

Recommendation: Subscribe

Target Price: LKR 19.50

Sector: Utilities Sector

WindForce Limited (WIND)- one of the pioneers in the power generation in Sri Lanka that has its footprints in wind, solar and hydro power generation in both Sri Lanka and overseas, is planning to raise LKR3.2Bn via an initial public offering (IPO) for a 15% stake. The funds are expected to be utilized to construct 15MW wind plants in Mannar (at a cost of LKR 927Mn) and 30MW solar plant with a 7.5MW battery storage in Senegal (cost of LKR 1383Mn) while the remaining LKR 932Mn is reserved to deploy immediately as lucrative projects are identified.

Windforce to be the largest power generating company listed on CSE : Windforce along with its total installed capacity of 217MW, would be over 4 times larger than its closest competitor listed on CSE and would also be the largest listed company in CSE in terms of market capitalization in the sector (LKR 21.6Bn). On top of the existing 27 power generating plants, WIND also proposed to build two wind plants in Mannar (10MW + 5Mw) at a cost of LKR 3.09Bn, having a 100% ownership. Funding lines would be through debt to equity of 70:30, where LKR 2.2Bn is expected to be raised at AWPLR+1.5% and equity portion of LKR 927Mn is expected to be raised via IPO proceeds.

Moreover, the other project- the proposed 30MW solar plant with 7.5MW battery storage in Senegal is expected to cost USD 39.24Mn, which will be funded through again on debt-to-equity ratio of 70:30 where the debt funding is expected to be LIBOR+5%. WIND will invest LKR 1.38Bn (or USD 7.063Mn) for a 60% equity stake in the project, while remaining equity investment would be contributed by the project partner- Vidullanka PLC(VLL) who will have the balance 40%.

Both projects are in the final stage of approvals which would be received within 6-8months while completions of the projects would be in 3Q-4Q 2022.

| | Market cap (LKR Bn) | Total Installed Capacity (MW) | Number of plants | Installed capacity | | |
|---------------------|------------------------|----------------------------------|---------------------|--------------------|--------------|-------------|
| | | | | Sollar (MW) | Wind (MW) | Hydro (MW) |
| Windforce Ltd | 21.6 | 217.7 | 27 | 122.3 | 69.2 | 26.2 |
| Laugfs Power PLC | 3.0 | 21.8 | 5 | 20 | 0 | 1.8 |
| LVL Energy Fund PLC | 5.5 | 50.7 | 13 | 6 | 15.3 | 29.4 |
| Panasian Power PLC | 2.2 | 8.9 | 3 | 5 | 0 | 8.9 |
| Resus Energy PLC | 1.8 | 14.5 | 8 | 0 | 0 | 14.5 |
| Vidullanka PLC | 4.6 | 25.9 | 11 | 0 | 0 | 25.9 |
| Vallibel Power | 5.5 | 21.9 | 3 | 0 | 0 | 21.9 |

Source : Company Annual Reports & NLE Research

Issue Highlights

| | |
|----------------------------------|-----------------|
| Industry | Utilities |
| Total Issue of shares | 202,615,341 |
| Issue per share | 16.00 |
| Issue size (LKR Bn) | 3.24 |
| % of holding to the public | 15% |
| Opening of the Subscription List | 24th March 2021 |
| Closure of the Subscription List | 15th April 2021 |

Shareholding Pattern

| | Pre Issue |
|-------------------------------------|------------|
| Akbar Brothers (Private) Limited | 38.9% |
| Hirdaramani (Private) Limited | 24.3% |
| Debug Investments (Private) Limite | 14.3% |
| Star Pack Investments (Private) Lin | 9.4% |
| Amaliya (Private) Limited | 3.9% |
| IPO Shareholders | 0.0% |
| | Post Issue |
| Akbar Brothers (Private) Limited | 33.0% |
| Hirdaramani (Private) Limited | 20.7% |
| Debug Investments (Private) Limite | 12.1% |
| Star Pack Investments (Private) Lin | 8.0% |
| Amaliya (Private) Limited | 3.3% |
| IPO Shareholders | 15.0% |

Analysts: Nisali Ranaweera
Anjula Nawarathna

Recommendation: Subscribe

Target Price: LKR 19.50

Sector: Utilities Sector

WIND is diversified in terms of energy sources and geography, also backed by a strong promoter, and has the potential to benefit from weaker LKR. WIND has a well-diversified and balanced portfolio of 218MW of installed capacity, generating electricity utilizing all three main renewable energy sources. The company currently operates 10 solar power projects (122.3 MW), 10 hydro power projects (26.2 MW) and 7 wind power projects (69.2MW) where of the total 27 plants, 6 plants operate overseas (Pakistan, Uganda and Ukraine), generating 45% of the total power thus eliminating the risk of unfavorable weather arising from different geographies and sources. Moreover, WIND also can benefit from weaker LKR since >39% of topline is generated via foreign currency (however some of it could get set off due to currency losses arising from foreign currency loans that are expected to be obtained for new projects).

We also take comfort from the presence of the main shareholders/ promoters of the group- Akbar Brothers (Pvt) Ltd who is the largest tea exporter in Sri Lanka which currently owns 38.9%, Hirdaramani (Pvt) Ltd, the top apparel manufacturer (currently owns 24.3%) and Debug Investments which is known for distribution of high quality IT products (owns 14.3%) who are leading corporates and internationally recognized companies which could also give an edge to WIND over other peers.

Relative Valuation method indicates a 22% upside to the issue price: We estimate WIND's profits to range between LKR 2.2-2.4Bn for FY21/22E while EPS to range LKR 1.97-2.07 (the forecasts excludes the income generating via new projects, hence EPS is arrived using the current shareholding) . We have arrived at our valuation based on a relative valuation method pinning the value to industry average PE and PBV. The utilities sector currently trades at a PE of 9.4x and PBV of 1.4x, generating a ROE of 14.4%. Thus, after taking an average of both methods we have arrived at a price for WIND of LKR 19.50 for FY2020/21, a 22% upside to the issue price of LKR 16.00 and along with a dividend yield of 8.2% WIND should generate a total return of >30%. Thus, we recommend subscribe.

Peer Analysis

| Listed Peers | Market Cap. (LKR Mn) | No. Shares (Mn) | TTM PAT to SH (LKR) | | | |
|-----------------------|----------------------|-----------------|---------------------|-----|------|-------|
| | | | Mn | PBV | PER | ROE |
| Utilities Sector | 24111 | | 2565.0 | 1.4 | 9.4 | 14.4% |
| Windforce Ltd* | 21612 | 1351 | 2376.6 | 1.1 | 7.7 | 14.4% |
| Laugfs Power PLC | 3049 | 335 | 180.7 | 1.1 | 16.9 | 6.3% |
| Lotus Hydro Power PLC | 1276 | 109 | 120.9 | 1.4 | 10.5 | 12.8% |
| LVL Energy Fund PLC | 5532 | 582 | 663.6 | 1.2 | 8.3 | 14.1% |
| Panasian Power PLC | 2188 | 625 | 157.3 | 1 | 13.9 | 7.5% |
| Resus Energy PLC | 1897 | 79 | 266.5 | 1.6 | 7.1 | 22.9% |
| Vidullanka PLC | 4642 | 843 | 707.0 | 1.4 | 6.6 | 21.2% |
| Vallibel Power | 5529 | 747 | 469.2 | 2.1 | 11.8 | 17.7% |

* Profits for FY2020/21E, PE PBV & market cap calculated at issue price of LKR 16.00. For other counters prices as at 10.03.21

Earnings Forecast

| YE Mar | 2018 | 2019 | 2020 | 2021E | 2022E |
|--|---------|---------|---------|---------|---------|
| Profit attributable to shareholders (LKR Mn) | 1,277.7 | 1,106.9 | 1,545.3 | 2,376.6 | 2,261.4 |
| EPS reported | 2.25 | 1.55 | 1.87 | 2.07 | 1.97 |
| EPS post IPO | 0.95 | 0.82 | 1.14 | 1.76 | 1.67 |
| NAVPS pre IPO | 11.9 | 11.0 | 14.2 | 14.4 | 16.4 |
| NAVPS post IPO | 0.0 | 5.8 | 12.1 | 12.2 | 13.9 |
| DPS | 1.46 | 1.45 | 1.24 | 1.32 | 1.26 |
| Dividend payout | 65% | 94% | 66% | 75% | 75% |
| Dividend yield | 9.1% | 9.1% | 7.7% | 8.2% | 7.8% |
| ROE | 18.9% | 14.0% | 9.5% | 14.4% | 12.0% |

Source: Company annual reports, NLE Research

Recommendation: Subscribe

Target Price: LKR 19.50

Sector: Utilities Sector

| Entity | Location | Installed capacity (MW) | Effective capacity (MW) | Date of commissioning | PPA Period (Yrs) | PPA years left | Plant load factor | Tariff rate | WIND's stake |
|-----------------------------|---------------------|-------------------------|-------------------------|-----------------------|------------------|----------------|-------------------|-----------------|--------------|
| Hydro Power Projects | | | | | | | | | |
| Energy Reclamation | Balangoda | 0.8 | 0.8 | Apr-04 | 20 | 20.00 | 42% | 8.53+3%YoY | 100% |
| Terraqua International | Deraniyagala | 1.3 | 1.3 | Feb-09 | 20 | 9.00 | 41% | Three-Tier | 100% |
| Terraqua Kokawita | Kalawana | 1.2 | 1.2 | Jun-12 | 20 | 12.17 | 35% | Three-Tier | 100% |
| Melanka Power | Haldummulla | 3.8 | 3.8 | Feb-14 | 20 | 13.83 | 37% | 13.32 | 100% |
| Vidul Madugeta | Neluwa | 2.5 | 1.3 | Nov-13 | 20 | 13.58 | 42% | Three-Tier | 50% |
| Gurugoda Hydro | Ella | 1.2 | 0.6 | Mar-10 | 20 | 9.00 | 31% | Three-Tier | 50% |
| Peak Power | Ginigathena | 2 | 2 | May-16 | 20 | 16.08 | 45% | Three-Tier | 100% |
| H.P.D. Power | Dambulla | 3.3 | 3.3 | Dec-16 | 20 | 16.75 | 41% | Three-Tier | 100% |
| Mahoma Uganda | Uganda | 2.7 | 1 | Oct-18 | 20 | 18.25 | 50% | USD 0.11 (Flat) | 36% |
| Ziba | Uganda | 7.6 | 1.9 | Jul-19 | 20 | 19.08 | 58% | USD 0.09 (Flat) | 26% |
| | | 26.4 | 17.2 | | | | | | |
| Wind Power Projects | | | | | | | | | |
| Seguwantivu | Puttalam | 9.6 | 9.6 | May-10 | 20 | 10.17 | 33% | Three-Tier | 100% |
| Vidatamunai | Puttalam | 9.6 | 9.6 | Jul-10 | 20 | 10.25 | 32% | Three-Tier | 100% |
| Nirmalapura | Puttalam | 10 | 4.9 | Jul-12 | 20 | 11.50 | 33% | Three-Tier | 49% |
| Daily Life | Puttalam | 10 | 9.6 | Jul-12 | 20 | 12.17 | 43% | Three-Tier | 96% |
| Powergen | Puttalam | 10 | 10 | Jul-12 | 20 | 12.33 | 23% | Three-Tier | 100% |
| Joule Power | Jaffna | 10 | 6.6 | Dec-14 | 20 | 14.67 | 40% | Three-Tier | 66% |
| Beta Power | Jaffna | 10 | 6.6 | Dec-20 | 20 | 14.67 | 41% | Three-Tier | 66% |
| | | 69.2 | 56.9 | | | | | | |
| Solar Power Projects | | | | | | | | | |
| Vydexa | Vavuniya | 10.0 | 7.6 | Jul-17 | 20 | 17.17 | 24% | 23.1 | 76% |
| Solar One | Polonnaruwa | 10.0 | 5 | Dec-16 | 20 | 16.75 | 24% | 23.1 | 50% |
| Suryadhanavi | Roof Tops | 11.4 | 10 | Nov-18 | 20 | 16.75 | 16% | 22.00/15.5 | 88% |
| Sunny Clime | Vavuniya | 0.9 | 0.8 | Feb-19 | 20 | 18.83 | 25% | 17.95 | 90% |
| Seruwawila | Vavuniya | 0.9 | 0.8 | Feb-19 | 20 | 18.83 | 24% | 17.96 | 90% |
| Hirujanani | Roof Tops | 2.1 | 1.4 | Apr-19 | 20 | 16.75 | 18% | 22.00/15.5 | 66% |
| Harappa Solar | Pakistan, Lahore | 18.0 | 2.3 | Oct-17 | 25 | 22.00 | 24% | PKR 19.881 | 13% |
| Gharo Solar | Pakistan, Gharo | 50.0 | 15.0 | Dec-19 | 25 | 29.00 | 24% | PKR 6.996 | 30% |
| Tororo PV Power | Uganda, Tororo | 10.0 | 8.0 | Aug-20 | 20 | 20.00 | 22% | USD 0.109 | 80% |
| Sempolky Solar | Ukraine, Brovarskiy | 9.0 | 1.1 | Jul-20 | 20 | 20.00 | 13% | EUR 0.1276 | 18% |
| | | 122.3 | 52 | | | | | | |

Disclaimer

The report has been prepared by Nations Lanka Equities (Pvt) Ltd. The information and opinions contained herein has been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified, no representation or warranty, express or implied is made as to its accuracy, completeness or correctness, reliability or suitability. All such information and opinions are subject to change without notice and are not responsible for the communication of the same. This document is for information purposes only, descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. In no event will Nations Lanka Equities (Pvt) Ltd. be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising out of, or in connection with the use of this report and any reliance you place on such information is therefore strictly at your own risk.

Nations Lanka Equities (Pvt) Ltd. may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Not all customers will receive the material at the same time. Nations Lanka Equities (Pvt) Ltd., their respective directors, officers, representatives, employees, related persons and/or Nations Lanka Equities (Pvt) Ltd., may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principal or agent.

The information contained in this report is for general information purposes only. This report and its content is copyright of Nations Lanka Equities (Pvt) Ltd. and all rights reserved. This report- in whole or in part- may not, except with the written permission of Nations Lanka Equities (Pvt) Ltd. be reproduced or distributed or commercially exploited in any material form by any means whether graphic, electronic, mechanical or any means.