

POWER

28 May 2021

Asian utilities say ESG critical and India a key market

We attended Sencorp Industries' (SCI SP, Not Rated) Investor Day and spoke to the IR team of CLP Holdings (2 HK, Not Rated). Both regional utilities own assets in the Indian market. Our key takeaways:

ESG an increasingly crucial factor for investors: Both SCI and CLP will not build any new coal plants and are committed to halving emissions intensity by 2030, as measured by carbon emissions in kilograms per unit. Environmental, social and governance (ESG) criteria have become key factors over the last few years, with Europe followed by the US and increasingly Asia-based equity/debt investors taking the time to understand plans for emission reduction and other ESG aspects at investee companies. Even "passive" index funds now want to have a dialogue with the companies on this issue.

India offers scale, long-term earnings visibility and diversification: Both utility companies regard India as a large market that helps them earn decent long-term returns and diversify their risks. In our view, India with its size, attractive 25-year renewable PPAs, 35-year transmission concessions and relatively open market offers a good opportunity for regional players. At the same time, these companies want to exercise discipline in project investment and steer clear of being tied to an asset addition target.

Renewables a technology-intensive industry: SCI highlighted the importance of developing inhouse technology and digitisation to manage costs and maximise PLFs in the renewables space. The company highlighted its experience in the UK where the judicious use of storage batteries has helped maximise returns in the merchant market. This underlines the importance of technology and the fact that subscale players who have assets but not the means to create these technology tools may fail to maximise earnings from renewable assets. Larger players who buy these assets may be able to generate better project returns.

TPWR our top pick: In our recent initiation report [Power: Cleaning up its act](#), we highlight how the growing importance of ESG and favourable economics is driving India towards a future dominated by renewable energy. Tata Power (TPWR, TP: Rs 131, BUY) is our top pick in the power sector as we believe the company is swiftly aligning its business towards renewables. Stock catalysts include the announcement of new external investments into the renewable business, disinvestment of non-core assets, and group restructuring to save costs.

Tarun Bhatnagar

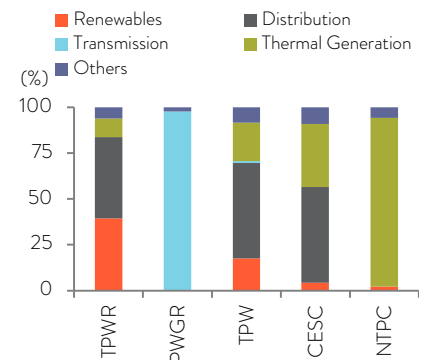
researchreport@bobcaps.in

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
TPWR IN	106	131	BUY
PWGR IN	228	261	ADD
TPW IN	430	461	ADD
CESC IN	670	721	ADD
NTPC IN	110	111	REDUCE

Price & Target in Rupees | Price as of 27 May 2021

FY22E EBITDA mix



Source: Company, BOBCAPS Research



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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