

Sector: Power

21 February 2020

## Semirara Mining and Power Corp. (SCC)

*Raises capacity in coal production and power generation*

**BUY**

Share Price: PHP20.20  
 Target Price: PHP26.50  
 Potential Upside: 31.2%

Bloomberg Code  
 Outstanding Shares (mn)  
 52-week High / Low (PHP)  
 Market Cap PHP mn

SCC PM  
 4,251  
 24.80 / 19.00  
 85,861

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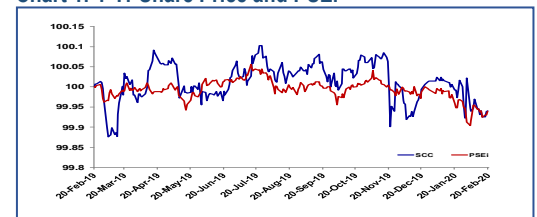
### ➤ SCPC Unit 2 to operate in second quarter

Unit 2 is targeted to operate in the second quarter of this year after the rehabilitation that is set to be completed in March 2020. We expect additional sold capacity of around 1,971 gWh at a capacity factor rate of 75 percent for this year. This translates to PHP755 million additional net income in 2020 based on our estimates. Sem Calaca plans to dispatch the additional capacity to Meralco and we think the power plant operator will consider the WESM or retail electricity supply (RES). The spot market and the RES will allow Sem Calaca to secure favorable contracts at flexible power rates. WESM prices are expected to remain elevated this year due to thin power supply. Likewise, weighted average power rate in the retail electricity supply stood at PHP4.07/kWh according to CREM report published by the Energy Regulatory Commission last December 2019.

### ➤ Calaca power plants to boost local demand for coal

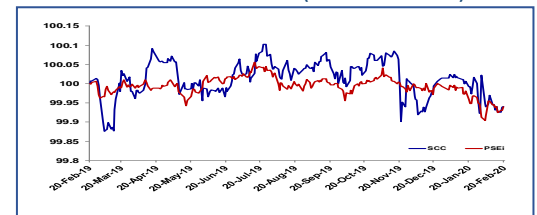
Both units of Sem Calaca will operate this year after a 6-month rehabilitation separately. Unit 1 is expected to run for 12 months and Unit 2 for 9 months this year. Based on our estimates, the two units will consume around 2.0-2.5 million metric tons of coal or around one-third of local demand for SCC's coal market. Sem Calaca power plants can also utilize low-grade coal after the rehab, allowing SCC to have better yield through power generation. SCC will also have the opportunity to dispose high-grade coal to external customers to offset declining global coal prices. We expect the coal mining business to produce 16 million metric tons in total coal production this year from 14.5 million metric ton in 2019.

Chart 1: 1-Yr Share Price and PSEI



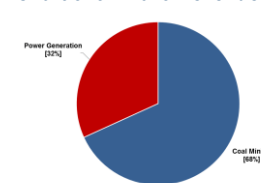
Source: Technistock

Chart 2: Relative Performance (20 Feb '19 = 100)



Source: Technistock

Chart 3: 9M 2019 Revenue Mix



Source: SCC

Table 1: Valuation PHP mn unless stated		Table 2: Estimates (Year-End Dec)				
	2019E-2028E		2018A	2019E	2020E	2021E
Period Covered	2019E-2028E	Net income PHPmn	12,025	10,181	13,251	12,104
Coal mining	84,176	EPS	2.83	2.40	3.12	2.85
Power generation	28,332	EPS growth	-15.1	-15.3	30.2	-8.7
SOTP NAV	112,508	P/E x	7.14	8.43	6.48	7.09
Less: Parent net debt	0	Dividend	2.25	1.25	1.25	1.25
SOTP NAV	112,508	Dividend yield	11.1	6.2	6.2	6.2
Outstanding shares	4,251	Dividend payout	44	44	52	40
Implied discount %	0					
Discounted SOTP NAV/sh.	26.47					
Target price	26.50					

**SCPC Unit 2**

Table 3: SCPC Unit 2	FY 2020E	FY 2021E	FY 2022E
Expected sold capacity (gWh)	1,971	2,234	2,234
Capacity factor rate %	75	85	85
Estimated revenues (PHP mn)	7,549	8,555	8,555
Estimated net income (PHP mn)	755	856	856

Source: SCC, BA Research estimates

**Latest Results**

Table 4: Interim Results	Three Months			Nine Months		
PHPmn unless stated otherwise	3Q'19	3Q'18	% Chg	9M'19	9M'18	% Chg
Total sales revenue	10,758	6,910	56	34,134	30,868	11
Coal mining	7,601	1,836	314	23,279	17,674	32
Power generation	3,157	5,073	(38)	10,855	13,195	(18)
Cost of sale	(7,012)	(4,579)	53	(20,640)	(14,736)	40
Gross income	3,747	2,331	61	13,495	16,132	(16)
Operating expenses	(1,590)	(1,122)	42	(5,408)	(6,120)	(12)
Operating income	2,157	1,209	78	20,640	14,736	40
Income before income tax	2,582	895	188	7,959	9,066	(12)
Net income	2,581	684	277	8,248	8,664	(5)
Earnings per share	0.61	0.16	281	1.94	2.04	(5)

Source: SCC, BA Research estimates

**Income Statement**

Table 5: Income Statement	2016A	2017A	2018A	2019E	2020E	2021E
PHPmn unless stated otherwise						
Total sales revenue	36,584	43,943	41,969	43,790	47,704	47,381
Coal mining	20,079	23,490	23,186	28,322	23,509	23,186
Power generation	16,505	20,454	18,783	15,468	24,195	24,195
Cost of sale	(18,701)	(20,333)	(20,844)	(24,961)	(24,175)	(24,458)
Gross income	17,883	23,610	21,124	18,829	23,529	22,923
Operating expenses	(4,999)	(8,206)	(7,775)	(7,537)	(9,071)	(9,699)
Operating income	12,884	15,404	13,349	11,292	14,457	13,223
Income before income tax	12,904	15,465	12,754	10,605	13,803	12,609
Net income	12,041	14,210	12,025	10,181	13,251	12,104
Earnings per share	2.82	3.33	2.83	2.40	3.12	2.85

Source: SCC, BA Research estimates

**Rating Definition**

BUY - Estimated potential return of >10% in 12 months  
 HOLD - Estimated potential return of 0-10% in 12 months  
 SELL - Estimated potential return of <10% in 12 months

**Rating History**

Date	Share Price (PHP)	Rating	TP (PHP)
27 Aug 2019	22.90	Buy	25.50
20 Feb 2020	20.20	Buy	26.50