



WINDFORCE PLC [WIND.N0000]

MAINTAIN BUY

POWERING STRONG UPTURN...

Fair Value: FY22E - LKR 21.0 [+15%] **FY23E - LKR 25.0 [+37%]**
Total Return with DPS: FY22E - 17% [AER 82%] *FY23E - 48% [AER 36%]*

*WIND recorded earnings of LKR 881.0Mn (+19.0%YoY) in 2QFY22 primarily driven by share of associate company profits improving by 212.0%YoY to LKR 108.3Mn and reduction in net finance cost during the quarter amidst revenue posting only a marginal growth of 3.0%YoY. In our utilities sector report published on 24th Aug 2021, we recommended to BUY the share considering the strong pipeline of capacity expansion projects. With the better than estimated performance in 6MFY22, we slightly upgrade the earnings forecast for FY22E to LKR 2.5Bn while FY23E earnings are broadly maintained at LKR 3.3Bn. However, in the midst of higher risk-free rate applicable for valuations, amidst the potential rising interest rate environment, we maintain TPs for FY22E and FY23E at LKR 21.0 and to LKR 25.0 respectively. **MAINTAIN BUY***

LKR (Mn)	2QFY21	2QFY22	YoY	6MFY21	6MFY22	YoY
Earnings (LKR 'Mn)						
Revenue	1,469	1,515	+3%	2,663	2,661	-0%
Gross Profit	1,129	1,102	-2%	1,961	1,857	-5%
Profit from Operating Activities	1,031	1,025	-1%	1,768	1,597	-10%
PBT	995	1,117	+12%	1,782	1,794	+1%
Net Profit	741	881	+19%	1,687	1,693	+0%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	17,758	21,356	+20%	17,758	21,356	+20%
Borrowings	N/A	5,077	N/A	N/A	5,077	N/A
NAVPS	13.1	15.8		13.1	15.8	

Strong revenue growth in Solar & Hydro while Wind struggles

Revenue posted only a marginal growth of 3.0%YoY to LKR 1.5Bn as the wind energy segment witnessed a drop in revenue due to the fall-in tariff rate at its two projects identified as Daily Life and PowerGen entered their second tier in operations. Three wind power plants were forced to operate below capacity since Jul 2020 due to failure of the 75MVA power transformer at the CEB's Norochcholai Wind Collector Substation. Most of the loss in revenue in the Wind segment was completely set off by the Solar & Hydro segments. However, during the quarter (in Sep 2021) the transformer was rectified with the 3 power plants reconnecting to the grid. A healthy growth in revenue was recorded in the solar sector with a notable foreign currency contribution from the Tororo Solar Plant commissioned in Uganda in Aug 2020. Hydro segment witnessed consistently high rainfall in the catchment areas resulting in Terraqua International, Energy Reclamation, HPD Power and Peak Power plants performing commendably well.

Lower net finance cost pushes earnings to +19.0%YoY

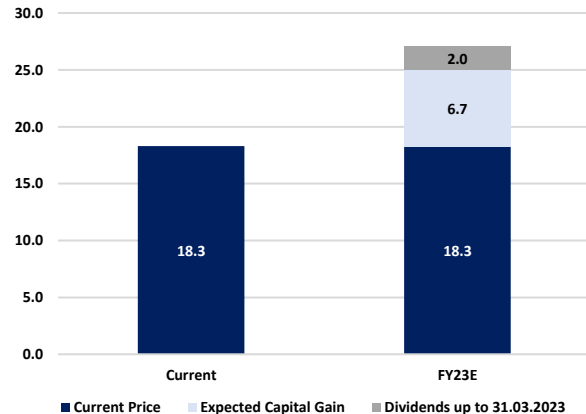
WIND's earnings enhanced by 19.0%YoY to LKR 880.7Mn heavily supported by the reduction in net finance cost. With the significantly high cash position of LKR 2.1Bn and LKR 3.4Bn of investments in short term financial assets, WIND's finance income shot up by 63.0% to LKR 126.0Mn for 1HFY22 while generating LKR 68.0Mn for 2QFY22. WIND's Non-Current Interest-Bearing Loans & Borrowings portion dipped to LKR 3.8Bn reducing finance cost by 25.0% to LKR 169.0Mn for 1HFY22 while recording LKR 83.0Mn for 2QFY22. The IPO proceeds generated via the listing in the CSE has supported to reduce gearing to significantly low levels. Overall Net finance cost reduced to LKR 16.0Mn in 2QFY22 compared to LKR 71.0Mn in 2QFY21.

Solid projects in the pipeline and strong capital structure to facilitate further new expansions

We have assumed that power failure at Norochcholai grid substation has rectified and to contribute to revenue from 2HFY22. Aside from this, the largest wind power project to date, Hiruras, the 15MW wind project in Mannar, received the Letter of Intent from the CEB in June 2021. The construction of the plant has begun and is expected to be commissioned in mid-2022. Whilst continuing to expand the Solar footprint in Sri Lanka, WIND in Sep 2021 acquired 100% in Sky Solar (Pvt.) Ltd from Sunshine Energy (Pvt.) Ltd, and Sky Solar currently owns and operates 2.2 MW of rooftop solar at eight factories located in and around Colombo. WIND also acquired 33% stake in Solar Universe (Pvt) Ltd that holds the rights and required approvals to develop a 10MW ground mounted solar power farm in Vavunathivu. WIND have successfully commenced construction of this plant and is expected to be operational by Mar 2022. Further, waste to energy project located in Karadiyana is currently awaiting the Cabinet approval and involves an investment of LKR 12.5Bn. This plant will be equipped with a 400 metric ton per day incinerator plant, and a 100 metric ton per day anaerobic digestion plant, with a collective capacity to generate 10MW of electricity to the National Grid.

TP for FY22E and FY23E maintained at LKR 21.0 and LKR 25.0

6MFY22 performance of WIND is slightly above our earnings forecast and therefore we upgrade FY22E earnings to LKR 2.5Bn while FY23E earnings are broadly maintained at LKR 3.3Bn. However, considering the higher risk-free rates applicable for valuations with the potential rise in interest rate environment, we maintain fair values for FY22E and FY23E at LKR 21.0 and LKR 25.0. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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Price Movement of WIND vs ASPI (Indexed and rebased to 100)



Note-First Capital Research recommended to subscribe the share from the IPO held in Mar 2021

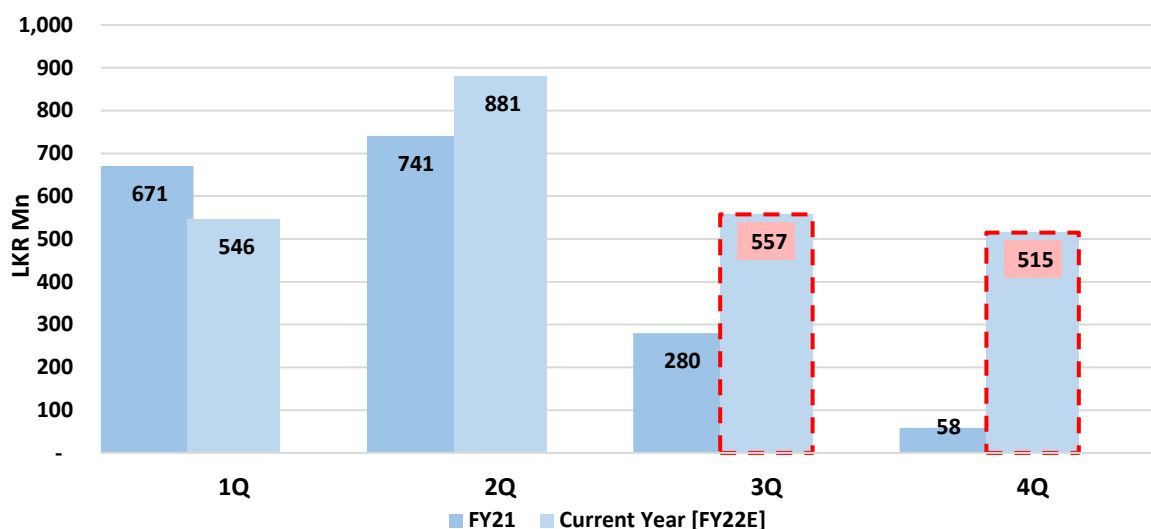
Minimum Return for BUY:

Buy Below for FY22E [AER of 17.0% with DPS]: LKR 22.7
 WIND 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 WIND during the five trading days prior to the issuance of this document.

Quarterly Earnings



Estimate Revision

In LKR Mn	FY22E - O	FY22E - R	% Change	FY23E - O	FY23E - R	% Change
Earnings Estimate						
Revenue	6,298	6,457	+3%	8,691	8,679	-0%
Gross profit	4,345	4,391	+1%	5,910	5,989	+1%
Profit from operating activities	3,689	3,940	+7%	4,942	5,275	+7%
Profit before tax	3,369	3,638	+8%	4,859	4,857	-0%
Net Profit	2,285	2,499	+9%	3,295	3,336	+1%
EPS	1.70	1.85		2.41	2.47	
Growth YoY	27%	43%		52%	33%	
Balance Sheet Estimate						
Shareholders' Equity	21,557	21,084	-2%	22,546	22,284	+1%
Borrowings	10,364	11,436	+10%	6,364	14,436	+127%
NAVPS	15.9	15.6		16.7	16.5	
Ratio Estimate						
ROE (%)	10.6%	11.9%		14.6%	15.0%	
PER (x)	10.8	9.9		7.6	7.4	
PBV (x)	1.1	1.2		1.1	1.1	

Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	2,636	2,826	3,484	4,310	6,457	8,679	9,238
Gross Profit	1,902	2,011	2,353	2,755	4,391	5,989	6,928
EBIT	1,709	1,741	2,046	2,559	3,940	5,275	6,186
Net Profit	1,278	1,107	1,541	1,750	2,499	3,336	4,049
Adjusted EPS (LKR)	0.9	0.8	1.1	1.3	1.9	2.5	3.0
YoY Growth (%)	16%	-13%	39%	14%	43%	33%	21%
Valuations							
PER (x)	19.3x	22.3x	16.0x	14.1x	9.9x	7.4x	6.1x
PBV (x)	3.7x	3.1x	1.5x	1.2x	1.2x	1.1x	1.0x
DY (%)	3.4%	4.2%	4.1%	1.6%	10%	9%	10%
NAVPS	5.0	5.8	12.1	15.5	15.6	16.5	17.6
Adjusted DPS (LKR)	0.6	0.8	0.8	0.3	1.8	1.6	1.9
Dividend Payout	65%	94%	66%	23%	95%	64%	64%

Valuation Summary

Expected WIND price	FY22E	FY23E
DCF Valuation based target price	23.4	23.5
PER Valuation based target price	20.4	24.7
Average Target Price	21.9	24.1
Target Price after Rounding off	21.0	25.0

Return	FY22E	FY23E
Target Price	21.0	25.0
Current Price	18.3	18.3
Capital Gain (LKR)	2.7	6.7
Dividends upto 31st Mar (LKR)	0.5	2.0
Capital Gain %	15%	37%
Dividend Yield %	3%	11%
Total Return %	17%	48%
Annualized Return %	82%	36%

DCF based Valuation	FY22E	FY23E
Enterprise Value	38,409	44,061
(-) Debt	11,436	14,436
(+) Cash	4,615	2,119
Total Value of Equity	31,588	31,745
No. of shares	1,351	1,351
Target Price	23.4	23.5

COE	FY22E	FY23E
Rf	9.0%	10.0%
Rm	17.0%	18.0%
Growth %	4.0%	4.0%
β	0.33	0.33
Ke = Rf + β(Rm-Rf)	11.6%	12.6%

PER Valuation

PER based Valuation	FY22E	FY23E
Earnings (LKR 'Mn)	2,499	3,336
No. of Shares ('Mn)	1,351	1,351
EPS	1.9	2.5
Expected PER	11.0x	10.0x
Price at x Earnings	20.4	24.7

WACC	FY22E	FY23E
Ke	11.6%	12.6%
Kd	6.2%	6.9%
D/E Assumption	40/60	40/60
Terminal Growth (%)	4.0%	4.0%
WACC	9.5%	10.3%

PER Chart

*Note-PER chart for WIND has not been created since the share has been listed since Apr 2021.

Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
31st Mar						
Revenue	2,826	3,484	4,310	6,457	8,679	9,238
Direct Cost	-814	-1,131	-1,555	-2,066	-2,691	-2,309
Gross Profit	2,011	2,353	2,755	4,391	5,989	6,928
Other Operating Income	69	233	398	438	481	530
Administrative expenses	-339	-540	-593	-889	-1,195	-1,272
Profit from operating activities	1,741	2,046	2,559	3,940	5,275	6,186
Finance costs	-350	-478	-421	-915	-1,155	-1,395
Profit from Ordinary activities before taxation	1,391	1,568	2,139	3,025	4,121	4,791
Gain on bargain purchase	0	491	0	0	0	0
Share of results of equity accounted investee	324	300	409	614	736	1,105
Profit Before Taxation	1,715	2,359	2,548	3,638	4,857	5,896
Income tax expenses	-232	-462	-402	-573	-765	-929
Profit after taxation	1,483	1,897	2,146	3,065	4,092	4,967
NCI	-376	-356	-396	-566	-756	-917
Profit attributable to equity holders	1,107	1,541	1,750	2,499	3,336	4,049
EPS	0.8	1.1	1.3	1.9	2.5	3.0

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
As at 31st Mar						
Non Current Assets						
Property plant and equipment	8,886	15,275	15,240	25,416	33,145	31,588
Investment in subsidiaries-unquoted	0	0	0	0	0	0
Investment in Equity Accounted Investees	2,665	1,901	2,206	2,206	2,206	2,206
Other Assets	1,324	4,292	4,178	4,178	4,178	4,178
	12,875	21,468	21,624	31,800	39,529	37,972
Current Assets						
Inventory	53	419	460	689	926	985
Trade and other receivables	786	2,729	1,657	2,482	3,336	3,551
Other Current Assets	1,042	1,603	1,834	1,834	1,834	1,834
Cash and cash equivalents	188	962	8,460	4,615	2,119	7,942
	2,070	5,713	12,410	9,620	8,215	14,312
Total Assets	14,944	27,181	34,033	41,419	47,744	52,284
Capital						
Stated capital	7,164	14,985	14,985	18,226	18,226	18,226
Retained earnings	726	1,362	2,731	2,856	4,057	5,515
Revaluation reserve	0	0	0	0	0	0
Equity attributable to parent	7,890	16,347	20,959	21,084	22,284	23,742
NCI	1,832	1,635	1,881	2,447	3,202	4,120
Total Equity	9,722	17,981	22,839	23,530	25,487	27,862
Non Current Liabilities						
Interest bearing loans and borrowings	3,536	4,828	4,562	8,436	11,436	14,436
Other Liabilities	580	1,243	1,416	1,416	1,416	1,416
	4,115	6,071	5,978	9,851	12,851	15,851
Current liabilities						
Interest bearing loans and borrowings	908	1,306	1,298	3,000	3,000	3,000
Trade and other payables	96	1,702	3,426	4,545	5,913	5,078
Amounts due to related parties	33	31	40	40	40	40
Bank overdraft	70	91	453	453	453	453
	1,107	3,129	5,216	8,038	9,405	8,570
Total equity and liabilities	14,944	27,181	34,033	41,419	47,744	52,284
NAVPS	5.8	12.1	15.5	15.6	16.5	17.6



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