

NPL: Payouts to increase on strong cashflow generation

Nishat Power Limited

PSX: NPL | Bloomberg: NPL PA | Reuters: NISH.PSX

- DDM-based Jun-25 PT of PKR 49/share, with a potential upside of 40.6%:** We maintain a 'buy' rating for Nishat Power Limited, with a DDM-based price target (PT) of PKR 49. The stock offers an upside potential of 40.6% with a dividend yield of 16.5%, translating into a total stock return of 57.1%. Our confidence in NPL is driven by expected improvements in overdue receivables and better-than-peer utilization levels amidst a broader slowdown in RFO-based generation.
- Increased conviction on payouts due to stronger balance sheet:** NPL has substantially improved its dividend payout ratio from 14% in FY19 to 61% in FY23. NPL's recovery rate exceeded 100% during 9MFY24, as evident from a 1% decline in trade debts. As a result, NPL's net cash balance (cash + ST investments – ST borrowing) has increased significantly from PKR 13/share (Jun-23) to PKR 16/share (Mar-24).
- FY24 EPS expected at PKR14.9; final DPS of PKR4.5:** We expect NPL to clock in FY24 EPS at PKR 14.9, up 29.1% YoY with a final DPS of PKR 4.5, taking a full-year DPS to PKR9.0. Although we have conservatively assumed the payout ratio at 60%, it may further increase during FY24 and beyond.
- Early PPA termination is unlikely:** NPL's capacity payments comprise a mere 0.56% of the total capacity payments. As such there is a minimal likelihood of a value negative early termination of the PPA (which constitute a sovereign default) or a buyout by the Government of Pakistan (GoP). If the government pursues a buyout, we expect NPL to be valued at PKR 79.6/share in line with the compensation structure outlined under Schedule 2 of the Implementation Agreement (IA).

Key Ratios	FY22	FY23	FY24E	FY25F	FY26F	FY27F
EPS	9.4	11.6	14.9	9.8	9.0	9.3
EPS YoY	23.9%	23.1%	29.1%	-34.5%	-7.5%	3.3%
DPS	4.5	7.0	9.0	5.8	5.5	5.5
BVPS	79.3	84.4	89.3	93.3	96.9	100.7
PER	3.7	3.0	2.3	3.6	3.9	3.7
Div. Yield	12.9%	20.1%	25.8%	16.5%	15.8%	15.8%
P/B	0.4	0.4	0.4	0.4	0.4	0.3
ROE	11.8%	13.7%	16.7%	10.5%	9.3%	9.3%

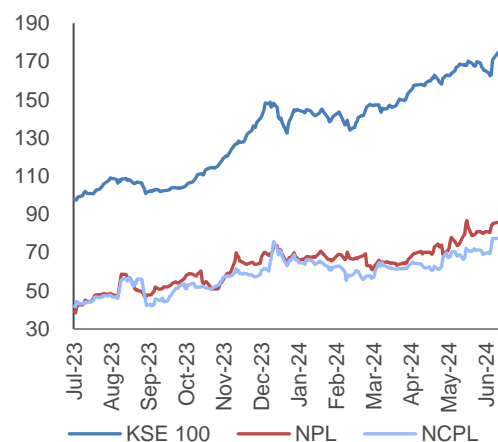
Source: PSX, Akseer Research

Key Data

PSX Ticker	NPL
Target Price (PKR)	49
Current Price (PKR)	35
Upside/(Downside) (%)	+41%
Dividend Yield (%)	16.5%
Total Return (%)	57%
12-month High (PKR)	21
12-month Low (PKR)	43
Outstanding Shares (mn)	354.09
Market Cap (PKR mn)	12,386

Source: PSX, Akseer Research

Price Performance



Source: Company Accounts, Akseer Research

DDM-based Jun-25 PT of PKR 49/share, with a potential upside of 40.6%

Our DDM-based Jun-25 PT of PKR 49/share for NPL offers a potential upside of 40.6% from its last closing price, along with a dividend yield of 16.5%, translating into a total stock return of 57.1%. NPL currently offers an attractive PKR IRR of 27.7%. Our PT is based on an equity discount rate of 18.8%, which comprises a risk-free rate of 14%, an equity-risk premium of 6%, and a beta of 0.8. We remain conservative in our projection and assume receivables to fall from PKR 35.75/share in Mar-24 to PKR 26.95/share in Mar-35, driven mainly by an expected sharp decline in plant utilization. Additionally, our DPS projections are conservative and entail a 60% payout ratio over the remaining life of the project. This would result in an accumulation of PKR 116/share of cash over the remaining life of the project, which we have assumed as a terminal dividend in FY35 for valuation purposes. Better cash collection and higher-than-expected dividends form key upsides to our investment case.

Financial Estimates	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Sales	3,469	4,869	40%	17,159	17,090	0%
Cost of Sales	2,509	3,439	37%	13,892	13,447	-3%
Gross Profit	960	1,430	49%	3,267	3,643	12%
Admin expenses	99	129	31%	280	345	23%
Other income	49	336	588%	100	718	621%
Other expenses	55	-	-100%	128	-	-100%
EBIT	855	1,636	91%	2,959	4,015	36%
Finance cost	23	11	-53%	83	21	-75%
Profit after tax	832	1,542	85%	2,875	3,858	34%
EPS	2.3	4.4	-	8.1	10.9	-
DPS	-	2.00	-	4.00	4.50	-
Overdue Receivables (PKR bn)	12.6	12.7	1%	12.6	12.7	1%
Cash & Cash Equivalents (PKR/sh)	5.5	13.5	143%	5.5	13.5	143%

Source: Company Accounts, Akseer Research

Increased conviction on payouts due to stronger balance sheet

Our confidence in NPL is driven by expected improvements in overdue receivables and better-than-peer utilization levels amidst a broader slowdown in RFO-based generation. Despite the worsening of energy-chain cashflows in the last few years, NPL has substantially improved its dividend payouts, as evident from an increase in its payout ratio from 14% in FY19 to 61% in FY23. NPL's recovery rate exceeded 100% during 9MFY24, as evident from a 1% decline in trade debts. As a result, NPL's net cash balance (cash + ST investments – ST borrowing) has risen significantly from PKR 13/share (Jun-23) to PKR 16/share (Mar-24), which may enable the company to further increase its payout ratio in FY24. NPL has outperformed the KSE-100 by 44% in FY24 and by 4% in CY24 to date.

Strong Earnings performance during 9MFY24

NPL experienced a minor decline of 0.4% in revenue for 9MFY24, due to lower plant utilization. Amid flattish Capacity Payments (NPL's equity component of capacity payments have an indexation cap at PKR 168/USD), 12% YoY growth in gross profit was mainly driven by an increase in penal interest income on overdue receivables, and a 6.2% YoY decline in O&M cost. Despite a rise in short-term borrowings, finance costs fell by 76% compared to 9MFY23. Other income rose 6.2x due to a substantial increase in cash balances. This resulted in a 36% YoY increase in operating profit and a 34% YoY rise in net profit for 9MFY24.

FY24 Results Expectation

We expect NPL to post an EPS of PKR 14.9 for FY24, up 29% YoY, driven by a higher income on cash balances, an increased penal markup income on overdue receivables, and a lower O&M cost. We expect NPL to maintain a payout ratio of 60% for FY24 and announce a final dividend of PKR 4.5, taking a full-year DPS to PKR 9.0. Our estimates indicate 4QFY24 EPS of PKR 4.4, and 29% of full-year EPS, due to a seasonal uptick in power generation during summer, resulting in higher contribution from fuel savings in the bottom line.

Capacity utilization to remain low as NPL is mainly used for peak load demand

NPL ranks 34th on the Economic Merit Order (Jul-24 CPP+EPP = PKR 31.75/kWh). Plants that rank higher than NPL on the merit list have a dependable generation capacity of 16,102 MW, implying that the company is mainly utilized to cater to peak-load demand. We expect NPL's capacity utilization to fall from 31% in FY23 to 27% in FY24 and further decline to 16%-18% during FY25-28.

Early PPA termination is unlikely

Total capacity payments to IPPs are anticipated to burgeon up to a staggering PKR 2.1 trillion (FY25) and there have recently been increasing talks of early termination of Power Purchase Agreements of the IPPs or a potential buy-out of IPPs by the GoP. Under the terms of the IAs signed between GoP and IPPs, early termination can be enacted in response to the default by the IPP, the GoP, or a political force majeure event. Considering NPL's rank in the merit order, and the fact that NPL's capacity payments comprise a mere 0.56% of the total capacity payments, there is a minimal likelihood of value negative early termination of the PPA (which constitute a sovereign default) or a buyout by the GoP. If the GoP pursues a buy-out, we expect NPL to be valued at PKR 79.6/share in line with the compensation structure outlined under Schedule 2 of the IA.

Income Statement (PKR mn)	FY22	FY23	FY24E	FY25F	FY26F	FY27F
Net sales	23,684	23,069	23,016	15,682	14,402	13,774
Cost of sales	19,809	18,496	18,687	11,653	10,827	10,296
Gross profit	3,875	4,573	4,329	4,029	3,575	3,478
SG & A	334	401	476	536	558	580
Operating profit	3,559	4,188	5,743	4,141	3,757	3,632
Other income	91	178	1,023	648	740	734
Other charges	73	163	-	-	-	-
Finance cost	236	88	262	553	409	179
Profit before tax	3,323	4,099	5,481	3,589	3,348	3,453
Taxation	-	8	198	130	148	147
Profit after tax	3,323	4,091	5,283	3,459	3,200	3,306

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)	FY22	FY23	FY24E	FY25F	FY26F	FY27F
PPE	8,504	8,573	8,258	7,856	7,473	7,110
Other LT assets	1	8	8	8	8	8
Non-current assets	8,505	8,581	8,266	7,864	7,481	7,118
Current assets	24,865	22,801	29,888	30,903	32,136	30,046
Total assets	33,370	31,382	38,154	38,767	39,617	37,164
Non-current liabilities	-	-	-	-	-	-
Current liabilities	5,277	1,499	6,529	5,719	5,316	1,504
Total liabilities	5,277	1,499	6,529	5,719	5,316	1,504
Equity	28,094	29,883	31,625	33,048	34,301	35,660
Total equity & liabilities	33,370	31,382	38,154	38,767	39,617	37,164

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)	FY22	FY23	FY24E	FY25F	FY26F	FY27F
Net income	3,323	4,091	5,283	3,459	3,200	3,306
Non-cash charges	770	753	867	629	599	570
Operating cash flows	7,024	5,429	3,413	5,430	4,964	4,707
FCFF	807	11,169	-4,281	5,381	4,791	4,265
Net borrowings	772	-4,525	5,466	-379	-318	-3,689
FCFE	1,344	6,555	923	4,449	4,064	397
Net change in cash	104	4,254	-2,618	2,413	2,117	-1,550
Closing cash	507	4,761	2,143	4,556	6,673	5,122

Source: Company Accounts, Akseer Research

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