



Equity Focus

Lead acid battery sector July 25, 2013

Key Data

Average FY13E P/E (x)	6.13
Average FY12 P/B (x)	0.66

Source(s): Bloomberg, ABCI Securities

Net income in FY2012 (RMB mn)

Tianneng (819)	709.4
Chaowei (951)	619.9
Leoch (842)	71.6
Coslight Tech (1043)	(32.3)
Scud Group (1399)	(192.6)

Source(s): Company

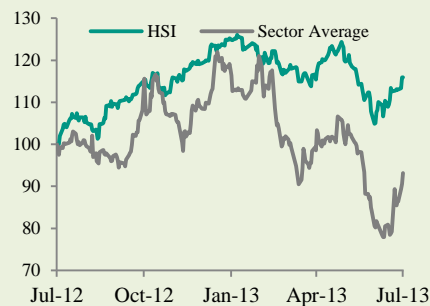
Average share performance (%)

	Absolute	Relative*
1-mth	(17.6)	7.2
3-mth	(9.6)	(8.2)
6-mth	(18.0)	(10.7)

*Relative to HSI

Source(s): Bloomberg

1-year price performance



Source(s): Bloomberg

Analyst Information:

Name: Lisa Lee
Tel: (852) 2147 8809
Email: lisalee@abci.com.hk

ASP hikes trigger Antitrust concern

We believe a turnaround in the industry is yet to be seen although a series of price hikes has triggered a rebound in share prices of Tianneng (819 HK) and Chaowei (951 HK). We are also concerned that their price-setting power will trigger an antitrust investigation by the NDRC. We maintain **HOLD** on Tianneng and **BUY** on Chaowei with TP set at HK\$4.45 and HK\$4.46, respectively, reflecting a valuation of 7.0x 2013 P/E for both counters.

Market leaders raise ASP in July: Tianneng raised ASP on 24 July for the fourth time within the same month and we believe Chaowei will follow suit. Tianneng and Chaowei raised ASP three times between 10-20 Jul this year. After the price hikes, we estimate Tianneng/Chaowei battery ASP would increase by ~20%/18% to RMB110/124.5 per unit. The price hikes are driven by i) a short-term demand boost in 3Q13 which is normally the industry's peak season and ii) weak pricing in 1H13 which has forced small players to exit the market. However, we are still in doubt whether ASP can sustain till 4Q13 when demand is expected to fall while small players may re-enter the market as margin improves.

Our concerns: Recently, the NDRC has begun to take more aggressive approaches towards anti-trust law enforcement in respect to product pricing, as seen in Moutai and Wuliangye cases in Feb 2013 and anti-monopoly investigations towards the formula milk players in June 2013. Therefore, we are concerned if a series of price hikes and the price-setting power of the lead-acid battery market leaders, Tianneng and Chaowei, which accounted for over 60% of the total market share, will trigger similar investigation.

Valuations and recommendations. We have raised ASP assumptions for Tianneng and Chaowei due to higher-than-expected price rise in peak season. In particular, our 2013 ASP assumption for Tianneng is revised up to RMB 95/unit and RMB 110/unit for Chaowei. We raise Tianneng FY13E EPS by 18.9% to RMB 0.4275, and raise its TP up from HK3.75 to HK\$4.45. Maintain **HOLD**. For Chaowei, FY13E EPS increases 7.4% to RMB 0.5095 and TP is raised from HK\$4.14 to HK\$4.54. Maintain **BUY**. Due to significant share price volatility, we also conduct a scenario analysis for both counters. Our scenario analysis shows that Tianneng's EPS is more price sensitive than Chaowei. A 1% ASP change will lead to a 10% EPS change for Tianneng and 5.7% EPS change in Chaowei.

Exhibit 1: Scenario Analysis for Tianneng and Chaowei

	Assumptions	Bearish view	Base case	Bullish view
Tianneng (819 HK)	ASP (RMB/unit)	90.0	95.0	100.0
	EPS (RMB)	0.2532	0.5084	0.7637
	TP (HK\$) based on 7.0x 2013 PE	2.22	4.45	6.68
Chaowei (951 HK)	ASP (RMB/unit)	104.5	110.0	115.5
	EPS (Rmb)	0.3625	0.5095	0.6565
	TP (HK\$) based on 7.0x 2013 PE	3.17	4.46	5.74

Source(s): ABCI Securities estimates



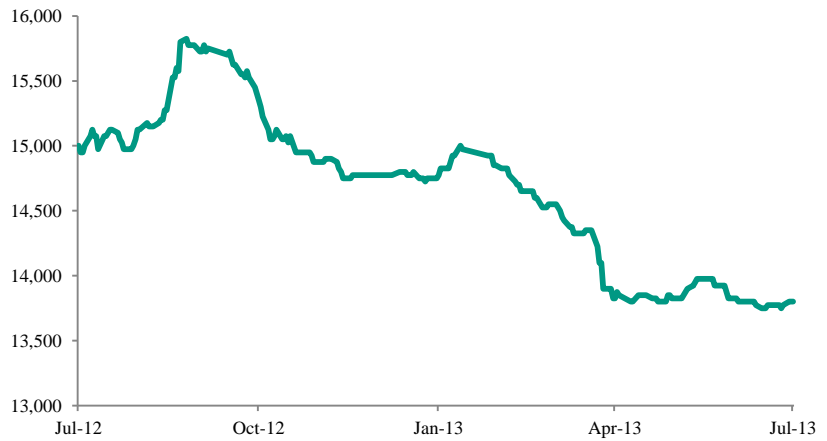
Risk factors: 1) Lead price change; 2) Share price volatility; 3) Trading liquidity; 4) Disappointed 1H13 as indicated by profit warnings released by Tianneng, Chaowei and Leoch; 5) Possible anti-trust investigation on price manipulation; 6) High seasonality factor as demonstrated in recent price hikes.

Exhibit 2: Summary on selected companies in the sector

Company	Ticker	Price HK\$	Ratings	TP HK\$	12 PE x	13 PE x	PB x	Divi yld %
Tianneng	819	4.16	Hold	4.45	5.21	6.55	1.05	4.63
Chaowei	951	3.74	Buy	4.46	6.06	5.87	1.20	5.87
Leoch	842	0.80	-	-	-	-	0.36	1.82
Coslight	1043	2.25	-	-	-	-	0.44	0.00
Scud Group	1399	0.39	-	-	-	-	0.29	0.00

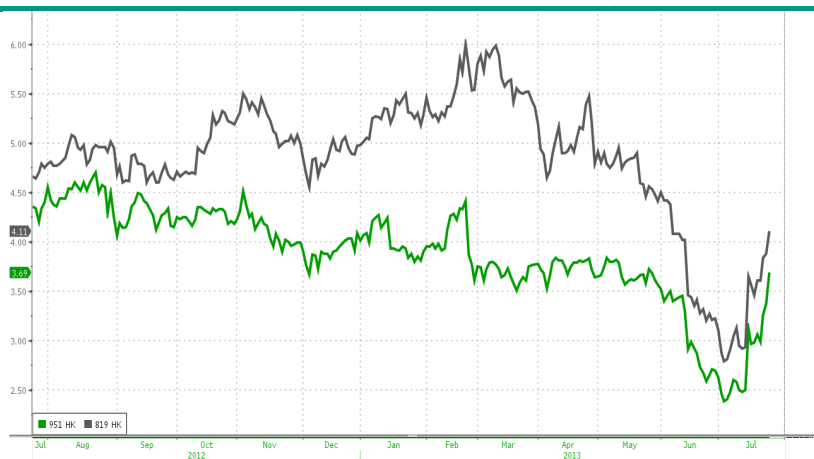
Source(s): Company, Bloomberg, ABCI Securities estimates (Rmb1.0=HK\$1.26)

Exhibit 3: Lead price (July 2012 – July 2013)



Source(s): Bloomberg

Exhibit 4: Tianneng share price vs. Chaowei share price (July 2012 – July 2013)



Source(s): Bloomberg



Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183