Company Results Review

5 April 2007 | 7 pages

National Thermal Power (NTPC.BO)

FY07 – Good Year, But Could Have Been Better

- Recurring PAT up 18% YoY — NTPC reported its FY07 un-audited results at a press conference today. Recurring PAT at Rs65.6bn up 18% YoY was 5% below our estimate of Rs69.2bn. This was a disappointing given that after growing 19.5% YoY in the first 9mFY07, full-year numbers imply that 4QFY07 recurring PAT grew a tepid a 4–5%. We await the audited FY07 numbers for clarity.
- 5,710MW added in the Xth Plan — NTPC added 5,710MW in the Xth Plan period, acquired the 705MW Badarpur TPS, and took a 28.33% equity stake in Ratnagiri TPS. Slippages into the next plan include the 1,000MW Sipat II and 500MW of Kahalgaon Stage II, which is likely to be added in FY08E along with 660MW of Sipat I and 500MW of the SAIL Bhilai expansion.
- Capacity increasing 2x in 5 years and 3x in 10 years — We would not be unduly concerned with a weak 4QFY07 as NTPC aims to double its capacity by FY12E and triple capacity to 76GW by FY17E. Its capex is well funded with low current gearing of 0.45x, it has high current cash levels of Rs84.7bn, a strong credit rating and a high annual cash flow from operations of Rs175bn for FY07E-15E.
- Our top pick among the Indian electric utilities — NTPC is our top pick in the Indian Electric Utility space for its defensiveness (particularly for investors who are benchmarked against broad market indices), large market capitalization, regulated earnings stream and secular growth.

Buy/Low Risk	1L
Price (05 Apr 07)	Rs158.50
Target price	Rs181.00
Expected share price return	14.2%
Expected dividend yield	2.0%
Expected total return	16.2%
Market Cap	Rs1,306,906M
	US$30,489M

Price Performance (RIC: NTPC.BO, BB: NATP IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	49,271	6.14	20.2	25.8	3.1	12.7	1.5
2006A	55,714	6.76	10.1	23.5	2.9	12.8	1.8
2007E	69,280	8.40	24.4	18.9	2.7	14.8	2.0
2008E	78,432	9.51	13.2	16.7	2.5	15.3	2.3
2009E	83,201	10.09	6.1	15.7	2.3	15.0	2.5

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	25.8	23.5	18.9	16.7	15.7
EV/EBITDA adjusted (x)	21.2	19.7	14.6	13.0	11.7
P/BV (x)	3.1	2.9	2.7	2.5	2.3
Dividend yield (%)	1.5	1.8	2.0	2.3	2.5
Per Share Data (Rs)					
EPS adjusted	6.14	6.76	8.40	9.51	10.09
EPS reported	7.23	7.06	8.40	9.51	10.09
BVPS	50.67	54.53	59.28	64.69	70.22
DPS	2.40	2.80	3.20	3.60	4.00
Profit & Loss (RsM)					
Net sales	222,252	256,761	305,828	354,684	401,991
Operating expenses	-184,638	-215,233	-247,771	-284,666	-322,814
EBIT	**37,614**	**41,528**	**58,057**	**70,018**	**79,177**
Net interest expense	-9,231	-9,585	-11,686	-14,393	-17,584
Non-operating/exceptionals	23,600	26,078	26,452	26,608	25,215
Pre-tax profit	**51,983**	**58,021**	**72,823**	**82,232**	**86,808**
Tax	-2,712	-2,307	-3,543	-3,800	-3,607
Extraord./Min.Int./Pref.div.	8,799	2,488	0	0	0
Reported net income	**58,070**	**58,202**	**69,280**	**78,432**	**83,201**
Adjusted earnings	49,271	55,714	69,280	78,432	83,201
Adjusted EBITDA	57,198	62,005	86,416	101,763	119,395
Growth Rates (%)					
Sales	9.7	15.5	19.1	16.0	13.3
EBIT adjusted	57.0	10.4	39.8	20.6	13.1
EBITDA adjusted	29.4	8.4	39.4	17.8	17.3
EPS adjusted	20.2	10.1	24.4	13.2	6.1
Cash Flow (RsM)					
Operating cash flow	**65,007**	**68,373**	**96,021**	**98,078**	**102,292**
Depreciation/amortization	19,584	20,477	28,359	31,745	40,218
Net working capital	-12,647	-10,306	-1,618	-12,100	-21,126
Investing cash flow	**-91,106**	**-49,159**	**-121,232**	**-107,164**	**-169,537**
Capital expenditure	-54,508	-65,279	-128,393	-113,097	-175,529
Acquisitions/disposals	0	0	0	0	1
Financing cash flow	**20,531**	**4,717**	**33,417**	**10,956**	**45,240**
Borrowings	16,350	31,095	63,497	44,795	82,839
Dividends paid	-22,470	-26,325	-30,080	-33,840	-37,599
Change in cash	**-5,568**	**23,931**	**8,207**	**1,869**	**-22,004**
Balance Sheet (RsM)					
Total assets	**659,483**	**717,371**	**828,937**	**920,744**	**1,048,584**
Cash & cash equivalent	60,783	84,714	92,921	94,790	72,783
Accounts receivable	13,747	8,678	11,712	18,172	30,895
Net fixed assets	322,433	367,235	467,270	548,621	683,932
Total liabilities	**241,720**	**267,784**	**340,150**	**387,364**	**469,602**
Accounts payable	67,467	61,402	70,271	72,690	72,089
Total Debt	170,878	201,973	265,470	310,265	393,104
Shareholders' funds	**417,763**	**449,587**	**488,788**	**533,380**	**578,980**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	25.7	24.1	28.3	28.7	29.7
ROE adjusted	12.7	12.8	14.8	15.3	15.0
ROIC adjusted	11.7	11.2	12.7	12.6	11.6
Net debt to equity	26.4	26.1	35.3	40.4	55.3
Total debt to capital	29.0	31.0	35.2	36.8	40.4

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Figure 1. NTPC FY07 Unaudited Numbers

Year End Mar31 (Rsmn)	FY06A	FY07A	% Chg	FY07E	% Chg
Generation (BU)	170.88	188.67	10.4%	190.956	11.7%
Gross Sales	287,530	332,997	15.8%	332,438	15.6%
Net Sales	261,429	306,387	17.2%	305,828	17.0%
Recurring PAT	55,714	65,697	17.9%	69,280	24.4%
Exceptional	2,488	1,567		0	
Reported PAT	58,202	67,264	15.6%	69,280	19.0%

Source: NTPC and Citigroup Investment Research

National Thermal Power

Company description

NTPC is India's largest power generator with 25GW of capacity (22% of India's installed capacity), it generates 170bu (29% of India's generation). Its capacity is spread across 21 locations with coal-based units (20.69GW), gas-based units (3.96GW) and three JV projects (314MW). NTPC's output is contracted through long-term PPAs (25 years for coal-based and 15 years for gas-based) with its customers (SEBs 99% of its sales). Currently, the entire billing to the SEBs is secured through letters of credit. NTPC plans to double capacity by FY12E and triple capacity by FY17E. The company's strong finances and project implementation record leave us optimistic about it achieving its targeted growth.

Investment thesis

We rate NTPC as Buy/Low Risk (1L) with a target price of Rs181. We view NTPC as a defensive option, particularly for investors benchmarked against broad market indices, and like it for its large market capitalization, regulated earnings stream and secular growth. NTPC's market leadership (29% share of the country's power generation), competitive cost structure (average tariffs of Rs1.20 to 1.90/ unit – the lowest in the country), strong project-implementation skills and robust finances (gearing of 0.45x and cash/share of Rs10.3) puts the company in a strong position to expand capacity (12% CAGR targeted for FY06-12E), in our view. We expect minimal volatility in earnings (FY05-09E) under current regulations, key costs are a pass-through, allowing for post-tax ROE of 14% vs the current 10-year GOI bond yield of 7.5%.

The tripartite agreement signed among the Central Power Sector Utilities (including NTPC), the Reserve Bank of India and the state governments to ensure a payment guarantee mechanism to the central utilities appears to be working well. This has resulted in a significant improvement in the cash flows of NTPC, and hence its ability to invest in new generation projects.

Valuation

Our valuation methodology for NTPC involves setting a floor price for the stock and then assessing the value of growth opportunity (VGO) captured by our DCF calculation. We set a floor price of Rs141 for the NTPC stock using Replacement Cost of Assets methodology and adding the value of power bonds and cash and investment holdings.

We believe the Replacement Cost of Methods does not, however, fully capture the upside inherent in NTPC's unprecedented capacity addition plan against a backdrop of persistent peak and base load deficits that is further exacerbated by rapid economic growth. To capture this value we use DCF methodology and set a target price of Rs181.

Risks

We rate NTPC as Low Risk according to our quantitative risk-rating system, which tracks 260-day historical share price volatility. We also consider the following factors:

- Very stable and regulated earnings and cash flows from operations, with fuel costs being a pass-through.
- Secular growth prospects for the power sector in India, given current shortages and low usage and penetration levels.
- Competitiveness, reflected in dominant market share and strong technical and operating performance.

Key risks to NTPC's operations and our earnings forecasts could emanate from the following:

- NTPC's operations depend on timely availability of fuel. NTPC's gas-based plants have been hampered by poor fuel supply, resulting in sub-optimal capacity utilization.
- NTPC is implementing larger modules and newer technologies such as 660MW and 800MW super critical technology and alternative fuels such as gas and hydro more aggressively. These initiatives could place demands on the company's project management and technology absorption skills.
- NTPC's regulated rate of return for the period FY05-09 was reduced from 16% to 14% (post tax ROE) due to falling interest rates and the presence of a payment security mechanism. Any further reduction post-Y09 would affect earnings and profitability.
- UI rates are very high compared with normal tariff rates and there could be pressure from the SEBs to reduce this spot market premium.
- There could be future payment risk due to resurfacing of free power supply to agricultural customers as a populist measure by a few states.
- NTPC has entered into a JV with GasPatrol – France, and Canoro Resources – Canada and has bid for an oil & gas exploration block in northeast India. This raises the risk of non-discovery, like for any exploration & production venture.

Appendix A-1

Analyst Certification

We, Venkatesh Balasubramaniam and Deepal Delivala, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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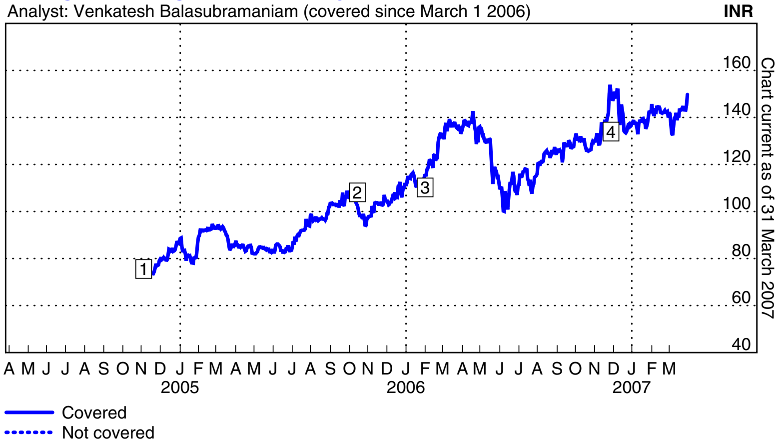
National Thermal Power (NTPC.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Venkatesh Balasubramaniam (covered since March 1 2006)



#	Date	Rating	Target Price	Closing Price
1:	4 Nov 04	1L	74.00	NA
2:	14 Oct 05	1L	*120.00	102.65
3:	1 Feb 06	1L	*137.00	115.75
4:	28 Nov 06	1L	*181.00	149.85

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