

GLOBAL IME CAPITAL COMPENDIUM

INITIAL PUBLIC OFFERING

REPORT DATE: 4/18/2019

Sanjen Jalavidhyut Company Limited

Recommendation: Apply

SECTOR: HYDROPOWER

Listing Price Band: NPR.96.32-288.96

Overview of the Company

Sanjen Jalavidhyut Company Limited was established in 2066/10/18. The registered office of the company is in Maharajunj, Kathmandu, Nepal. The company has two projects namely Sanjen–Upper Hydroelectric Project (14.8 M.W) and Sanjen Hydroelectric Project (42.5 M.W). The IPO of Company is under government scheme: “Citizens’ Hydropower Project”

Project:

The company currently is constructing two project:

Sanjen Upper HEP (14.8 M.W):

This project will be having Installed capacity of 14.8 M.W. The project is now in construction stage. The cost of the project is ~NPR 14.99 crore per M.W. The total annual sales units is determined as 8,24,12,582 KWH.

Issue Details	
Issue Size	54,75,000
Price per Share (NPR.)	100
Issue Open Date	2076/01/06
Issue Close Date	2076/01/10
Issue to Staff (4%)	2,19,000
Issue to Mutual Funds (5%)	2,73,750
Issue to General Public (92%)	49,82,250
Lead Issue Manager	Citizen Investment Trust
Collection Centers	Meroshare and C-ASBA registered FIs
Min. Application (Units)	10
Max. Application (Units)	2000
ICRA Rating	ICRA NP IPO Grade 4+

Details of Sanjen –Upper HEP	
Type of Project:	Run of River
Location:	Rasuwa District, Amachodingmo Rural Municipal
Status:	Under-construction
Installed Capacity:	14.8 M.W
Expected Commercial Operation Date:	Mangsir, 2076 (December, 2019)
Electricity Generation permission Date:	2069/05/07
Permission Termination Date:	2104/05/06
PPA Date	2068/06/23

Sanjen HEP (42.5 M.W):

This project will be having installed capacity of 42.5 M.W. The project is now under construction stage. The cost of project is ~NPR.11.82 per M.W. The total annual sales units is determined as 24,18,63,453 KWH.

Details of Sanjen Jalavidhyut Company Limited	
Type of Project:	Cascade type
Location:	Rasuwa District, Amachodingmo Rural Municipal
Status:	Under-construction
Installed Capacity:	42.5 M.W
Commercial Operation Date:	December, 2019
Electricity Generation permission Date:	2068/08/12
Permission Termination Date:	2103/08/11
PPA Date:	2068/08/19

The total payback period of both project combined is 6.7 years and Discounted Payback period amounts to 10.4 years.

Overall ~65-70% **physical progress** has been achieved in project execution as of mid-October 2018, with plans to complete construction by mid-January 2020 against the required commercial operation date (RCOD) of July 2017 and January 2019 respectively. (ICRA, December, 2018)

Purpose of IPO Proceeds:

The company has two projects which are in under construction stage. Thus, company forecasts to pay the contractors which is based on milestone system i.e. payment made based on level of completion of project. Also, company projects to finance operating expenses and other expenses from the issue.

PPA Status and Rate for Sanjen Upper HEP (14.8 M.W) and Sanjen HEP (42.5 M.W)

Annually there is total agreed sales of 32,42,76,035 KWH for wet season comprising of 8 months, the PPA rate is NPR 4.80 per unit KWH. Then for 4 Dry months the PPA rate is determined as NPR. 8.40.

PPA Rate (NPR. Per Unit)	
Rainy Season	4.80
Dry Season	8.40

For **Sanjen Upper HEP (14.8 M.W)** after a year of completion of Commercial Operation Date (C.O.D) of project, there can be increment in the PPA rate by 3 % for 5 years. Similarly for **Sanjen HEP (42.5 M.W)** after a year of completion of Commercial Operation Date (C.O.D) of project, there can be increment in the PPA rate by 3 % for 10 years.

Objectives and Future Strategies

- 1.) To promote various other Hydropower Companies.
- 2.) To invest in hydropower sector through Joint venture or different modalities.
- 3.) To develop various infrastructures (substation and transmission lines) from these ventures.
- 4.) To sell electricity to NEA and to general public, thus decreasing scarcity of electricity.
- 5.) To export energy produced from its plants.

Board of Directors:

Promoter Shareholder	No. of Shares	Type/Group	No. of Director
Chilime Jalbidhyut Company limited	1,43,66,449	Promoter Group	5
Nepal Electricity Authority	37,81,430	Ordinary Group	4
Local Levels of Rasuwa District	4,67,121	Independent Directors	2

As per Articles of Company, there is provision of having 11 Board of Directors. As of now, the company has Seven (7) BoDs.

S.no	Name	Representation or Group	Qualification	Current Profile	Experience
1	Mr. Manoj Silwal	Chilime Jalbidhyut Company Limited	Masters in Power systems	Chairman	28 years of Experience at Nepal Bidhyut Pradhikaran
2	Mr. Madhav Prasad Koirala	Chilime Jalbidhyut Company Limited	M.Sc. in water Resource Engineering	Director	28 years of experience at Nepal Bidhyut Pradhikaran
3	Mr. Lokhari Luitel	Nepal Bidhyut Pradhikaran	MBA (TU), ACCA, UK	Director	8 years of experience at Nepal Bidhyut Pradhikaran. 13 years of experience at Nepal Telecom.
4	Mr. Gunaraj Shrestha	Employee Provident Fund	M.B.A	Director	36 years of experience in Banking and Capital Market.
5	Mr. Parsado Tamang	Chilime Jalbidhyut Company Limited	Test Pass	Director	Real Estate and Construction Business person
6	Mr. Narayan Prasad Acharya	Chilime Jalbidhyut Company Limited.	Master of Business Administration and LLB	Director	13 years of experience in Chilime Jalbidhyut Company Limited.

Key Persons:

S. N	Name	Post/Designation	Qualification	Experience
1	Mr. Kiran Kumar Shrestha	Chief Executive Officer	BE. (Civil), MA (Sociology), M.Sc. (Hydropower Development), Norway	Collective 16 years of experience in different capacities at large Hydropower Companies.
2	Mr. Ganesh K.C	Project Head (Sanjen HEP, 42.5 M.W)	BE. Civil, TU M.Sc. in Mater Resources Engineering	24 years of collective experience at Nepal Electricity Authority, Madhya Bhotekohsi HEP, Transmission Line Projects.

3	Mr. Sushant Bastola	Accounts Head	MBS (Finance) (TU)	15 years of experience at Nepal Electricity Authority in different level of levels.
----------	---------------------	---------------	--------------------	---

General Introduction to Balance Sheet Figures:

The existing capital of the company is NPR. 2.7 Arba (F.Y 2074/75). After the IPO, the capital will reach to NPR. 3.6 Arba. The company reported a negative reserve in the unaudited financials of Q2, 2075/76. The company has projected a positive reserve of NPR.10.3 Crore in FY 2076/77. This is projected to further increase in the projected years. The company has used NPR. 2.6 Arba in debt financing. It is expected to increase to 4.6 Arba by 2076/77. Fixed Asset is forecasted to increase at 22% CAGR over 3 years, and Total Capital Employed is forecasted to increase at 17 % CAGR over 3 years. The Net Worth is in increasing trend and is forecasted to increase at 15% CAGR over 3 years.

Key Fundamentals F.Y 2074/75	
Paid up Capital('000)	27,37,500
Reserve and Surplus('000)	(1,00,740)
BV Per Share (NPR.)	96.32
Earnings Per Share (NPR.)	(0.26)
Long Term Loan('000)	26,03,737
Debt Equity Ratio (Times)	0.98

	Excerpts from Balance Sheet (NRs.'000)				
	Audited	Unaudited	Projected		
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78
Share Capital	27,37,500	27,37,500	36,50,000	36,50,000	36,50,000
Reserve	(1,00,740)	(1,03,424)	(1,44,290)	1,03,597	500,207
Long Term Loan	26,03,737	27,48,508	35,70,592	46,04,422	43,11,798
Net Worth	26,36,760	26,34,076	35,05,710	37,53,597	41,50,207
Total Assets	54,28,487	55,18,402	74,12,148	88,40,877	88,52,845

Particulars	Sanjen	SHPC	CHCL	API*	Peer Average
Debt to Equity	0.98	0.92	0.05	1.35	0.77
Book Value per Share	96.32	129	225	105	153
EPS	(0.26)	14	23	5.04	14

Comparison with Peers (Annual Financial Report of 2074/75)

- The company has financial leverage of 0.98 times for the fiscal

year 2074/75. The peer average for the same period is 0.77 times.

- The company's net worth per share is NPR. 96 The peer average for the same period is NPR. 153.
- The EPS of the company is NPR. (0.26). The peer average EPS for the same period was NPR.14.

Particulars	Ratios				
	Audited	Unaudited	Projected		
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78
Debt to Equity Ratio (Times)	0.98	1.04	1.01	1.22	1.03
BVPS	96	96	96	103	114
EPS (NPR.)	(0.26)	(0.10)	(1.37)	7	21

General Introduction to Income Statement:

The income from sale of electricity is projected from F.Y 2076/77. Similarly, the operating profit is projected to be positive from F.Y 2076/77. Finance expenses are projected to occur from F.Y 2076/77.

Comparison with Peers (Q2,2075/76)		
	Peer Average	Sanjen
ROE (%)	8.12	(0.10)
ROA (%)	2.97	(0.05)
EPS(Rs.)	9.45	(0.10)
BVPS	109.91	96.22
Debt to Equity Ratio	1.09	1.04

*As Company has not started operations, evaluation of vital parameters are not possible.
CHCL is not included in Peer Average computation*

Excerpts from Income Statement (NRs. '000)					
Particulars	Audited	Unaudited	Projected		
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78
Income from Sale of Electricity	-	-	-	8,06,008	17,42,108
Finance Expenses	-	-	-	2,58,830	4,94,689
Depreciation Expenses	1,567	797	1,714	2,01,368	3,41,664
Net Profit	(5,005)	(2,684)	(43,551)	2,47,887	7,61,611

Comparison with Peers Figures (Annual Financial report of 2074/75)

Particulars	Sanjen	SHPC	CHCL	API	Peer Average
Operating Profit Margin	-	65%	84%	15%	55%
Net Profit Margin	-	35%	80%	45%	53%
Interest Coverage Ratio	-	1.67	-	1.53	1.60
Return on Equity	(0.26)	35%	10%	5%	17%
Return on Total Asset	(0.09)	5%	10%	2%	6%

- Operating Margin, Net Profit Margin and interest Coverage Ratios cannot be computed and compared as company has not started its operation and interest payments.
- Return on Equity of the

company is in negative form -0.26% whereas the peer average is 17%.

- Return on Total Asset is -0.09%, whereas the peer average is 6%

Ratios					
Particulars	Audited	Unaudited	Projected		
	2074/75	2075/76 Q2	2075/76	2076/77	2077/78
Net Profit Margin (%)	-	-	-	31	44
EBITDA Margin (%)	-	-	-	88	93
Debt Servicing Ratio (Times)	-	-	-	1.98	2.5
Return on Equity (%)	(0.26)	(0.10)	(1.42)	7	18
Return on Total Assets (%)	(0.09)	(0.05)	(0.59)	3	9

The fundamentals of the company are unfavorable compared to Peer average as company has not started its operations. It is expected that the company would be stable once project under it comes into operation and payoff loans. Thus, eventually coming

in Par with peers after F.Y 2076/77.

*Arun Power Company, API annual report was not available, thus Q4 figures of 2074/75 was used.

Valuation of Company

Assumptions	
Discount Rate	7%
Risk Free Rate	5.90%
Est. Market Return	8%
Estimated Beta	
Growth Rate	2%

It is assumed that the company would be a major player in Hydropower sector. We believe the company would come with other large projects and capacity augmentation plans for the current project. Thus, we have used DCF as a valuation measure. We have discounted Free Cash Flow to Equity by 7% as discount rate. Growth rate is taken as 2% for the company as growth of the Hydropower firms are subject regulatory conditions and fixed

income source.

Particulars in 000'	2075/76	2076/77	2077/78	2078/79	2079/80	Discounted Terminal Value
FCFE	(1,354,107.00)	251,653.00	658,523.00	847,679.00	10,80,444.00	1,44,05,850.93
Discounted FCFE @ 7%	(1,261,243.80)	218,320.36	532,119.44	637,992.63	7,57,412.66	

Sum of Present values of FCFE	1,52,90,452.23
Number of Shares	36,500.00
Value per Share	419

Thus, as per the valuation, the value of scrip would be around NPR. 400-420

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

STRENGTHS

- **Experienced promoters:** The Company has the experienced promoters and management personnel having years of experience in hydro sector.
- **Minimal funding risk:** The physical progress of project as on December, 2018 is ~65-70%. Also, the company has raised debt from Employee Provident Fund and remaining equity are raised through IPO.

WEAKNESSES

- **Incomplete Project and Cost escalation:** The cost escalation is basically on account of incremental interest during construction (IDC) due to the delayed execution and the actual/expected forex losses.
- **Execution Risk:** Hydro-power projects entail significant project execution risks, being located in difficult terrain and are likely to face adverse climatic conditions during the construction period.
- **Under construction Evacuation structure:** The electricity generated from the projects is to be evacuated to the Chilime hub substation through a 5km long 132kV transmission line. However, NEA is still in progress to build the said infrastructure

OPPORTUNITIES

- **Untapped Market:** There are less number of Hydropower Companies compared to abundant rivers varying from size and length, thus the market is still young and unsaturated. Thus, to cash in this opportunity, company also has planned to take up permit for Budigandaki “KA” Project of 105 M.W
- **Government Policy Initiation:** The government of Nepal has recently implemented Investment Summit in Kathmandu. Large power projects are expected to get foreign funding.

THREATS

- **Forex Risk:** The contracts have substantial amount of contracts tied up with USD 27.84 Million. Further currency fluctuation can affect the financial status of company.

Performance of Previously Listed Hydropower Companies

We have shown below the performance of three Hydropower companies which were listed in the **NEPSE Index** in the recent times.

Ticker	Trade Open Date	LDCP*	LTP as of April 17	Diff.	Capital Gain	52 Weeks High	52 Weeks Low
RRHP	21/06/2018	266	94	(172)	(64%)	266	86
KPCL	11/10/2018	121	90	(31)	(26%)	133	88
PMHPL	10/10/2018	144	110	(34)	(24%)	142	103
UPPER	13/01/2019	224	230	6	2.67%	342	219

*listing Day Closing Price

As shown by above table, hydropower stocks have a tendency to rise sharply after it is listed for trading, and it starts plummeting once it gains certain height. The current book value of Sanjen Jalavidhyut Company Limited is NPR. 96.32. Hence, expected listed price to be in between the current book value NPR. 96.32 to 3 times this figure, which amounts to NPR.289.96. For analyzing the price tendency of Sanjen Jalavidhyut Company Limited, we have considered four previously listed companies to determine the stock price once it gets listed and the price trends are expected to be in a similar trend.

Tentative Allotment Schedule

Chapter 5, Article 30 of Securities Issue and Allotment Guidelines 2074 provides the new process of allotment of securities under which every valid applicant shall be allotted 10 units of shares on the very first round of allotment and the round following then, provided the units available are sufficient for allotment to each eligible applicant. Otherwise, the lottery system will be followed.

On top right is the issue and applicants details of IPO of Upper Tamakoshi Hydropower Limited (UPPER) as per new process. The IPO was oversubscribed by 4.37 times where the average unit applied by total applicants was 45.17 units. We examine allotment schedule of UPPER and infer for estimating allotment schedule for Sanjen jalavidhyut Company Limited.

We estimate the IPO of Sanjen jalavidhyut Company Limited will be subscribed by nearly 2,00,000 valid applicants which is same as of Rasuwagadhi Hydropower Company Limited (as date of IPO opening is same, investors would be inclined to apply both issues). The average units applied is 50 units. So, the oversubscription is likely to be 2 times.

Investors are found to be more attracted in the primary market like IPOs. Almost all the IPO shares have been oversubscribed in the past. The best example would be Trishuli Jal Vidyut Company Limited. We expect to see the same level of excitement from investors in this issue

It is forecasted that though the issue would be oversubscribed by 2 times but as valid applicants would be around 2,00,000, we expect applicants would get 20 units each. Along with proportionate basis of allotment there can be lottery for remaining units of shares.

*The average units an applicant would get is calculated as 24.9 units. Thus, 20 units would be allotted to applicants proportionately and remaining units of 4.9 units per applicant would be allotted in lottery.

Upper Tamakoshi Hydropower Limited	
Total units issued	1,58,85,000
Units for public	1,50,90,750
Units for Mutual Fund	7,94,250
Allotment Date	27/11/2018
Valid Applied Units	6,46,18,843
Valid Applicants	3,34,075
Over Subscription	4.37 times
Units Allotted	1,50,90,750
Allotment Basis	
Equal Units Allotment	40 units to each valid applicants
Lottery	17,27,750 units

Sanjen Jalavidhyut Company Limited	
Issue Units to Public	49,82,250
Estimated Number of Applicants	2,00,000
Estimated Applied Units	50
Over subscription	2 times
Allotment Basis	
Required Units	99,64,500
Available Units	49,82,250
Allotment Units	49,82,250
Number of Allotees	2,00,000
Probable Allotment of Units	20*
Type of allotment:	Proportionate Basis and Lottery

Technical Analysis



Hydropower Index has recently largely underperformed the NEPSE Index. In fact hydropower Index has always underperformed the NEPSE Index since 2015. From the beginning of the year 2019 Hydropower Index has dropped 5.1%, while the NEPSE Index has risen 3.1%. Stock prices of hydropower sector has been in a sideways mode since this year. The index has not indicated any signs of immediate upside movements but it seems to be stabilizing around 1100 region.

Hydropower Index is well below its 200-day simple moving average. A stock or any index is said to be bearish if it is below its 200-day moving average. The index is also below the 50-day Simple Moving Average. The Relative Strength Index (RSI) indicator is around the mid-levels of 50 indicating no momentum of price. Hydropower sector is relatively unattractive based on the past price trends.

Recommendation: Apply

BVPS of company stands at NPR. 96.32. It is to be noted that company has not started its operation. The company is constructing both projects and is expected to be in operation from F.Y 2076/77. Both project's combined payback period is satisfactory and also per megawatt cost of the project is NPR. 14. Crore and 11.82 Crore. The company can give fruitful returns in coming years if project is completed in time and projects run with optimal capacity without any probable Power Evacuation and Cost Overrun risk.

Disclaimer: All of the content published on this Compendium is based on internal data, publicly published data and other available information believed to be reliable. The information contained in this document is meant for general purposes only without warranty of any kind. The information/data herein alone is not sufficient and shouldn't be used for the development, analysis or implementation of an investment strategy.

.Investors should use this research as one input into formulating an investment opinion. Additional inputs should include, but are not limited to, the review of other. This is not an offer (or solicitation of an offer) to buy/sell the securities/instruments mentioned or an official confirmation. Global IME Capital Limited is not responsible for any error or inaccuracy or for any losses suffered on account of information contained in this report. This report does not purport to be offer for purchase and sale of share/ units. Investing in the stock market may have large potential risks involved in which you can lose some or all your money. You, the reader and not Global IME Capital Ltd, are solely responsible for any losses, financial or otherwise, as a result of your investment.



Global IME Capital Limited
3rd Floor, Rastriya NaachGhar
Jamal, Kathmandu, Nepal
Contact No: +977-01-4222460, 4261178, 4223593
Fax No.: +977-01-4222534
Email: info@gicl.com.np
Website: www.globalimecapital.com