

**WINDFORCE PLC [WIND.N0000]****MAINTAIN BUY****PIPELINE OF PROJECTS TO FUEL STEADY GROWTH****Fair Value: FY23E - LKR 23.0 [+35%]**

Total Return with DPS: FY23E - 42% [AER 41%]

*WIND earnings improved by 23.3%YoY to LKR 330.0Mn in 3QFY22 primarily attributable to the commendable performance growth recorded by hydro and solar power plants. On the other hand, revenue has declined marginally by 2.9%YoY to LKR 964.0Mn as a result of the drop in tariff rate since two major wind power projects fell into the second tier. In the midst of a higher risk-free rate applicable for valuations, amidst the potential rising interest rate environment, we have downgraded WIND's fair value to LKR 23.0 for FY23E. However, at the current market price of LKR 17.0, FY23E fair value imply an upside of 35.0%. **MAINTAIN BUY***

LKR (Mn)	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	993	964	-3%	3,656	3,625	-1%
Gross Profit	532	578	+9%	2,493	2,436	-2%
Profit from Operating Activities	407	436	+7%	1,961	1,952	-0%
PBT	391	464	+19%	2,172	2,257	+4%
Net Profit	268	330	+23%	1,679	1,757	+5%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	17,568	21,356	+22%	17,568	21,356	+22%
Borrowings	6,142	5,077	-17%	6,142	5,077	-17%
NAVPS	13.0	15.8		13.0	15.8	

**Revenue skid lower marginally yet GP margin surged on a YoY basis**

Revenue witnessed a marginal decline of 2.9%YoY to LKR 964.0Mn compared to the previous year corresponding period as Daily Life and PowerGen wind power projects fell into the second tier. Though the wind sector experienced an overall increase in power generation, the sector revenue recorded a decline of 9.7%YoY in 9MFY22 due to the fall in tariff rate and blade damages witnessed in Joule and Beta power companies due to lightning strikes. Moreover, WIND's GP margin improved by 643bps to 60.0% in 3QFY22 relative to the same quarter in FY21 as a result of the lower direct cost recorded during 3QFY22, yet GP margin declined by 1,274bps on a QoQ basis.

**Earnings soared in Hydro and Solar power while Receivables rose on an ongoing basis**

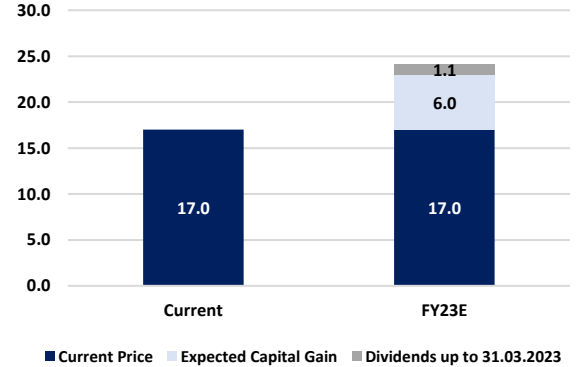
WIND's earnings grew by 23.3%YoY in 3QFY22 largely contributed by the hydro power segment since Terraqua International, Energy Reclamation, HPD Power and Peak Power plants recorded immense growth and it is mainly benefited from the favourable weather conditions that prevailed during the period. Similarly, solar plants recorded a commendable performance during 3QFY22 as the commission of the new 2.2MW Sky solar in Sep 2021 and the existing 10MW Tororo Solar Plant in Uganda generated greater performance growth during the quarter. Besides, trade receivables rose by 31.0%YoY as the company has been facing significant delays in receiving payments from CEB. Since WIND is diversified into multiple nations, the risk of receivables for the company is considered low.

**Pipeline of projects to commence by mid-2022 and currency floating to largely benefit WIND**

WIND has been continuing to expand its Solar foot print in Sri Lanka, with that the new project of Solar Universe with the capacity of 10MW to be located in Vavunativu is expected to be commissioned by May 2022. WIND intends to commence construction work for Hiruras power wind plant in Mannar with a total capacity of 15MW during the year. Moreover, WIND has withdrawn its offer to acquire 92.5% stake of Fairway Waste Management (Pvt) Ltd as the sellers failed to fulfil the conditions specified in the share sale and purchase agreements. Besides, persistent depreciation in LKR against the greenback will be an added benefit for WIND since tariffs on most foreign energy projects are denominated in USD or EURO. However, it has a negative impact on the company's cost structures owing to the higher cost of imported spare parts and foreign services. Due to the fact, WIND has delayed the 30MW solar plant in Senegal as the company is facing difficulty in transferring funds to Senegal with the current forex crisis in Sri Lanka.

**FV for FY23E is revised downward to LKR 23.0**

Considering the potential negative impact on earnings coupled with a rise in interest rates impacting higher risk-free rate applicable for valuations, we have downgraded WIND's fair value target to LKR 23.0 for FY23E with a total return of 42.0%. However, at the current market price of LKR 17.0, FY23E fair value imply an upside of 35.0%. **MAINTAIN BUY**

**FIRST CAPITAL RESEARCH**

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[tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)**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

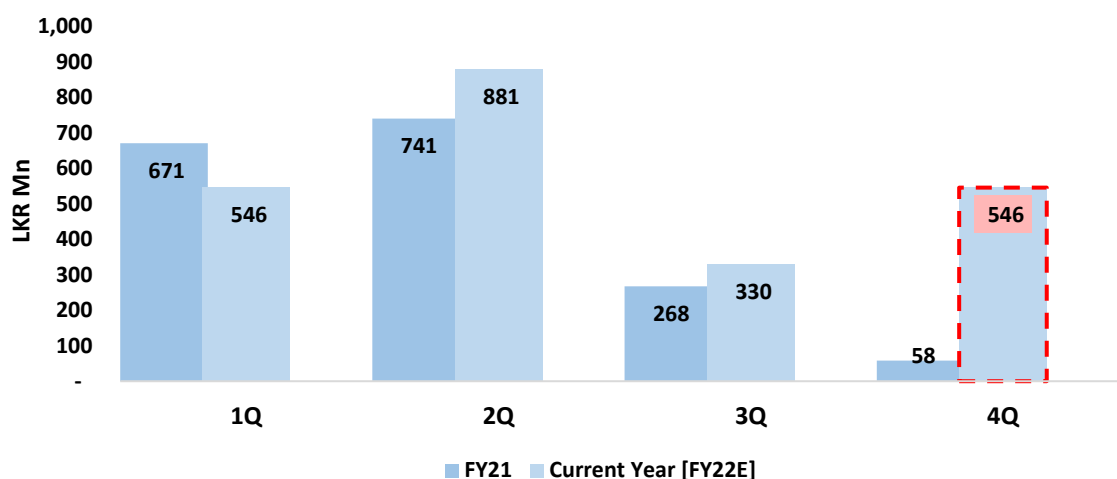
**Minimum Return for BUY:**

**Buy Below for FY23E [AER of 20.0% with DPS]: LKR 21.1**  
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
<b>Earnings Estimate</b>						
Revenue	6,457	5,210	-19%	8,679	6,827	-21%
Gross profit	4,391	3,491	-20%	5,989	4,711	-21%
Profit from operating activities	3,940	3,251	-17%	5,275	4,305	-18%
Profit before tax	3,638	3,284	-10%	4,857	4,151	-15%
Net Profit	2,499	2,303	-8%	3,336	3,016	-10%
EPS	1.9	1.7		2.5	2.2	
Growth YoY	43%	32%		33%	31%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	21,084	21,561	+2%	22,284	21,978	+1%
Borrowings	11,436	7,860	-31%	14,436	10,860	-25%
<b>NAVPS</b>	<b>15.6</b>	<b>16.0</b>		<b>16.5</b>	<b>16.3</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>11.9%</b>	<b>10.7%</b>		<b>15.0%</b>	<b>13.7%</b>	
<b>PER (x)</b>	<b>9.9</b>	<b>10.0</b>		<b>7.4</b>	<b>7.6</b>	
<b>PBV (x)</b>	<b>1.2</b>	<b>1.1</b>		<b>1.1</b>	<b>1.0</b>	

## Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Estimates (LKR 'Mn)</b>							
Revenue	2,636	2,826	3,484	4,310	5,210	6,827	8,123
Gross Profit	1,902	2,011	2,353	2,755	3,491	4,711	5,930
EBIT	1,709	1,741	2,046	2,559	3,251	4,305	5,403
<b>Net Profit</b>	<b>1,278</b>	<b>1,107</b>	<b>1,541</b>	<b>1,750</b>	<b>2,303</b>	<b>3,016</b>	<b>3,938</b>
Adjusted EPS (LKR)	0.9	0.8	1.1	1.3	1.7	2.2	2.9
YoY Growth (%)	16%	-13%	39%	14%	32%	31%	31%
<b>Valuations</b>							
PER (x)	18.0x	20.7x	14.9x	13.1x	10.0x	7.6x	5.8x
PBV (x)	3.4x	2.9x	1.4x	1.1x	1.1x	1.0x	1.0x
DY (%)	3.6%	4.5%	4.4%	1.7%	8%	7%	9%
NAVPS	5.0	5.8	12.1	15.5	16.0	16.3	17.0
Adjusted DPS (LKR)	0.6	0.8	0.8	0.3	1.3	1.1	1.5
Dividend Payout	65%	94%	66%	23%	76%	50%	50%

### Valuation Summary

Expected WIND price	FY23E
DCF Valuation based target price	22.4
PER Valuation based target price	24.6
<b>Average Target Price</b>	<b>23.5</b>
<b>Target Price after Rounding off</b>	<b>23.0</b>

Return	FY23E
Target Price	23.0
Current Price	17.0
Capital Gain (LKR)	6.0
Dividends upto 31st Mar (LKR)	1.1
Capital Gain %	35%
Dividend Yield %	7%
<b>Total Return %</b>	<b>42%</b>
Annualized Return %	41%

DCF based Valuation	FY23E
Enterprise Value	38,393
(-) Debt	10,860
(+) Cash	2,719
<b>Total Value of Equity</b>	<b>30,252</b>
No. of shares	1,351
<b>Target Price</b>	<b>22.4</b>

COE	FY23E
Rf	12.0%
Rm	20.0%
Growth %	4.0%
$\beta$	0.60
<b>Ke = Rf + <math>\beta</math>(Rm-Rf)</b>	<b>16.8%</b>

### PER Valuation

PER based Valuation	FY23E
Earnings (LKR 'Mn)	3,016
No. of Shares ('Mn)	1,351
EPS	2.2
Expected PER	11.0x
<b>Price at 11x Earnings</b>	<b>24.6</b>

WACC	FY23E
Ke	16.8%
Kd	6.9%
D/E Assumption	40/60
Terminal Growth (%)	4.0%
<b>WACC</b>	<b>12.8%</b>

### 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
<b>31st Mar</b>						
Revenue	2,826	3,484	4,310	5,210	6,827	8,123
Direct Cost	-814	-1,131	-1,555	-1,719	-2,116	-2,193
<b>Gross Profit</b>	<b>2,011</b>	<b>2,353</b>	<b>2,755</b>	<b>3,491</b>	<b>4,711</b>	<b>5,930</b>
Other Operating Income	69	233	398	438	481	530
Administrative expenses	-339	-540	-593	-677	-888	-1,056
<b>Profit from operating activities</b>	<b>1,741</b>	<b>2,046</b>	<b>2,559</b>	<b>3,251</b>	<b>4,305</b>	<b>5,403</b>
Finance costs	-350	-478	-421	-629	-869	-733
<b>Profit from Ordinary activities before taxation</b>	<b>1,391</b>	<b>1,568</b>	<b>2,139</b>	<b>2,623</b>	<b>3,436</b>	<b>4,671</b>
Gain on bargain purchase	0	491	0	0	0	0
Share of results of equity accounted investee	324	300	409	662	715	716
<b>Profit Before Taxation</b>	<b>1,715</b>	<b>2,359</b>	<b>2,548</b>	<b>3,284</b>	<b>4,151</b>	<b>5,386</b>
Income tax expenses	-232	-462	-402	-460	-581	-754
<b>Profit after taxation</b>	<b>1,483</b>	<b>1,897</b>	<b>2,146</b>	<b>2,824</b>	<b>3,570</b>	<b>4,632</b>
NCI	-376	-356	-396	-522	-553	-695
<b>Profit attributable to equity holders</b>	<b>1,107</b>	<b>1,541</b>	<b>1,750</b>	<b>2,303</b>	<b>3,016</b>	<b>3,938</b>
EPS	0.8	1.1	1.3	1.7	2.2	2.9

**Appendix II: Statement of Financial Position**

Balance Sheet (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>As at 31st Mar</b>						
<b>Non Current Assets</b>						
Property plant and equipment	8,886	15,275	15,240	17,568	20,689	19,655
Investment in subsidiaries-unquoted	0	0	0	0	0	0
Investment in Equity Accounted Investees	2,665	1,901	2,206	2,426	2,669	2,669
Other Assets	1,324	4,292	4,178	4,178	4,178	4,178
	<b>12,875</b>	<b>21,468</b>	<b>21,624</b>	<b>24,172</b>	<b>27,537</b>	<b>26,502</b>
<b>Current Assets</b>						
Inventory	53	419	460	556	728	866
Trade and other receivables	786	2,729	1,657	2,855	3,741	4,451
Other Current Assets	1,042	1,603	1,834	3,599	3,599	3,599
Cash and cash equivalents	188	962	8,460	3,038	2,719	2,916
	<b>2,070</b>	<b>5,713</b>	<b>12,410</b>	<b>10,049</b>	<b>10,787</b>	<b>11,833</b>
<b>Total Assets</b>	<b>14,944</b>	<b>27,181</b>	<b>34,033</b>	<b>34,221</b>	<b>38,324</b>	<b>38,335</b>
<b>Capital</b>						
Stated capital	7,164	14,985	14,985	18,226	18,226	18,226
Retained earnings	726	1,362	2,731	3,334	3,750	4,688
Revaluation reserve	0	0	0	0	0	0
<b>Equity attributable to parent</b>	<b>7,890</b>	<b>16,347</b>	<b>20,959</b>	<b>21,561</b>	<b>21,978</b>	<b>22,915</b>
NCI	1,832	1,635	1,881	2,402	2,956	3,650
<b>Total Equity</b>	<b>9,722</b>	<b>17,981</b>	<b>22,839</b>	<b>23,964</b>	<b>24,933</b>	<b>26,566</b>
<b>Non Current Liabilities</b>						
Interest bearing loans and borrowings	3,536	4,828	4,562	4,860	5,160	3,460
Other Liabilities	580	1,243	1,416	1,416	1,440	1,498
	<b>4,115</b>	<b>6,071</b>	<b>5,978</b>	<b>6,276</b>	<b>6,601</b>	<b>4,958</b>
<b>Current liabilities</b>						
Interest bearing loans and borrowings	908	1,306	1,298	3,000	5,700	5,700
Trade and other payables	96	1,702	3,426	489	597	619
Amounts due to related parties	33	31	40	40	40	40
Bank overdraft	70	91	453	453	453	453
	<b>1,107</b>	<b>3,129</b>	<b>5,216</b>	<b>3,982</b>	<b>6,790</b>	<b>6,811</b>
<b>Total equity and liabilities</b>	<b>14,944</b>	<b>27,181</b>	<b>34,033</b>	<b>34,221</b>	<b>38,324</b>	<b>38,335</b>
NAVPS	5.8	12.1	15.5	16.0	16.3	17.0



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