

Nishat Power Limited

Result Preview

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

Pakistan Research

NPL: 3QFY23 EPS estimated to settle at PKR 2.83, down 12% YoY

- NPL's board meeting is scheduled on April 28, 2023 to consider 3QFY23 financial results. We expect the IPP to post an EPS of PKR 2.83, down 12% YoY compared to EPS of PKR 3.22 in 3QFY22. This will take 9MFY23 EPS to PKR 8.60, up 9% YoY.
- The revenue of the company is expected to augment by 14% YoY to PKR 5.1bn during 3Q. This is largely due to 34% YoY increase in the fuel prices.
- Gross profit is likely to contract by 7% on account of lower load factor which will likely result in lower OM efficiency. We anticipate load factor to clock in at 25% during 3QFY23 vs 30% SPLY.
- Finance cost during the quarter is anticipated to increase by 7.76x YoY on account of higher short-term borrowing and upward revision in interest rates
- On QoQ basis, we expect IPP earnings to decline by 9%, mainly on account of lower OM efficiency.
- We maintain our 'BUY' recommendation on the stock. Our Dec-23 PT of PKR 25/share indicates an upside of 39% along with dividend yield of 30%.

Key Data

PSX Ticker	NPL
Target Price (PKR)	25
Current Price (PKR)	18
Upside/ (Downside) (%)	+ 39%
Dividend Yield (%)	30%
Total Return (%)	+ 69%
12-month High (PKR)	29
12-month Low (PKR)	16
Outstanding Shares (mn)	354.09
Market Cap (PKR mn)	6,455
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY22	3QFY23E	YoY	9MFY22	9MFY23E	YoY
Sales	4,433	5,051	14%	14,304	18,741	31%
Cost of Sales	3,183	3,886	22%	11,135	15,270	37%
Gross Profit	1,249	1,165	-7%	3,169	3,471	10%
Admin expenses	84	90	8%	236	271	15%
Other income	17	29	69%	57	80	39%
Other expenses	35	36	4%	36	109	206%
EBIT	1,148	1,067	-7%	2,954	3,170	7%
Finance cost	8	66	776%	152	126	-17%
Profit after tax	1,141	1,001	-12%	2,802	3,044	9%
EPS	3.2	2.8		7.9	8.6	9%
DPS	-	-		2.0	4.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	13.8	7.6	9.4	10.3	13.0	9.5
EPS Growth	29%	-45%	24%	10%	26%	-27%
DPS	2.0	1.5	4.5	5.5	4.3	4.0
PER	1.3	2.4	1.9	1.8	1.4	1.9
Dividend Yield	11%	8%	25%	30%	23%	22%
EV/EBITDA	1.6	2.5	1.2	1.0	0.7	0.9
P/B	0.3	0.2	0.2	0.2	0.3	0.2
ROE	21%	10%	12%	13%	18%	13%

Source: Company Accounts, Akseer Research

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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 25/share. Our price target indicates an upside of 39% along with a dividend yield of 30%. 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	25,385	27,260	24,734
Cost of sales	5,391	7,989	19,809	21,057	21,635	20,462
Gross Profit	6,348	3,443	3,875	4,328	5,625	4,272
SG & A	337	302	334	362	373	388
Operating Profit	6,013	3,020	3,559	3,930	5,238	3,893
Other income	7	42	91	110	136	166
Other charges	5	163	73	145	150	156
Finance cost	1,143	339	236	276	638	541
Profit before tax	4,871	2,681	3,323	3,654	4,600	3,352
Taxation	-	-	0	-	-	-
Profit after tax	4,871	2,681	3,323	3,654	4,600	3,352

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	4	4	4
Non-Current Assets	9,395	8,828	8,505	7,634	7,068	6,532
Current assets	19,913	21,958	24,386	24,578	24,114	25,225
Total Assets	29,308	30,786	32,891	32,213	31,182	31,757
Non-Current liabilities	55	37	-	-	-	-
Current liabilities	5,569	4,739	5,240	4,891	5,900	5,513
Total Liabilities	5,625	4,776	5,240	4,891	5,900	5,513
Equity	23,683	26,010	27,651	27,321	25,282	26,244
Total Equity & liabilities	29,308	30,786	32,891	32,213	31,182	31,757

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	4,871	2,681	3,323	3,654	4,600	3,352
Non-cash Charges	700	726	682	643	607	574
Operating Cash flows	4,800	1,742	6,936	4,130	5,687	2,781
FCFF	6,117	2,163	808	4,401	7,959	3,099
Net borrowings	(4,636)	(1,072)	735	(115)	(667)	(202)
FCFE	338	752	1,307	4,009	6,655	2,356
Net change in cash	(16)	398	(375)	26	15	(34)
Closing cash	5	403	28	53	69	34

Source: Company Accounts, Akseer Research

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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.

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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%

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