United Power Generation & Distribution Company Ltd.

DSE: **UPGDCL**
Bloomberg: **UPGO:BD**

Company Overview

United Power Generation & Distribution Company Ltd. (UPGDCL) was incorporated on January 2007 and started its commercial operation on December 2008. The principal activity of the Company is to generate and distribute electricity at the Dhaka Export Processing Zone (DEPZ) and Chittagong Export Processing Zone (CEPZ). Besides these EPZs, it also supplies electricity to the Rural Electrification Board (REB), Bangladesh Power Development Board (BPDB), Karnaphuli Export Processing Zone (KEPZ) and other private companies. Supplying power to the private clients in off-peak hours (8 P.M to 8 A.M) generates more profit than supplying to REB or Government. At present the company has 22 clients.

The Company has power purchasing agreements with Bangladesh Export Processing Zones Authority (BEPZA) for 30 years with a provision of further extension for another 30 years. In addition, the Dhaka EPZ plant also produces steam as a by-product using the exhaust of the engines and sells it commercially to industries inside Dhaka EPZ. The Company maintains high margin compare to other industry players as it has no outstanding debt. The Company has the highest ROE of 29% in the power sector.

Currently, the Company operates with two power plants at DEPZ and CEPZ with electricity generation capacity of 86 MW and 72 MW respectively. Both the power plants are natural gas fired. For the fuel supply, the Company has 15 years gas supply agreement, which is renewable every 5 years thereafter, with Titas Gas Transmission and Distribution Company Ltd. (for DEPZ) and Karnaphuli Gas Distribution Company Ltd. (for CEPZ).

The production of the company is largely depends on the gas supply and BEPZA is responsible for the continuous supply of the gas

Revenue Composition:

Particulars (BDT mn)	Jan '15 -Jun '16	Jul '16 -Jun '17
Power Supply	7,887.6	5,744 .6
Steam Supply	13.8	14.6

UPGDCL has management agreement with United Engineering & Power Services Ltd. (UEPSL), a concern of United Group, for providing technical and operational support.

Installed Capacity & Utilization:

Name of the Plant	Installed Capacity (MWH)	Capacity Utilization		
		2014	2015-16 (18 months)	2016-17
DEPZ	688,000	69%	73%	68%
CEPZ	576,000	86%	80%	84%

Shareholding Structure:

The Company became enlisted with the DSE and CSE on 05 April 2015. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Mar-18	90.00%	0.00%	5.77%	0.00%	4.23%
31-Dec-17	90.00%	0.00%	5.59%	0.00%	4.41%
31-Jul-17	92.02%	0.00%	3.32%	0.00%	4.66%
31-Dec-16	90.00%	0.00%	3.71%	0.00%	6.29%

Company Fundamentals

Market Cap (BDT mn)	88,671.0
Market weight	2.6%
No. of Share Outstanding (in mn)	399.2
Free-float Shares (Institute + Foreign + Public)	10.0%
Paid-up Capital (BDT mn)	3,992.4
3-month Average Turnover (BDT mn)	66.9
3-month Return	43.0%
Current Price (BDT)	222.10
52-week price range (BDT)	149.7 – 223.9
Sector's Forward P/E	12.7

	2014	2015-16 (18 Months)	2016-17	2017-18 (9M Ann)
Financial Information (BDT mn):				
Sales	4,463	7,901	5,759	6,053
Gross Profit	2,881	5,456	4,032	4,108
Operating Profit	2,821	5,867	4,049	4,402
Profit After Tax	2,465	5,606	4,175	4,481
Assets	12,263	12,993	15,093	15,203
CAPEX	140.2	183.3	165.4	236.4
Long Term Debt	449	-	-	-
Short Term Debt	976	-	-	-
Equity	9,485	12,419	14,961	15,054
Margin:				
Gross Profit	64.5%	69.1%	70.0%	67.9%
Operating Profit	63.2%	72.5%	69.3%	72.7%
Pretax Profit	56.2%	70.4%	72.5%	74.0%
Net Profit	55.2%	71.0%	72.5%	74.0%
Growth*:				
Sales	31.4%	26.3%	-	5.1%
Gross Profit	22.2%	35.1%	-	1.9%
Operating Profit	33.4%	60.9%	-	10.4%
Net Profit	38.9%	61.3%	-	7.3%
Profitability:				
ROA	20.6%	86.3%	29.7%	29.6%
ROE	29.9%	90.3%	30.5%	29.9%
Leverage:				
Debt Ratio	11.6%	0.0%	0.0%	0.0%
Debt-Equity	15.0%	0.0%	0.0%	0.0%
Int. Coverage	6.4	32.1	-	-
Dividend History:				
Dividend (C/B)%	30/10	125/-	90/10	--
Dividend Yield	--	8.5%	4.9%	--
Dividend Payout	--	80.9%	78.3%	--
DPS (BDT)	3.0	12.5	9.0	--
Valuation:				
Price/Earnings	36.0	15.8	21.2	19.8
Price/BV	9.3	7.1	5.9	5.9
Restated EPS (BDT)	6.2	14.0	10.5	11.2
Restated NAVPS (BDT)	23.8	31.1	37.5	37.7

N.B: The Company has changed its financial year to July-June from January-December. Dividend yield is taken from DSE website.

*Growth for 2015-16 has been calculated over the 18 months' data of Jul 2013 - Dec 2014.

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. As on December 2017, installed power generation capacity is 16,046 MW. As of December 2017, public and private sector contribution is 48% and 52% respectively in the total power generation in the country. 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.

According to the Financial Express (March 10, 2018), There are 77 power plants with the power generation capacity of 18,905 MW are under implementation. Out of which 47 plants with the capacity of 13,813 MW will enter into operations in phases from 2018 to 2024 and rest of the 30 power plants with the capacity of 5,092 MW are under tender process.

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.

Currently, natural gas is the prime source of fuel in Bangladesh. As of December 2017, as per Bangladesh Power Development Board (BPDB) data, 64.52% of power producing plants are natural gas based, 20.87% are furnace Oil based, 6.36% are High speed diesel fuel based, 1.81% are coal based, 1.66% are hydro based, 0.02% renewable energy and 4.77% are imported.

Present installed generation capacity (MW) of the country as on December 2017 is shown in following table:

Particulars	Installed Generation Capacity (MW)	% of Total
Public Sector		
BPDB	4,627	29%
APSCL	1508	9%
EGCB	622	4%
NWPGCL	718	4%
RPCL-BPDB JV	226	1%
Sub Total	**7,701**	**48%**
Private Sector		
IPPs	3,245	20%
SIPPs (BPDB)	99	1%
SIPPs (REB)	251	2%
15 Yr Rental	169	1%
3/5 Yr Rental	1,721	11%
Power Import	660	4%
Sub Total	**6,145**	**38%**
Captive power	2,200	14%
Total	**16,046**	**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 November 2016, the government renewed contracts with six rental power producers by five years and also doubled the tariff rate, considering the rise in fuel prices and a weakened taka against the dollar since the first contract was signed in 2010. Since 2010, the government allowed two dozen rental and quick rental power plants to help the country ride out the stubborn shortage of power at the time.

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.

In the national budget 2017-18, in line with the vision 2021, target of generating 24,000 MW of electricity, special emphasis has been given on generation of renewable energy based power. In line with them, rental power plants will be gradually phased out from 2018 onwards.

Investment Positives

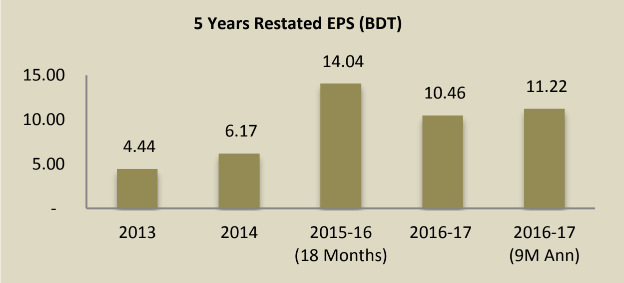
- **The Company has planned to increase its capacity in both DEPZ and CEPZ to 100 MW each but the expansion plan is largely depending on the supply of LNG.** According to the Dhaka Tribune (24th April, 2018), Bangladesh has received the 1st delivery of imported LNG and business of Chittagong will get supply of imported LNG from the mid May this year which will stimulate the expansion process.
- The Company has maintained very strong margin over the years**. Net profit margin has increased from 55.2% to 74.0% during December 2014 to Mar 2018 due to decrease in financial expense.**

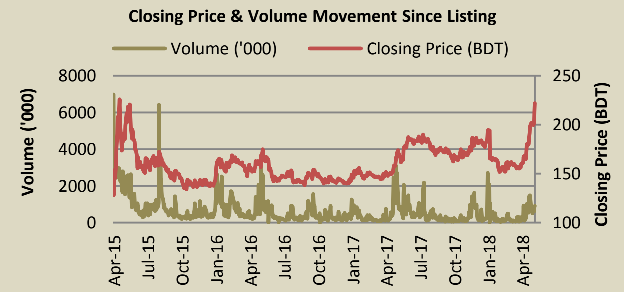
	2014	2015-16 (18 Months)	2016-17	2017-18 (HY Ann)
Net Profit Margin	55.2%	71.0%	72.5%	74.0%

- As per un-audited third quarter financial statement of March 2018, the Company has no loan in its financing mix. As per annual report 2015-16, **the Company has paid its long term loan of BDT 1,425 million and redeemed cumulative preference shares of BDT 1,192 million.** The Company paid BDT 1,192 million of redeemed cumulative preference shares and BDT 792 million of debt from IPO proceeds. This decline in debt to equity ratio leads to a significant rise in its net profit margin.
- As per a local newspaper report published on January 25, 2017, **the Company has made an agreement with the Ministry of Power, Energy and Mineral resources Division to set up a 300 MW heavy fuel oil fired power plant.**
- The Company has power purchasing agreements with Bangladesh Export Processing Zones Authority (BEPZA) for 30 years with a provision of further extension for another 30 years. Such an agreement made the company distinct from other IPPs. Therefore, it faces no competition from other operators as the Company is solely generated and distributes electricity to the Dhaka and Chittagong Export Processing Zone.
- The Company has been enjoying tax exemption for 15 years starting from its commercial operation. This benefit will continue up to FY2023 for DEPZ and CEPZ plants.
- Emerging Credit Rating Limited (ECRL) has assigned the initial rating of the Company as **"AAA" in the long term and "ST-1" in the short term** along with a Stable outlook of the Company based on financials up to June 30, 2017.

Investment Negatives

- According to the local newspaper (March 02, 2018), **officials of Petrobangla anticipate that prices of natural gas might be doubled once LNG import starts in May 2018.** Petrobangla has aslo informed BPDB that it will not be able to sell gas below BDT 13 per cubic metre after the LNG import starts, up from its average rate of BDT 7.35. As the power plants of the Company are run by natural gas, so the hike in gas price will increase the operating cost and adversely affect the profitability of the Company.
- Earnings potential are limited to licensed production capacity and regulator's pre-determined price.
- The Country's natural gas reserve is anticipated to be depleted within 15 to 20 years. At that point of time, these gas fired power plants will face major problems in electricity production. However, for the near future the Company made gas supply agreement with concerned entities ensuring uninterrupted gas supply. Import of LNG will also mitigate the problem.

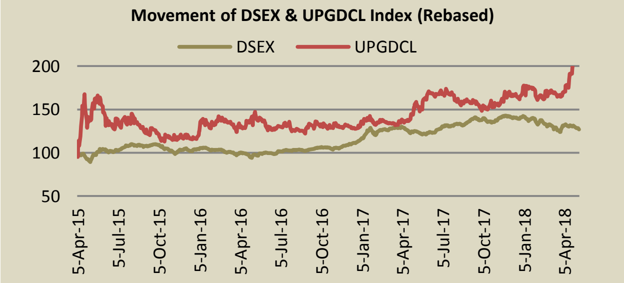




Latest Quarter Update

Particulars (BDT mn)	Jan-Mar 2017-18	Jan-Mar 2016-17	Jul-Mar 2017-18	Jul-Mar 2016-17
Revenue	**1,621**	**1,429**	**4,539**	**4,286**
Growth	*13.4%*	--	*5.8%*	--
Gross Profit	**1,056**	**1,079**	**3,081**	**3,109**
Margin	*65.1%*	*75.5%*	*67.9%*	*72.5%*
Growth	*-2.1%*	--	*-0.9%*	--
Operating Profit	**1,151**	**1,105**	**3,359**	**3,212**
Margin	*71.0%*	*77.3%*	*74.0%*	*74.9%*
Growth	*4.2%*	--	*4.6%*	--
Net Profit	**1,151**	**1,105**	**3,359**	**3,212**
Margin	*71.0%*	*77.3%*	*74.0%*	*74.9%*
Growth	*4.2%*	--	*4.6%*	--

- The Company has been able to maintain steady profit margin over the years. In the third quarter of 2017-18 the company's gross profit margin has decreased by 4.6%, and net profit margin decreased by 0.9% due to 23.9% increase in its operating income against 5.8% revenue increase.



Concluding Remark

United Power Generation & Distribution Company Ltd. is the first commercial Independent Power Plant (IPP) in Bangladesh. It exclusively operates in the Country's EPZs. The Company expressed its plans to expand its electricity generation capacity considering the growing demand from the customers. The Company's expansion is depending on getting the LNG supply.

Source: Annual Reports, the Company's Website, DSE website, BPDB, Newspaper Reports and ILSL Research

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