

**Nishat Power Limited**  
Analyst Briefing Takeaways

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

**Pakistan Research**

## NPL: FY21 Analyst briefing key takeaways

- NPL held its analyst briefing today to discuss FY21 results. The company recorded lower EPS of PKR 7.57 in FY21 compared to EPS of PKR 13.76 in FY20 primarily on the back of repayment of long-term financing from the debt service component.
- The company discussed that capacity utilization has been on a declining trend, from highs of 82% in FY15 to lows of 16% in FY20 and 32% in FY21 due to induction of energy through RLNG and coal, however, in June-21, the utilization level peaked at 68% compared to 28% in June-20.
- In terms of improving the efficiency, the company mentioned that it has created a maintenance reserve of PKR 3bn which is expected to be utilized over two years starting from July-22.
- To highlight, after renewed agreement with the government, the company is expected to receive its overdue receivables of PKR 14.3bn in two tranches, where the first tranche equivalent to 40% of the payment i.e., PKR 5.7bn, is expected to come in few weeks.
- In addition to this, the company also highlighted that renewed agreement for overdue receivables does not include disputed savings relating to capacity revenue of PKR 816mn. For disputed savings, the government has cleared PKR 329mn while the rest of PKR 142mn have been written off by the company.
- Regarding its dividend policy, the management does not foresee a major bump in payouts owing to major maintenance and overdue receivables. To highlight, the company maintained a pay-out ratio at 20% during FY21 while the overdue receivables at end of FY21 amounted to PKR 18.9bn.
- Presenting its view on the CBTCM model, the company expects to benefit from the model due to its strategic location and efficiency.
- We maintain our 'BUY' recommendation on the stock. Our Jun-22 PT of PKR 41/share indicates an upside of 129% along with dividend yield of 8.2%.

### Key Data

PSX Ticker	NPL
Target Price (PKR)	41
Current Price (PKR)	18.21
Upside/ (Downside) (%)	125%
Dividend Yield (%)	8.2%
Total Return (%)	133%
12-month High (PKR)	30
12-month Low (PKR)	17
Outstanding Shares (mn)	354.09
Market Cap (PKR mn)	6,447
Year End	June

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 11%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 41/share. Our price target indicates an upside of 125% along with a dividend yield of 8.2%. Our investment case on NPL is based on (1) Expected one-off clearance of circular debt (2) PKR devaluation.

### Risks

Key downside risks to our investment thesis are: 1) Government not providing relief to IPPs from rising circular debt 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 (IPP) in Pakistan. The company builds, owns, operates, and maintains a fuel fired power station having gross capacity of approximately 200 MW 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	15,582	11,738	11,433	13,804	11,422	12,112
Cost of sales	10,584	5,391	7,989	10,531	8,112	8,555
<b>Gross Profit</b>	<b>4,998</b>	<b>6,348</b>	<b>3,443</b>	<b>3,273</b>	<b>3,310</b>	<b>3,558</b>
SG & A	274	337	302	301	313	326
<b>Operating Profit</b>	<b>4,715</b>	<b>6,013</b>	<b>3,020</b>	<b>3,130</b>	<b>3,189</b>	<b>3,466</b>
Other income	7	7	42	160	195	237
Other charges	16	5	163	2	2	3
Finance cost	946	1,143	339	396	499	526
<b>Profit before tax</b>	<b>3,770</b>	<b>4,871</b>	<b>2,681</b>	<b>2,734</b>	<b>2,690</b>	<b>2,940</b>
Taxation	-	-	-	-	-	-
<b>Profit after tax</b>	<b>3,770</b>	<b>4,871</b>	<b>2,681</b>	<b>2,734</b>	<b>2,690</b>	<b>2,940</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	10,006	9,392	8,827	8,998	9,227	9,515
Other LT assets	1	3	1	1	1	1
Non-Current Assets	10,007	9,395	8,828	8,999	9,228	9,517
Current assets	19,141	19,913	21,958	21,345	22,507	23,770
<b>Total Assets</b>	<b>29,147</b>	<b>29,308</b>	<b>30,786</b>	<b>30,345</b>	<b>31,735</b>	<b>33,287</b>
Non-Current liabilities	655	55	37	-	-	-
Current liabilities	9,326	5,569	4,739	5,495	5,611	5,817
<b>Total Liabilities</b>	<b>9,981</b>	<b>5,625</b>	<b>4,776</b>	<b>5,495</b>	<b>5,611</b>	<b>5,817</b>
Equity	19,167	23,683	26,010	24,850	26,124	27,470
<b>Total Equity &amp; liabilities</b>	<b>29,147</b>	<b>29,308</b>	<b>30,786</b>	<b>30,345</b>	<b>31,735</b>	<b>33,287</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	3,770	4,871	2,681	2,734	2,690	2,940
Non-cash Charges	826	700	726	682	643	607
<b>Operating Cash flows</b>	<b>1,584</b>	<b>4,800</b>	<b>1,742</b>	<b>3,635</b>	<b>2,177</b>	<b>2,321</b>
<b>FCFF</b>	<b>2,041</b>	<b>6,117</b>	<b>2,163</b>	<b>3,217</b>	<b>1,695</b>	<b>1,914</b>
Net borrowings	(211)	(4,636)	(1,072)	679	225	242
<b>FCFE</b>	<b>885</b>	<b>338</b>	<b>752</b>	<b>3,501</b>	<b>1,422</b>	<b>1,630</b>
Net change in cash	(120)	(16)	398	(394)	5	37
<b>Closing cash</b>	<b>21</b>	<b>5</b>	<b>403</b>	<b>8</b>	<b>14</b>	<b>51</b>

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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