

Nat Resources & Energy
Electric Utilities
 Equity – India

NTPC

Underweight (V)

Target price (INR)	142.00
Share price (INR)	184.60
Potential total return (%)	-23.1

Performance	1M	3M	12M
Absolute (%)	3.9	7.7	-2.9
Relative ^A (%)	-17.9	-2.0	45.2

Index^A BOMBAY SE IDX

RIC NTPC.BO
 Bloomberg NATP IN

Market cap (USDm) 30,412
 Market cap (INRm) 1,522,113

Enterprise value (INRm) 1554727
 Free float (%) 11

Note: (V) = volatile (please see disclosure appendix)

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Reiterate UW (V): Mind the delay

- ▶ **FY09 results below expectations; capacity addition disappoints; tough road ahead for 22GW target in 11th plan**
- ▶ **Too much premium attributed to strong balance sheet as market is not factoring in delays in capacity addition**
- ▶ **Maintain our estimates and TP of INR142; we believe valuations are expensive versus its peers; reiterate UW (V)**

FY09 results below expectations. Revenue was up 14%, to INR421bn, on 3% generation growth. PAT was up 6%, to INR78bn (HSBCe: cINR82bn), below HSBC and consensus estimates. We think this was primarily due to additional wage provisions as well as gratuity-related expenses (cINR14bn vs 9m09 INR8.8bn).

Generation growth remains muted. Generation continues to disappoint, with only 3% growth in generation units, to 207bn. Generation has been muted due to lower plant load factor (PLF) of 91.14% (vs 92.24% in FY08) and lower capacity addition (i.e., only 2000MW of capacity achieving commercial operation in FY09).

Capacity addition plan still eludes reality: NTPC has commissioned only 1000MW in FY09 and expects to add c19.7GW of capacity over the next three years. Given that it has missed timelines in the past, we now believe it will only add c9.2GW of capacity. The company has yet to place an order for 1.8GW. NTPC has spent INR152bn in FY09 towards capacity addition and is expected to spend INR245bn in FY10.

Securing fuel supply: NTPC has received 130.7mn tonnes of coal (including 6.4mn tonnes of imported coal) and 10.81mmscmd gas for its power plant. Management expects coal import to double next year, to 12.5mn tonnes, and also expects 15mn tonnes of coal from its captive mines by FY12. However, there are considerable delays in its captive mine development, with the land acquisition for Pakri Barwadiah underway.

Valuation and risks: We maintain our estimates and target price of INR142. We use the average of three different approaches to value NTPC shares and derive a target price of INR142 per share. Hence on valuation grounds we reiterate our Underweight (V) rating. Key upside risks to our rating include faster than expected execution of the capacity addition and addressing of the fuel risks.

NTPC: Summary table

INRm	Revenue	EBIDTA	PAT	P/E	P/BV	ROE
FY09e	418,192	131,412	82,098	18.5	2.7	14.9%
FY10e	467,204	144,773	86,884	17.5	2.4	14.5%
FY11e	518,285	156,979	90,812	16.8	2.3	14.1%

Source: HSBC

Financials & valuation

Financial statements

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Profit & loss summary (INRm)				
Revenue	386,823	418,192	467,204	518,285
EBITDA	117,352	131,412	144,773	156,979
Depreciation & amortisation	-22,060	-21,213	-23,306	-25,735
Operating profit/EBIT	95,292	110,199	121,468	131,244
Net interest	-18,581	-20,910	-23,998	-26,860
PBT	103,510	112,502	119,941	126,154
HSBC PBT	103,510	112,502	119,941	126,154
Taxation	-28,811	-30,404	-33,057	-35,342
Net profit	74,699	82,098	86,884	90,812
HSBC net profit	74,699	82,098	86,884	90,812

Cash flow summary (INRm)

Cash flow from operations	97,822	99,202	119,943	137,619
Capex	-99,442	-82,556	-127,945	-206,790
Cash flow from investment	-82,505	-66,041	-111,430	-190,275
Dividends	-28,932	-29,605	-33,581	-35,221
Change in net debt	16,328	1,027	30,105	93,161
FCF equity	-46,404	-8,414	-31,898	-92,411

Balance sheet summary (INRm)

Intangible fixed assets	6	6	6	6
Tangible fixed assets	537,900	599,243	703,882	884,937
Current assets	263,157	304,766	313,315	280,150
Cash & others	153,605	190,961	186,356	139,688
Total assets	935,533	1,021,970	1,118,644	1,250,018
Operating liabilities	77,030	85,788	107,959	141,737
Gross debt	303,147	341,530	367,031	413,523
Net debt	149,542	150,569	180,674	273,836
Shareholders funds	528,629	573,647	621,290	671,087
Invested capital	570,428	627,266	722,888	883,668

Ratio, growth and per share analysis

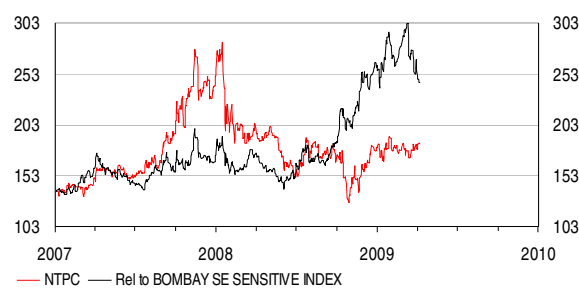
Year to	03/2008a	03/2009e	03/2010e	03/2011e
Y-o-y % change				
Revenue	14.2	8.1	11.7	10.9
EBITDA	15.4	12.0	10.2	8.4
Operating profit	18.1	15.6	10.2	8.0
PBT	15.5	8.7	6.6	5.2
HSBC EPS	8.3	9.9	5.8	4.5
Ratios (%)				
Revenue/IC (x)	0.7	0.7	0.7	0.6
ROIC	13.0	13.4	13.0	11.8
ROE	14.7	14.9	14.5	14.1
ROA	9.9	9.9	9.7	9.3
EBITDA margin	30.3	31.4	31.0	30.3
Operating profit margin	24.6	26.4	26.0	25.3
EBITDA/net interest (x)	6.3	6.3	6.0	5.8
Net debt/equity	28.2	26.2	29.0	40.7
Net debt/EBITDA (x)	1.3	1.1	1.2	1.7
CF from operations/net debt	65.4	65.9	66.4	50.3
Per share data (INR)				
EPS reported (fully diluted)	9.06	9.96	10.54	11.01
HSBC EPS (fully diluted)	9.06	9.96	10.54	11.01
DPS	3.51	3.91	4.14	4.33
Book value	64.11	69.57	75.35	81.39

Valuation data

Year to	03/2008a	03/2009e	03/2010e	03/2011e
EV/sales	4.0	3.7	3.4	3.3
EV/EBITDA	13.1	11.8	11.1	10.9
EV/IC	2.7	2.5	2.2	1.9
PE*	20.4	18.5	17.5	16.8
P/Book value	2.9	2.7	2.4	2.3
FCF yield (%)	-3.3	-0.6	-2.2	-6.4
Dividend yield (%)	1.9	2.1	2.2	2.3

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 07 Apr 2009

FY09 Results – below expectations

NTPC announced its provisional results with net sales at INR421bn, up 14% y-o-y, and PAT at INR78bn, up 5.6% (HSBCe: cINR82bn) below our estimates. We think this was primarily due to additional wage provisions as well as gratuity-related expenses (cINR14bn vs 9m09 INR8.8bn).

Generation continues to disappoint, with only 3% growth in generation units, to 207bn. Generation has been muted due to lower plant load factor (PLF) of 91.14% (vs 92.24% in FY08) and lower capacity addition (i.e., only 2000MW of capacity achieving commercial operation in FY09).

NTPC: Summary results

INRm	FY08	FY09	yoy %
Generation (bn units)	200.9	206.9	3.0%
Gross Sales	400,177	455,222	13.8%
Net Sales	369,462	421,824	14.2%
PAT	74,148	78,274	5.6%
Operational details			
Availability factor	92.12%	92.47%	
PLF	92.24%	91.14%	

Source: Company

Imported coal rescues in 4Q09

The PLF in 4Q was significantly higher and in March it was 100%. This was primarily due to imported coal availability. NTPC had imported 6.4mn tonnes coal during the year. The company expects to import c12.5mn tons during FY10 of the total requirement of c136mn tons of coal during FY10. NTPC expect its coal requirement to c225mn tonnes in FY12e with captive and imported coal to contribute 15mntpa each.

NTPC: Generation details

	Q4FY09		Q4FY08		% change Generation
	Generation (Mu)	PLF	Generation (Mu)	PLF	
January	19,182	96.8%	18,008	94.6%	6.5%
February	17,450	96.7%	17,228	93.5%	1.3%
March	20,249	100.0%	18,329	94.3%	10.5%

Source: CEA, NTPC

Tough road for 11th plan 22GW capacity addition target

NTPC has commissioned c1000MW (Kahalgaon II and Bhilai) of capacity in FY09. This is well below the initial targets of c2,820MW for FY09e set by the company. The Kahalgaon Stage-II 500MW expansion has been moved to FY10, increasing the target now to be 3,300 vs earlier target of 2,800MW. Also, out of 22.4GW capacity addition target, NTPC is yet to award equipment contract for 1.7GW of capacity.

We expect that NTPC's captive coal mines continue to be delayed with land acquisition under progress in Pakri Barwadih mines and production is likely to start in January 2010. However, decision on Mines Development Contractor is yet to be taken. For evacuation of coal from Chatti Bariatu coal mines, Koderma- Hazaribagh Banadag rail link is to be established.

NTPC (including JVs): 11th plan targets FY08-12e

Year (in MW)	FY08a	FY09e	FY10e	FY11e	FY12e	Total
Company targets						
- Earlier targets	1,740	2,820	3,600	6,620	7,650	22,430
- Revised targets	1,740	1,500	3,300*	5,410	10,980	22,430*
Actual		1,000				
HSBC estimates	1,740	1,000	1,650	2,070	5,460	11,920
Shortfall	-	-	1,650	3,340	5,520	10,510

Source: Company data, HSBC estimates

*500 MW has been shifted to FY10 from FY09e and hence the total will be incorrect to that extent

We continue to believe that project execution remains a key concern for NTPC, which has missed project timelines in the past. We believe NTPC's capacity addition for the 11th Plan will fall short of management guidance of c22GW and street estimates of c15-18GW. We retain our estimate of 11.9GW capacity expansion for the 11th plan period.

Funding in place, however the speed of expansion is concern

NTPC has tied up overall loans aggregating to cINR325bn (cINR116bn in FY09) for its capacity addition program. During the year NTPC tied up loans with Power Finance Corporation (INR100bn) and LIC (INR10bn). Also with cash of cINR165bn, we do not anticipate any funding concerns for its capacity addition program, however it's the pace at which the addition will be done is what we are concerned about.

Valuation

Trading at premium, not justified

NTPC is trading at a premium against its peers due to: (a) stable cash flow, (b) the regulated model that enables it to pass on fuel costs and interest rate, (c) strong balance sheet, and (d) strong parentage. However, we believe its current valuation considers the best case scenario in term of capacity addition and hence we feel it is expensive compared to peers.

We used the average of three different approaches to value NTPC shares and derived a target share price of INR142, which remains unchanged. Based on our DCF-based approach, we derive a value of INR123. Assuming a RoE of 17% and COE of 11.5%, we arrive at P/BV of 1.8x, and based on a FY10e BVPS we derived a fair value of INR138 per share. Our SOTP valuation suggests fair value of INR165 per share. Based on the average of these three values, we derived a target price of INR142.

Under our research model, for Indian stocks with a volatility indicator, the Neutral band is 10 percentage points above and below the hurdle rate of 11%. For NTPC, this translates into a Neutral band of 1-21% around the current share price. Given that the -23% potential return suggested by target price falls below the Neutral band, hence we reiterate our Underweight (V) on the stock.

Risks

Upside risks to our rating include faster execution and the ability to raise funds at lower cost and to address the fuel issue. Business risks includes fuel supply concerns, delays in project execution, and an impact from higher costs on merchant power.

Utilities: Global valuation sheet

Company	Rating	EV/EBITDA		HSBC P/E		P/B		Dividend Yield		ROE	
		2009e	2010e	2009e	2010e	2009e	2010e	2009e	2010e	2009e	2010e
ELECTRIC UTILITIES - EUROPE											
Centrica	Neutral (V)	4.68x	4.18x	10.50x	9.29x	1.83x	1.69x	5.7%	6.0%	22.1%	18.9%
National Grid	Overweight	7.52x	7.56x	9.84x	9.28x	2.21x	1.99x	7.2%	7.7%	23.7%	22.5%
E.ON	Neutral (V)	5.37x	4.76x	8.22x	7.27x	1.15x	1.06x	7.0%	7.5%	14.4%	15.2%
RWE	Neutral (V)	5.97x	5.47x	8.46x	7.57x	2.50x	2.13x	6.8%	7.2%	30.3%	30.4%
EDF	Overweight (V)	7.11x	6.58x	12.12x	10.80x	2.25x	2.02x	4.5%	4.8%	19.6%	19.7%
GDF Suez	Underweight (V)	6.48x	6.11x	9.99x	9.28x	0.92x	0.87x	6.0%	6.5%	9.5%	9.7%
ENEL	Underweight (V)	5.92x	5.64x	5.56x	5.72x	0.99x	0.93x	13.4%	13.4%	18.3%	16.8%
SECTOR AVERAGE		6.43x	5.97x	9.63x	8.79x	1.55x	1.41x	6.6%	6.9%	17.0%	16.9%
ELECTRIC UTILITIES - LATAM											
Aes Tiete S.A	Overweight	3.16x	3.01x	9.33x	8.68x	15.71x	15.71x	10.7%	11.5%	110.9%	119.2%
Cpfl Energia Sa	Neutral (V)	8.58x	8.14x	12.77x	11.79x	3.18x	3.14x	7.3%	8.0%	25.0%	26.8%
Eletrobras	Underweight (V)	14.89x	9.63x	12.96x	9.94x	0.36x	0.35x	9.6%	12.5%	2.8%	3.5%
Energias do Brasil	Overweight (V)	6.48x	6.26x	10.48x	9.16x	1.02x	0.96x	0.0%	4.8%	10.3%	10.8%
Tractebel Energia Sa	Overweight (V)	7.35x	6.55x	12.73x	11.16x	3.58x	3.53x	7.5%	8.5%	28.3%	31.8%
SECTOR AVERAGE		7.19x	6.27x	11.10x	9.98x	2.99x	2.94x	6.9%	8.2%	23.8%	26.0%
ELECTRIC UTILITIES - ASIA (EX INDIA)											
China Power International	Neutral (V)	6.42x	6.51x	10.48x	10.40x	0.63x	0.61x	3.7%	3.9%	6.2%	5.9%
China Resources Power	Overweight (V)	10.96x	7.86x	15.05x	9.71x	2.34x	1.97x	2.1%	3.3%	16.1%	22.1%
Datang Power	Overweight (V)	13.76x	10.91x	14.79x	10.19x	1.44x	1.30x	3.3%	5.0%	10.2%	13.4%
Huaneng Power International	Neutral (V)	36.57x	32.07x	15.21x	12.06x	1.39x	1.30x	3.9%	5.2%	9.6%	11.2%
Hongkong Electric Holding	Underweight	11.06x	10.87x	15.42x	14.90x	1.82x	1.77x	5.0%	5.2%	12.0%	12.0%
CLP Holdings Ltd.	Neutral	9.47x	9.13x	14.98x	13.75x	1.93x	1.84x	4.7%	4.7%	13.1%	13.7%
SECTOR AVERAGE		15.52x	8.79x	14.94x	10.69x	1.81x	1.46x	4.1%	3.8%	12.4%	12.1%
ELECTRIC UTILITIES - INDIA											
NTPC	Underweight (V)	11.06x	10.90x	17.50x	16.74x	2.45x	2.27x	2.2%	2.3%	14.5%	14.1%
PTC India	Overweight (V)	1.40x	-0.54x	18.53x	17.04x	1.02x	0.98x	1.6%	1.8%	5.6%	5.9%
Reliance Infrastructure	Neutral (V)	16.45x	0.00x	11.09x	10.38x	1.03x	0.95x	0.7%	0.7%	10.0%	9.8%
Tata Power	Overweight (V)	6.05x	5.70x	7.85x	7.62x	1.75x	1.50x	3.1%	3.2%	24.2%	21.2%
Cesc Ltd	Overweight (V)	7.20x	7.22x	7.86x	7.97x	0.54x	0.51x	2.3%	2.3%	7.0%	6.6%
Lanco Infratech	Neutral (V)	4.87x	3.93x	5.63x	3.45x	1.28x	0.93x	0.0%	0.0%	25.7%	31.4%
SECTOR AVERAGE		10.69x	9.32x	15.72x	15.00x	2.21x	2.03x	2.2%	2.3%	15.2%	14.6%
GLOBAL AVERAGE		7.89x	6.79x	11.09x	9.97x	1.72x	1.56x	5.9%	6.2%	16.4%	16.3%

Source: HSBC, Thomson Financial Datastream

Disclosure appendix

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The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Sumet Agrawal

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Stock ratings

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For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However,

stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

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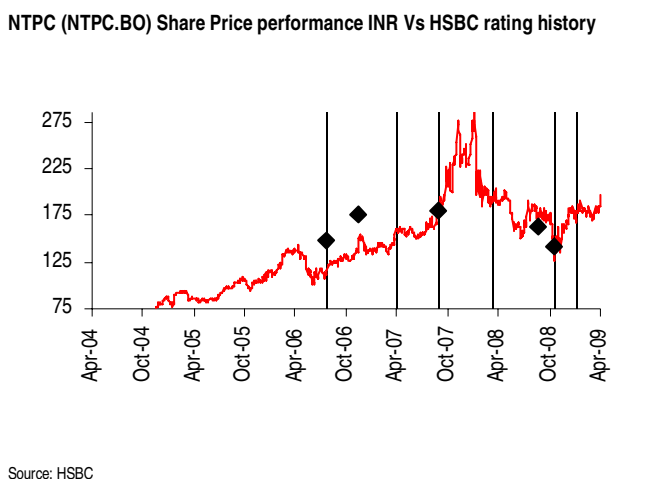
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As of 09 April 2009, the distribution of all ratings published is as follows:

Overweight (Buy)	38%	(30% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(30% of these provided with Investment Banking Services)
Underweight (Sell)	24%	(27% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities



Recommendation & price target history		
From	To	Date
N/A	Overweight	28 July 2006
Overweight	Neutral	10 April 2007
Neutral	Underweight	04 September 2007
Underweight	Underweight (V)	17 March 2008
Underweight (V)	Neutral (V)	27 October 2008
Neutral (V)	Underweight (V)	14 January 2009
Target Price	Value	Date
Price 1	148.10	28 July 2006
Price 2	175.80	24 November 2006
Price 3	179.00	04 September 2007
Price 4	163.00	29 August 2008
Price 5	142.00	27 October 2008

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
NTPC	NTPC.NS	196.90	08-Apr-2009	2, 5

Source: HSBC

- 1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
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