

SANIMA MIDDLE TAMOR HYDROPOWER COMPANY LIMITED

Issue Units: 42,48,938 units

Minimum Units: 10

Issue Open Date: 26/11/2019

Rating: CARE-NP BB (IS)

Issue Price: Rs.100

Maximum Units: 20,000

Issue Close Date: 30/11/2019

Issue Manager: Sanima Capital Ltd.

Project Name: Middle Tamor Hydropower Project (MTHP)

Project Capacity: 73MW

PROJECT PROFILE

Project Type	Run of River
Project Model	BOOT
Project Site	Taplejung
Status	Under Construction
RCOD	2080/5/26
Annual Energy Generation	429.409 GWh
Wet Season (8 mths)	364.27 GWh
Dry Season (4 mths)	64.90 GWh
Total Cost of Project	Rs. 13 billion (With IDC)
Per Megawatt Cost	Rs. 180.26 million
Issue date of Gen. License	2074/02/22
Validity of Gen. License	2110/02/21
General/Disc. Payback Period	6.73yrs / 13.36yrs.
Internal Rate of Return	13.87%

UTILIZATION OF IPO PROCEEDS

Civil Construction	Rs. 543 Mill.
Electro-mechanical Equipment	Rs. 148 Mill.
Hydro-mechanical Equipment	Rs. 52 Mill.
Electric Transmission Lines	Rs. 18 Mill.
Admin. & Engineering Management Exp.	Rs. 72 Mill.
TOTAL	Rs. 833.12 Mill.

OWNERSHIP

Promoters ("A")	70%
Locals ("B")	10%
General ("B")	20%

KEY FINANCIAL HIGHLIGHTS (in millions)

FY	78/79	79/80Q1	79/80E	80/81E	81/82E
Paid Up Cap.	2,499	2,499	3,333	3,333	3,333
R&S	(39)	(46)	(106)	225	651
LT Loan	4,475	5,055	9,998	9,557	9,069
Energy Sale	-	-	-	2,366	2,437
Op. Profit	(58)	(8)	(66)	1,444	1,493
Net Profits	(57)	(7)	(66)	331	426

RATIOS	78/79	79/80Q1	79/80E	80/81E	81/82E
BVPS	98.43	98.15	96.82	106.75	119.54
EPS	(2.26)	(0.28)	(1.99)	9.93	12.80
Int. Cov. Ratio (in times)	-	-	-	1.31	1.42

VALUATION / PRICING

As per P/E	113.50
As per P/B	281.32

The company is yet to produce electricity; Required Commercial Operation Date (RCOD) is 2080/5/26 (74% project work has been completed). Company forecasts leveraged balance sheet with no forecasts of dividend (cash/bonus) along 3-year window period. Likewise, there is no scope for any rights issue in the forecasted figures.

Snapshots...

- 🌐 **About the Issue:** Out of the offered 49,98,750 units. 4,99,875 units (10%) for the Nepalese employed abroad, 2,49,937 units (5%) for mutual funds and remaining 42,48,938 units are available for General Public.
- 🌐 **About the Company:** Incorporated as Public Ltd. on 2073/01/23; registered office at Sankha park, Dhumbarahi, Kathmandu. Chairman: Binay Kumar Shrestha MD/CEO: Dr.Jughal Bhurtel, Directors: Apar Neupane, Usha Khatiwada, Shiv Kumar Basnet and Independent Director: Braj Bhushan Chaudhary
- 🌐 **Dividend and Capital Plan:** Based on the projected reports, there are no increment in capital through bonus or right shares within the next 3-year window. Additionally, there is no provision for any cash dividends to be paid out during this time.
- 🌐 **Rationale of Credit Rating:** CARE Ratings Nepal Ltd. assigns CARE-NP BB (IS) rating. Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. Rationale put are: project implementation risk, power evacuation risk, hydrology risk, volatile interest rates and regulatory pressures.
- 🌐 **Utilization of IPO proceeds:** Out of total IPO proceeds of Rs. 833.12 Mill., Rs. 543 Mill. will be spent on civil construction, Rs. 148 Mill. on electromechanical equipment, Rs. 52 Mill. on hydromechanical equipment, Rs. 18 Mill. on electric transmission lines, and Rs. 72 Mill. on administrative and engineering management expenses.
- 🌐 **Financial Health:** The company is yet to produce electricity, as of now 74% of the project is completed. The company plans to produce and sell electricity from F.Y 80/81 and it envisages to be profitable from the same year. Crucial factors for determining the future earning capability of the project would be timely completion of the project and maintenance of pre-determined contractual PLF of 67.15%. Moreover, the company envisages to pay debt through internal cash flows and use IPO proceeds to pay for project construction. So, D/E remains at 2 times throughout the forecasted years and it plans to pay off debt from F.Y 80/81. Thus, as per forecasted figures, debt and interest payment outlook remains healthy on the condition of better earning capability.
- 🌐 **Risk Factors:** Project implementation risk and power evacuation risk are crucial risk factors as ~ 74% of the project construction (including construction of transmission line) has been completed while time left for RCOD is ~6 months. The risk is balanced with strong parentage and experienced board members.
- 🌐 **Pricing & Assumptions:** Our comparatives with similar HEP installed capacity finds that the peer stocks are currently trading at approx. 2.71 times their BVPS and 56.39 times their EPS. Thus, we determine the pricing of Sanima Middle Tamor hydropower Company scrip to be Rs. 281.32 and 113.50 in secondary market at current scenario. No DCF valuation due to lack of data.

Disclaimers: Not to be inferred as Investment recommendation.

Source: Prospectus, Offer letter and Care grading report.