INTERNATIONAL LEASING SECURITIES LIMITED

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.

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.

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). It has total 486 MW capacities including its subsidiary. The Company has added further 415 MW power generation capacities in July 2020 to the existing 486MW.

Subsidiaries:

Name of Subsidiaries	Fuel Type	Plant Capacity (MW)	% of Ownership	End of Contract year
United Energy Ltd.	GAS	28	99%	2043
United Ashuganj Energy Ltd.	GAS	195	91.49%	2030
Leviathan Global BD Ltd.	GAS	50	75%	2048
United Anwara Power Ltd	HFO	300	99%	2034
United Jamalpur Power Ltd	HFO	115	99%	2034

Revenue Composition:

Particulars	Revenue (BDT mn)	Contrib-ution	Growth		
	2019-20	2019-20 (HY)	2018-19	2019-20	2020-21 (HY)*
BPDB	4,388	80%	-5%	-15%	455%
BEPZA	3,848	13%	2%	-8%	2%
BREB	873	2%	47%	25%	-12%
Other private customers	955	4%	-6%	-20%	18%
Steam supply~	30	0%	21%	0%	25%
Total	**10,094**	**100%**	**0%**	**-10%**	**198%**

*Growth for 2020-21 is calculated for 6 months over the same period of last year.
~ 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.

Installed Capacity & Utilization:

Name of the Plant	Installed Capacity	Capacity Utilization			
	(MWH)	2016-17	2017-18	2018-19	2019-20
DEPZ	688,000	68%	69%	77%	73%
CEPZ	576,000	84%	81%	86%	88%

Company Fundamentals	
Market Cap (BDT mn)	157,271.3
Market Weight | Sector Weight	3.8% | 35.7%
Free-float (Public + Inst. + Foreign)	10.0%
No. of Shares Outstanding (mn)	579.7
Paid-up Capital (BDT mn)	5,796.9
3 Months Average Turnover (BDT mn)	110.5
3-month Return (Dividend Adjusted)	-1.3%
Current Price (BDT)	269.3
52-Week Price Range (BDT)	220.2 - 335.9
Sector Forward P/E	11.5

	2017-18	2018-19	2019-20	2020-21 (6M Ann.)
Financial Information (BDT mn):				
Sales	11,305	11,253	10,094	32,359
Gross Profit	7,128	7,121	5,852	11,935
Operating Profit	7,757	7,833	5,786	12,073
Profit After Tax	7,645	7,855	6,079	11,227
Cash & Cash Equi.	2,297	3,299	417	1,781
Assets	43,478	42,032	36,078	64,207
CAPEX	270	86	393	160
Long Term Debt	8,045	7,062	4,106	11,437
Short Term Debt	1,061	1,071	784	5,230
Equity	26,673	30,088	29,851	27,755
Retained Earnings	20,174	22,705	21,933	19,269
Margin:				
Gross Profit	63.1%	63.3%	58.0%	36.9%
Operating Profit	68.6%	69.6%	57.3%	37.3%
Pretax Profit	68.5%	70.0%	58.8%	34.7%
Net Profit	67.6%	69.8%	60.2%	34.7%
Growth:				
Sales	96.3%	-0.5%	-10.3%	220.6%
Gross Profit	76.8%	-0.1%	-17.8%	104.0%
Operating Profit	94.5%	1.0%	-26.1%	108.7%
Net Profit	83.1%	2.7%	-22.6%	84.7%
Profitability:				
ROA	26.1%	18.4%	15.6%	22.4%
ROE	36.7%	27.7%	13.3%	39.0%
Leverage:				
Debt Ratio	20.9%	19.4%	13.5%	25.9%
Debt-Equity Ratio	34.1%	27.0%	16.3%	60.0%
Int. Coverage	16.8	15.8	17.1	9.6
Dividend History:				
Dividend (C/B)%	90/20	130/10	145/10	-/-
Dividend Yield	3.6%	3.5%	6.6%	-/-
Dividend Payout	69.6%	97.8%	141.6%	-/-
Valuation:				
Price/Earnings	21.0	20.4	26.5	14.2
Price/BV	5.9	5.3	5.3	5.6
EPS (BDT)	12.9	13.3	10.2	19.0
NAVPS (BDT)	46.0	51.9	51.5	47.9

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-Dec-20	90.00%	0.00%	7.07%	0.04%	2.89%
31-Dec-19	90.00%	0.00%	7.01%	0.06%	2.93%
31-Dec-18	90.00%	0.00%	5.43%	0.13%	4.44%
31-Dec-17	90.00%	0.00%	5.59%	0.00%	4.41%

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. Bangladesh has made significant progress in developing its power sector, primarily through increasing the power generation capacity and by increasing the population's access to electricity. This progress has been achieved through a strategy that combined public and private sector investment, and improving sector efficiency by sharply reducing transmission and distribution losses.

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 March 2021, installed power generation capacity is 21,778 MW.** As of March 2021, public and private sector contribution is 52% and 43% respectively in the total power generation in the country while the rest 5% is met through import from India.

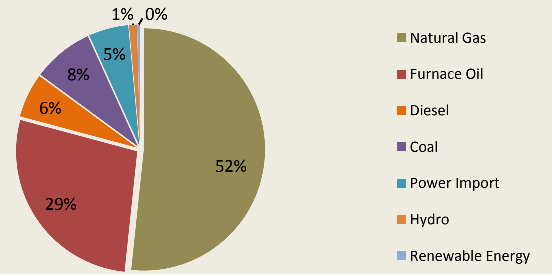
The performance of Bangladesh's power sector has been impressive due to the progressive efforts of policymakers, support from developing partners and effective project implementation by public and private developers. The growth in terms of capacity addition in the last 10 years has been remarkable, from around 4.5 GW in 2007-08 to 20 GW by October 2018. Bringing this target to fruition, **investment of about US$ 21 billion during 2017-21, US$ 24 billion during 2022-31 and US$ 10 billion during 2032-41 will be required.** Bangladesh has the potential and capacity to absorb the investment and ensure the return for the investors. However, further steps need to be taken to match the demand-supply gap of electricity in a sustainable way and this match the pace of economic growth of the country.

Massive capacity enhancement and expansion projects of the power sector are being undertaken. It has been **planned to increase the installed capacity to 36 GW by 2025** and about 8,000 km of new transmission lines and 1,20,000 km of distribution lines have also been planned to be constructed by 2020. In accordance with the recent Power System Master Plan, **Bangladesh aims to add 2 GW renewable energy (RE) projects in the long term.**

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.

Bangladesh power sector **is no longer heavily reliant upon Gas as fuel source.** In 2010, about 84% of power installed capacity was gas based while about 8% was fuel oil based. As gas reserves are depleting in an unspecific manner the fuel mix proportion has reshuffled and in 2019 about 57.37% of the installed capacity is dependent upon natural gas as fuel source and 25.16% upon furnace oil. The introduction of Coal based power plants and the Nuclear power plant at Rooppur will diversify the fuel mix proportion even more.

Installed capacity by fuel type: February 2021



Source: Bangladesh power Development Board

To continue on its journey of economic growth and thus achieving the developed nation status by 2041, Bangladesh will need to develop the requisite infrastructure to feed the electricity load demand. The number of power plants rose to about 138 with combined power generation capacity of 23,548 MW including 2,800 MW captive generation and 365 MW through renewable energy. **The access to electricity has increased to 97%.** The maximum demand served so far is 12,892 MW (as of 06 Sep 2020). Bangladesh government has taken aggressive measures to mitigate this demand - supply.

Investment Positives

- The Company has **acquired two new HFO based power plants of the Group in July 2020**. These two companies – **United Anwara Power Ltd (300 MW) and United Jamalpur Power Ltd (115 MW)** would expand the production base and earnings potentials immensely in the coming years. Above acquisitions has **added further 415 MW power generation capacities to the existing 486MW, nearly 85% increase.** Further, both the acquired companies have 14 more years of tax exempted life remaining which will also boost up the consolidated earnings of UPGDCL in the years to come.
    - The **other subsidiary** company under UPGDCL is Leviathan Global BD Ltd (LGBDL), a **50 MW IPP gas fired power plant having a contract period of 30 years** (extendable for further 30 years) wherein 75% shares were acquired on 22nd June, 2019. **The company was anticipated to be operational by end of 2020**. The plant is located at Karnaphuli EPZ (KEPZ) in Chattogram and will be operated under an agreement with Bangladesh Export Processing Zone Authority (BEPZA).
- UPGDCL is **foreseeing a load growth inside the Dhaka and Chittagong Export Processing Zones** due to an increase in the number of industries as well as capacity development of the existing industries housed inside. The Company is also **anticipating increased load growth due to expansion of capacity of the private 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**. 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. Moreover, Gas Supply for the Plants is ensured by the Government. Therefore, confining UPGDCL's life term within the Power Sharing Agreement framework will be imprudent rather it **should be considered as a "going-concern" economic unit** for all the practical purposes.

- 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, 2020.

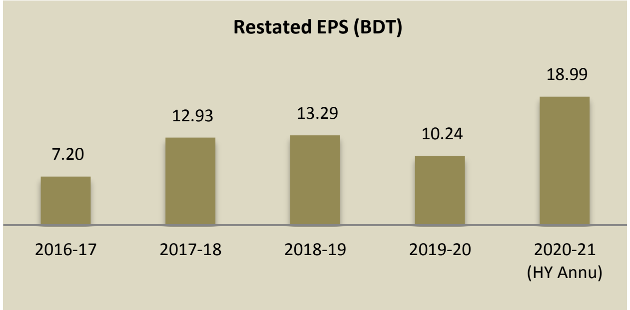
Investment Negatives

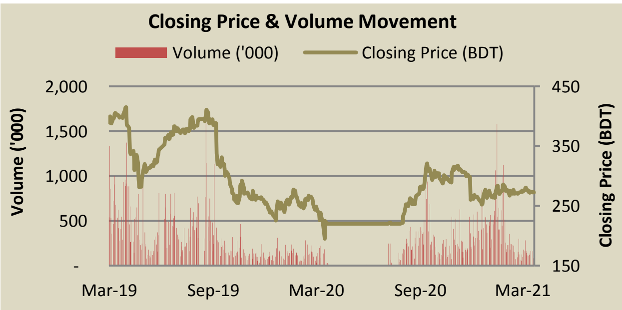
- **Gross profit margin has dropped to 37% in the first half of 2020-21 which was 58% in the full year of 2019-20 due to the operational of 415MW HFO based power plants** which is 46% of its total capacity. Generally, HFO based power plants have lower margin than that of gas based plants. Moreover, **cost of sales of all the companies were up amid the imposition of new gas tariff and demand charge on the approved load**. But, lower O&M costs mostly in the absence of major engine overhauling resulted in considerable savings which somewhat neutralized the cost and revenue impacts narrated earlier.
- In 2019-20, **consolidated revenue decreased by 10%** over last year as both **the plants operation areas in DEPZ and CEPZ were closed down amid covid-19 pandemic** from 26 March until 30 June 2020. During the period electricity demand of BEPZA fell in the month of April only. At the same time, **BPDB and BREB bought electricity at lower tariff** (contractual) from UPGDCL and **electricity demand from United Ashuganj Energy Ltd. (UAEL) by BPDB (the sole customer) fell during the restriction periods**. However, due to the continuance of capacity payment and pass through of fuel payment, company's Revenue and Gross Profit had reasonably lower impact. During the year, **53MW power plant** at Ashuganj under United Energy Ltd (UEL), a subsidiary of UPGDCL, was **shut down upon expiry of contract on 22nd June, 2019.** This did affect the results at the consolidated revenue and profitability for UPGDCL.
- 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.

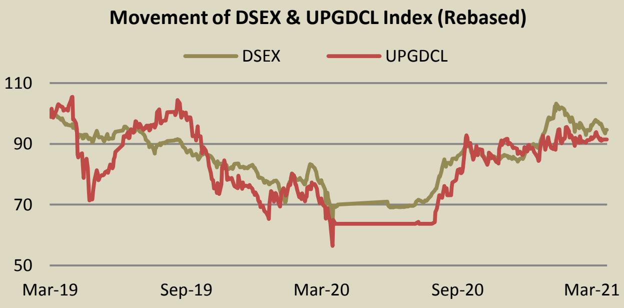
Latest Quarter Update – December 2020 (HY)

Particulars (BDT mn)	Jul-Dec 2019-20	Jul-Dec 2018-19	Oct-Dec 2019-20	Oct-Dec 2019-20
Consolidated Revenue	**16,179**	**5,431**	**6,955**	**2,666**
Growth	*197.90%*	--	*160.88%*	--
Gross Profit	**5,968**	**3,192**	**2,838**	**1,554**
Margin	*36.89%*	*58.77%*	*40.81%*	*58.29%*
Growth	*86.97%*	--	*82.63%*	--
Operating Profit	**6,037**	**3,181**	**2,883**	**1,555**
Margin	*37.31%*	*58.57%*	*41.45%*	*58.33%*
Growth	*89.78%*	--	*85.40%*	--
Net Profit	**5,613**	**3,241**	**2,632**	**1,594**
Margin	*34.69%*	*59.68%*	*37.84%*	*59.79%*
Growth	*73.19%*	--	*65.12%*	--
EPS (BDT)	***9.50***	***5.47***	***4.45***	***2.69***

- Consolidated **revenue has seen a robust growth of 198%** during the reported period over the same period of last year as **the Company acquired two new HFO based power plants of 415 MW in July 2020**.
- Gross profit margin has dropped to 37% during the period which was 59% than that of last year **due to the operational of 415MW HFO based power plants** which is 46% of its total capacity. Generally, HFO based power plants have lower margin than that of gas based plants. Moreover, **cost of sales of all the companies were up amid the imposition of new gas tariff and demand charge on the approved load**.
- Finance income has decreased despite increase in cash & cash equivalents due to the **decrease in deposit rates in the money market**. As of January 2021, weighted average deposit rates of the banks came down to 4.51% which was 5.69% in January 2020.







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.

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

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