

Company Overview

Baraka Power Limited (BPL), a joint collaboration of a group of local and non-resident Bangladeshi entrepreneurs formerly known as Barakatullah Electro Dynamics Limited (BEDL), was incorporated on June 26, 2007 and started its commercial operation on October 24, 2009. The principal activity of the Company is to set up power plants for generation and supply of electricity. It is a 51 MW natural gas based power generating company located at Fenchugonj, Sylhet. The Company has contracted for natural gas with Jalalabad Gas Transmission and Distribution System Ltd. on June 22, 2008 for a period of 15 years.

Baraka Patenga Power Ltd. (BPPL) is 51% owned subsidiary of Baraka Power Limited. The Company has applied to the BSEC for floating primary shares of BPPL under book building method. BPPL signed a power purchase agreement (PPA) with BPDB to generate and supply 50-MW HFO (Heavy Fuel Oil) fired electricity on BOO (Build, Own and operate) basis for 15 years and started commercial operation on May 04, 2014. **BPPL has two (51% owned) subsidiaries** namely **Karnaphuli Power Limited (KPL)** and **Baraka Shikalbaha Power Limited (BSPL)**, both are HFO fired IPP (Independent Power Producer) power plant.

Baraka Power has aggregate 51% ownership on KPL and 46% ownership on BSPL. KPL started commercial operation of its 110MW HFO fired power plant on 20 August 2019. BSPL started commercial operation its 105MW HFO fired IPP power plant from May 24, 2019.

Baraka Fashions Limited (BFL) is another 51% owned subsidiary of Baraka Power Limited acquired in May 2017. BFL is a 100% export oriented Ready-Made-Garments factory with 10-lines (woven tops) production capacity located at Tongi, Gazipur.

Revenue Composition and Net Profit Margin

Particulars (BDT mn)	2015- 16	2016- 17	2017- 18	2018- 19	2019-20 (9M)
BPL	841	779	700	824	713
BPPL	2,119	2,648	2,594	2,886	1454
KPL*	--	--	--	--	1230
BFL	--	58	286	350	362
Growth~					
BPL	2%	-7%	-10%	18%	14.8%
BPPL	-30%	25%	-2%	11%	-30.2%
KPL	--	--	--	--	--
BFL	--	--	395%	23%	19.6%
Contribution					
BPL	28%	22%	20%	20%	19%
BPPL	72%	76%	72%	71%	39%
KPL	--	--	--	--	33%
BFL	--	2%	8%	9%	10%
Net Profit Margin					
BPL	39.4%	43.5%	45.6%	47%	--
BPPL	13.5%	12.0%	10.1%	10%	--
KPL	--	--	--	--	--
BFL ⁺	--	--	--	--	--

*KPL started commercial operation on 20 August 2019. ~Growth for 2019-20 is calculated for 9 months over same period of last year. ⁺BFL is incurring loss;

Company Fundamentals

Market Cap (BDT mn)	5,325.5
Market Weight Sector Weight	0.2% 1.5%
Free-float (Public + Inst. + Foreign)	82.0%
No. of Shares Outstanding (mn)	220.1
Paid-up Capital (BDT mn)	2,200.6
3 Months Average Turnover (BDT mn)	8.1
3-month Return (Dividend & Free-float Adjusted)	-4.4%
Current Price (BDT)	24.2
52-Week Price Range (BDT)	17.3 - 29.8
Sector Forward P/E	11.0

	2016-17	2017-18	2018-19	2019-20 (9M Ann.)
Financial Information (BDT mn):				
Sales	3,485	3,580	4,060	5,011
Gross Profit	1,115	1,100	1,083	1,853
Operating Profit	988	855	897	1,571
Profit After Tax	611	451	414	774
Cash & Cash Equiv.	105	134	153	438
Assets	8,780	10,174	17,520	18,008
CAPEX	36	977	415	796
Long Term Debt	2,693	2,439	2,815	2,453
Short Term Debt	1,235	2,079	4,562	4,126
Equity	3,500	3,760	4,054	4,259
Retained Earnings	790	790	885	1,089
Margin:				
Gross Profit	32.0%	30.7%	26.7%	37.0%
Operating Profit	28.4%	23.9%	22.1%	31.4%
Pretax Profit	19.5%	14.3%	11.9%	17.1%
Net Profit	17.5%	12.6%	10.2%	15.4%
Growth:				
Sales	17.7%	2.7%	13.4%	23.4%
Gross Profit	-1.0%	-1.3%	-1.6%	71.1%
Operating Profit	2.3%	-13.5%	5.0%	75.0%
Net Profit	5.4%	-26.1%	-8.2%	86.8%
Profitability:				
ROA	7.2%	4.8%	3.0%	4.4%
ROE	18.0%	12.4%	10.6%	18.6%
Operating Efficiency:				
Inventory Turnover	3.9	3.6	4.0	4.2
Receivable Turnover	3.6	3.3	3.7	4.2
A/C Payable Turnover	9.2	3.7	3.4	4.9
Total Asset Turnover	0.4	0.4	0.3	0.3
Fixed Asset Turnover	0.6	0.6	0.7	0.5
Leverage:				
Debt Ratio	44.7%	44.4%	42.1%	36.5%
Debt-Equity	112.1%	120.1%	181.5%	154.1%
Int. Coverage	3.4	2.7	2.3	1.9
Dividend History:				
Dividend (C/B)%	5/15	-/10	10/-	-/-
Dividend Yield	1.2%	--	--	--
Dividend Payout	24.0%	--	58.6%	--
Valuation:				
Price/Earnings	11.6	15.2	14.2	9.4
Price/BV	1.5	1.4	1.3	1.3
EPS (BDT)	2.1	1.6	1.7	2.6
NAVPS (BDT)	15.9	17.1	18.4	19.4

Capacity Utilization (Plant Factor - % of Licensed Capacity)

Particulars	2015-16	2016-17	2017-18	2018-19
BPL (Gas Fired 51 MW)	82%	64%	75%	75%
BPPL (HFO Fired 50 MW)	58%	69%	75%	59%

Shareholding Structure

The Firm enlisted in the DSE and the CSE in May 2011. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Institution	Foreign	Public
31-Dec-19	18.01%	0.00%	36.43%	0.00%	45.56%
31-Dec-18	18.93%	0.00%	21.37%	0.00%	59.70%
31-Dec-17	18.93%	0.00%	22.61%	0.00%	58.46%
31-Dec-16	19.91%	0.00%	21.17%	0.00%	58.92%

Directors Shares Holding as of March 2020

Name of Directors	Position	Shares Held (mn)	% of Total
Mr. Faisal Ahmed Chowdhury	Chairman	4.57	2.08%
Mr. Md. Ahsanul Kabir	Vice Chairman	5.49	2.49%
Mr. Abdul Bari	Director	4.41	2.00%
Mr. Gulam Rabbani Chowdhury	Director	4.57	2.08%
Mr. Nanu Kazi Mohammed Miah	Director	4.40	2.00%
Mr. Robin Choudhury	Director	16.18	7.35%
Mr. Fahim Ahmed Chowdhury	Managing Director	1.10	0.50%
Total	--	53.51	18.50%

Industry Overview

Fuel and power sector is the most important sector for the development of the economy. Like the other developing countries, the demand for electricity is increasing day by day in Bangladesh. According to Power System Master Plan (PSMP) the growth of demand will be almost 11% on an average for the next five years.

Bangladesh's power sector is one of the fastest growing in South Asia. The growth in terms of capacity addition has been remarkable -- increasing from 5% to 28% from 2012 to 2018 according to the World Bank and the Bangladesh Power Development Board.

Electricity consumption has increased in line with the rise in capacity. Domestic and industrial sectors are the key power demand drivers in the country. The industrial sector has witnessed impressive growth in the last six to seven years, with a growth of 12.06% in FY17. Key industries driving growth in the country are RMG manufacturing, infrastructure development, and pharmaceutical.

The total power generation capacity of 137 public-private power plants is 19,000 megawatt (MW). Of them, 80 private power plants have generation capacity of 9,000 MW, according to power division official. Another 28 private power plant are under contraction and 12 plants are waiting for approval stage. Besides, 18 public sector power plants are under construction, whose generation capacity is 8,900 MW. **As on January 2020, installed power generation capacity of the country is 19,580 MW where maximum power generation was 12,893 MW as on 29 May 2019.** As of December 2019, public and private sector contribution is 50%-50% of the total power generation in the country.

The government has set a target to **bring the country under electricity coverage by 2021**. The government plans to raise electricity production to 24,000 MW by 2021 and to 40,000 MW by 2030, as part of its plan to provide electricity to all.

Currently, **natural gas is the prime source of fuel** in Bangladesh. As of November 2019, as per Bangladesh Power Development Board (BPDB) data, **56.34% of power producing plants are natural gas based**, 26.69% are furnace oil based, 7.00% are diesel fuel based, 2.68% are coal based, 1.18% are hydro based and 5.93% are imported.

Present installed generation capacity (MW) of the country as on December 2019 is shown in following table:

Particulars	Installed Generation Capacity (MW)	% of Total
Public Sector		
BPDB	5,613	28.68%
APSCL	1,444	7.38%
EGCB	957	4.89%
NWPGCL	1,395	7.13%
RPCL-BPDB JV	331	1.69%
Sub Total	9,740	49.77%
Private Sector		
IPPs	6,916	35.34%
SIPPs (BPDB)	99	0.51%
SIPPs (REB)	251	1.28%
15 Yr Rental	169	0.86%
3/5 Yr Rental	1,235	6.31%
Power Import	1,160	5.93%
Sub Total	9,830	50.23%
Total	19,570	100%

APSCL: Ashuganj Power Station Company Ltd. (Bangladesh); **EGCB:** Electricity Generation Company of Bangladesh; **NWPGCL:** North West Power Generation Company Ltd.; **RPCL:** Rural Power Company Limited (Dhaka, Bangladesh); **IPPs:** Independent Power Producer; **REB:** Rural Electrification Board;

In August 2016, the government's revenue authority has **extended the tax exemption facility for the private power generation companies** by another three and half year, up to December 31, 2019. As per Income Tax Ordinance 1984, private power plants that will comply with the conditions of the private sector power generation policy of Bangladesh, will be entitled to enjoy the tax exemption on the income generated from the power production business.

The Government offers several facilities for private power companies and foreign lenders in this sector such as corporate income tax exemption for 15 years, no custom duty, VAT or other surcharges on import of plan and equipment up to 10% of the original value up to 12 years, allowed to repatriation of equity along with dividends freely etc.

The government has **extended more tax facility to private power plants** with the view to making their energy cheaper to purchase. The National Board of Revenue relaxed the condition of tax holiday for the private sector power generation companies except coal-based power plant in January 2020. The private power generation companies will get five types of tax facilities, including tax holiday on their income from power until December 2034. The foreign employees who work in the power plant will get a three-year tax holiday. Besides, the company will get tax waiver on interest of foreign loan, royalty, technical know-how and technical assistance fee.

The power sector in Bangladesh is faced with multiple **challenges**, which must be overcome to achieve growth. Poor financial health of power generating companies, natural gas shortage, power plant inefficiency and low plant load factor, improper demand-supply analysis, limited renewable energy potential and lack of expertise are the key barriers to achieve the desired goal.

Investment Positives

- **Karnaphuli Power Limited (KPL)** has started commercial operation of its **110 MW HFO fired power plant** situated at Patiya, Chattogram **from August 20, 2019** for a term of 15 years from the Commercial Operation Date (COD). Baraka Power Limited has invested in 25% shares of KPL. By way of cross holding (with Baraka Patenga Power's 51% holding), Baraka Power Limited's **aggregate shareholding in KPL is 51.01%**. Karnaphuli Power has invested BDT 7.40 billion with 70% debt financing (Annual report 2019). The **revenue of KPL was BDT 1,230 million** during Jul-Mar period of 2019-20.
- **Baraka Shikalbaha Power Limited (BSPL)** (a 51% subsidiary of Baraka Patenga Power Limited, where Baraka Power Limited has directly invested in 20% equity and through cross holding **aggregately holds 46.01%** ownership) started commercial operation of its **105 MW HFO fired power plant** situated at Shikalbaha, Chattogram **from May 24, 2019**. The Company invested an amount of BDT 7.50 billion of which 70% from debt financing (Annual report 2019). BSPL contributed **BDT 91.63 million** during Jul-Mar period of 2019-20 to the Baraka Power.
- **Consolidated net profit margin** has turned around in the 9 months of 2019-20. It has **increased to 15.4% as of Jul-Mar of 2019-20 which was 11.6% over the same period of last year**. This was because of increase in gross profit margin amid **lower cost of sales as the increase in electricity generation from the two newly established HFO fired power plants**. Baraka Shikalbaha Power Limited, in which BPL aggregately holds 46% shares, added BDT 92 million profits during the Jul-Mar period of 2019-20.

Investment Negatives

- **The Sponsors/Directors of the Company are holding 18.01% only of the total outstanding no. of shares.** As per Bangladesh Securities And Exchange Commission (BSEC), if the sponsors/directors of any listed company **fails to hold jointly minimum 30% shares**:
 - The sponsors and directors, other than independent ones, of the company will not be allowed to sell or transfer or keep mortgage their shares.
 - Such company will be barred to issue right shares, repeat public offer, bonus share and merge with other companies in order to raise capital.
- **The Company's sales depend on the demand for electricity from Bangladesh power Development Board.** Demand for electricity is comparatively higher in summer season. Electricity consumption in industries fell by around 50% and in commercial entities by around 40% during the shutdown for over two months until May 30, 2020 amid coronavirus pandemic. However, electricity consumption in households increased by around 15% during the period.

- The Company acquired 51% ownership of **Baraka Fashions Limited (BFL)** having 10-line (woven tops) **production capacity with 20,000 dozens per month with the investment of BDT 400.0 million**. The acquisition was **financed through 70:30 debt-equity ratio**. **BFL incurred a loss of BDT 56 million, 120 million & 145 million respectively in 2016-17, 2017-18 & 2018-19** due to high costs of goods sold, operating expenses and finance expenses.

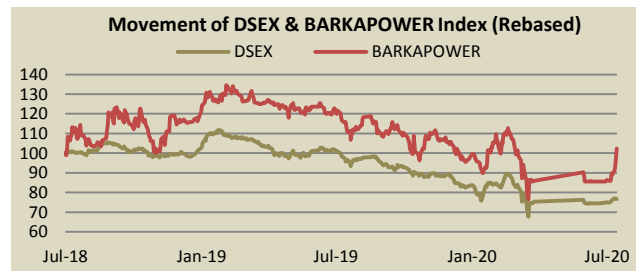
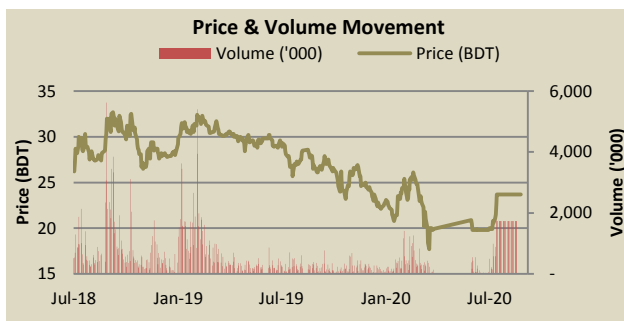
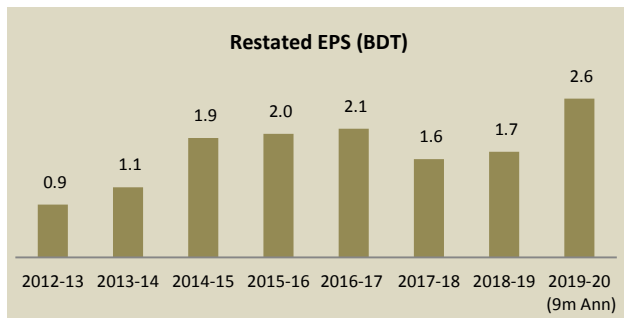
Latest Quarter Update – Q3, 2019-20

Particulars (Consolidated, BDT mn)	Jul-Mar 2019- 20	Jul-Mar 2018- 19	Jan-Mar 2020	Jan-Mar 2019
Revenue	3,758	3,006	1,141	906
<i>Growth</i>	25.0%	--	26.0%	--
Gross Profit	1,368	865	464	253
<i>Margin</i>	36.4%	28.8%	40.7%	28.0%
<i>Growth</i>	58.1%	--	83.3%	--
Operating Profit	1,171	731	398	203
<i>Margin</i>	31.2%	24.3%	34.9%	22.4%
<i>Growth</i>	60.2%	--	95.7%	--
Associate Income	92	(6)	25	(3)
Net Profit	581	348	170	56
<i>Margin</i>	15.4%	11.6%	14.9%	6.1%
<i>Growth</i>	66.7%	--	205.8%	--
EPS (BDT)	1.92	1.27	0.57	0.30

Particulars (BDT mn)	June 2019	December 2019	March 2020
Cash & Cash Equivalents	153	91	438
<i>Increase/(Decrease)</i>	*19	(62)	285
Retained Earnings	885	963	1,089
<i>Increase/(Decrease)</i>	*95	78	204
Long Term Loan	2,814	2,551	2,442
<i>Increase/(Decrease)</i>	*375	(263)	(372)
NAVPS (BDT)	18.42	18.77	19.35

*Change over June 2018

- The consolidated revenue of the Company has increased by 25% during the reported period over the same period of last year due to the increase of electricity generation from the two newly established HFO fired power plants.
- Gross profit margin has increased to 36.4% during the period which was 28.8% than that of last year because of lower cost of sale of Baraka Patenga Power Limited.
- Finance expenses have increased as the Company availed loan for implementation of the two newly established HFO fired power plants.
- Net profit margin has increased to 15.4% during the period which was 11.6% in the same period of last year due to the adding of associate income. Associate (Baraka Shikalbaha Power Limited, aggregately holds 46% shares) income was BDT 92 million during the reported period. Baraka Shikalbaha Power Limited started its operation in May 2019.



Pricing* Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	11.0	28.3
Peer~ Group Forward P/E	10.4	26.6
Market Forward P/E	11.6	29.8

*Pricing based on 9 months annualized data

~ GBBPOWER, SUMITPOWER, DOREENPWR & KPCL are considered as peer group

Concluding Remark

Baraka Power Ltd. is the only private sector power generating firm developed by a group of Non-Resident Bangladeshi (NRB) entrepreneurs. With the establishment BPPL's subsidiaries - the KPL and BSPL, the Company's earnings will be boosted.

Source: Annual Reports, Company Website, BPDB, Newspaper News & ILSL Research

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