Power & Utilities | India

NTPC NTPC IN

BUY

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COMPANY QUICK COMMENT

In a press release, NTPC stated that it commissioned Unit-1 (660MW) of Sipat today (June 28) - in-line with guidance given by management when we visited the site earlier this month. We expect Unit-1 to achieve CoD in 4-6 weeks, Unit-2 in the next 6 months and Unit-3 by 1QFY13 if not in 4QFY12 itself. In our view, commissioning of the super-critical unit is a significant milestone; moreover it signifies that technical problems relating to the TG unit (vendor being Power Machines of Russia) have been successfully resolved. At 1.9x FY13F P/B, valuations appear reasonable; maintain BUY.

Price target: 228.0 INR

Price (27 Jun 2011): 182.45 INR

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Commissioning of 660MW Unit-1 at Sipat is a critical milestone

Event

In a press release, NTPC stated that it commissioned Unit-1 (660MW) of its (3x660MW) Sipat-I power project today (June 28, 2011). The unit was synchronized on February 18, 2011; with the commissioning of this unit, total capacity at Sipat facility (Phase I and Phase II) now stands at 1660MW.

Analysis & Implications

We note that the commissioning timeline of Unit-1 (660MW) of Sipat-I is in-line with guidance given by management when we visited the site earlier this month (*see Takeaways from our visit to Sipat facility and Dipka, Gevra coal mines,6th June, 2011*). We expect Unit-1 to achieve CoD (begin commercial operations) in 4-6 weeks.

In our view, commissioning of NTPC's first super-critical unit is a significant milestone; moreover it signifies that technical problems relating to the TG unit (vendor being Power Machines of Russia) have been successfully resolved.

As per management, indicative startup timeline for the remaining two supercritical units at Sipat is August (Unit-2) and 4QFY12 (Unit-3). In our view, Unit-2 should achieve CoD within the next six months and CoD of Unit-3 should happen by 1QFY13 if not in 4QFY12 itself.

Valuation Methodology and Investment Risks: We use a residual income model to value the company. Key assumptions of our model are 1) Cost of equity - 12%; 2) Terminal RoE - 20%; and 3) terminal growth rate - 2%. Risks: 1) Project execution delays; 2) lower coal supplies under already signed FSAs/LoAs; 3) reinvestment risk; and 4) adverse regulatory changes.

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

Analyst Certification

We, Anirudh Gangahar, Ivan Lee, CFA and Nishit Jalan, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

	Ticker	Price	Price date	Stock rating	Disclosures

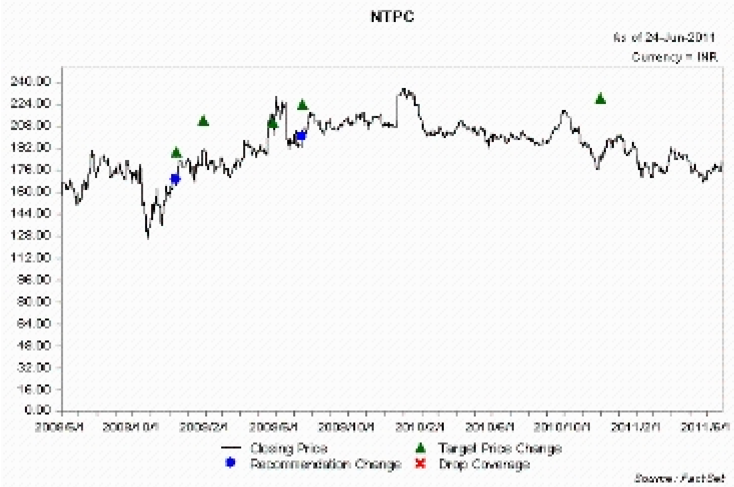
Issuer name					
NTPC	NTPC IN	182.45 INR	27 Jun 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
NTPC	Neutral	15 Jul 2009

NTPC (NTPC IN) **182.45 INR (27 Jun 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
01-Dec-2010		228.00	186.35
15-Jul-2009		224.00	199.50
15-Jul-2009	Buy		199.50
26-May-2009		210.00	201.40
29-Jan-2009		212.00	189.95
15-Dec-2008		189.00	168.50
15-Dec-2008	Neutral		168.50

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use a residual income model arrive at our TP of Rs228to value the company. Key assumptions of our model are 1) Cost of equity - 12%; 2) Terminal RoE - 20%; and 3) terminal growth rate - 2%.

Risks that may impede the achievement of the target price 1) Project execution delays; 2) lower coal supplies under already signed FSAs/LoAs; 3) reinvestment risk; and 4) adverse regulatory changes.

Important Disclosures

Online availability of research and additional conflict-of-interest disclosures

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As at 31 March 2011.
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STOCKS

A rating of '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of '**Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
A rating of '**Suspended'**, indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
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SECTORS

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A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more.
A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A '**Reduce'** recommendation indicates that potential downside is 5% or more.
A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or '**Strong buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
A rating of '2' or '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
A rating of '3' or '**Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
A rating of '4' or '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
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A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.
A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.
A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus**: Bloomberg World Energy Alternate Sources; **Global Emerging Markets**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A '**Strong buy'** recommendation indicates that upside is more than 20%.
A '**Buy'** recommendation indicates that upside is between 10% and 20%.
A '**Neutral'** recommendation indicates that upside or downside is less than 10%.
A '**Reduce'** recommendation indicates that downside is between 10% and 20%.
A '**Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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