

Emkay Global Financial Services has come with its December quarterly earning estimates for power sector. According to the research firm top line is expected to grow by 4% QoQ and 27% YoY during 3Q12.

EBITDA, in absolute terms will remain flat both on QoQ and YoY basis. However adjusted net profit will decline by 19% QoQ and 7% yoy. In margin terms, EBITDA margin will decline by 111bps

For 3Q12 results, we expect KSK Energy (higher PLF in Wardha) and Power Grid (higher capitalization) to surprise on positive side. Adani Power likely to surprise negatively - stock has corrected more than 51% over last 1 year. n Power utilities have underperformed the Nifty by 15% during past 12 months, leading to a steep correction in valuations by 40%. The valuation correction in private utilities has been 60%+, while in NTPC and Power Grid , the correction has been restricted to just 15-20%.

We do believe that there are hints of reforms and corrective measures, but yet more pain is there in the offing because - (1) expect earnings to take severe cuts over next 3-4 qtrs, (2) sector headed towards surplus situation in FY14/15 and (3) there is no short term solution to the issues of SEBs.

SEBs continues to reel under losses despite a spate of tariff hikes in the last 18 months. The tariff hikes, averaging at 5.7% in FY11 and FY12, have been grossly inadequate to make a meaningful impact on their financial health. This has been due to 1) inflation, 2) Gradual switch in industrial consumption towards captive power and 3) high power purchase costs.

Going forward, there are three options available to SEBs to reduce losses - (1) tariff hikes, (2) lower power purchase costs and (3) reduction in AT&C losses. Only feasible solution remains is reduction in power purchase cost due to limited scope of further tariff hikes and huge capex and time requirement to bring down AT&C losses.

Power sector results preview for Q3FY12: Emkay

Written by

Wednesday, 11 January 2012 04:03 -

Source :moneycontrol.com