

11th Nov '24 - JSW Energy Q2FY25 Results and Intrinsic Value

Q2FY25 results review: (results were out on 25th Oct 2024)

1. Revenue increased by 2% YoY.
2. EBITDA declined by 5% and margins contracted by 400 bps YoY to 55% on account of lower short term sales and a tariff impact on Hydro.
3. Net Profit marginally up YoY at ₹853 crore.
4. Cash balance stood at ₹5,719 crore.
5. Net Debt up ₹3,000 crore resulting in Net Debt to Equity ratio of 0.9 but finance cost has largely stayed the same.
6. Receivables stood at 70 days.
7. Net generation up 14% YoY driven by wind capacity additions and higher generation at thermal and hydro plants. Total thermal generation is up by 14% YoY.
8. Total Renewable Energy generation up by 14% driven by a 37% increase in wind generation and 5% increase in hydro generation.
9. Total installed generation capacity at 7.8 GW. Total locked in generation capacity at 19.2 GW.
10. Total energy storage capacity at 0 GW but locked in capacity at 16.2 GWh.
11. Renewable energy bids of 3.7 GW won by the company. 2/3 of these are tied under long term PPA. Long term sales - PPA grew by 9% and short term sales volume up by 68%.
12. Capacity additions and new project status:
 - a. 204 MW wind capacity commissioned in Q2. 495 MW capacity added in YTD FY25.
 - b. Construction of 'first' 1 GWh BESS (Battery Energy Storage System) is in progress and is expected to be commissioned by June 2025.
 - c. 12 GWh of pumped hydro energy storage with Maharashtra State Electricity Distribution Company expected to be commissioned in 48 months.
13. Management targets:
 - a. Total operational capacity to reach 10 GW by FY25.
 - b. Company well on track to achieve 20 GW operational capacity and 40 GWh of energy storage before 2030.

Intrinsic Value:

Similar to Tata Power, JSW Energy has a well-planned strategy to shift towards clean energy and is running well ahead of its generation capacity targets. The hiccups in the revenue side seem to be of a short term nature and should not pose a risk. There's strong earnings visibility in the coming earnings with all those long term PPAs and expanded generation and energy storage capacities.

Current Valuation Status:

The current intrinsic value of the JSWENERGY stock stands at ₹590.67 per share at 47x Current TTM EPS. This valuation includes a 10% justifiable premium. The premium assigned to the valuation is because:

- a) one of the biggest power companies in India with a strong presence in renewables sector,
- b) the pace of capacity additions in both - generation and energy storage - is a commendable one. The capex of the future is done today and that's why the earnings are expected to be significantly higher in the coming quarters.

Target Price:

I assign an ACCUMULATE rating on the stock at current level (CMP: ₹712.05). I believe the risk - reward ratio at CMP is not very healthy as the company is yet to prove its valuations with higher earnings growth rate in Q3 and Q4FY25. However the FY25 full year expected earnings for JSWENERGY is at ₹16.17 per share. So this may mean that all the recent capacity additions will help the company post significant earnings growth in Q3 and Q4FY25.

The Target Price for the stock is ₹835.98 per share based on 47x FY25E EPS, including a 10% premium.

This is a report by Chaitanya Sabharwal for guruspakes.com/markets

Feel free to contact me at markets@guruspakes.com or provide feedback via the contact us form on the site.