

Sector: Hydropower

52 Week High-Low: 506 - 348

Fair Price: Rs. 353.61

Recommendation

LTP: Rs. 484 (09/03/23)

180 days Average: Rs. 376.63

Price Range: 400-600

Best Buy @ <= 420

Company Profile

CHCL owns and operates 22.1 MW Chilime HEP in Rasuwa District since 2060/61 B.S with annual energy generation of about 150GWH. The company has 4 Subsidiaries; 3 of which, Sanjen Jalvidhyut, Madhya Bhotekoshi and Rasuwagadhi Hydropower Company Ltd., has been involved in developing 4 projects of combined installed capacity 270.30 MW which are likely to begin production from FY 80/81. It wholly owns the 4th subsidiary - Chilime Engineering and Services Co. Ltd. Further, it has finished its feasibility study of 4 large HEPs - Budhi Gandaki Prok HEP, Chumchet Syar Khola HEP, and Seti Nadi-3 PROR HEP of combined 306 MW capacity.

Chairman: Mr. Kul Man Ghising

CEO: Mr. Subash Kumar Mishra

Stock Profile

O/S Shares (Nos.)	72,581,791
Market Cap (Millions)	35,129.58
NEPSE / Sector Coverage	1.21% / 9.00%
Beta with NEPSE/Sector	1 / 0.74
Corr. with NEPSE/Sector	0.73 / 0.79
CHCL Avg. Return	18.66%
CHCL Std. Deviation	34.63%
180 days Avg. Volumes	22,326

CHCL price is less sensitive within the hydropower sector movement as reflected by lower beta indicating the scrip to be less volatile. Also, it maintains moderate correlation with market benchmark.

CHCL (18.66%) has marginally outperformed NEPSE (17.24%) but underperformed to Hydropower benchmark (32.63%) on annualized average return basis during the review period. On risk-adjusted basis, CHCL has underperformed to both NEPSE and Hydropower sector, indicating comparatively higher variance on CHCL.

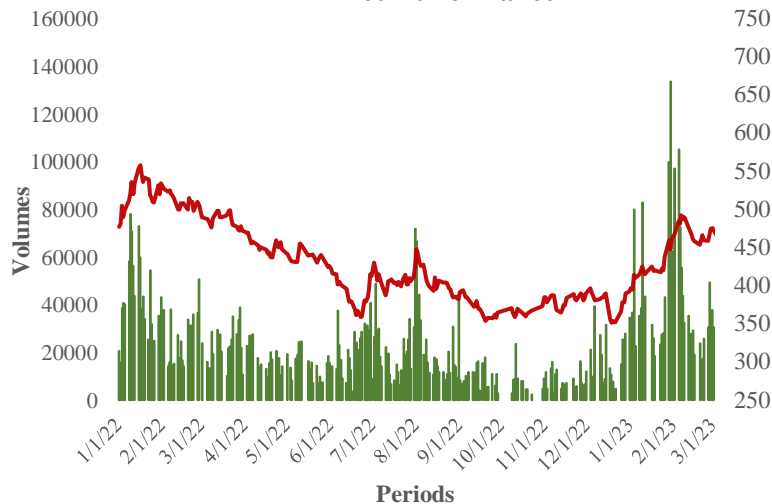
Market Profile

NEPSE Index	2002.70
Total Market Cap (Millions)	2,901,317.23
Hydropower Cap (Millions)	390,534.07 (13.46%)
Avg. Return NEPSE/Hydro	17.24% / 32.63%
Std. Dev. NEPSE/Hydro	25.13% / 36.95%

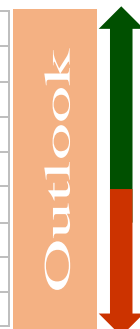
Moderate correlation of 0.79 is found between Hydropower and NEPSE Index. Hydropower is found to be more volatile than NEPSE as indicated by Standard deviation.

Data taken from 01/01/2020– 09/03/2023 for all above necessary calculation.

1 Yr Price Performance



Moving Average Exponential (50)	Rs. 438.18
Moving Average Exponential (200)	Rs. 402.50
Bollinger Band: Top	Rs. 494.50
Bollinger Band: Middle	Rs. 472.16
Bollinger Band: Bottom	Rs. 449.81
RSI (14)	63.40
MACD	-1.88
ADX	40.92
ATR	16.78



Investment Thesis We recommend **BUY** to the scrip of CHCL on two perspectives: the subsidiaries of the company are going for commercial production of 270 MW capacity project, significantly stimulating the revenues of the company going forward. Technically, the golden crossover has formed in the stock as its 50 days MA has crossed the 200 days MA from below, signaling a strong bullish sentiment. Best buy for the stock would be at or below Rs. 420 level for a 3 years target of approx. Rs. 620.

SYNOPSIS

Formation of Golden cross-over and Upward Momentum: CHCL technical chart shows the formation of Golden cross-over at 370 to 380 level (late January) providing the bullish outlook ahead. Further, the stock is maintaining up momentum since early 2023. However, the stock at present is floating relatively at upper region of 52 weeks high and low price, trading at approx. 45x the P/E and nearly 36% and 28% premium to our computed fair price and 180 days average price respectively, concluding the stock to be overpriced. The median price of 61 listed Hydropower scrips in secondary market is Rs. 325.

Scanning the Q2 unaudited report: Y-o-Y net profit and operating profit has decreased by 1.86% and 3.79% respectively while electricity sale has increased by 1.87% and operating expenses (incl. depreciation) has risen by approx. 14%. Paid up capital increased by 7.5% after the 78/79 bonus while equity is reduced by 3%. On y-o-y basis, EPS has dropped to Rs.10.74 from Rs.12.65 while BVPS fell to Rs.141.39 from Rs. 148.57.

Consistency in dividend distribution: The company concluded its 26th AGM for FY 2078/79 on 22nd Poush, 2079; resolution being 7.5% bonus and 7.5% cash dividend. Company is consistently providing the dividends (bonus and cash) with its avg. 10 years dividend of 24.7% (15.5% bonus and 9.2% cash) and avg. dividend (cash) payout ratio of 0.46. However, the rate of dividend has fallen over the years, *particularly the issue of bonus*.

Facet of 22.1 MW Chilime HEP: Company is commercially generating electricity from its 22.1 MW Chilime HEP from FY 60/61; generation license still valid for another 25 years. Although, annual deemed energy is 132.9 GWh, the company is generating approx. 149 GWh energy annually with significant higher plant load factor (88.21% in FY78/79). Existing PPA rate is Rs. 8.17 (regardless of dry or wet season) and it sell majority of the excess energy at Rs. 4.08.

Multiple Projects Underway: Company expects the commercial operation of all projects (combined capacity of 270.3 MW) of its subsidiaries to begin within this FY. Besides, it endeavors to build 4 HEP's of total 306 MW in future. Features of the projects under its arm and subsidiaries (including their projects) has been briefed herewith.

Hydro sectors exhibiting non-cyclical nature: Electricity, being the major utilities, are expected to see constant rise in its demand, especially in the green economy and thus the stocks are less likely to be affected by common factors affecting the market like economic, liquidity, political issues, etc. Even in the recent volatile market, the sector has shown strong resistance to fall and in fact leading the market with more than 40% turnover, volumes, and transaction, *highlighting the investors bullish outlook in the sector*.

Fundamental Analysis

Financial Highlights & Projection (Fig. in '000)

Particulars	Q3 79/80E	Q2 79/80	Q2 78/79
Paid Up Capital	7,258,179.28	7,258,179.28	6,751,794.68
Retained Earnings	3,515,640.78	3,004,043.16	3,279,126.97
Capital WIP	-	534,238.32	268,848.19
Investment in Associates	5,954,465.90	5,954,465.90	5,954,465.90
Total Assets	-	11,151,848.62	10,959,124.09
Non-current Liabilities	-	306,539.62	290,382.67
Revenue from electricity	833,609.90	636,559.56	624,894.16
Operating Profits	548,480.52	409,945.97	426,076.04
Net Profits	511,597.62	389,934.91	397,306.08

Growth	3 YR Average		3 YR CAGR	
	CHCL	Industry	CHCL	Industry
Net Profits	-0.56%	17.83%	-0.57%	1.81%
Op. Profit	-2.00%	17.83%	-2.07%	17.50%
Revenue	0.98%	17.83%	0.96%	17.71%
Long Term Liabilities	2.44%	3.66%	1.82%	3.03%
Total Assets	3.12%	13.84%	3.10%	13.81%

Note: For industry average computation, 32 hydropower companies have been considered due to non-availability of historical data.

Details about the Subsidiaries...

A. Sanjen Jalavidhyut Company Ltd (SJCL) – 39.36% Stake

2 HEP namely; (1) Sanjen (Upper) HEP – 14.8 MW (2) Sanjen HEP – 42.5 MW located at Rasuwa district. Both projects are expected to commercially generate combined 324.31 GWh electricity annually at the end of this FY and generate Rs.1.8 billion revenues annually. Company with Rs.3.65 billion paid-up capital reported net loss of Rs.1.36 crores with BVPS Rs.93.75 in Q2 79/80. *Out of 6 BoD in the company, 4 are from CHCL (66.66% voting right)*.

B. Madhya Bhotekohi Jalavidhyut Company Limited (MBJC) – 37% Stake

1 HEP namely Madhya Bhotekoshi HEP – 102 MW, located at Sindhupalchowk district. Nearly all works are in final phase of completion (95%), despite the 2073 floods and landslides damaging the Electro-mechanical equipment. We expect the company to begin commercial production of energy from FY 2080/81, yielding the annual revenue of Rs. 2.8 billion. Company with Rs.6 billion paid-up capital reported net loss of Rs.2.63 crores with BVPS Rs.93.78 in Q2 79/80. *Out of 7 BoD in the company, 4 are from CHCL (57.14% voting right)*.

C. Rasuwagadhi Hydropower Company Limited (RHPL) – 32.79% Stake

1 HEP namely Rasuwagadhi HEP – 111 MW, located at Rasuwa district. Company anticipates the commercial production to begin from Asadh end 2080, producing annual 613.88 GWh electricity and generating sale revenue of Rs. 3.25 billion. Company with Rs.6.84 billion paid-up capital reported net loss of Rs.2.72 crores with BVPS Rs.95.41 in Q2 79/80. *Out of 6 BoD in the company, 3 represent CHCL (50% voting right)*.

Note: CHCL has provided corporate guarantee to Employee Provident Fund against the loans provided to its 3 subsidiaries, which at end of FY 78/79 amounts to Rs.24.23 billion. Further, it has provided corporate guarantee to Himalayan Bank Ltd. against Letter of Credit issued to Sanjen (SJCL) which amounts Rs.1.23 billion.

D. Chilime Engineering and Services Company Ltd. – 100% Stake

Established in 11/06/2073 with issued capital of Rs. 50.9 million, and operating in profit from the initial year, the main objective of this company is to provide complete engineering solutions for hydropower project in Nepal.

Projects Under Review:

1. Seti Nadi – 3 PROR HEP; 87 MW

Project Site: Bajhang District
License Issue Date: 01/06/2074
Consulting Firm: Chilime Engineering and Services Co. Ltd

2.1 Budhi Gandaki Prok HEP; 81 MW

Project Site: Gorkha District
License Issue Date: 01/06/2074
Consulting Firm: Chilime Engineering and Services Co. Ltd

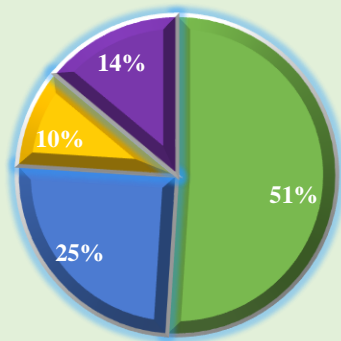
2.2 Budhi Gandaki – 1 HEP; 93 MW

Project Site: Gorkha District
License Issue Date: 01/06/2074
Consulting Firm: Chilime Engineering and Services Co. Ltd

3. Chumchet Syar Khola HEP; 45 MW

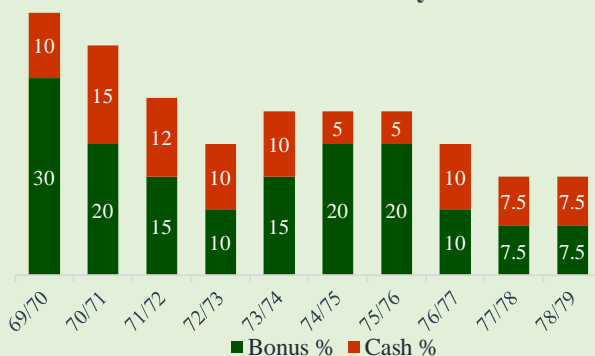
Project Site: Gorkha District
License Issue Date: 25/12/2074
Est. Avg. Annual Energy: 348.05 GWh
Consulting Firm: Chilime Engineering and Services Co. Ltd

Shareholding Structure



■ NEA
■ NEA and CHCL Employees
■ Local's
■ General Public

Dividend History



Ratios	Q3 79/80E	Q2 79/80	Q2 78/79
EPS	9.40	10.74	11.77
BVPS	148.44	141.39	148.57
Asset per share	-	183.68	162.31
ROE	6.33%	7.60%	7.92%
ROA	-	6.99%	7.25%
Equity multiplier	-	1.09	1.07

Thumping profit margin but static growth: Company trail behind the industry average in profitability growth as the growth of 3-year average revenue, operating profit and net profit of the company stands 0.98%, -2% and -0.56% respectively as compared to industry avg. of 17.83%. However, company realizes hefty profit margin on its revenues, reporting gross profit margin of 78%, operating profit margin of 66%, and net profit margin of 60%.

Balance Sheet Constituent: Balance sheet size i.e. total asset as on Q279/80 is Rs.11.15 billion, having a 3-year CAGR of 3.1%. Company is fully equity funded; equity constituting approx. 92% of total assets. Approx. 53% asset is invested in subsidiary/associates, 21% invested in term deposits, and 15% is PPE. Of total equity, 1/3rd is reserve and surplus. Although company lags behind in asset growth as compared to the industry, it has 6th largest asset size.

Dwindling EPS and BVPS: Q2 79/80 reports Rs.10.74 EPS and Rs.141.39 BVPS, which are the drop of nearly 15% and 4.8% respectively on y-o-y basis. 3-year EPS CAGR is negative 8.21% and BVPS CAGR is negative 5.79%. Company is constantly distributing dividend higher than its annual earning through utilization of its reserves, and the profitability has remained static, resulting the fall in these metrics.

Deteriorating ROE and ROA: Like EPS and BVPS, the other two key metric ROE and ROA are also descending, reason being more or less similar. 3-year CAGR of both ROE and ROA computes to negative 7.52% and 10.3% respectively, indicating company inability to produce sufficient values to equities.

No Liquidity and Solvency Issue: Including the 1-year term deposit (amounting Rs. 2.42 billion in Q2), current ratio stands at 5.16 but excl. the term deposit, current ratio is only 1 while quick ratio is 0.73 although no warning issue. Company holds no borrowings/bank's debt (their long-term liability includes defined benefits obligation and deferred tax liabilities) and thus debt to equity and debt to assets ratio are below 10%.

Anticipated Q3 Financials: On y-o-y basis, we anticipate net profit to dwindle by 1% to Rs.51 crore in upcoming Q3 report and the EPS and ROE to further drop to approx. Rs.9.4 and 6.33% respectively while BVPS to increase to approx. Rs.148.

Potential escalation to financial metrics: We expect all CHCL's subsidiaries to report profits with augmented EPS/BVPS and distribute dividends once they start selling energy, thus potentially boosting CHCL financials. Issuance of cash dividend by subsidiaries will likely boost the company's EPS while issuance of bonus dividend will have no immediate impact on balance sheet. Revenue will be further boosted by rental income once its ongoing construction of 11 storied corporate building is completed.

Relative Pricing

We have used *four* relative pricing approaches to derive the fair pricing of the company share. These methods include Price to Earnings (P/E), Price to Book Value (P/B), Graham Number, and 180 days average prices. We have allocated equal weights to each of the four methods to derive the weighted fair price of the stock.

Fair Pricings			
Basis: P/E	CHCL	Peer Co.	Fair Price
EPS	10.74	16.98	402.08
P/E	45.07	37.44	
Basis: P/B			
BVPS	158.76	161.65	439.88
P/B	3.05	2.77	
Basis: Graham No.	195.87		195.87
Basis: 180 days avg.	376.63		376.63
Average Price			353.61

Peer Hydro Stats (Q2 79/80)

S.N.	Ticker	LTP	EPS	BVPS	ROE	ROA	Fin. Lev.
1	BPCL	329.00	13.42	204.64	6.56%	5.84%	0.82x
2	SHPC	326.00	21.32	171.19	12.45%	9.63%	1.12x
3	API	262.00	3.25	109.66	2.96%	1.25%	2.59x
4	MEN	784.90	36.17	158.76	22.78%	9.93%	1.42x
5	CHCL	484	10.74	141.39	7.60%	6.99%	0.82x

DISCLAIMER: This report has been prepared by research team of Garima Capital Ltd. after study and analysis of publicly available data and information of the subject company and does not use any inside information. Further, the data and information studied are believed to be proper and reliable. However, we do not guarantee the correctness of the same.

The sole purpose of this report is to showcase the brief analysis of the company, market participants may be interested to. This report should not be construed as investment advice or recommendation and ultimate investment decision stays on investors own wisdom. Garima Capital Ltd. including the Research and Product Team shall not be liable for any loss or damages that investors incur from investment action based on this report.

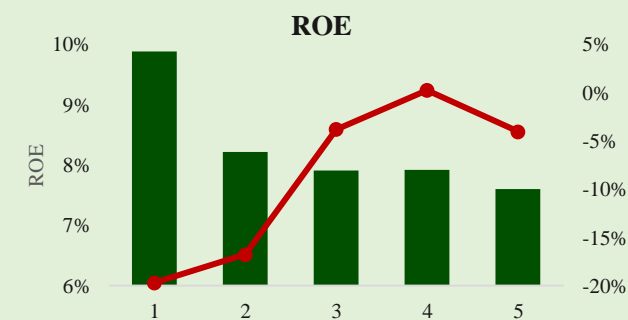
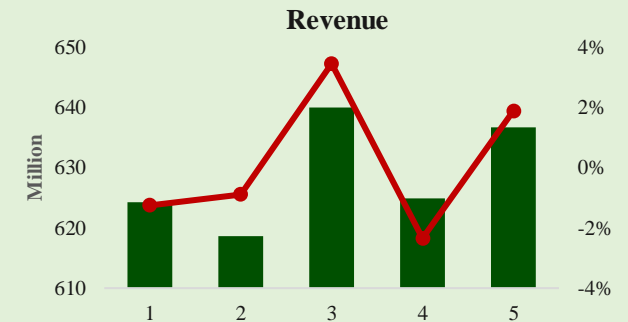
नेपाल धित्तिय ब्रोकराज परमन्ट सेरुको एपम रूपमे अन-नियत प्राप्त गरमा



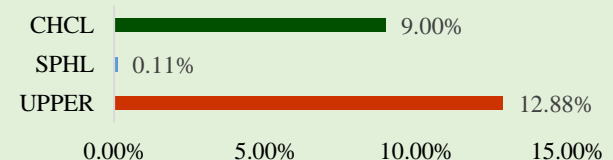
गरिमा क्यापिटल लिमिटेड
GARIMA CAPITAL LIMITED

[A Subsidiary of GARIMA BIKAS BANK LIMITED]

समृद्धिको साथै



Market Cap Ranking 2



Contact Detail

Kamalpokhari, Kathmandu - 01
(Opposite to City Center)
Kathmandu, Nepal
01-4529149, 01-4529150
info@garimacapital.com