

BY

GARIMA CAPITAL LIMITED

API POWER COMPANY LIMITED

(API)

Sector: Hydropower

LTP: Rs. 169

P/E Pricing: Over

Momentum: Down

** This Report is published for learning purpose only. Accordingly, we don't state a Buy/Sell/Hold recommendation.*

** Disclosure is made at the end.*

Financials Snippet	77/78A	78/79A	79/80P	80/81E	81/82E
Revenues (mn)	367.29	519.15	446.62	1,702.7	2,187.3
Gross Profit Margin	87.47%	86.66%	80.48%	92.49%	92.36%
Op. Profit Margin	86.74%	58.99%	45.83%	86.26%	91.90%
Net Profit Margin	34.33%	27.17%	1.52%	40.34%	43.96%
EPS	5.09	3.67	0.16	11.87	16.62
BVPS	111.31	107.72	103.93	116.59	133.21

* P: Provisional Q4 79/80 Reports.

* E: Estimates as per projection shown by API in its Prospectus for Rights issue. We have discounted the projected figures of 80/81E by 20 – 25%.

Investment Thesis

- Valuation / Pricing:** We determine the scrip of API to be trading above its likely fair price at current level. The P/E ratio of 1,056.3x signifies the stock trading at very high price compared to its earnings since EPS is Rs. 0.16 / share. P/B ratio stands at 1.63x which signifies fair price, Graham number is at 19.4. P/S ratio shows share trading at 2.9 times of the revenue. The stock is transacting at a price lower than its 120 days average of 204.9. DCF valuation is not done due to lack of data.
- Anticipate increasing cash flows:** The addition of 40 MW Upper Chameliya hydro project will boost the revenue of the company multi fold. And with few other projects (such as solar), in the pipeline, the profitability is expected to observe an increasing trend in the future. But the significant debt portion in the books of the company can impact the net profit, especially if the interest rate on such debts exceeds their projected 10-11% rate in volatile interest rate environment.
- Bearish trend of the stock:** On the weekly chart, the stock has been trading sideways for approx. 10 months and was in downward trend since mid - Jan 2022. Currently, it is around its strong support level of 160, which if breaks will lead to new lower lows level. The current technical chart shows the scrip being in accumulation phase and declining volume of the stock. With this, the scrip can witness trend reversal in long term.

Stock's Profile

O/s Shares	5,78,65,980 units
Market Cap. (Rs.)	9.78 billion
52 Weeks H – L	232.28 – 163.2
180D Avg. Price	197.5
180D Avg. Vol.	100,620
Beta (Nepse/Hydro)	0.44/ 0.84
Corr (Nepse/Hydro)	0.64/ 0.83

Note: Data taken from 1.1.2020.

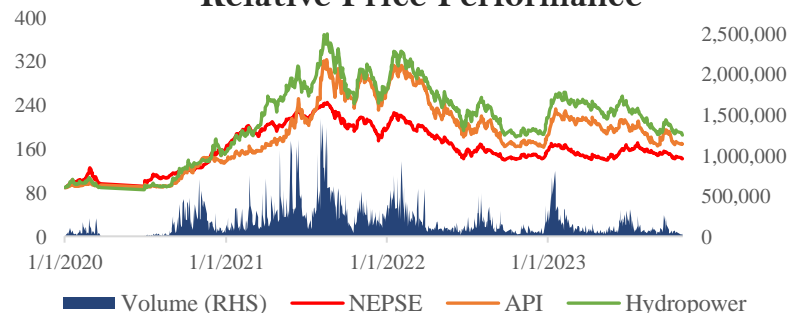
Note: Valuation is not carried due to data limitation.

Fair Pricing

P/E	1,056.3x
P/B	1.63x
P/S	21.9x
Graham No.	19.4
120 Days Avg.	204.9
Fair Price (Rs.)	-

Price Performance	1M	3M	12M
Absolute	-9.14%	-11.98%	-0.92%
Relative to NEPSE	-3.47%	-0.39%	2.95%

Relative Price Performance



Note: Rebased to API in Jan 2020

Company Profile

API operates 6 projects of total 62.5MW combining both solar (6MW) and HEP (56.5MW). Naugarh Gad HEP(8.5MW), Upper Naugarh Gad HEP(8MW) and Mathillo Chameliya HEP (40MW) are located in Darchula district with a total annual energy generation of 366.9 GWh. The company was incorporated on 5th Ashad 2060 and started commercial production from 2nd Bhadra 2072. It has a subsidiary- Api Hydromechanical Limited and an associate- Ingwa Hydropower Ltd. (INGWA). INGWA has installed capacity of 9.7 MW and its RCOD was Jestha 2080 but due to the damage done by flood during the construction, the project completion has been delayed and the RCOD is unknown for now.

Financial Highlights (Fig. in '000)

Particulars	Q4 78/79	Q4 79/80	Q1 80/81 E
Paid Up Capital	3,844,915	4,133,284	5,786,598
Retained Earnings	296,670	162,257	390,424
Total Assets	9,064,046	11,267,546	-
Non-Current Liabilities	4,680,386	5,869,167	6,386,160
Revenue from Electricity	519,146	446,616	355,894
Operating Profits	306,159	204,849	266,920
Net Interest Income	-159,298	-194,125	-64,915
Net Profits	141,019	6,8	158,119

Chairman**Mr. Satish Neupane****Managing Director****Mr. Sanjeev Neupane****Project Profile**

Project Name	Naugarh Gad	Upper Naugarh Gad	Upper Chameliya	Chandranigahpur Solar Project	Dhalkebar Solar Project	Simra Solar Project
Type of Scheme/Model	RoR	RoR	RoR	Solar PV Project	Solar PV Project	Solar PV Project
District	Darchula	Darchula	Darchula	Rautahat	Dhanusha	Narayani
Name of River	Naugarh Gad	Naugarh Gad & Gadi Gad	Odketh & Chameliya River	Chandranigahpur Solar Project	Dhalkebar Solar Project	Simra Solar Project
Installed Capacity (MW)	8.5	8	40	4	1	1
Project License Period	3/31/2069-3/30/2104	9/14/2073-9/13/2108	12/06/2076-06/11/2111	10/1/2079-9/29/2101	12/30/2077-12/29/2102	3/6/2078-3/5/2102
Remaining License Period	24 yrs.	28 yrs.	31 yrs.	21 yrs.	22 yrs.	22 yrs.
COD	5/2/2072	7/13/2076	04/28/2080	5/6/2078	10/2/2078	4/8/2079
Annual Energy (GWh)	53.64	49.1	264.16	35.04 MW	8.76 MW	8.76 MW
Total Project Cost (Rs.)	1.435 billion	1.272 billion	7.4 billion	498 million	126 million	125 million
Project Cost (per MW)	168 million	159 million	185 million	124.5 million	126 million	125 million
100% tax exemption	2072/73 – 2081/82	2076/77 – 2085/86		2078/79 – 2087/88	2078/79 – 2087/88	2078/79 – 2087/88
50% tax exemption	2082/83 - 2086/87	2086-87 – 2090/91		2088/89 – 2092/93	2088/89 – 2092/93	2088/89 – 2092/93
0% tax exemption	2087/88 onwards	2091/92 onwards		2093/94 onwards	2093/94 onwards	2093/94 onwards
PPA rate (1st year of production)	Rs. 4 (Baisakh - Mangsir) Rs. 7 (Poush – Chaitra)	Rs. 4.8 (Baisakh -Mangsir) Rs. 8.4 (Poush – Chaitra)	Rs. 4.8 (mid Jestha -mid Mangsir) Rs. 8.4 (mid Mangsir– mid Jestha)	Rs. 7.3 (till project lifetime)	Rs. 7.3 (till project lifetime)	Rs. 7.3 (till project lifetime)
PPA rate to increase 3% for	8 years	5 years	8 years	-	-	-
PPA rate after increment ends	Rs. 5.02 (Baisakh - Mangsir) Rs. 8.89 (Poush – Chaitra)	Rs. 5.52 (Baisakh - Mangsir) Rs. 9.66 (Poush – Chaitra)	Rs. 5.95 (mid Jestha -mid Mangsir) Rs. 10.42 (mid Mangsir– mid Jestha)	-	-	-

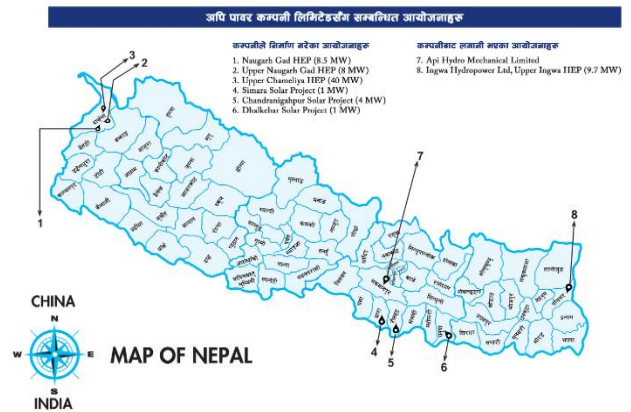
Fundamental Synopsis

Augmenting Energy Generation: Following the operation of 40MW Upper Chameliya HEP from 28 Shrawan 2080, the combined annual energy generation of API is now 367 GWh (formerly 102.7 GWh). The addition of the Upper Chameliya project is projected to augment the revenue of the company by approx. Rs. 1.62 billion for the 1st year and then 3% increment in revenue from Upper Chameliya for next 8 years. Pre-addition, the revenues from all the other five projects (both hydro and solar) accounted approx. Rs.440 million. The Plant Load Factor (PLF) of the hydropower projects has improved over the years i.e., PLF of Naugarh Gad HEP rose to 82.35% in 2022 (74.91% in 2021) and Upper Naugarh Gad HEP increased to 83.81% (70.39% in 2021). Also, the PLF of the three solar projects has been > 90% of the contracted capacity.

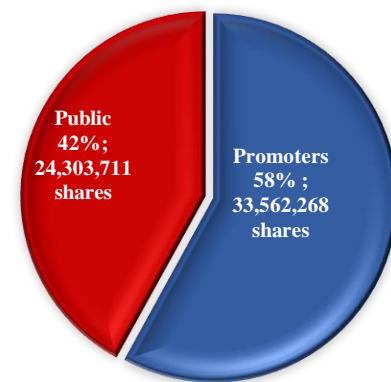
Diversified Revenue Base: The revenue concentration risk in API is extremely low compared to other hydro companies given its in operation 3 hydro projects and 3 solar plants. Solar plants are located in different districts which reduces the environmental risk. However, all the 3 hydro projects are situated in Darchula district posing high concentration of environmental risk.

Experienced Management Team: Mr. Satish Neupane is Chairman and Mr. Sanjeev Neupane is managing director in the company. Both brings in wide experience in the company. Satish Neupane has more than 10 years of experience in hydro sector. He is also founder director of Arun Valley Hydropower (AHPC) and managing director of API Hydro Mechanical Pvt. Ltd. Sanjeev Neupane holds more than 17 years of experience in hydro sector with his involvement in AHPC, Ridi Hydropower and API. He also has experience in banks and financial institutions.

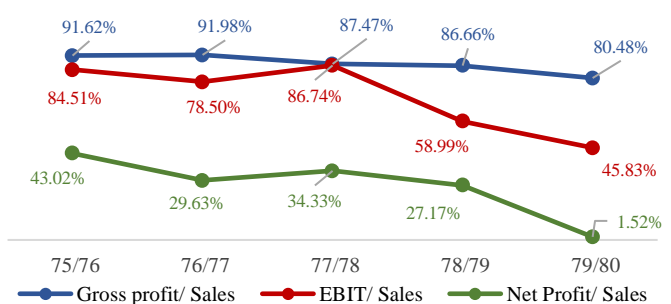
Future Plans of the Company: API plans to construct 1 MW hydrogen project, making API the first company to do so in Nepal, marking a significant leap toward harnessing hydropower for the production of hydrogen energy, ammonia, and chemical fertilizers. API's collaboration with Greenzo Power Pvt Ltd, an Indian counterpart, underscores cross-border cooperation to realize the production of green hydrogen within Nepal's borders over the next two years. Furthermore, API is constructing 8 MW Parwanipur solar project which is nearing completion and its PPA has already been done with NEA.



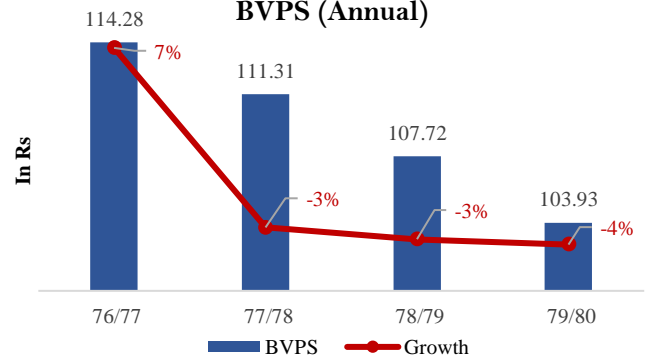
SHAREHOLDING STRUCTURE



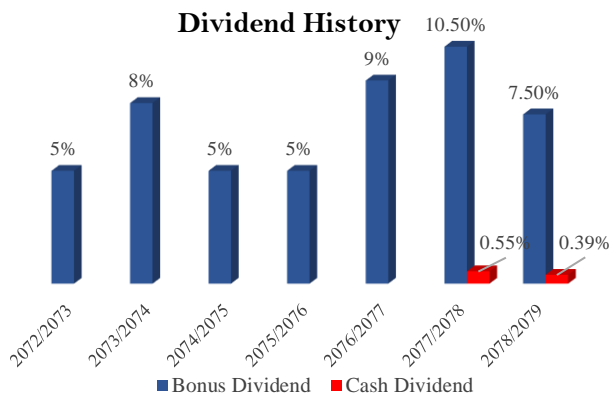
Sales Margin



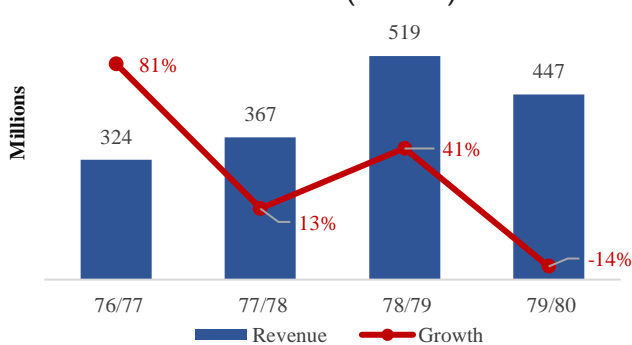
BVPS (Annual)



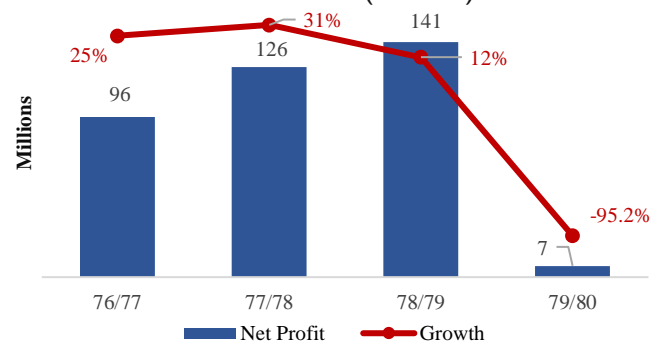
Dividend History



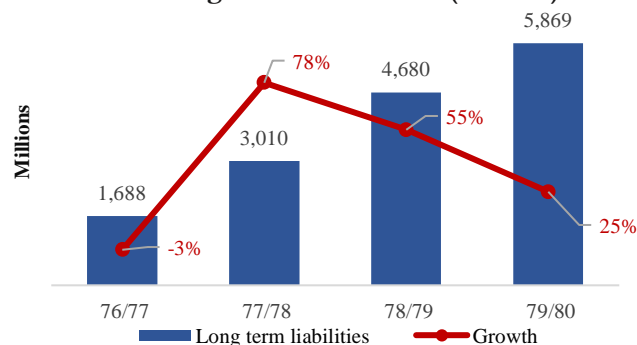
Revenue (Annual)



Net Profits (Annual)



Long Term Liabilities (Annual)



Outlays of the Projects: The solar projects are built at lower cost and the construction time is around 1 year compared to hydro projects which are developed at higher cost and takes tentative 5 years to complete construction. All 3 solar projects were built at ~ Rs. 125 million per MW. Whereas, the Naugarh Gad HEP (8.5MW) was developed at Rs. 168 million per MW, Upper Naugarh Gad HEP (8MW) at Rs. 159 million per MW, and Upper Chameliya HEP (40MW) at Rs. 185 million per MW.

Credit Rating of CARE-NP BB+(Is): Care Ratings Nepal Limited (CRNL) has revised API’s issuer rating to ‘CARE-NP BB+(Is)’ from ‘CARE-NP B+(Is)’ on March 2023 indicating moderate risk of default regarding timely servicing of financial obligations. API’s ratings upgraded due to improved revenue base after successful operation of its two solar projects and improving PLF of hydro projects. However, the rating remains constrained by hydrology geological, natural calamities risk and technological & climatic condition risk in solar project.

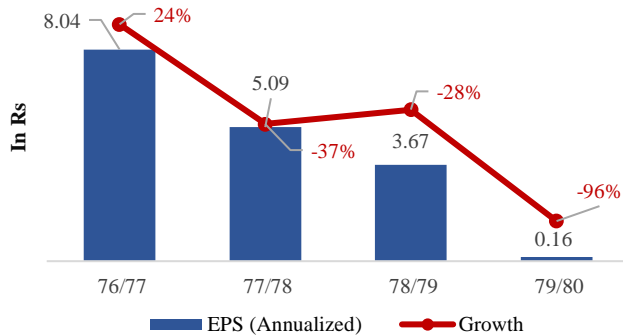
Paid-up Capital: As of Q2 2079/80, API had paid-up capital of Rs. 3.8 billion which increased to Rs. 4.1 billion in Q3 2079/80 after listing of 7.5% bonus shares for FY 78/79. The company has issued right shares at 1:0.4 ratio and this will result in rise in paid-up capital to Rs. 5.79 billion in Q1 2080/81. It has authorized and issued capital of Rs. 6 billion of which paid-up capital will equate to 96% post right issue listing. In order to further issue bonus/right shares, the company will require to increase its authorized capital which can be done by passing the special resolution. Currently, promoters hold 58% and public holds 42% of the paid-up capital.

Dividend History: From the year of commercial operation i.e., 2072-73, the company has been distributing bonus dividend consistently. On average, it has provided 7.14% of bonus dividend every year. In 2078-79, it issued 7.5% bonus dividend. Till date, its highest dividend distribution occurred in FY 2077-78, when it rewarded shareholders with 10.5% bonus dividend.

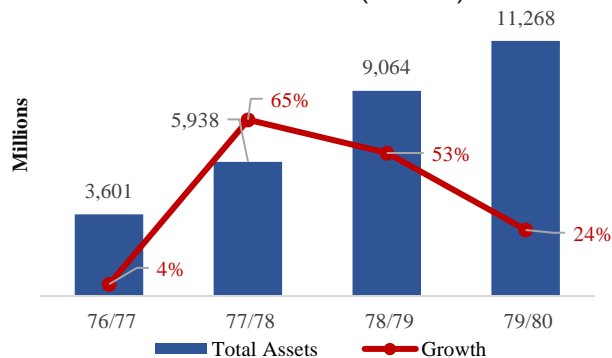
Investments: The company has made investments totaling Rs. 220.5 million across two distinct entities. API has invested Rs. 70.5 million in Api Hydromechanical Ltd (subsidiary) and Rs. 150 million in Ingwa Hydropower Limited (associate). Ingwa Hydropower Limited is in the final stage of construction of 9.7 MW of hydropower plant but the RCOD has not yet been updated.

Tax Exemption- The company is entitled to 100% tax exemption on income from sale of electricity for 10 years from the year of the commercial operation, 50% tax exemption for next 5 years and 0% tax exemption from the 16th year. API’s oldest project i.e., 8.5MW Naugarh Gad HEP began commercial operation on 2nd Bhadra 2072 and will exhaust its 100% tax exemption privilege this year i.e., 2081-82. Income from other sources is taxed at 21.25%.

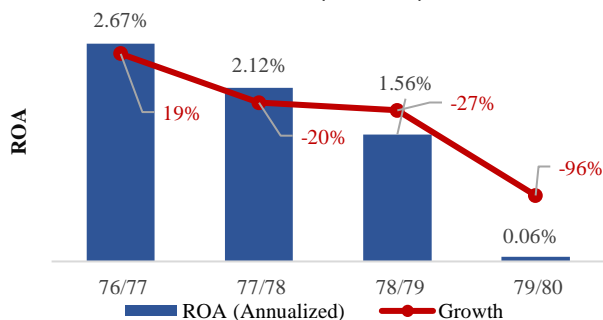
EPS (Annual)



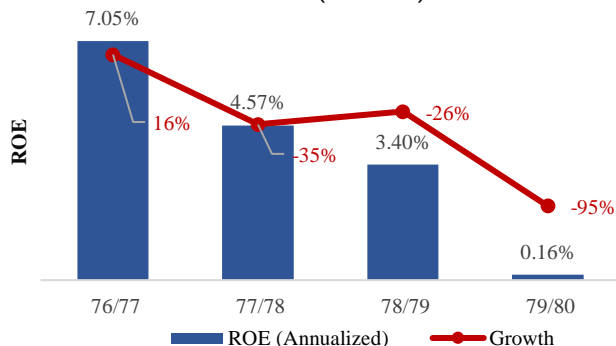
Total Assets (Annual)



ROA (Annual)



ROE (Annual)



Reviewing the Q4 Unaudited Income Statement: Revenue from sale of electricity in 2078-79 witnessed a rise of 41% YoY to Rs. 519 million owing to addition of 2 solar plants and improvement in PLF of hydro projects. However, in 2079-80, revenue declined by 14% to Rs. 447 million. Q4 2079-80 gross profit margin & operating profit margin got impacted by high cost of production and administrative expenses and stood at 81% and 78% respectively while past period average was at approx. 90% and 92% (impact of income from other sources). Net profit margin has reduced substantially to 2% and stands below Rs. 7 million. It is a decline of 95% YoY and 86% QoQ. The major reasons are high interest rate expenses and depreciation.....

Reviewing the Q4 Financial Position: Equity comprises only 38% of the total balance sheet size i.e. Rs. 11.26 billion, of which reserves is merely 1%. While liabilities constitute 62% (long term liabilities 52%, short term liabilities 10%) of the balance sheet and is showcasing increasing trend resulting in high interest expenses. Work in progress covers major portion of total assets i.e., 60%. Fixed assets are 31% of the total assets and investments stands at just 3% of the same. Following the issue of 40% right shares, the paid-up capital of the company will rise to Rs. 5.8 billion in Q1 2080-81.

Key Financial Metrics- The EPS has reduced significantly from Rs. 3.67 last year to Rs. 0.16 in Q4 2079-80 due to decrease in revenue and increase in interest expense & depreciation. Low earnings have resulted P/E ratio to the high of 1,415. BVPS is at Rs. 103.93 and ROE & ROA are notably low at 0.16% and 0.07%, respectively, indicating insignificant returns on shareholders' equity and assets. 3 years CAGR of EPS, BVPS, ROE, and ROA are demonstrating negative growth of -73%, -3%, -72.0%, and -71.9%, respectively. The debt-equity ratio of 1.37 indicates a balanced mix of debt and equity.

Broker Analysis: In last 3 months, Imperial Securities (45) has net purchased highest quantity of API stock i.e., 1.1 lakhs units. It bought 2.9 lakhs units at average price of Rs. 185.17 and sold 1.8 lakhs units at average price of Rs. 179.43. Kalash Stock Market (74) and Sumeru Securities (39) stand in 2nd and 3rd position with net purchase quantity of 67,000 and 62,000 units. In past 1 month too, Imperial Securities (45) bought highest units of stock (net) at Rs. 168.97 purchase price.

Q1 Projections- We anticipate 136% increase in revenue from Q1 2079-80 to Q1 2080-81 supported by operation of 40 MW Upper Chameliya HEP. Gross profit margin and Operating profit margin is estimated to be at 80 and 75% respectively. Net interest expense is projected to increase to Rs 65 million. Net profit is predicted to be at Rs. 158 million with net profit margin of 44%. EPS and BVPS is projected to rise to Rs. 10.93 and Rs. 110.52 respectively.

Associate Company details:

Ingwa Hydropower Limited– 25% stake

Project Name	Upper Ingwa Khola HEP
Project Site	Taplejung
Project Type	RoR
Installed Capacity	9.7 MW
Avg. Annual Energy	65.73 GWh
Wet Season Energy	40.83 GWh
Dry Season Energy	24.9 GWh
Generation License Issue date	2078/08/14
Gross / Net Head	195.8m / 186.9m
Transmission Line & Interconnection Point	33 kV, Amarpur Substation

Ingwa Hydropower Company:

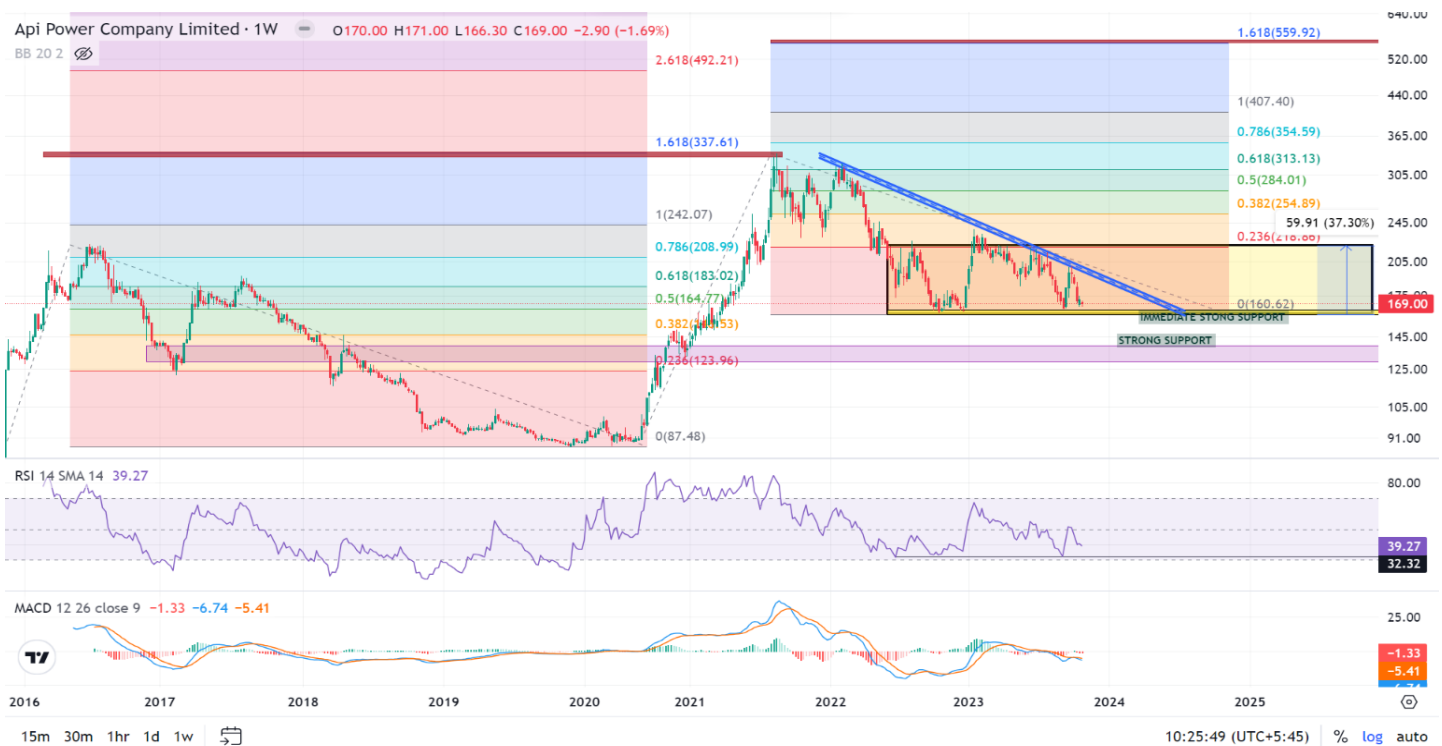
Ingwa Hydropower Company Limited is developing a 9.7 MW hydropower project in Panchthar & Taplejung district. The project is under construction and was expected to be completed in 2079 Kartik but due to the flood in June 2023, the project construction was disturbed and had been damaged. The company anticipated that the project shall generate power from Magh 2079 BS but now the RCOD is unknown. API holds 25% of the company i.e., investment of Rs. 150 million. The power generated from this project shall be connected to the national grid at Amarpur substation of Mechi Corridor transmission line. This will help in increasing power supply and improve the voltage in East Nepal. The total cost of this project is Rs. 2000 million.

Subsidiary Company:

Api Hydromechanical Limited:

Established in Makwanpur district and operating since 2072-73 BS with the motive of helping in the construction of the hydropower projects by manufacturing and supplying hydromechanical equipment and iron goods such as penstock pipes, gate, bifurcation, dash rack, bell mouth etc. API has invested Rs. 70.5 million in it and by holding majority of the shares, it has helped the company to complete its construction within a quick period of time.

Technical Outlook



Technical Indicator (02/11/2023)

RSI	40.55	Exponential Moving Average (12 Day)	171.89
MACD line	-3.39	Exponential Moving Average (26 Day)	175.29
Signal line	-2.72	Exponential Moving Average (50 Day)	179.22
Bollinger Upper Band	193.48	Exponential Moving Average (200 Day)	192.02
Bollinger Middle Band	176.62	Volumes	36.251 K
Bollinger Lower Band	159.77	On Balance Volumes	-172.003 K
ADX	20.83	Super trend	184.47

Technical Overview:

The API is currently trading in a sideways zone on the weekly chart, where the accumulation phase of the next bull rise is visible. In the sideways movement, it is trading between 160 and 220 zone, with the 160-zone representing API Hydropower's strong support and 220 as strong resistance. The API Hydropower faces significant resistance from the Ultimate downtrend line, also known as a strong trendline. When it breaches the ultimate downtrend line, there will be change in trend and bully rally may see in the market.

The Fibonacci Extension's 1.618 zone was touched by API during the most recent bull run. In a similar scenario, we may forecast that during the upcoming bull run, API will trade in the 560 i.e., 1.618 Fibonacci Extension zone. The target price looks viable due to its strong fundamentals.

Additionally, the last two candles indicate that sellers are becoming less strong and that buyer can drive the price higher in future trades. Likewise, in a declining market, the volume is trading below normal, which is a good sign. The weekly RSI is nearing the oversold area and currently trading at 39.27. In RSI, there isn't any divergence formation. Similarly, the sideways trend in the API Hydropower is indicated by the closeness of the MACD and signal lines.

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