

## SHAHJUBAZAR POWER COMPANY LIMITED

DSE: SPCL

BLOOMBERG: SPCL:BD

### Company Overview

Shahjibazar Power Company Ltd. (SPCL) was incorporated on 4 November 2007 and started commercial operation on 10 February 2009. The principal activity of the Company is to set up power plants for generation and supply of electricity. SPCL produces electricity from natural gas and supply to Bangladesh Power Development Board (BPDB). The agreement for supply of power with Bangladesh Power Development Board (BPDB) held on 14th February, 2008 for 15 Years on Build-Own-Operate (BOO) basis. SPCL had also signed an agreement with Jalalabad Gas Transmission and Distribution System Ltd. (JGTDSL) for a term of 15 years to supply gas. The capacity of its power plants is 86 MW situated at Hobigonj.

The Company has a subsidiary named Petromax Refinery Co. Ltd. (99.33%) conducting business of production and supply of petroleum products from natural gas condensate. This subsidiary sources natural gas condensate either from JGTDSL or through import and sell the finished products i.e., Petrol, Diesel, Octane etc. to Bangladesh Petroleum Corporation (BPC). It also has an associate company, Midland Power Co. Ltd. (49%), which is a 51 MW gas fired power generation company.

Of its consolidated revenue in 2013-14, around 72% was generated from its subsidiary and rest 28% was generated from its core operation. As on 30 June 2014, the Company has utilized 73.46% of its production capacity.

The firm was enlisted in the DSE and the CSE on July 15, 2014. Sponsors held 75.71% shares of the company whereas 18.75% shares held by General Investors and 5.54% held by Institutional Investors.

### Industry Overview

As a developing country, the demand for electricity is increasing day by day in Bangladesh. The growth in demand is almost 10% a year. On January 2015, installed power generation capacity was 10,817 MW. Transmission and Distribution networks also improved over the period. There are 63 plants have been commissioned, 33 plants are under construction and 22 projects are under tendering process. Population's access to electricity increased from 47% to 68% between FY '09 to FY '14. Per capita electricity consumption increased from 220 KWh to 348 KWh over the same period. Transmission and distribution (T&D) losses declined to 14.13% in FY '14 from 18.45% in FY '09.

Private sector's contribution in this sector is also notable amid government's effort. For instance, the share of private power supply in terms of installed capacity increased from 26% in FY '08 to 46% in FY '14.

Bangladesh power sector is heavily reliant on gas. As on January 2015, 61.8% power producing plants are gas based, 29.2% are fuel oil based, 4.6% are imported, 2.3% are coal based and 2.1% are Hydro based.

The Country's demand of petroleum products is mainly sourced by import from different countries and some are sourced from local gas fields. The Country's oil refinery companies obtain the crude oil and gas condensate and conduct necessary procedures to transform these raw materials into various finished petroleum products. The Eastern Refinery Ltd. (ERL), a subsidiary of BPC, is supplying around 40% of the country's current petroleum products' demand. Besides ERL, there are other five private oil refinery companies in Bangladesh.

### Company Fundamentals

Market Cap (BDT mn)	26,361.3
Market weight	1.0%
No. of Share Outstanding (in mn)	133.1
Free-float Shares	24.3
Paid-up Capital (BDT mn)	1,331.4
3-month Average Turnover (BDT mn)	50.8
3-month Return	-14.2%
Current Price (BDT)	198.0
52-week price range (BDT)	35-338.8
Sector Forward P/E	12.3

	2011-12	2012-13	2013-14	2014-15 (6m Ann.)
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#### Financial Information (BDT mn):

Sales	1,367	1,447	5,056	9,584
Operating Profit	536	582	996	1,711
Profit After Tax	273	243	449	1,177
Assets	6,602	8,209	11,112	10,495
Long Term Debt	2,911	3,268	2,609	2,167
Equity	2,683	2,914	3,214	4,010
Dividend (C/B)%	N/A	N/A	25/5	-/-

#### Margin:

Gross Profit	42.3%	43.6%	22.8%	20.2%
Operating	39.2%	40.2%	19.7%	17.8%
Pretax Profit	20.6%	21.3%	10.4%	13.4%
Net Profit	20.0%	16.8%	9.3%	12.1%

#### Growth:

Sales	-3.9%	5.8%	249.4%	89.6%
Gross Profit	-1.9%	9.2%	82.9%	67.4%
Operating	-3.0%	8.5%	71.2%	71.8%
Net Profit	-4.5%	-11.0%	84.8%	162.0%

#### Profitability:

ROA	4.8%	3.3%	8.5%	22.0%
ROE	10.9%	8.7%	29.3%	57.7%

#### Leverage:

Debt Ratio	50.6%	53.1%	32.7%	33.5%
Debt-Equity	124.4%	149.4%	113.0%	87.8%
Int. Coverage	1.9	2.1	2.0	3.9

#### Valuation:

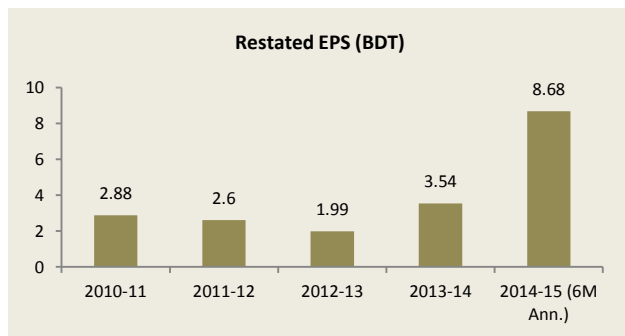
Price/Earnings	N/A	N/A	N/A	22.8
Price/BV	N/A	N/A	N/A	6.6
EPS (BDT)	2.6	2.0	3.5	8.7
NAVPS (BDT)	25.5	25.6	26.5	30.1

### Investment Positives

- The Company sells its electricity to Bangladesh Power Development Board (BPDB) and subsidiary's petroleum products to Bangladesh Petroleum Corporation (BPC). Therefore it enjoys relatively lesser default risk from the customers' end.
- Both SPCL and Petromax Refinery Ltd. will enjoy tax exemption on its operating income up to the year 2024 and the year 2020 respectively.

### Investment Negatives

- The selling prices of both electricity and petroleum products, which are the main products of the Company, are determined by the Government. The Company has no control over these prices.
- On a recent gazette (on 8 March 2015) the Ministry of Power, Energy and Mineral Resources has reduced the selling price of Octane, Petrol, Diesel etc. for gas condensate base oil refineries at which they have to sell its products to BPC. This price will be effective from 01 November, 2014. Such price cut will reduce the revenue potential of Petromax Refinery Co. Ltd. in the upcoming quarters.
- Petromax Refinery Co. Ltd. sells its products at fixed price whereas it imports gas condensate at international market rate. Therefore, any adverse movement of gas condensate price in the international market will squeeze its gross profit margin.

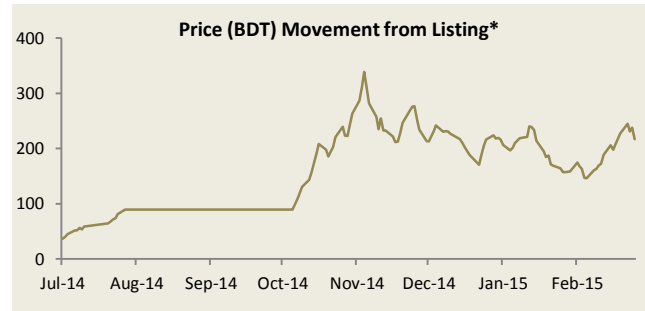


Source: Annual Reports & ILSL Research

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Source: DSE Website & ILSL Research

\*DSE has suspended trading of SPCL from 11-08-2014 to 20-10-2014 due to unusual upward price movement

### Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	12.3	106.7
Market Forward P/E	16.8	145.7
Sector P/B	2.0	58.8

### Concluding Remark

Shahjibazar Power Company Ltd. (SPCL) is natural gas based power generating firm. Therefore, availability of gas supply is a vital issue which affects production process. In the 6 months of 2014-15 the Company reported 428.3% growth and 215.5% growth in revenue and operating profit respectively compared to the same period of 2013-14. Such improvement is mainly contributed from its subsidiary and associate's operations. As on date, the Company's RSI (15) was 56.04 and MFI (15) was 67.29.

Source: Annual Report, BPDB, SPCL's Website, the Financial Express, the Daily Star & ILSL Research

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