,871	2,681	3,323	3,333	3,431	2,842
Taxation	-	-	0	-	-	-
Profit after tax	4,871	2,681	3,323	3,333	3,431	2,842

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	9,392	8,827	8,504	7,630	7,064	6,528
Other LT assets	3	1	1	1	1	1
Non-Current Assets	9,395	8,828	8,505	7,632	7,065	6,529
Current assets	19,913	21,958	24,386	28,613	27,942	29,332
Total Assets	29,308	30,786	32,891	36,244	35,007	35,861
Non-Current liabilities	55	37	-	-	-	-
Current liabilities	5,569	4,739	5,240	5,969	7,232	6,749
Total Liabilities	5,625	4,776	5,240	5,969	7,232	6,749
Equity	23,683	26,010	27,651	30,276	27,776	29,113
Total Equity & liabilities	29,308	30,786	32,891	36,244	35,007	35,861

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	4,871	2,681	3,323	3,333	3,431	2,842
Non-cash Charges	700	726	682	643	607	574
Operating Cash flows	4,800	1,742	6,936	(227)	4,681	2,084
FCFF	6,117	2,163	808	198	7,510	2,478
Net borrowings	(4,636)	(1,072)	735	864	(826)	(256)
FCFE	338	752	1,307	732	5,904	1,563
Net change in cash	(16)	398	(375)	24	(27)	58
Closing cash	5	403	28	52	25	82

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off.

Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,

KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.pk