Wednesday October 30, 2014

Saif Power Limited : IPO

Saif Power Limited is offering 48.3mn via book building process followed by an IPO. Out of this total offering, 75% of it was offered to institutional investors which was oversubscribed by almost three times resulting in profuse outcome as it attracted bids of 115mn shares against the target of 36.2mn shares. Meanwhile the rest of the chunk comprising of 12.07mn shares will be offered to the general public at a price of PKR 30/sh. Company's board of directors also announced 20% dividend to its new shareholders in 1HCY14 results.

SPL is selling electricity to NTDCL through a power purchase agreement dated 30th April 2007 (the PPA) thirty year tenor. The company operates on one steam and two gas turbines of Combined Cycle of 209MW, under the government of Pakistan's power policy 2002 on a build, own and operate basis in the Sahiwal District of Punjab.

Core Competency: Generation levels will not be affected by gas shortage
Under the Economic Coordination Council Policy of June 2011, the company can be operated entirely on HSD in case of gas shortage as currently 51% of it is operated on gas while 49% on HSD. On the contrary, such pricey fuel will not alter company earnings as per NEPRA tariff policy the additional fuel cost will be passed on to the consumers.

Financial Outlook
Company posted net sales of PKR 3,921mn as well as net margin surged by 13% in 1QCY14 thus we expect improvement in company's performance as well as its current ratio improved to 1.05 in 1QCY14. Company has gradually paid off its long term debts over the year thus reaching at PKR 9,249mn of long term debt in 1QCY14 leading to a chain effect on the finance cost which has drastically reduced to PKR 440mn for the period under review.

Risk
Deterioration in efficiency levels and production capacity levels of the company can have negative impact on company's performance resulting in negative image being portrayed to future investors. Likewise, the company possess an unavoidable risk from circular debt which may affect its operational efficiency in near future as the outstanding capacity payment from NTDCL stands at PKR 717mn against the total payment of PKR 9,124mn. Gas shortage is also one of the grave risk for the company that shouldn't be ignored as 51% of its operations are based on gas.

Financial Ratios

	FY10	FY11	FY12	FY13	1Q14
Gross Margin	35%	28%	22%	26%	**24%**
EBITDA Margin	41%	31%	25%	31%	**28%**
Net Margin	8%	6%	9%	10%	**13%**
Adjusted EPS	1.32	2.07	3.76	3.17	**1.34**
Current Ratio	0.83	0.98	1.11	0.99	**1.05**
Adjusted BVPS	10.99	12.96	16.73	16.39	**17.73**
LTD to Equity Ratio	3.09	2.31	1.63	1.51	**1.35**
Return on Asset	2%	3%	6%	5%	**2%**
Return on Equity	11%	16%	23%	19%	**8%**

Source: SPL prospectus

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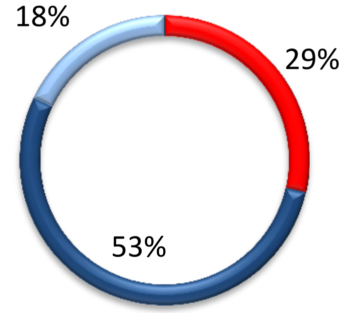
Floor Price: PKR 18

Strike Price: PKR 30

Share Offerers



Relative Multiples

	P/E (x)	P/B (x)
Power Sector Multiples	7	1.48
Implied Price based on Power Sector Multiples	22.08	24.2
KSE 100 Index Multiple (Aug 20, 2014)	10.71	1.8
Implied Price based on KSE 100 Multiple	33.76	29.48
SPL to Offer Price Discount to Power Sector	18.48%	25.61%
SPL to Offer Price Discount to KSE	46.69%	38.95%

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