PAKISTAN

Saif Power Limited

29 September 2014

SPL PA		Subscribe
Floor price	Rs	18.0
Cap Price	Rs	30.0
Dec 14 target	Rs	34.7
Upside/downside	%	15.7%
Valuation (DDM)	Rs	34.7
Power		
Market cap	Rs bn	11.6
Market cap	US$m	114

Transaction Summary

Total Offer	m	43.3
Book Building	m	36.2
IPO	m	12.1
Floor Price	Rs	18.0
Cap Price	Rs	30.0

Source: Prospectus, Foundation Research, Sep 2014

Analyst

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Efficient plant coming for listing

Subscribe with TP of PKR34.7/sh

The depth of domestic bourse is set to further increase after a second offering of a power company within a month. Saif Power Limited (SPL), a 225MW combined cycle plant, is being listed on local exchanges with an offer size of 43.3mn shares. The book building process for 36.2mn shares (or 75% of the size) is scheduled on September 30, 2014 (floor/cap price PKR18/30 per share), while the remaining 12.1mn shares will be issued to the general public at the price determined through the aforementioned process. With initially assessed TP of PKR34.7/sh, we recommend Subscribe for IPO that is offering CY14 dividend yield of 18%/10% at floor/cap price.

Risk to our assessment comes from 1) uncertain gas supply and 2) circular debt constraining liquidity.

Our premises for Subscribe call

Our premises for the subscribe call come from 1) entitlement of PKR2/share dividend for successful bidders, 2) claim of the most efficient plant in Pakistan's market (51.2% on Gas and 48.5% on HSD), 3) attractive dividend yield of 18%/10% on floor/cap price and 4) guaranteed US$ based return on equity (15%).

Present Offer

The present issue comprises 43.3mn ordinary shares, of which 36.2mn shares (75% of the issue) will be offered by way of the book building process at floor/cap prices of PKR18-30/share. The remaining 12.1mn shares (25% of the issue size) will be issued to the general public at the strike price determined through the book building process. In addition to this, 19.3mn shares (5% of paid-up capital) have been privately placed at the price of PKR18/share.

Furthermore, it has been indicated that the successful bidders will be entitled to PKR2/sh dividend that effectively reduces the floor/cap price to PKR16/28 per share.

Claimed as the most efficient plant

SPL claims to have one the most fuel efficient plants in the country. Fuel efficiency of the complex that includes 2 gas turbines from General Electric and 1 stream turbine from Siemens is determined by NEPRA to be 51.2% on gas and 48.5% on HSD. Furthermore, the plant has an operation and maintenance team from General Electric USA. Note that efficiency gains are normalized over the life of the project due to natural degradation and hence, we have gradually reduced the efficiency levels going forward.

Improved gas supply to provide upside

The gas unavailability remains the major risk to the company's operation, we believe. Forcing it to run on expensive HSD, the circular debt pile-up can force the company to reduce its run-rate and hence, affect its 1) capacity payments and 2) expected efficiency gains. Therefore, improved gas situation (for example early import of LNG) can provide room for valuation expansion.

Valuation

We have initially assessed SPL TP at PKR34.7/sh and have valued the company on Dividend Discount Model, a standard valuation method among IPPs which fully takes into account cash payouts over the remaining life of the project. We have used long term PKR/US devaluation of 3%, equity discount rate of 15% and cash payout of 85%. We estimate PKR based IRR of the project at 22% at the floor price which is 679-694bps higher than 10 and 20-year PIB, while at cap price it is at 13%.

Key Catalysts and Risks

Catalyst: (1) improved gas supply (early import of LNG), (2) power sector reform (3) maintenance of current efficiency over an extended period and (4) above expected PKR devaluation.

Risk to our assessment comes from 1) uncertain gas supply and 2) circular debt constraining liquidity, 3) deterioration of efficiency.

About the Company

Saif Power Limited is a combined cycle thermal power project, with a gross capacity of 225MW and net generation of 209MW. The power plant commenced commercial operation on 30^{th} April 2010. The company has Power Purchase Agreement (PPA) with National Transmission and Dispatch Company (NTDC) valid for 30 years (beginning COD). Furthermore, the plant is dual fired with gas as a primary fuel and HSD as a back-up.

The sponsors of the company are divesting 43.2mn ordinary shares (11% of the paid up capital) in order to list the company. The transaction will be completed in two phases. Book building process for 36.2mn shares (or 75% of the size) is scheduled on September 30, 2014 (floor/cap price PKR18/30 per share), while the remaining 12.1mn shares will be issued to general public at price determined through booking building.