



VALLIBEL POWER ERATHNA PLC

HOLD

VPEL.N0000

Current Price: LKR 9.4

Fair Value: LKR 9.8

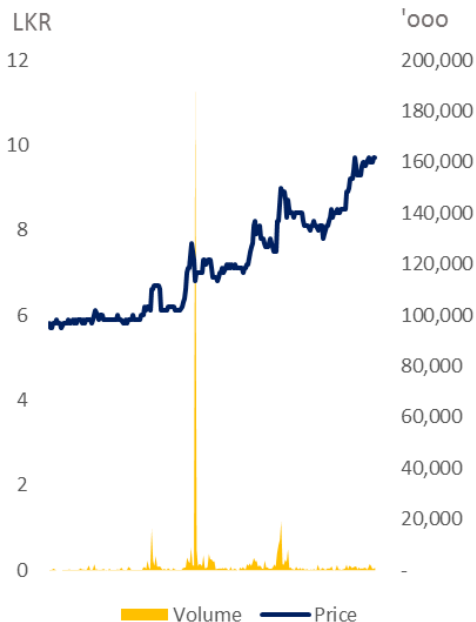
JUN 2015

KEY DATA			
Share Price (LKR)	9.40		
52w High/Low (LKR)	9.70 / 5.70		
Average Daily Volume (Shares)	1,998,139		
Average Daily Turnover (LKR)	14,473,144		
Issued Share Capital (Shares mn)	747.1		
Market Capitalisation (LKR mn)	7,023		
Price Performance (%)	1 mth	3 mths	12mths
VPEL	8%	14%	68%
ASPI	2%	-1%	16%
Major Shareholders as at 31st Mar 2015			
Vallibel Power Limited	40.08%		
Mr. K.D.D.Perera	19.38%		
Seylan Bank PLC / Dr. T. Senthilverl	10.32%		
Dr. T. Senthilverl	6.75%		
Mr. K.D.A.Perera	2.51%		
Estimated Free Float	35.39%		

“Hold on to Power”

P/E 31 March	FY13	FY14	FY15	FY16E	FY17E
Revenue (LKR mn)	693	1,065	1,318	1,350	1,051
Net Profit (LKR Mn)	289	633	905	911	664
EPS (LKR)	0.39	0.85	1.21	1.22	0.89
YoY % Growth		119%	43%	1%	-27%
Valuations					
PER (X)	24.3	11.1	7.8	7.7	10.6
PBV (X)	4.0	3.8	3.7	3.5	3.3
Dividend Yield (%)	2.7%	6.4%	10.6%	10.7%	7.8%
NAVPS	2.4	2.5	2.5	2.7	2.9
DPS (LKR)	0.25	0.60	1.00	1.01	0.73
Payout Ratio	65%	71%	83%	83%	83%

Figure 1: VPEL Price Volume Graph



Source: CSE

Exceptional Earnings in 4QFY15: With the exceptional performance recorded in 4QFY15 fueled by the improved revenue streams and plunging finance cost, VPEL's FY15 earnings were boosted by 44% YoY to LKR 905mn from previous year's LKR 633mn. GP margins improved to 89% in FY15 from 87% a year ago while EBIT improved by 49% to LKR 1,068mn (LKR 719mn in FY14). (Refer 1.0).

Vallibel Power earnings are expected to record a CAGR of c. 21% FY14-16E amidst a robust earnings growth of 13% for FY16E backed by increased electricity tariff and plunging finance cost resulting from the lower interest rate regime prevailing in the economy. FC Research expects the VPEL target price of LKR 9.8 providing total return of 15% including dividends over a 1 year period. **HOLD.**

- Improved Margins:** We expect the GP margin to remain at existing level of c. 89% in FY16E amidst c. 2% YoY marginal growth in the topline with a CAGR of c. 13% FY14-16E to reach c. LKR 1,350mn. Tariff was increased amidst improved avoidable cost affecting the topline favourably. However, the recent plummet experienced in the global fuel prices is likely to have an adverse impact on the VPEL's earnings in FY17E.
- Lower Finance Cost:** Amidst the lower interest rate regime prevailing in the economy finance cost is expected to reduce further to c. LKR 68mn in FY16E (LKR 87mn in FY15). Further, repayment of LKR 187mn of borrowings in FY15 also contributed favourably towards the reduction in finance cost.
- Fair Value of LKR 9.8:** We believe VPEL earnings are likely to grow by a marginal c.1% in FY16E to LKR 970mn. Our fair value for VPEL is at LKR 9.8 (average of discounted cash flow based value of LKR 8.7 and PER based price of LKR 11.0) resulting in a capital gain of 4% and dividend yield of 11%.

Disclaimer on Shareholding:

First Capital does not hold positions in VPEL nor does First Capital envisage taking positions in this share for the succeeding 7 trading days to this report.

1.0 Earnings Update

P/E 31 March	4QFY15	4QFY14	YoY	3QFY15	QoQ
Revenue	1,642	1,356	21%	1,592	3%
Gross Profit	94	71	32%	355	-73%
EBIT	70	27	156%	324	-78%
Finance Cost	15	33	-53%	17	-10%
Net Profit	11	3	205%	297	-96%

Earnings Soared by 205%: VPEL recorded a profit of LKR 10.7mn (+205% YoY) in 4QFY15 in the back of higher tariff rates coupled with the favourable impact of the lower interest rate regime. FY15 full year earnings grew by 44% to LKR 960mn opposed to LKR 667mn recorded in FY14. Applicable tariff rates for the period under review saw a YoY increase of 28% and 29% to LKR 14.87 (Wet Season) and LKR 15.9 (Dry Season) respectively.

Boost in EBIT: VPEL recorded a 156% YoY growth in EBIT reaching LKR 70mn in 4QFY15 against LKR 27mn recorded in 4QFY14. For the year EBIT grew by 48% to LKR 1,068mn (LKR 719mn in FY14). Increased tariff rates in the back of improved avoidable cost drove the increase in topline. However, the falling prices of fuel is likely to affect the FY17E earnings adversely.

Plunging Finance Cost amidst Lower Rates and Lower Borrowing: With the repayment of LKR 47mn borrowings during the 4QFY15 (LKR 187mn in FY15) resulted in a lower finance cost for the period under review, recording a 10% QoQ drop to LKR 15mn (LKR 33mn in 4QFY14) while YoY fell by 53% in the back of the low interest rate regime that prevailed in the economy.

2.0 Total return of 15% for FY16E

P/E 31 March	FY13	FY14	FY15	FY16E	FY17E
Revenue (LKR mn)	693	1,065	1,318	1,350	1,051
Net Profit (LKR Mn)	289	633	905	911	664
EPS (LKR)	0.39	0.85	1.21	1.22	0.89
YoY % Growth		119%	43%	1%	-27%
Valuations					
PER (X)	24.3	11.1	7.8	7.7	10.6
PBV (X)	4.0	3.8	3.7	3.5	3.3
Dividend Yield (%)	2.7%	6.4%	10.6%	10.7%	7.8%
NAVPS	2.4	2.5	2.5	2.7	2.9
DPS (LKR)	0.25	0.60	1.00	1.01	0.73
Payout Ratio	65%	71%	83%	83%	83%

VPEL Valued at LKR 9.8: FC Research expects the price of VPEL to reach LKR 9.8 in FY16E earnings. The target price provides a return of 15% including dividends on a 1 year time horizon. The target price of LKR 9.8 is based on the average price of LKR 8.7 via DCF valuations and LKR 11.0 via PER based valuations.

2.1 Discounted Cash flow Valuation

COE (K_e)	
R_f	6%
R_m	14%
β	1.50
$K_e = R_f + \beta (R_m - R_f)$	18%

Valuations	
NPV	7,032
Debt (-)	-570
Cash (+)	5
Total Value of Equity	6,467
No. of Shares	747
Value of Equity per Share	8.7

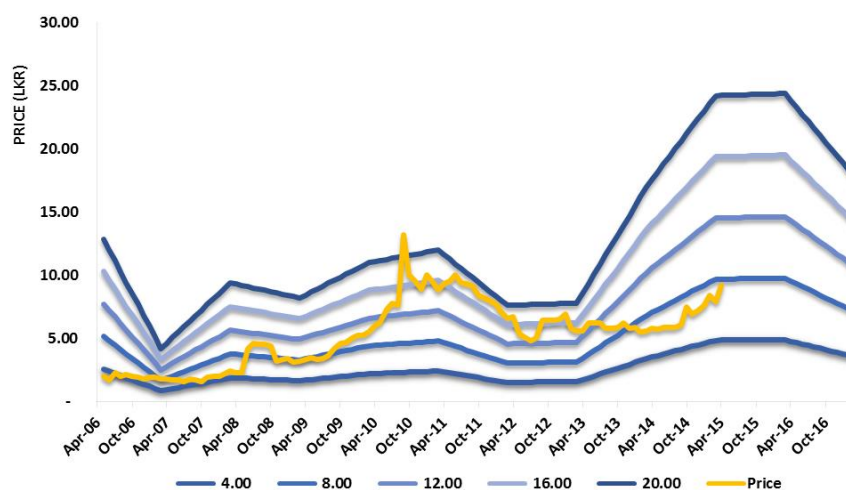
WACC	
K_e	18%
K_d	8%
D/E	25/75
Terminal Growth (%)	3%
WACC	16%

		WACC				
		14%	15%	16%	17%	18%
Terminal Growth (%)	1%	7.7	7.6	7.6	7.5	7.4
	2%	8.2	8.1	8.1	8.0	7.9
	3%	8.8	8.7	8.7	8.6	8.5
	4%	9.5	9.4	9.4	9.3	9.2
	5%	10.3	10.3	10.2	10.1	10.0

2.2 Average PER of 9.0 times

PER based Valuation	
FY16E Earnings (LKR 'Mn)	911
No. of Shares ('Mn)	747
FY16E EPS	1.22
Expected PER	9.0x
Price at 9.0x FY16E Earnings	11.0

Figure 2: PE Band Graph



Source: FC Research Estimates

Being consistent with the higher PERs VPEL has been trading in the past we expect VPEL to trade at a PER of 9.0x on FY16E earnings.

2.3 Fair Value of LKR 9.8 and total return of 15%

Expected VPEL price for FY16E	
DCF Valuation based target price	8.7
PER based target price	11.0
Average Target Price	9.8

Return	
Target Price	9.8
Current Price	9.4
Capital Gain (LKR)	0.4
Dividend FY16 (LKR)	1.0
Capital Gain %	4%
Dividend Yield %	11%
Total Return %	15%



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