



Chaowei Power (951 HK) – Buy

Auto Parts & Equipment Industry

Key Data

Share price (HK\$)	4.22
Target price (HK\$)	5.40
Upside potential (%)	28.0%
52Wk H/L(HK\$)	4.75 / 2.80
Issued shares (mn)	1,005.3
Market cap (HK\$mn)	4,242.3
30-day avg turnover (HK\$mn)	10.19
Major shareholder (%):	
Zhou Ming Ming*	41.7
Zhou Longrui#	7.2

*Chairman of Co., #Executive Director of Co

Source: Company, Bloomberg

Revenue composition in 1HFY12 (%)

Lead-acid battery products	98.5%
E-bikes battery	91.2%
E-cars and storage battery	7.4%
Others	1.1%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(1.6)	(4.3)
3-mth	(5.4)	(12.5)
6-mth	21.2	19.3

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Key takeaways from CFO

We attended Chaowei's investor meeting yesterday. With recent strong sales performance and potential increase in market share, we maintain our Buy rating for the stock.

Strong sales performance in 3Q12: Chaowei sold 24-25mn lead acid batteries in 3Q12. Sales volume of lead-acid batteries cumulated to 58-60mn units for the first nine months this year, compared to 43mn annual sales volumes in 2011. We are confident that the group can achieve our annual sales volume assumption of 75mn units (up 75% YoY) in 2012. ASP in 3Q2012 and Oct remained flat at Rmb118/unit compared to 1H2012, higher than average ASP of Rmb115/unit in 2011. But as 4Q2012 is a traditional slack season for the e-bike industry, we believe Chaowei will offer sales rebates in 4Q2012.

Sharp decline in raw material costs: Lead price has dropped 4.4% to Rmb15,050/ton since beginning of Oct. As lead accounted for 65% cost of lead-acid batteries production, the recent decline in lead price may help offset the negative impact from annual sales rebates. In addition, since lead price is at a relatively low level (5 yr average: Rmb16,117/ton), Chaowei will take advantage of the low lead price to build up inventory in 4Q2012 for peak season in 1Q2013.

Strong growth supported by capacity expansion: Production capacity is expected to reach 90-100mn units by the end of 2012 and 108-120mn units in 2013. The group's aggressive plan aims to replace inefficient capacity and targets to expand its market share from 24.5% in 2011 to 30% in 2013. CAPEX is expected to be Rmb700-800mn in 2013 and we believe with Rmb500mn cash on hand plus net proceeds of Rmb608mn from CB issuance in Sep, further fund raising activity is unlikely.

Valuation: The counter is trading at est. FY2012 PER of 5.9x and PB of 1.6x. We maintain our BUY rating with TP of HK\$5.4, representing 7.0x 2013 PER.

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	2,433.9	3,224.8	4,932.0	8,850.0	10,620.0
YoY Chg (%)	5.0%	32.5%	52.9%	79.4%	20.0%
Net Income (Rmb mn)	201.9	268.2	455.3	587.6	752.6
YoY Chg (%)	57.6%	32.8%	69.8%	29.0%	28.1%
FD EPS (Rmb)	0.2700	0.3100	0.4529	0.5845	0.6316
YoY Chg (%)	58.8%	14.8%	46.1%	29.0%	8.1%
NBV (Rmb/share)	0.9069	1.3662	1.7386	2.1477	2.6718
PE (x)	-	-	7.57	5.86	5.43
PB (x)	-	-	1.97	1.60	1.28
ROAA (%)	15.56%	13.08%	12.63%	9.89%	9.50%
ROAE (%)	19.66%	39.05%	52.10%	41.39%	43.31%
Net D/E (%)	7.69%	-2.49%	14.55%	39.18%	65.47%

*We assume Rmb1 = HK\$1.23; Assume CB converted in FY13

Source: Company, Bloomberg, ABCI Securities



Disclosures

I, Lee Oi-yee, Lisa, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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

Time horizon of share price target: 12-month

Definition of share price risk

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

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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