



INITIAL PUBLIC OFFERING

REPORT DATE: 31st Jestha 74

Himalayan Power Partner Limited

Recommendation: Buy

SECTOR: HYDROPOWER

Target Price 350

Overview of the Company

Himalayan Power Partner Ltd. was established in 2061 B.S. formally as a private limited company, which later in 2070 B.S. was converted to Public limited company. The registered office is situated in Panipokhari, Maharajgunj, Kathmandu.

The company was initially promoted by IME Group only and later NRN Investment Ltd. acquired 51% paid up share capital. *This is the first corporate investment of Non Resident Nepalese (NRN) in Nepal.*

The company is developing its first hydro project named Dordi Khola Hydropower Project.

Area of Operation

The whole project area lies in Chiti, Dhodeni and Bansar VDCs in Lamjung district.

Project - Dordi Khola Hydropower

The company acquired Generation License in 2068 B.S. from the Ministry of Energy, valid until 2103 B.S. including one year for Power Purchase Agreement and financial closure and another four years of construction period. The project commenced its commercial operation on Poush 2071 B.S., scheduled to complete on 1st Ashad 2074 B.S. Due to the earthquake on 12th Baisakh 2072 B.S. and unofficial blockade in the country, the project was delayed and rescheduled to complete on 1st Ashad 2075 B.S. It is among the large private sector hydropower projects currently under development in Nepal.

Issue Details

Issue Size	21,30,834
Price per Share	100
Issue Open Date	1 st Ashad 2074
Issue Close Date	5 th Ashad 2074
Issue to General Public	19,81,675
Issue to Mutual Funds	106,542
Issue to Staff	42,617
Issue Manager	Global IME Capital Limited
Collection Centers	Various
Min. Application (Kitta)	50
Max. Application (Kitta)	10,000
ICRA Rating	IPO Grade 4

Project Details

Type of Project	Run of River
Location	Lamjung
Status	Under Construction
Installed Capacity	27 MW
Total Annual Energy	148.249 GWh
Contract Energy	142.319 GWh
Commercial operation date	2074-03-01
Total cost of Project	NPR.4,23,54,17,000
Per megawatt cost	NPR.15,68,67,296
Discounted Pay back period	10.32 years
IRR	14.35%
IRR on Equity	18.29%

**IRR is projected for 30 years.*

PPA Status and Rate

The Power Purchase Agreement (PPA) between the company and Nepal Electricity Authority (NEA) was concluded for the period of 34 years (including 4 years for construction) on 1st Ashad 2069 B.S.

The PPA rate is presented in the table at the right. Rainy season includes Baishakh, Jestha, Ashad, Shrawan, Bhadra, Ashoj, Kartik, and Mangsir months while dry season includes Poush, Magh, Falgun, Chaitra months.

The PPA rate will be hiked by 3% each year for 8 times after completion of one year of commercial production. The rate for any excess electricity generated shall be 50% of above mentioned rate.

Facility agreement

Facility Agreement to provide financing NPR 3170 million for construction of the project and 99 million as a working capital has been concluded with Bank Consortium coordinated by Prime Commercial Bank Ltd. (Lead Bank). Equity investment of NPR 1060 million has been arranged from promoters, NRN Investment Limited and Public.

Utilization of IPO Proceeds

The whole IPO proceeds of NPR. 21,30,83,400 shall be utilized for the Dordi Khola Hydro Power Projects.

The electricity generated from this project shall be connected to proposed Udipur Hub substation in Lamjung district; ~1.2 Km away from the powerhouse of Dordi; with alternative evacuation model being sought factoring in the possible delay in construction of transmission line by NEA. Source: ICRA Nepal Rating.

PPA Rate(Rs.Per Unit)	
Rainy Season	4.8
Dry Season	8.4

Projected Annual Generation and Sale (kWh) of electricity	
Rainy Season (kWh)	12,09,51,948
Dry Season (kWh)	21,367,084

Physical Progress (upto May 14 2017)			
S. N.	Project Heading	Target	Achieved
1.	Preparatory Works	100.00	95.00
2.	Civil works	54.24	40.11
3.	Hydro-mechanical works	71.01	59.41
4.	Electro-mechanical equipments	71.01	59.41
5.	Transmission line/power evacuation	0.00	0.00
6.	Environmental mitigation and land acquisition	90.00	90.00
Total Weighted Physical Progress		62.32	52.05

Capital Structure('000)		
	Existing	Post Issue
Authorized	27,00,000	27,00,000
Issued	10,65,417	10,65,417
Paid-up	8,52,333.6	10,65,417
Shareholding Structure (%)		
Public	106541.7 (12.5%)*	319625.1 (30%)
Promoter	745791.9 (87.5%)	745791.9 (70%)
<i>*shares held by project affected public</i>		

Mission and Vision

1. To be a leading contributor in hydropower development of Nepal.
2. To invest in the other projects after completion of the current 27MW Dordi Khola Hydro Power Projects.

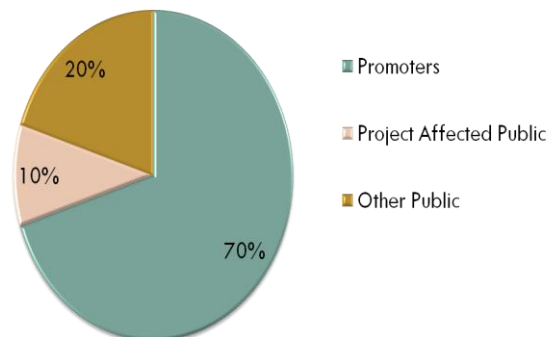
Board of Directors

Article 27(2) of the Company mandate the Board to at least consist seven members, provided company has issued 30% shares to the general public. Of the seven directors, four will be appointed from the promoters, two will represent the public shareholders and one will be the independent director. Presently, the Board consists of five directors.

1. **Mr. Jiba Nath Lamichhane, Chairman**
Executive chairman at NRN Investment Ltd
2. **Mr. Chandra Prasad Dhakal, Director**
Chairman at IME Group of Companies
Chairman at Global IME Bank
3. **Mr. Shesh Ghale, Director**
Director at NRN Investment Ltd.
Founder and CEO Melbourne Institute of Technology
4. **Mr. Mahesh Kumar Shrestha, Director**
Director at NRN Investment Ltd.
5. **Mr. Guru Prasad Dhakal, Executive Director**
Director at United Technical College
Expert member of Sadak Board Nepal

❖ *Tenure of director is four years.*

Post Issue Shareholders Structure



Key Fundamentals

Paid up Capital	7,45,792
Reserve and Surplus	-
Book Value Per Share	100
Long Term Loan	5,32,993
Debt Equity Ratio	0.71

** figures based on F.Y 2073/74 Q2 (pre-issue) FS*

Top 5 Shareholders

S.N.	Name	Shareholder Type	No. of Share hold
1	N.R.N. Investment Limited	Promoter	38,03,539
2	Word wide Investment Pvt. Ltd.	Promoter	7,42,010
3	Usha Investment Pvt. Ltd.	Promoter	4,95,000
4.	Chandra Prasad Dhakal	Promoter	7,67,444
5.	Uttam Kumar Nepal	Promoter	4,56,796

General Introduction to Balance Sheet

Figures

- **Reserve** is nil for the FY 2072/73 and 2073/74 as there is no generation of electricity. The generation is expected to begin from Ashad 2075B.S. where the projected loss of the month is transferred to reserve.
- 74.85% of the project cost is financed by **Consortium loan**. The repayment shall start after completion of the construction period in 40 quarterly ballooning installments over the period of ten years.
- **Cash and bank** at hand is projected to grow at 114% CAGR.
- **Total assets** is projected to increase at 149%.
- All the expenditure in developing property, plant and equipment not yet completed or ready to use are capitalized as **Capital WIP**. This will be transferred to Property, Plant & Equipment and pre-operation cost after completion of the project at the end of Jestha 2075.

Excerpts from Balance Sheet (NRs.'000)

	Audited		Projected	
	2072/73	2073/74	2074/75	2075/76
Share Capital	7,45,792	10,65,417	10,65,417	10,65,417
Reserve	-	-	(93,198)	52,440
Long Term Loan	2,13,363	21,70,306	31,63,667	30,87,667
Cash and bank	48,208	19,533	103,950	165,062
Net Worth	7,45,792	10,65,417	9,72,219	11,17,857
Total Assets	9,68,010	33,54,531	43,04,072	43,12,675
Capital WIP	581,935	31,59,125	-	-

Ratios

	Audited		Projected	
	2072/73	2073/74	2074/75	2075/76
Debt to Equity	-	2.03	3.26	2.85
Net worth per share	100	100	78.58	104.92

Ratio Analysis

- Debt to equity ratio is higher compared to industry average of 0.72. This is logical as the company is still in construction phase. Once the completion of project take place, the company debt repayment will start which will likely equate the ratio industry average.
- The net worth per shares is below the industry average of 127.67. This is expected to go high once the generation of electricity takes place.

❖ *The industry average is based on FY 2073/74 Q2 (pre-issue) FS.*

General Introduction to Income Statement

The **income from sale of electricity** is projected to occur once the project is completed in Jestha 2075 B.S. **Pre-operation cost** will be written off when the commercial operation starts which will result a net loss in Ashad 2075. The company projects to make positive earnings from 2075/76. Both the *diminishing balance method and straight line method* is used to depreciate different block of assets. Cost of land is amortized over the period of 30 years. **Royalty expense** is as per the Electricity Act 2049. **Material and supplies** is assumed to be 0.5% of Project cost which will increase by 3% annually. **Administrative and other expenses** are expected to increase by 3% annually. **12% interest rate** has been used to calculate interest expense of fixed term loan & short term loan.

Ratio Analysis

- Net profit margin for the full year of operation 2075/76 is projected to be positive. This ratio is still below the current industry average of 52%. In the period ahead, the margin can be expected increase higher.
- Both the ROE and ROA are negative in the last month of FY 2074/75 with the obvious reason as above. This are however projected to be in align with the current industry average of 3.17% and 4% respectively in the period ahead.
- The projected EPS of the company for the period of 2075/76 is Rs.4.92. The current industry average is Rs.13.33.

Excerpts from Income Statement (in Millions)

		Projected	
		Ashad 2075	2075/76
Income From Sale of Electricity		94.1	766.3
Generation expense		7.59	65.91
Royalty Charges		2.11	18.02
Interest & Finance Charge		31.80	388.10
Net Profit		(93.2)	52.4

Ratios

		Projected	
		Ashad 2075	2075/76
Net Profit Margin		(99%)	6.84%
Operating cost / Project cost		1.1%	12.46%
Return on Equity		(9.6%)	4.7%
Return on Total Assets		(2.43)	1.21%

The income from the project from the date of generation of electricity for commercial purpose shall be exempt from income tax purpose for 10 years period and 50% income tax exemption for 5 years thereon.

Financial Progress

Total project cost, funding arrangement and provisional expenses/disbursement up to April 13, 2017 (End of Baisakh 2074) including mobilization advance and payment to the contractors as given in the table below:

(Figures in '000)

S.N.	Expense/Funding Categories	Project Cost	Expenses			Progress %
			Upto Chaitra 2073	Baisakh 2074	Upto Baisakh 2074	
1.	Project development cost/ Pre-construction	102,980	102,976	-	102,976	100.00
2.	Engineering, Administrative and Management	175,459	126,618	1,922	128,540	73.26
3.	Preparatory works	153,988	83,378	7	83,385	54.16
4.	Civil works	1,627,625	480,711	33,099	513,809	31.57
5.	Hydro-mechanical works	702,630	231,289	0	231,289	32.92
6.	Electro-mechanical Equipment	676,337	201,313	0	201,313	29.77
7.	Transmission Line/Power Evacuation	74,126	170	0	170	0.23
8.	Environmental Mitigation, Social Support and Land Acquisition	81,490	60,014	85	60,099	73.75
9.	IDC, Bank Commission & Fee	640,782	69,521	0	69,521	10.85
Total		4,235,417	1,355,988	35,114	1,391,102	32.84

Comparative Per MW Cost of Generation

Projects	Installed Capacity	Per MW Cost (NPR Million)
Dordi Khola Hydropower	27MW	156.86
Mai Hydropower	15.6MW	170.38
Kabeli B1 hydroelectric	25MW	160
Iwakhola Hydro	9.9MW	150.91

Valuation of Company - We have valued the company using the Relative valuation approach.

Relative Valuation Model:

The model helps to judge whether a particular stocks is overvalued, undervalued or fairly valued in terms of measures like earnings, book value, cash flow, sales per shares by comparing the industry multiples. We can also compute the expected value of the shares of the company once it comes in the secondary market by using the industry multiples. Here, we have considered only the P/B and P/E based multiples.

PB Valuation			
	Industry average	BVPS	Value of Shares
2073/74	3.74	100	374
2074/75	3.74	78.58	294
2075/76	3.74	104.92	392
*Industry PB is assumed to be same			
*Industry PB is based on Book value as on Q3 end and price as of 11 th June 2017.			

The rationale for using P/B ratio in valuation is that it will more likely helps to gauge what value it should have in the market based on its net worth. The company is in the construction phase and there is no generation of electricity and the initial earnings may be consumed to write off the pre-operation costs. The Price-to-book value multiple provides the share price to trade at around Rs.350 which is intuitive at the present context.

Guideline Public Company Methods: The value is based on the multiples of comparable public companies, where multiples are adjusted to reflect differences in the relative risk and growth prospects.

We assume the following:

- Discount for lack of control – Nil; since the company is a public company.
- Discount for lack of marketability – Nil; since the issue will be publicly listed in index.
- Discount for risk – Nil; since the issue is IPO and issued at par hence considered riskless

❖ *Note: The value under*

GPCM is higher than the P/B Method. The method is more subjective and subject to adjustment of several factors. Here, we have taken those factors Nil because of insufficient data to quantify them. One more thing observed is the value is dependent on the EBITDA size. The company EBITDA is comparatively higher in the projected year compared to the same of presently listed companies. If the EBITDA comes to be true in the projected period then the value of company can be expected to approx our calculation.

GPCM Valuation		
	74/75	75/76
EBITDA	-	67,43,88,771.5
Multipliers	29.19	
Enterprise value	-	19,68,72,83,073.50
Equity value	-	16,66,56,78,838.97
Per share MV (Rs.)	-	1,564
*The industry average is computed based on the market price as on 11 th June 2017 and available financials for 3rd quarter of 2073/74.		

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

STENGTHS

- Teamed by the well-known entrepreneurs and the capable manpower, giving the credibility and the commitments.
- Insurance policy on all the machinery and equipment as required for the projects are expected to minimize any risk of project discontinuance or delay and lower admin costs.
- Financial strength of major promoters provides comfort against contingencies including cost overrun.

WEAKNESSES

- The physical progress of the project is only 52.05%. The major reason being the earthquake and the unofficial blockade.
- Delay in construction of proposed 220 KVA transmission line by NEA to Udipur Hub in Lamjung (connection point as per grid agreement) can potentially delay the COD of the project despite completion of the project.

OPPORTUNITIES

- As the demand for the hydro-power is immense and the PPA between the company and the NEA in advance provide no threat from the competitors.
- Huge potential of hydro-sector with least competition providing markets all time and import demand from other countries.
- Ghar Ghar Ma Bijuli Jan Janma Share (Electricity for all households, share for all People) program implemented by Government of Nepal from fiscal year 2016/17 support better promotion of more hydro-sector in the country.

THREATS

- The epicenter of 12th Baisakh 2072 earthquake was near the Lamjung district. Beside, the landslide could severely damage and obstruct the project.
- Risk of operational failure including financial risk, generation risk, distribution risk, investment risk etc. always exist.
- Delay in construction of proposed 220 KVA transmission line by NEA to Udipur Hub in Lamjung (connection point as per grid agreement) can potentially delay the COD of the project despite the completion of project in time.

Performance of listed Hydropower companies

Ticker	Opening Date	Initial Price	LTP (25 th Jestha 74)	Dividend 2072/73	180 days average	52 Weeks High	52 Weeks Low
NHPC	6 th Chaitra 67	41	138	-	148.38	215	114
AHPC	6 th Chaitra 67	420	282	10% Bonus 0.526% Cash	273.50	485	200
CHCL	13 th Chaitra 67	902	856	10% Bonus 10 th Cash	964.47	1483	665
BPCL	22 nd Chaitra 67	671	675	7% Bonus 20% Cash	659.85	1030	464
SHPC	8 th Magh 70	324	1160	-	922.07	1239	675
RHPC	29 th Ashad 71	306	208	6% Bonus 0.3157% Cash	239.79	419	175
BARUN	28 th Ashoj 72	289	296	-	319.63	570	220
API	2 nd Mangsir 72	301	573	5% Bonus	504.66	888	298
NGPL	31 st Bhadra 73	277	298	-	-	487	237
DHPL	2 nd Falgun 73	348	225	-	-	342	214
AKPL	3 rd Baisakh 74	297	225	-	-	503	297
SPDL	3 rd Jestha 74	250.92	280	-	-	387	250.92

The sluggish looking hydro-power sector performance in secondary market may disinterest the investor's sentiments. However, we highlight some reason why you should not be intimidated by the above charts –

- The share price tends to rise or perform well once the company completes its projects.
- The project installed capacity and the share price can be expected to be positively correlated.

Most of the projects with the small production capacity have started in a recent period and they are still under construction. The one that is completed have enjoyed the high pricing in the secondary market. As for instance, SHPC (Sanima Mai Hydropower Co.) looks comparatively strong as it has ongoing projects that are of large capacity.

Himalayan Power Partner Ltd. has a comparatively higher installed capacity of 27 MW. The projected IRR on investment is 14.35% and IRR on equity is 18.29% (projection of 30 years). The net worth per share on FY 2072/73 is Rs.100. The Per MW cost of the project is considerable compared with the same of other projects. The listing price of the share can be expected to be in between Rs.100 and Rs.300 i.e. three times the book value. The harmonic mean of the 52 weeks high and low of the listed hydro-power companies as on the date is Rs.500 and Rs.246. However, we recommend the stock to be held on a long-term basis and expect the high appreciation on capital gain by the time.

Tentative allotment schedule

We have detailed the allotment modules of IPO (to general public) issued in a recent time of two Hydropower companies below:

The IPO of SPDL and UMHL was oversubscribed by 33.59 times and 40 times respectively

Of the total 101,655 valid applicants for SPDL shares, only 71,489 investors got the shares. While, only 65,508 applicants got the shares of UMHL out of 95,871 applicants

Taking the weighted average of the oversubscription of the two given hydro-sector, we assume the issue of this IPO will be oversubscribed by 37 times.

We expect applicant applying for 50 to 340 kittas will receive shares on lottery basis. For applicants applying for 350 to 500 kittas to be allotted at 2.94% and above 500 till the maximum of 10,000 at 2.56% on pro-rata basis.

	SPDL		UMHL	
Total Issue	21,00,000		17,25,000	
Staff	63,000		34,500	
Mutual Fund	105,000		86,250	
Public	19,32,000		16,04,250	
	Retail	Others	Retail	Others
Total Issue	772,800	11,59,200	641,700	962,550
Total Application (Rs.)	2,535.2 million	3,953.4 million	2,271.8 million	4,255.7 million
Oversubscribed by	32.81	34.10	35.40	44.21

Allotment			
SPDL		NGPL	
Kitta Applied	Allotment	Kitta Applied	Allotment
50-310	Lottery	50-330	Lottery
320-500	3.04%	340-500	2.80%
>500	2.93%	>500	2.24%

Himalayan Power		
Issue Units	21,30,834	
Staff	42,617	
Mutual Fund	106542	
Public	19,81,675	
	Retail	Others
Total Issue	792,670	11,89,005
Total Application	45,182,190	61,828,260
Oversubscribed by	34	39
Invalid Applications	-	
Tentative Allotment		
Kitta Applied	Allotment	
50-330	Lottery	
340-500	2.94%	
500-10,000	2.56%	

GLOBAL IME CAPITAL COMPENDIUM

Technical Analysis- HYDROPOWER SECTOR



Long term view:

Though Hydro-power sector has a very minimal contribution/influence on the Npse Index (i.e. approx. 0.41% at current period), nevertheless it is also one driver of Index movement. Both the Npse Index and Hydro-power Indices have empirically travelled together.

Exponential Moving Average:

We here take the 21 days short term (green line) and 50 days long term (red line) moving average for a monthly technical chart. In the mid of 2011/12, green line has crossed the red line from above but soon reversed to cross the red from below passing the resistance level and indicating the bullish trend. This unprecedented bull run of approx. 503% slowed down mid 2014 after hitting 3019. Since then, the indices has a sideways trends where the short and long term EMA is converging slowly to meet at around 1800 creating doubt the indices to fall either slightly and reverse or the bearish trend to persist.

Moving Average Convergence Divergence (MACD): MACD provides complement to our Moving average analysis. Both has shown the similar pattern of bullish at beginning of 2012, the fall in mid 2014 and the near convergence scenario. Currently the MACD rest at around -44.

Relative Strength Index (RSI): RSI is ranged here at 20 to 80, where 20 indicate buy signal and 80 shows sell signal. The RSI reacts quickly to market movement which is both its strength and its weakness. This further supports our technical views. RSI travelling above 80 in mid of 2014 has triggered the seller to come and sell the position which has stopped the bullish trend.

Presently, the RSI is floating at 48, showing the sideways market and more uncertainty of the future.

Short term view:

In the last three months hydro sector witnessed impressive recovery, this sector rose from 1500 to 2183 in two months. However, this sector failed to stabilize above 2100 levels. The 21-month and 50-month moving averages have not confirmed bullish move yet. ADX does not indicate impressive trend as it is trending lower. Recent downward momentum in ATR indicates decreased volatility compared to past months. Stochastic oscillator indicates that momentum is gaining on the upside.

- ❖ *In the near term, it is crucial for the hydro sector to cross above 2183 to continue the uptrend. Any move below 1911 will encourage massive selling pressure.*

Nepalese stock market does not support any form of efficient market hypothesis. The market seems to be pre-dominantly influenced by the political aspects. Therefore, any future direction of markets can be subject to the political conditions of the country.

Recommendation: Buy

The IPO is *attractive* to apply as the future prospect seems promising. The project to generate 27 MW is expected to complete in the coming year and this stock is likely to hit in the secondary market. The value as per the above valuation model is comparatively better and optimistic of further rise. The projected EBITDA of the company is much higher than the EBITDA of existing major hydro companies. The projected IRR is attractive too. The company is enriched with the experienced team of engineer, manager and the financially strong individuals on the Board. This is the first project of the company and the other project can be expected to be announced considering the glamour of hydro-projects in the country. We recommend the stock to the add value to the *patient investors in the long run*.

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