Electricity

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Saif Power Limited - Subscribe

30th Sept, 2014

Fortune Securities Ltd.

Subscribe
Target Price PKR: 30.5/share

Saad Yousuf
Phone: +92-21-35309112
Saad.yousuf@fortunesecurities.com

Saif Power Ltd. Second IPP on offer: Subscribe!

Saif Power Ltd. (SPL) if offering 48.3mn shares through a book building process to be followed by an IPO. A total number of 36.2mn shares would be offered through book building and the remaining 12.07mn shares will be offered to the general public on the price determined through the aforementioned process. The offer price is at floor/cap price of PKR 18/30 per share. Note that this is the second IPP on offer in a month after Engro Powergen Qadirpur Ltd.

We have placed a June-15 target price of PKR 30.5/share on the stock. It also offers an attractive CY15E and CY16E dividend yield of 19.5%/11.7% and 20%/12% on floor and cap price of PKR 18/share and PKR 30/share respectively. Thus we recommend to subscribe for IPO.

The company operates a 225MW dual fuel combined cycle thermal power plant under the 2002 Power Policy and has a 30 year PPA with National Transmission Dispatch Company Limited (NTDC). The company has a GSA with SNGPL and an FSA with SHELL. The plant has an operations and maintenance contract with General Electric (GE). The company claims to have the most efficient plants in the country with efficiency levels of 51% on gas and 48% on HSD. Note that we have incorporated efficiency gains in our model to the tune of PKR 0.4/share which we have gradually reduced over the life of the project due to natural degradation factor.

The company reported EPS of PKR 3.16 during CY13, lower by 19% YoY mainly due to repair activities carried out on account of upgrading some of its gas turbines which lowered the generation level to 40%. Going forward we have incorporated O&M savings of PKR 160mn translating into per share impact of PKR 0.39 in CY15.

The plant operates on gas and HSD, the gas supply shortage has led to gas curtailment for the company which could force generation to be skewed towards expensive HSD, hence accumulation of circular debt may come up as a hurdle to 1) optimum generation 2) efficiency gains 3) payout capacity. On the flip side early import of LNG will lead to improvement in gas supply to the power sector and the plant would be able to operate at a high utilization factor and slower buildup of circular debt.

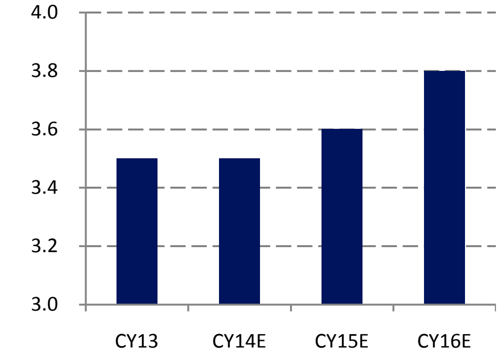
Subscribe with a target price of PKR 30.5/Share

For SPL, we have used DDM based methodology given the specified project's fixed life based on a stable dividend stream over the life of the plant. SPL's valuation appears attractive on relative basis on the back of CY15E and CY16E dividend yield of 19.5%/11.7% and 20%/12% on floor and cap price of PKR 18/share and PKR 30/share respectively and a USD denominated IRR of 15%. We expect the company to pay CY14E and CY15E DPS of PKR 3.5 and PKR 3.6 where we have assumed the ROE and ROEDC component of the tariff to be paid as dividends.

In the calculation of tariff indexation factors, we have assumed long-term US CPI inflation of 2% and an annual PKR devaluation of 5% against the green back.

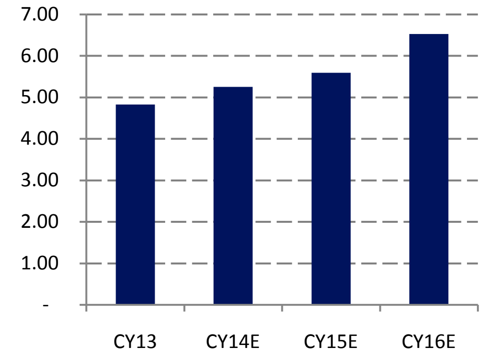
Risk to our thesis includes 1) adverse movement in indexation components 2) uncertainty on gas supply 3) deterioration of efficiency levels.

DPS Estimates



Source: Company Estimates, Fortune Research

EPS Estimates



Source: Company Estimates, Fortune Research