



August 28, 2013
 Equity Focus
 Rating: BUY
 TP: HK\$ 4.52

Share price (HK\$) 3.63
 Est. share price return 24.51%
 Est. dividend yield 6.13%
 Est. total return 30.64%

Previous Rating & TP BUY; HK\$ 4.52
 Previous Report Date July 25, 2013

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Key Data

52Wk H/L(HK\$)	4.61/2.38
Issued shares (mn)	1,005.3
Market cap (HK\$ mn)	3,669.3
3-mth avg daily turnover (HK\$ mn)	9.90
Major shareholder(s) (%):	
g* Zhou Ming Ming	41.48
Credit Suisse u	5.68

* Chairman of Co.
 Source(s): Company, Bloomberg

1H13 Revenue breakdown (%)

Lead-acid motive	
Electric bikes battery	81.2
Storage battery	0.2
Electric cars battery	12.4
Li-ion batteries	0.5
Others	5.7
Total	100.0

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	0.0	0.1
3-mth	0.8	3.6
6-mth	(3.4)	(1.0)

*Relative to HSI
 Source(s): Bloomberg

1-Year stock performance



Source(s): Bloomberg

Chaowei (951 HK)
 A turn for the better in 2H13. Maintain Buy.

- Chaowei's 1H13 net profit decreased by 32.9%YoY to RMB 216.2mn. Results are widely expected as Chaowei issued a profit warning in June 2013
- We expect GP margins to improve in 2H13 after three price hikes in July. Nonetheless, we believe ASP will retreat in 4Q13 after the peak season
- Gearing continued to rise. Net debt-to-equity ratio increased to 73.6% as at June 2013 from 53.6% in Dec 2012 and 60.3% in June 2012
- Maintain BUY with TP at HK\$ 4.52 based on 7.0x FY13 P/E.

Poor results were within expectation. Chaowei reported 1H13 revenue had increased by 53.3%YoY to RMB 6,450.6mn due to significant sales growth of lead-acid motive batteries. However, 1H13 net profit decreased by 32.9% YoY to RMB 216.2mn as GP margin declined significantly on fallen ASP. The results, albeit poor, were within expectation since Chaowei had issued a profit warning earlier in June.

GP margin to rebound in 2H13 to reflect recent price hikes. The poor results were mainly attributable to price competition since 2H12. ASP of lead-acid motive batteries dropped to RMB 103/unit in 1H13 from RMB 110/unit in 2012. In addition, the significant rise in orders also propelled the use of OEM and GP margin was pressured as a result, Production volume of OEM accounted for 25% of total in 1H13, as opposed to 11%-12% in 2012. GP margin dropped to 15.2% in 1H13 from 19.8% in 2012. However, after a series of price hikes in July this year, we estimate that ASP has risen to RMB 124.5/unit, up 20.8% compared to ASP prior to the price hikes. We believe ASP will stay flat for the rest of 3Q13 and may decline in 4Q13 when the peak season is over. We estimate the Group's FY13E GP margin to be 20.4%.

Higher gearing on capacity expansion. Net debt (including CB and ST financing notes) –to-equity ratio increased to 73.6% as at June 2013 vs. 53.6% in Dec 2012 and 60.3% in June 2012. The increase in borrowings led to sharp rise in financing costs. Finance costs increased by 59.2% YoY to RMB 83.9mn as gross debt increased 12.8% to RMB 2,609mn. We are concerned that borrowings may continue to escalate as the Group continues to expand capacity. Management guided annual capacity would reach 120mn units of lead-acid motive batteries, up 33% YoY. Also, 2H13 CAPEX would be RMB 300mn, compared to RMB 350mn in 1H13.

Maintain BUY. We have raised Chaowei FY13E EPS by 7.4% to RMB 0.5095 on July 15 to reflect the impact of ASP hikes. The stock is now trading at 5.62x FY13 P/E. Maintain **BUY** with TP at HK\$4.52, reflecting 7.0x FY13E P/E.

Risk factors: 1) High gearing; 2) Share price volatility; 3) Trading liquidity; 4) High ASP fluctuations caused by seasonality as demonstrated in recent price hikes.

Results and Valuation

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Revenue (RMB mn)	3,224.8	4,932.0	9,559.4	11,444.4	14,145.3
Chg (% YoY)	32.49	52.94	93.82	19.72	23.60
Net Income (RMB mn)	268.2	455.3	496.3	510.0	588.2
EPS (RMB)	0.3100	0.4529	0.4300	0.5095	0.6259
Chg (% YoY)	14.81	46.11	-5.08	18.51	22.83
BVPS (RMB)	1.3662	1.7386	2.1556	2.5033	3.0074
Chg (% YoY)	50.64	27.26	23.99	16.13	20.14
P/E (x)	-	6.32	6.66	5.62	4.58
P/B (x)	-	1.65	1.33	1.14	0.95
ROE (%)	39.0	52.1	34.8	35.6	32.4
ROA (%)	13.1	12.6	8.5	7.4	7.8
DPS(RMB)	0.080	0.136	0.148	0.176	0.216
Yield (%)	4.27	5.22	4.59	6.13	7.53
Net gearing (%)	Net cash	12.7	53.5	69.6	57.2

*Net gearing=Net debt/Total equity
 Source(s): Bloomberg, ABCI estimates



Exhibit 1: Chaowei's 1H13 results

P&L	1H13	2H12	1H12	HoH Chg	YoY Chg	Remarks
	RMB mn	RMB mn	RMB mn	(%)	(%)	
Revenue	6,451	5,351	4,209	20.6	53.3	Driven by sales in secondary market that increased 93.6%YoY to RMB 4,389mn. Sales in primary market dropped 10.6% YoY to RMB 1,894mn
Cost of Sales	(5,470)	(4,597)	(3,067)	19.0	78.3	
Gross Profit	980	753	1,141	30.1	(14.1)	
Gross Margin (%)	15.2	14.1	27.1	1.1ppt	(11.9)ppt	GP margin declined since 2H12 due to price competition
Other income	46	32	17	44.0	165.8	
D&S	(210)	(102)	(295)	106.3	(28.6)	
Admin	(198)	(190)	(149)	3.9	32.4	
R&D	(180)	(163)	(151)	10.2	19.3	
Other expenses	(16)	(22)	(9)	(24.5)	77.2	
Gain on disposal	0	0	0	-	-	
Share of associate	(18)	(20)	0	(8.4)	-	
EBIT	404	289	555	39.9	(27.1)	
EBIT Margin (%)	6.3	5.4	13.2	0.9ppt	(6.9)ppt	
Finance costs	(84)	(38)	(53)	119.0	59.2	Increased significantly on higher gross debt
Profit before tax	320	251	502	27.8	(36.2)	
Tax	(68)	(35)	(98)	95.8	(30.3)	
Profit after tax	252	216	404	16.9	(37.6)	
Minority Interest	(36)	(42)	(82)	(13.5)	(56.2)	
Net profit	216	174	322	24.1	(32.9)	
Net profit margin (%)	3.4	3.3	7.7	0.1ppt	(4.3)ppt	
Sales breakdown						
Lead-acid motive batteries						
Electric bikes battery	5,236	4,705	3,838	11.3	36.4	
Storage battery	14	32	11	(55.1)	28.7	
Electric cars battery	801	424	310	89.0	157.9	
Li-ion batteries	31	29	1	5.2	2,481.8	
Others	369	161	48	129.1	675.8	
Total	6,451	5,351	4,209	20.6	53.3	
Lead-acid motive batteries						
Electric bikes battery	81.2	87.9	91.2	6.8	3.3	
Storage battery	0.2	0.6	0.3	0.4	(0.3)	
Electric cars battery	12.4	7.9	7.4	(4.5)	(0.5)	
Li-ion batteries	0.5	0.5	0.0	0.1	(0.5)	
Others	5.7	3.0	1.1	(2.7)	(1.9)	
Total	100.0	100.0	100.0	0.0	0.0	
Balance sheet						
	June-13	Dec-12	June-12	HoH %	YoY %	Remarks
	RMB mn	RMB mn	RMB mn			
Gross debt	2,609	2,312	1,941	12.9	34.5	
Cash	618	905	550	(31.8)	12.2	
Net debt	1,992	1,407	1,390	41.6	43.2	
Net debt/Equity	73.6%	53.6%	60.3%			
Key indicators						
Current ratio	1.1	1.2	1.0			
Inventory turnover days	47.3	54.5	56.4			
Trade receivable turnover days	12.8	9.8	5.7			
Trade payable turnover days	47.5	44.3	42.5			

Source(S): Company, ABCI Securities

Source(S): Company, ABCI Securities



Consolidated income statement (2010A-2014E)

FY Ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
Revenue	3,224.8	4,932.0	9,559.4	11,444.4	14,145.3
Cost of Sales	(2,377.0)	(3,526.0)	(7,664.7)	(9,110.3)	(11,299.7)
Gross Profit	847.7	1,406.0	1,894.8	2,334.1	2,845.5
Other income	53.6	26.7	49.5	68.7	84.9
D&S	(309.3)	(236.2)	(396.7)	(492.1)	(594.1)
Admin expenses	(116.8)	(222.9)	(339.3)	(412.0)	(509.2)
R&D	(51.4)	(182.7)	(314.4)	(377.7)	(466.8)
Other expenses	(33.1)	(37.0)	(30.7)	(34.3)	(42.4)
Gain on disposal	0.0	0.0	0.0	0.0	0.0
Share of associate	0.0	0.0	(19.6)	0.0	0.0
EBIT	390.7	753.9	843.5	1,086.7	1,317.8
Finance costs	(20.8)	(43.0)	(91.0)	(166.9)	(183.9)
EBT	369.9	710.9	752.5	919.8	1,134.0
Tax	(66.8)	(121.1)	(132.5)	(162.8)	(204.1)
MI	(34.9)	(134.5)	(123.6)	(168.8)	(207.4)
Net profit to owners of company	268.2	455.3	496.3	588.2	722.5
D&A	42.2	63.6	113.8	145.4	175.6
EBITDA	432.9	817.4	957.4	1,232.1	1,493.5
Dividends	80.4	136.7	148.8	176.5	216.7
No. of issued shares (mn)	1,005.3	1,005.3	1,005.3	1,005.3	1,005.3
Issuable shares (CB) (mn)	-	-	149.1	149.1	149.1
Total fully diluted shares (mn)	1,005.3	1,005.3	1,154.4	1,154.4	1,154.4
Per share value (RMB)					
FD EPS	0.3100	0.4529	0.4300	0.5095	0.6259
NBV	1.3662	1.7386	2.1556	2.5033	3.0074
DPS	0.0800	0.1360	0.1480	0.1755	0.2156

Source(s): Company, ABCI Securities estimates

Key Ratio (2010A-2014E)

FY ended Dec 31	2010A	2011A	2012A	2013E	2014E
Profitability ratio (%)					
Gross profit margin	26.29	28.51	19.82	20.40	20.12
EBITDA margin	13.42	16.57	10.01	10.77	10.56
EBIT margin	12.12	15.28	8.82	9.50	9.32
EBT margin	11.47	14.41	7.87	8.04	8.02
Net profit margin	8.32	9.23	5.19	5.14	5.11
ROAA	13.08	12.63	8.53	7.37	7.84
ROAE	39.05	52.10	34.86	35.58	32.42
Cost ratio (%)					
D&S/revenue	(9.59)	(4.79)	(4.15)	(4.30)	(4.20)
Admin expenses/revenue	(3.62)	(4.52)	(3.55)	(3.60)	(3.60)
R&D/revenue	(1.59)	(3.70)	(3.29)	(3.30)	(3.30)
Effective tax rate	(18.05)	(17.03)	(17.61)	(17.70)	(18.00)
Leverage (x)					
Current ratio	2.05	1.30	1.17	1.15	1.18
Quick ratio	1.38	0.91	0.79	0.76	0.80
Net debt/total equity (%)	(2.5)	12.7	53.6	69.6	57.2
Working capital cycle (days)					
Inventory turnover days	84.2	78.8	54.5	60.0	60.0
Receivables turnover days	4.6	11.1	9.8	20.0	20.0
Payables turnover days	44.0	48.7	44.3	52.0	52.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2010A-2014E)

As of Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
PPE	613.7	1,145.7	2,274.7	2,798.6	3,276.2
Prepaid lease payments	67.3	126.2	193.2	119.5	115.5
Others	86.7	253.2	411.4	411.4	411.4
Non(current assets)	767.7	1,525.1	2,879.3	3,329.5	3,803.1
Inventories	626.6	895.9	1,392.9	1,781.6	1,933.4
Trade receivables	61.9	237.0	277.4	909.3	640.9
Bills receivable	593.2	736.6	1,001.4	1,305.2	1,795.1
Prepayments and other receivables	157.6	128.0	419.3	800.2	750.0
Amounts due from related parties	0.3	0.2	16.9	16.9	16.9
Prepaid lease payments(current portion)	1.5	2.7	4.1	4.0	4.0
Money market funds	0.0	0.0	20.0	20.0	20.0
Restricted bank deposits	0.2	150.9	201.3	201.3	201.3
Bank balances and cash	477.8	844.8	905.4	203.2	683.4
CURRENT ASSETS	1,919.1	2,996.1	4,238.6	5,241.7	6,044.9
Trade payables	353.6	588.0	1,271.7	1,636.8	1,582.8
Bills payable	0.0	37.6	8.5	8.2	22.8
Other payables	269.8	413.5	522.0	750.8	797.1
Amounts due to related parties	0.0	9.0	29.9	29.9	29.9
Income tax payable	33.7	37.5	32.7	32.7	32.7
Dividend payable	32.5	0.0	0.0	0.0	0.0
Provision	80.0	125.1	246.4	291.0	346.2
Bank borrowings(due within one year)	167.8	1,094.0	1,512.1	1,800.0	2,300.0
Other borrowings	0.0	0.0	0.0	0.0	0.0
CURRENT LIABILITIES	937.2	2,304.7	3,623.2	4,549.5	5,111.5
Obligations under finance leases	0.0	0.0	0.0	0.0	0.0
Deferred income	16.8	51.1	68.1	68.1	68.1
Deferred tax liabilities	0.7	8.0	0.6	0.6	0.6
Bank borrowings – due after one year	276.0	156.0	236.0	236.0	236.0
Convertible bond			563.8	563.8	563.8
NON(CURRENT LIABILITIES)	293.6	215.1	868.5	868.5	868.5
Total Assets	2,686.8	4,521.2	7,117.9	8,571.2	9,848.0
Net Assets	1,455.9	2,001.5	2,626.2	3,153.2	3,868.0
Capital & reserves:					
Paid(in capital/Share capital)	68.1	68.1	68.1	68.1	69.1
Reserves	1,305.3	1,679.7	2,098.9	2,448.4	2,954.1
Equity to owners	1,373.4	1,747.8	2,167.0	2,516.5	3,023.3
MI	82.5	253.7	459.1	636.7	844.8
TOTAL EQUITY	1,455.9	2,001.5	2,626.2	3,153.2	3,868.0

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2010A-2014E)

FY ended Dec 31 (RMB mn)	2010A	2011A	2012A	2013E	2014E
EBITDA	432.9	817.4	957.4	1,232.1	1,493.5
(Increase)/decrease in inventories.	(158.8)	(237.4)	(421.6)	(388.7)	(151.7)
(Increase)/decrease in trade receivables	(521.1)	(271.7)	(509.2)	(1316.7)	(171.1)
(Increase)/decrease in bills & other receivables	255.7	320.6	636.2	593.7	6.8
Others	33.1	78.7	161.5	43.1	53.6
Cash (used in)/generated from operations	41.8	707.6	824.3	163.4	1231.0
Income tax paid	(83.2)	(147.0)	(189.1)	(162.8)	(204.1)
CF from operating activities	(41.3)	560.6	635.2	0.6	1,026.9
Cash flows from investing activities	(301.9)	(811.5)	(1,318.0)	(647.3)	(646.0)
Cash flows from financing activities	670.2	617.9	743.5	(55.5)	99.4
Net (decrease)/increase in cash and cash equivalents	326.9	367.0	60.7	(702.2)	480.3
Cash and cash equivalents at beginning of year/period	150.8	477.8	844.8	905.4	203.2
Cash and cash equivalents at end of year/period	477.8	844.8	905.4	203.2	683.4

Source(s): Company, ABCI Securities estimates



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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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