THE NATION
www.nationmultimedia.com

Published on 25/03/2015

EGCO GROUP

Electricity Generating

Solid growth profile amid a mispriced renewables value Neutral

Electricity Generating Plc (EGCO)

Investment thesis

We believe EGCO is now an attractive value play for long-term investing. Its growth profile remains attractive—as we forecast net profit to reach almost Bt11bn by 2018, a 45% jump from its 2014 bottom line, in large part due to five secured pipeline projects set to come online in that period. We also expect the firm's almost risk-free dividends to be on a rising trend, achieving an all-time DPS of Bt8.00 by 2018 (5.4% yield). Our sum-of-the-parts valuation shows that the market has ignored renewables projects' value entirely; making the price look clearly cheap compared to its counters. As such, we upgrade our rating from HOLD to BUY, and by adding new projects, raise our new target price from Bt164 to Bt179.

Long-term growth visibility on secured pipeline projects

Though EGCO's bottom line may appear flat this year, its long-term earnings trend is promising. From 2016 to 2018, it will start operating five pipeline projects, raising its generation portfolio 36% to 5,105MW. As a result, its NPAT will see a huge boost, with growth of 45% to Bt10,879m by 2018. On regulators seeking project delays, the firm reassured us that its projects remain on track and that requests will focus first on EGAT projects or those facing EIA complications.

Capacity growth upside intact

Scope for upside from EGCO's projects remains strong (1,673MW expansion capacity in total), and its REGCO plant relocation to Dawei is the clearest example of such expansion. Thai electricity demand remains weak and it is unlikely that the government will open bidding for new IPPs any time soon. Even so, we believe that its BLCP remains the strongest contender should any coal-fired IPP tender offers open. As for overseas expansion, this may take some time as we await the firm to gain PPA approval or finalize expansion timelines.

Accelerating dividend growth on top of widening yield spread

Amid current low interest rates, EGCO's dividend yield is more attractive than it has been. Benchmarking its near risk-free dividend against a five-year government bond, we see that the spread has widened to 157 bps, 31 bps above the long-term normalized average. This yield spread gap is bound to rise as we expect DPS to accelerate to an all-time high of Bt8.00 by 2018; implying a 5.4% yield—double the government paper's 2.7%.

206MW in renewables for free

EGCO's current valuation ignores its existing domestic renewables value entirely. Although the projects make up only 3% of EGCO's capacity portfolio, they contributed 17% to EGCO's bottom line last year. Based on our sum-of-the-parts model, its current price only reflects its IPP, SPP and overseas projects, but not its renewables capacity. We have calculated that the renewables portion is worth Bt30/share and when valued against pure renewables counters EV/MW of Bt260m/MW, the value will rise to Bt102 per share.

Outlook

Long-term earnings growth visibility on secured pipeline projects. We expect EGCO's earnings outlook to flatten YoY in 2015, but its long-term trend looks favorable. Based on our model, EGCO's bottom-line number will reach Bt10,879m by 2018 from Bt7,667m in 2014, which implies 45% growth over the next four years. Profit contribution from REGCO (last year it posted Bt448m) will disappear after the expiry of its PPA contract in December. The lost earnings will be made up through project start-ups, such as GIDEC's waste-to-energy plant in Songkhla (6.7MW, Hat Yai Municipal Waste Power Plant Project, a 50/50 JV with IEC) and the Boco Rock Wind Farm (BRWF, plans to have a total capacity of 270MW) in Australia; and full-year contributions from Star Energy Geothermal Ltd. (SEG, which runs a geothermal power plant in West Java, Indonesia, with total installed capacity of 227MW) and Masinloc Power Partners Co., Ltd. (MPPCL, runs its 630MW coal-fired power plant in Luzon, Philippines).

Furthermore, the development of its pipeline projects (due to be commissioned during 2016-2018) is progressing well. Even though the Energy Regulatory Commission (ERC) is negotiating with IPP and SPP operators, urging them to delay plant start-up dates in a bid to rebalance the country's power supply and demand equilibrium, EGCO reassured that the start-up dates for their projects remain on track and that the ERC is likely to focus first on delaying EGAT projects or projects that are facing EIA complications. EGCO's five planned projects are the Khanom Electricity Generating Co., Ltd. (KEGCO) 930MW Khanom Power Plant Unit 4 "KN4" in Nakhon Si Thammarat (Jun 2016), the 81MW Chaiyaphum Wind Farm (CWF, Dec 2016); and its cogeneration power plant projects: the 110MW TJ Cogen (Pathum Thani, Jun 2017) and 125MW each from the TP Cogen and SK Cogen plants (Oct 2017), in Ban Pong, Ratchaburi Province.

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