

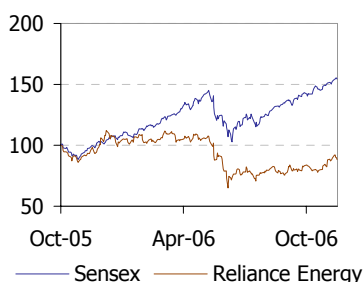
# Reliance Energy

Relative to sector: **Outperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 213mn  
Market cap : Rs.110bn  
52 week high/low : Rs.701/ Rs.362  
Avg. daily vol. (6mth) : 856,900 shares  
Bloomberg code : RELE IN  
Reuters code : RLEN.BO

## Shareholding (%) Sep-06 QoQ chg

Category	Sep-06 (%)	QoQ chg (%)
Promoters	29.7	(23.7)
FII's	20.7	6.0
MFs / UTI	6.4	2.9
Banks / FIs	22.9	3.7
Others	20.3	11.1

## EXECUTION CONCERNS OVERDONE

Despite a brisk run up in past one month, the Reliance Energy (REL) stock has grossly underperformed the broader market (by more than 50%). This can be attributed mainly to – a lack of visibility over the announced projects and weaker sectoral dynamics.

### REL's Valuations = Existing operations + cash

REL's current valuations reflect only the existing operations (*see overleaf*). Owing to the prevailing uncertainty over the fuel purchase agreement, valuations do not build in any upside from the proposed gas-based initiatives. Therefore, the treasury book (surplus cash) is effectively valued at book.

### What can change?

Although, the outlook over fuel procurement still remains hazy, following developments can certainly act as valuation catalysts for the stock:

- Utilization of cash on books to acquire projects (such as the recent acquisition 600 MW coal based Roza thermal project)
- Ramp up in the coal and hydro generation projects
- Issuance of guidelines for long term gas purchase contracts (GSPA)
- Gas procurement through alternate source – LNG etc
- Success in the CBM initiative – led by RNRL consortium

### Any visibility/ development on the above-mentioned events/ new projects would effectively translate into a premium to the treasury book, which otherwise is being traded at book.

Given the inexpensive valuations (~1.2x FY07E BV v/s ~2x of peers), we believe that concerns on the execution front seem to be over done at the current valuations. We maintain our sector **Outperformer** on the stock.

## Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	40,346	5,203	-	28.0	34	-	8.7	7.9	-	4.7
2006	39,195	7,309	-	34.4	23	-	10.0	8.6	-	5.0
2007E	37,970	7,479	33.4	35.2	2	14.7	8.9	8.0	12.7	5.1
2008E	41,265	7,580	34.9	35.7	1	14.5	8.4	8.0	11.3	5.2

Source: \*Consensus broker estimates, Company, ENAM estimates

**Sum of parts valuation**

Parameter	(Rs. bn)	(\$ mn)	(Rs/share)	Comment
<b>Valuation of Power Business (A)</b>	<b>29</b>	<b>630</b>	<b>136</b>	-
- Mumbai regulatory	25	542	117	Profits capitalized at 10%
<i>FY07 Profit</i>	<i>2.5</i>	-	-	-
- Other power assets	4	88	19	Profits capitalized at 10%
<i>FY07 Profit</i>	<i>0.4</i>	-	-	-
<b>Valuation of EPC Biz (B)</b>	<b>14</b>	<b>303</b>	<b>66</b>	<b>10x EBIDTA</b>
<i>EPC Business EBIDTA</i>	<i>1.4</i>	-	-	-
<b>Valuation of treasury portfolio (C)</b>	<b>74</b>	<b>349</b>	<b>349</b>	<b>At BV</b>
<b>Valuation of REL (A) + (B) + (C)</b>	<b>117</b>	<b>1,281</b>	<b>551</b>	-

Source: ENAM Research

**Valuation sensitivity:**

(Rs.)		Capitalization rate (%)			
		8	10	12	14
Treasury Book (x)	0.25	323	289	266	250
	0.50	411	376	354	337
	1.00	585	551	528	512
	1.25	672	638	615	599
	1.50	759	725	702	686
	1.75	846	812	790	773

Source: ENAM Research

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