



LVL ENERGY FUND PLC [LVEF.N0000]

MAINTAIN BUY

“RENEWABLE ENERGY TO REFINE”

Fair Value: FY22E - LKR 13.0 [+24%]

FY23E - LKR 19.0 [+81%]

Total Return with DPS: FY22E - 24% [AER 123%]

FY22E - 87% [AER 64%]

LVEF earnings declined by 13.5%YoY to LKR 220.1Mn in 2QFY22 primarily attributable to the surge in tax expenses by 792.5% to LKR 95.6Mn amidst inclusion of dividend tax. However, LVEF PBT grew by 18.8%YoY on the back of the robust revenue increase of 24.3%YoY, attributable to the strong electricity generation from the hydropower plants, resumption of electricity generation from wind plants and recovery of demand from thermal power plants in Bangladesh. Considering the anticipated positive future outlook of LVEF supported by the accumulated capacity over time which will generate sufficient earnings in the upcoming years, we maintain the earnings forecast of LVEF for FY22E to LKR 927.4Mn (+46.5%YoY) and FY23E at LKR 1.4Bn (+47.9%YoY). Considering the multiple positive catalysts for LVEF, we maintain our fair value target for FY22E and FY23E at LKR 13.0 and LKR 19.0, respectively. **MAINTAIN BUY**

In LKR Mn	2QFY21	2QFY22	YoY	6MFY21	6MFY22	YoY
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Earnings (LKR 'Mn)

Revenue	127	158	+24%	187	258	+38%
Profit from Operating Activities	86	114	+33%	115	180	+57%
PBT	291	345	+19%	504	573	+14%
Net Profit	255	220	-14%	459	422	-8%

Balance Sheet Estimate

Shareholders' Equity	4,664	5,268	+13%	4,664	5,268	+13%
Borrowings	2,740	3,444	+26%	2,740	3,444	+26%
NAVPS	8	9	+13%	8	9	+13%

Hydropower plants lead revenue growth

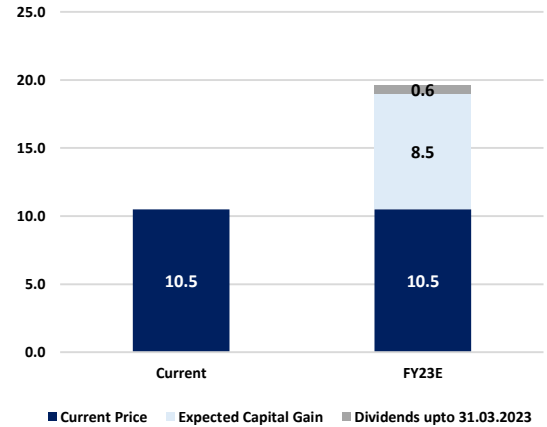
LVEF revenue improved by 24.3%YoY to LKR 157.5Mn heavily supported by hydropower segment amidst the favourable weather conditions that prevailed during the quarter. Champion power plant recorded the highest growth in revenue by 26.1%YoY while the plant factor (Pf) improved to 43.0% during the quarter followed by, Theberton which saw an improvement in revenue by 12.6%YoY with the improved Pf of 63.0%. Moreover, the new 1MW Solar plant in Mathugama commissioned on 22nd Jan 2021 has been operating successfully contributing to the revenue growth.

Wind Power resumes generation while demand for Thermal Power recovers

LVEF share of associate profits for 2QFY22 saw a marginal improvement of 6.0%YoY, but a significant improvement from the previous quarter (1QFY22) which recorded a dip of 13.2%YoY. LVEF's 2 wind power plants, Pawan Danavi and Nala Danavi were unable to supply power for over a year from 25th Jul 2020 onwards due to failure of a transformer at the Norochcholai grid substation. However, during 2QFY22 (from 23rd Aug 2021) the two wind power plants connected back to the grid after the substation was fully rectified by the CEB. Those plants have functioned at their maximum capacity from Sep 2021 onwards with an improved plant factor (Pf) of 29% each, while higher profit contribution was generated from Pawan Danavi which recorded a profit of LKR 4.9Mn. The Thermal Power plants in Bangladesh witnessed an increased demand for electricity generation compared to the previous quarters. Feni, the largest thermal power plant with a capacity of 114MW was operating at a lower capacity due to the lower demand from Bangladesh Power Development Board (BPPD). However, demand gradually picked up from the closure of rental power plants (local) from 2QFY22, opening the door for Feni to operate at its maximum capacity. The management expects that Feni would contribute the highest profit share to the LVEF profitability from 3QFY22E onwards.

EV is estimated at LKR 13.0 for FY22E and LKR 19.0 for FY23E - MAINTAIN BUY

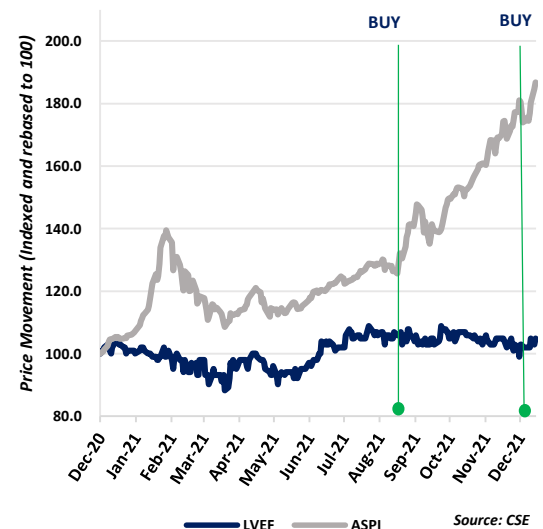
The management is confident that they will commission 5MW solar power plants in Kandy and Kurunegala district and will commence 10MW hydropower plant in Nepal by 4QFY22E. Considering the anticipated positive future outlook of LVEF supported by the accumulated capacity over time which will generate sufficient earnings in the upcoming years, we maintain our fair value target for FY22E and FY23E at LKR 13.0 and LKR 19.0, respectively. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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Price movement of LVEF vs ASPI (Indexed and rebased to 100)



Minimum Return for BUY:

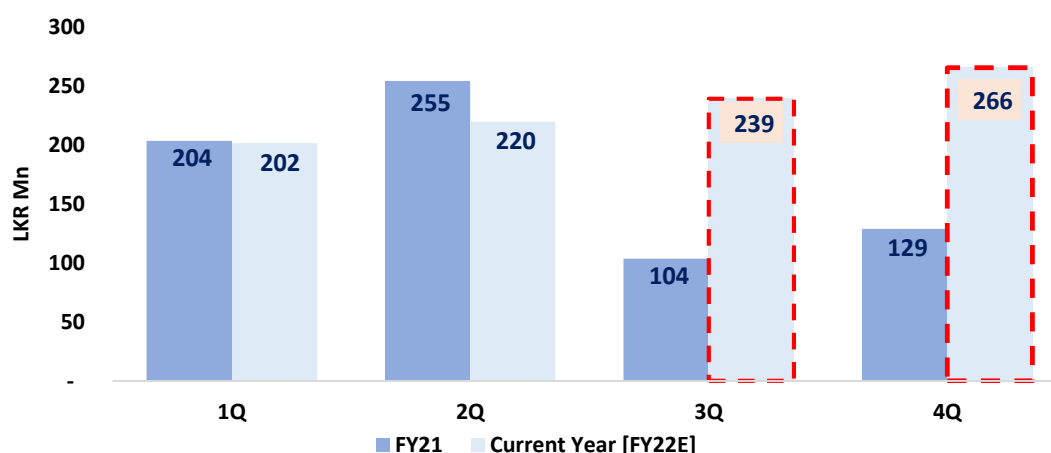
Buy Below FY22E - [AER of 17.0% with DPS]: LKR 12.0
LVEF categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of LVEF during the five trading days prior to the issuance of this document.

Source: CSE

Quarterly Earnings



Estimate Revision

In LKR Mn	FY22E-O	FY22E-R	% Change	FY23E-O	FY23E-R	% Change
Earnings Estimate						
Revenue	365	404	+11%	428	490	+14%
EBIT	215	253	+18%	252	305	+21%
Profit Before Tax	1,162	1,147	-1%	1,690	1,696	+0%
Net Profit	929	927	+0%	1,352	1,371	+1%
Adjusted EPS (LKR)	1.6	1.6		2.3	2.4	
YoY Growth (%)	34%	46%		45%	48%	
Balance Sheet Estimate						
Shareholders' Equity	5,583	5,900	+6%	6,259	6,997	+12%
Borrowings	2,510	2,808	+12%	2,008	2,275	+13%
Adjusted NAVPS	9.59	10.13		10.75	12.02	
Ratio Estimate						
ROE (%)	17%	13%		22%	16%	
PER (x)	6.8	6.6		4.7	4.5	
PBV (x)	1.1	1.0		1.0	0.9	

Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	349	430	345	350	404	490	515
EBIT	220	275	217	212	253	305	316
Profit Before Tax	498	643	487	738	1,147	1,696	1,872
Net Profit	322	399	516	375	927	1,371	1,514
Adjusted EPS (LKR)	0.6	0.7	0.9	0.6	1.6	2.4	2.6
YoY Growth (%)	-2%	29%	-27%	69%	46%	48%	10%
Valuations							
PER (x)	19.0	15.3	11.8	16.3	6.6	4.5	4.0
PBV (x)	1.8	1.5	1.4	1.2	1.0	0.9	0.7
DY (%)	6.1%	6.2%	3.3%	3.3%	5.3%	7.8%	8.7%
NAVPS	5.9	6.9	7.5	8.7	10.1	12.0	14.1
DPS (LKR)	0.6	0.7	0.4	0.4	0.6	0.8	0.9
Dividend Payout	116%	95%	39%	54%	35%	35%	35%



Valuation Summary

Expected LVEF Price	FY22E	FY23E
PER Valuation based target price	12.7	18.8
DCF Valuation based target price	14.9	19.7
Average Target Price	13.8	19.2
Target Price after Rounding off	13.0	19.0

Return	FY22E	FY23E
Target Price	13.0	19.0
Current Price	10.5	10.5
Capital Gain (LKR)	2.5	8.5
Dividend upto 31 Mar (LKR)	0.0	0.6
Capital Gain %	24%	81%
Dividend Yield %	0%	6%
Total Return %	24%	87%
Annualized Return %	123%	64%

Discounted Cash flow Valuation

DCF based Valuation	FY22E	FY23E
Enterprise Value	11,316	12,858
Debt (-)	(2,808)	(2,275)
Cash (+)	167	859
Total Value of Equity	8,675	11,442
No. of Shares (Mn)	582	582
Target Price	14.9	19.7

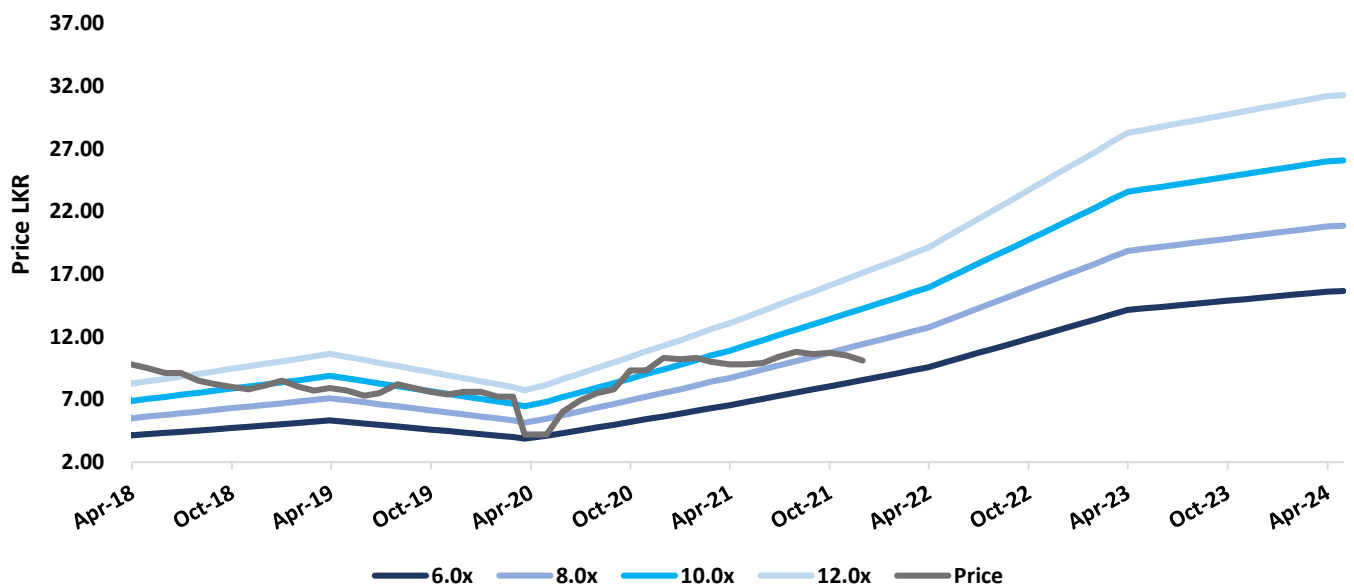
COE	FY22E	FY23E
Rf	9%	10%
Rm	19%	19%
Growth %	3%	3%
β	1.2	1.2
$Ke = Rf + \beta(Rm - Rf)$	21%	21%

PER Valuation

PER based Valuation	FY22E	FY23E
Earnings (LKR 'Mn)	927	1,371
No. of Shares ('Mn)	582	582
EPS	1.6	2.4
Expected Average PER	8.0x	8.0x
Price at 8x Earnings	12.7	18.8

WACC	FY22E	FY23E
Ke	21%	21%
Kd	9%	9%
D/E Assumption	30/70	30/70
Terminal Growth (%)	3%	3%
WACC	17%	17%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E 31 March								
Investment income	0	1	1	1	0	0	1	1
Interest income	12	22	73	30	13	22	22	25
Subsidiary company income	224	326	355	315	337	381	467	489
Revenue	237	349	430	345	350	404	490	515
Other Income	0	0	0	0	4	8	1	1
Total Income	237	349	430	345	354	412	490	515
Administrative expenses	-7	-7	-8	-9	-8	-10	-12	-12
Sales and establishment expenses	-0	-0	-0	-0	-0	-0	-0	-0
Other operating expenses	-10	-10	-18	-16	-17	-19	-19	-24
Direct expenses - subsidiaries	-89	-111	-128	-104	-117	-130	-154	-161
Results from Operating Activities	131	220	275	217	212	253	305	316
Finance Expenses	-154	-191	-140	-306	-250	-262	-253	-205
Share of profit of equity accounted investees, net of tax	423	468	508	576	775	1,156	1,644	1,761
Profit Before Taxation	401	498	643	487	738	1,147	1,696	1,872
Income Tax Expense	-45	-58	-87	-68	-49	-161	-237	-262
Profit for the Year	356	439	556	419	689	987	1,459	1,610
Non-Controlling Interest	34	40	40	44	55	59	88	97
Profit Attributable to Equity Holders	431	399	516	375	633	927	1,371	1,514
EPS	0.9	0.7	0.9	0.6	1.1	1.6	2.4	2.6

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E 31 March								
Non-Current Assets								
Property, Plant and Equipment	1,049	1,017	975	942	1,143	1,232	1,167	1,101
Right-to-use land	0	0	4	3	3	3	3	3
Investment in equity accounted investees	2,598	2,844	3,349	5,683	6,539	7,446	7,446	7,446
Intangible assets	64	63	56	55	71	70	69	67
Total Non-Current Assets	3,711	3,924	4,385	6,684	7,756	8,751	8,684	8,617
Current Assets								
Loans and receivables	10	35	65	130	135	149	164	180
Amounts due from related parties	0	0	0	69	1	1	1	1
Other receivables	156	44	85	155	73	84	97	111
Income tax receivables	2	2	5	6	6	6	6	6
Cash and Cash Equivalents	83	944	787	321	391	167	859	1,771
Total Current Assets	251	1,027	943	681	607	407	1,126	2,069
Total Assets	3,962	4,951	5,327	7,365	8,363	9,157	9,810	10,686
EQUITY AND LIABILITIES								
Equity								
Stated Capital	1,706	2,906	2,906	2,906	2,906	2,906	2,906	2,906
Revaluation reserve	8	8	9	9	9	9	9	9
Translation reserve	82	56	269	470	723	723	723	723
Retained Earnings	472	480	814	998	1,427	2,262	3,359	4,570
Total equity attributable to equity holders	2,269	3,451	3,999	4,383	5,065	5,900	6,997	8,208
Non controlling interest	167	159	164	173	208	267	354	451
Total Equity	2,436	3,610	4,163	4,556	5,273	6,167	7,351	8,659
Non-Current Liabilities								
Interest bearing borrowings	314	362	468	2,325	1,730	2,517	1,994	1,615
Cumulative redeemable preference shares	490	415	250	80	75	75	75	75
Deferred Tax Liabilities	38	42	48	45	42	40	38	36
Total Non-Current Liabilities	843	819	765	2,450	1,847	2,632	2,107	1,726
Current Liabilities								
Interest bearing borrowings	402	199	295	264	1,181	291	281	227
Cumulative redeemable preference shares	273	75	75	60	20	20	20	20
Amounts Due to Related Parties	0	0	0	0	4	4	4	4
Other payables	6	243	16	25	18	24	28	30
Income Tax Payable	2	4	12	10	19	19	19	19
Total Current Liabilities	684	522	399	359	1,243	358	352	301
Total Liabilities	1,526	1,341	1,164	2,809	3,090	2,991	2,459	2,027
Total Equity and Liabilities	3,962	4,951	5,327	7,365	8,363	9,157	9,810	10,686
NAVPS	4.9	5.9	6.9	7.5	8.7	10.1	12.0	14.1



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