

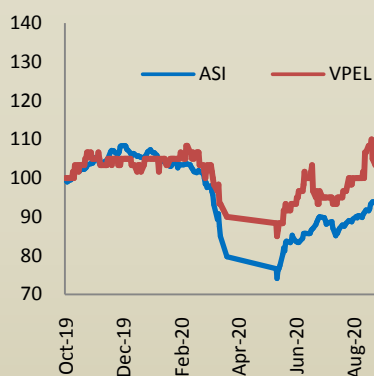
Member of the Colombo Stock Exchange

October 2020

### Trading Snapshot

|                      |            |
|----------------------|------------|
| CSE Code             | VPEL.N0000 |
| Bloomberg Ticker     | VPEL SL    |
| Shares in Issue (Mn) | 747        |
| 52W High (LKR)       | 8.50       |
| 52W Low (LKR)        | 4.80       |
| Market Cap (LKR.Mn)  | 5,827      |
| Market Cap (USD.Mn)  | 31         |
| LKR:USD              | 185.00     |
| Market Price (LKR)   | 8.00       |

### Relative Stock Performance



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# Vallibel Power Erathna PLC

## Earnings Review: Strong Buy

Market Price LKR 8.00 | Target Price LKR 10.61 | Upside+32.69%

### Company Snapshot

**Power Generation up due higher seasonal rainfall:** Power generation increased 40.3% YoY to 21m kWh during 1QFY21 on the back of higher rainfall experienced in the island over the period. Historically, this period tends to generate the highest output across the Group's two plants of Erathna and Kiriwaneliya.

**Relatively high dividend yield:** 1QFY21 Dividend Yield 8.5%. Historically, the Group has had high yields and payouts with average yield over 2018 -2020 coming in at 9.0% and average payouts at 57% respectively.

**Outlook:** We expect profits in FY21E to increase 23.95% YoY to LKR 877m primarily on the back of higher seasonal rainfall in catchment areas. Top line saw a 2.09% YoY growth to LKR 1,080m – the sluggish nature of top line growth can be attributed to the Company's Erathna power plant having a lower tariff rate from its new Power Purchase Agreement (PPA).

**Valuation:** Our valuation metrics were based upon a blended approach, which takes an equal weightage between forecasted earnings with sector PE and forecasted book with sector PBV methodologies. We derived 12 months target price of LKR 10.61 which yields a market upside of 32.69%.

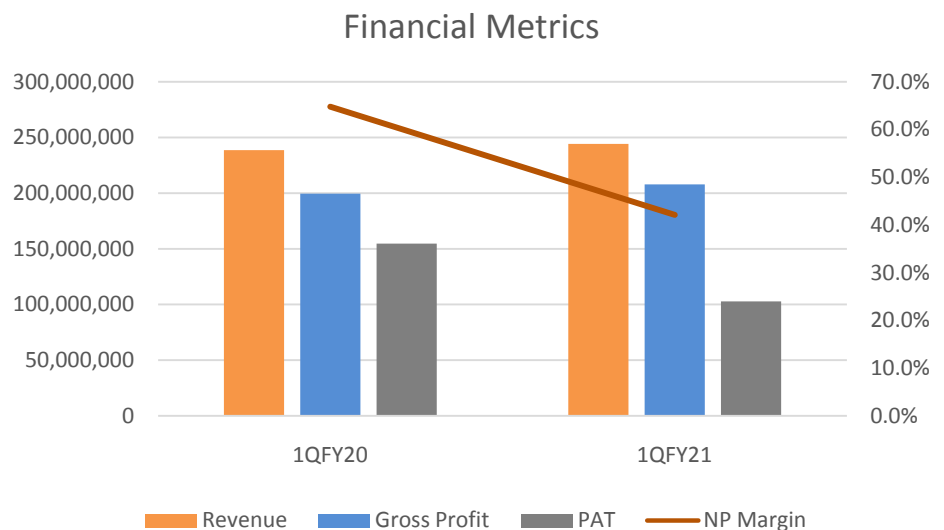
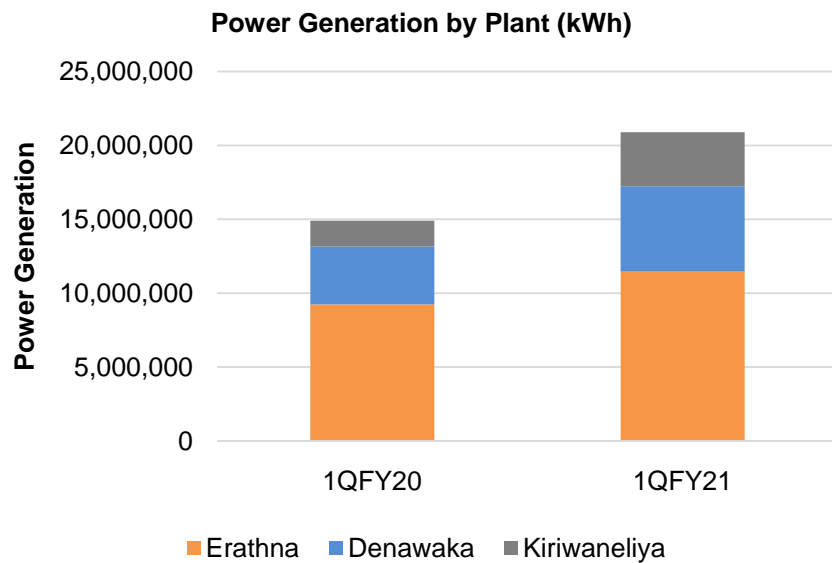
**Assumptions:** In terms of future profit, we assumed that FY23E would be a lean year with cyclical weather patterns showing that there usually is a drop-in rainfall once every three years. Forecasted earnings were driven further down by the fact that VPEL's Erathna plant's current tariff charge came in lower.

### Investor Guide

| YE 31st March     | 2018  | 2019  | 2020   | 2021  | 2022  | 2023   |
|-------------------|-------|-------|--------|-------|-------|--------|
| Net Profit        | 763   | 890   | 708    | 881   | 894   | 786    |
| +/- Growth        | 48.0% | 16.6% | -20.5% | 24.5% | 1.5%  | -12.0% |
| EPS (LKR)         | 0.96  | 1.12  | 0.87   | 1.18  | 1.20  | 1.05   |
| PE (x)            | 7.60x | 5.27x | 6.21x  | 6.79x | 6.69x | 7.60x  |
| NAV               | 2,444 | 2,787 | 3,252  | 3,666 | 4,086 | 4,456  |
| PBV (x)           | 3.35x | 1.72x | 1.35x  | 1.63x | 1.46x | 1.34x  |
| Div/ Share (LKR)  | 0.7   | 0.7   | 0.3    | 0.62  | 0.63  | 0.56   |
| Div Yield         | 9.6%  | 11.9% | 5.6%   | 7.8%  | 7.9%  | 7.0%   |
| Market Cap        | 5,454 | 4,408 | 4,034  | 5,977 | 5,977 | 5,977  |
| Share Price (LKR) | 7.30  | 5.90  | 5.40   | 8.00* | 8.00* | 8.00*  |

\*Current Market Price

Source: VPEL Financials, SC Securities Research



Revenues increased 2.35% YoY to LKR 244m in 1QFY20 driven by higher generations across all of VPEL's power plants. The rise in top line was slightly offset by with lower revenues from the Company's main plant Erathna, whose PPA agreement was renewed, but at a lower tariff rate.

Gross Profits rose 4.17% YoY to LKR 208m on the back of lower Cost of Sales (down 6.94% YoY). Profit before Tax was up 4.52% YoY to LKR 198m which can be attributed to lower Administrative Costs (down 5.38% YoY) coupled with lower Other Operating Expenses (down 89.70% YoY).

Profit After Tax came in at LKR 154m (down 33.49% YoY) which was a result of a higher rate of tax incurred (LKR 95m 1QFY21 *c.f.* LKR 34m in 1QFY20)

## Power Sector Comparison

| In LKR millions                         | LVL Energy  | Pan Asia Power PLC | Vidullanka PLC  | Vallibel        |
|---|-------------|--------------------|-----------------|-----------------|
| <b>4QT Revenue</b>                      | <b>0.70</b> | <b>617.39</b>      | <b>1,872.26</b> | <b>1,063.92</b> |
| Total Assets                            | 7,393       | 3,805              | 7,396           | 3,346           |
| Total Liabilities                       | 2,748       | 1,731              | 4,343           | 355             |
| Total Shareholders' Equity              | 4,645       | 2,074              | 3,053           | 2,991           |
| <b>4QT PAT</b>                          | <b>544</b>  | <b>204</b>         | <b>556</b>      | <b>656</b>      |
| ROA (%)                                 | 7.36%       | 5.36%              | 7.52%           | 19.60%          |
| ROE (%)                                 | 11.7%       | 9.8%               | 18.2%           | 21.9%           |
| <b>EPS 4QT</b>                          | <b>0.85</b> | <b>0.28</b>        | <b>0.66</b>     | <b>0.78</b>     |
| PER                                     | 11.88X      | 15.71X             | 9.55X           | 10.26           |
| NAVPS                                   | 7.66        | 3.12               | 3.58            | 3.71            |
| PBV                                     | 1.32X       | 1.41X              | 1.76X           | 2.16X           |
| Share Price – 14 <sup>th</sup> Oct 2020 | 10.10       | 4.40               | 6.30            | 8.00            |

Source: Respective Power Financial Statements as at 30<sup>th</sup> June 2020

## Top 20 Shareholders

| Name of Shareholder                                     | No of Shares | %     |
|---|--------------|-------|
| Vallibel Power Limited                                  | 299,425,830  | 40.08 |
| Mr K D D Perera   | 144,812,225  | 19.38 |
| Seylan Bank Plc/Senthilverl Holdings (Pvt) Ltd          | 79,675,549   | 10.67 |
| Sampath Bank Plc / Dr T Senthilverl                     | 50,404,135   | 6.75  |
| Mr K D H Perera   | 18,750,000   | 2.51  |
| Mr K D A Perera   | 18,750,000   | 2.51  |
| Ms K D C Samanthi                                       | 9,375,000    | 1.26  |
| Acuity Partners (Pvt) Limited / Mr. Anthony Romesh Gero | 9,229,707    | 1.24  |
| Mr P P Subasinghe                                       | 5,303,190    | 0.71  |
| Employees Trust Fund Board                              | 5,197,715    | 0.70  |
| Commercial Bank Of Ceylon Plc / Metrocorp (Pvt) Ltd     | 4,650,151    | 0.62  |
| Mr A R Gero   | 3,434,504    | 0.46  |
| Perera and Sons Bakers (Pvt) Ltd                        | 3,008,630    | 0.40  |
| Mr B C Tay  | 3,000,000    | 0.40  |
| DFCC Bank PLC A/C 1                                     | 2,400,000    | 0.32  |
| Mr D D Gunaratne  | 2,250,000    | 0.30  |
| Mr M F Hashim   | 2,017,989    | 0.27  |
| Mr. S M Jayasooriya                                     | 1,740,932    | 0.23  |
| Dr M Dewolage   | 1,526,902    | 0.20  |
| Mr M H M Nazeer   | 1,500,000    | 0.20  |

Source: VBEL quarterly financial statements; 30<sup>th</sup> June 2020

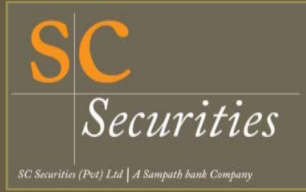
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Strong Buy: FV more than 20% above Current Trading Price  
Buy: FV between 10% and 20% above Current Trading Price  
Hold: FV between -10% and 10% around Current Trading Price  
Sell: FV more than 10% below Current Trading Price



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