

Nishat Power Limited

Result Review

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

Pakistan Research

NPL: 2QFY23 EPS clocked in at PKR 3.1, up 48% YoY

- NPL announced its 2QFY23 financial results today, wherein the company posted an EPS of PKR 3.1, up 48% YoY compared to an EPS of PKR 2.1 in SPLY. This takes 1HFY23 earnings to PKR 5.8/share, up 23% YoY. The result came in higher than our expectation owing to company's higher OM efficiency. Along with the result, NPL announced interim cash dividend of PKR 2.0/share, taking cumulative payout to 4.0/share in 1HFY23.
- NPL's 2QFY23 topline declined by 46% YoY to PKR 2.2bn, on account of lower power generation as we anticipate NPL's load factor during the quarter stood at 5%.
- Gross profit of the company expanded by 31% YoY possibly due to higher OM efficiency coupled with higher penal charges.
- Finance cost of the company contracted by 66% YoY to PKR 30mn, largely due to decline in short term borrowing.
- On sequential basis, earnings grew by 17% QoQ, possibly due to higher OM efficiency.
- 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 29%.

Key Data

PSX Ticker	NPL
Target Price (PKR)	30
Current Price (PKR)	17
Upside/ (Downside) (%)	+ 74%
Dividend Yield (%)	29%
Total Return (%)	+ 103%
12-month High (PKR)	29
12-month Low (PKR)	16
Outstanding Shares (mn)	354
Market Cap (PKR mn)	6,172
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Sales	4,142	2,242	-46%	9,871	13,690	39%
Cost of Sales	3,235	1,050	-68%	7,964	11,383	43%
Gross Profit	907	1,192	31%	1,907	2,307	21%
Admin expenses	79	89	13%	153	181	19%
Other income	7	27	303%	52	49	-6%
EBIT	833	1,130	36%	1,804	2,103	17%
Finance cost	88	30	-66%	144	60	-59%
Profit after tax	745	1,100	48%	1,660	2,043	23%
EPS	2.1	3.1		4.7	5.8	
DPS	2.0	2.0		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	9.9	10.6	9.0
EPS Growth	29%	-45%	24%	6%	7%	-15%
DPS	2.0	1.5	4.5	5.0	4.8	4.5
PER	1.3	2.3	1.9	1.8	1.6	1.9
Dividend Yield	11%	9%	26%	29%	27%	26%
EV/EBITDA	1.6	2.5	1.2	1.3	1.0	1.0
P/B	0.3	0.2	0.2	0.2	0.2	0.2
ROE	21%	10%	12%	12%	14%	11%

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 30/share. Our price target indicates an upside of 74% along with a dividend yield of 29%. 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	28,732	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	4,184	4,783	4,076
SG & A	337	302	334	362	373	388
Operating Profit	6,013	3,020	3,559	3,859	4,546	3,853
Other income	7	42	91	110	136	166
Other charges	5	163	73	73	-	-
Finance cost	1,143	339	236	341	780	660
Profit before tax	4,871	2,681	3,323	3,518	3,766	3,193
Taxation	-	-	0	0	-	-
Profit after tax	4,871	2,681	3,323	3,518	3,766	3,193

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	28,620	27,931	29,319
Total Assets	29,308	30,786	32,891	36,252	34,997	35,848
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	30,283	27,765	29,099
Total Equity & liabilities	29,308	30,786	32,891	36,252	34,997	35,848

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	4,871	2,681	3,323	3,518	3,766	3,193
Non-cash Charges	700	726	682	643	607	574
Operating Cash flows	4,800	1,742	6,936	(42)	5,017	2,435
FCFF	6,117	2,163	808	394	7,846	2,830
Net borrowings	(4,636)	(1,072)	735	864	(826)	(256)
FCFE	338	752	1,307	917	6,239	1,914
Net change in cash	(16)	398	(375)	32	(46)	55
Closing cash	5	403	28	59	14	69

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.

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%

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