



# Site Visit Notes

## Tianneng Power (819 HK) – Buy Auto Parts & Equipment 12-month target price: HK\$6.50

### Key data

Share price (HK\$)	4.63
Target price (HK\$)	6.50
Upside potential (%)	40.4%
52Wk H/L(HK\$)	5.16 / 2.92
Issued shares (mn)	1,099
Market cap (HK\$mn)	5,090
30-day avg turnover (HK\$mn)	13.12
Major shareholder (%):	
Zhang Tianren*	37.1
Pinpoint Capital Management	6.0
Deutsche Bank	6.0

Source: Company & Bloomberg

### Revenue composition in 1HFY12 (%)

Lead-acid battery products	98.3%
Electrical Bicycle Battery	92.6%
Storage Battery	0.6%
Pure Electric Car Battery	5.1%
Battery for other usage	0.0%
Nickel hydride and lithium battery products	1.2%
Others	0.5%

Source: Company

### Share performance (%)

	Absolute	Relative*
1-mth	(5.7)	(10.0)
3-mth	13.5	6.3
6-mth	3.8	3.0

\*Relative to Hang Seng Index

Source: Bloomberg

### Share price performance



Source: Bloomberg

### Analyst

Report Date: 28 September 2012

Lisa Lee

Tel: (852) 2147 8809

Email: [lisalee@abci.com.hk](mailto:lisalee@abci.com.hk)

### Key takeaways from site visit

Our visit to Tianneng confirmed our confidence on 2012 sales and production growth in 2013. The group will enjoy cost advantage when its recycling plant operates in full capacity next year. The counter is trading at est. FY2012 PER of 5.8x and PB of 1.4x. We maintain our BUY rating with a TP of HK\$6.5, representing 7.0x 2013 PER.

**Site visit:** We visited Tianneng's recycling plant and production factory at Wushan, Zhejiang Province in Sep. The lead-acid batteries production site was clean with 4 new fully-automated production lines, which accounted for 25% of the group's current capacity. The new production lines significantly reduce the use of labour by 80%. The continue effort put on improving production efficiency, we believe, is seen as one of the indicators for sustainable growth.

**Update on lead recycling plant:** Full trial operation of the lead recycling plant in Wushan has started in Jun 2012. The management has updated us that the GP margin and NP margin of the recycling projects can reach 15% and 10% respectively upon full capacity. Based on 10% of NP margin, we estimate that production of 100,000 tons (full capacity) of self-recycled lead can reduce lead-acid batteries production costs by Rmb150mn, giving the group a cost advantage over its peers.

**Aggressive expansion plan:** Since the government has raised the standards of lead-acid batteries production, it is the best timing for market leaders to capture market share through capacity expansion during industry consolidation. Tianneng is expected to invest Rmb800-1,000mn in 2012 and 2013 respectively compared to Rmb703mn in 2011 and Rmb353mn in 2010. Our analysis indicates the group may have cash call in coming 6 months to strengthen its balance sheet.

**Valuation:** The counter is trading at est. FY2012 PER of 5.8x and PB of 1.4x. We maintain our BUY rating with TP of HK\$6.5, representing 7.0x 2013 PER.

**Risk factors:** Demand drop in lead-acid batteries, greater-than-expected drop in ASP, products substitution risks, lead cost hike, cash call

### Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	2,254.9	3,752.8	5,438.3	7,345.0	9,040.0
YoY Chg (%)	-12.8%	66.4%	44.9%	35.1%	23.1%
Net Income (Rmb mn)	270.7	346.3	615.9	719.2	833.7
YoY Chg (%)	15.6%	27.9%	77.9%	16.8%	15.9%
FD EPS (Rmb)	0.2430	0.2993	0.5630	0.6518	0.7556
YoY Chg (%)	3.8%	23.1%	88.1%	15.8%	15.9%
NBV (Rmb/share)	1.5579	1.8057	2.2944	2.7324	3.2633
PE (x)			6.68	5.77	4.98
PB (x)			1.64	1.38	1.15
ROAA (%)	13.79%	12.96%	15.66%	12.79%	11.33%
ROAE (%)	18.55%	19.03%	27.64%	26.13%	25.30%
Net D/E (%)	Net cash	2.85%	22.05%	48.87%	46.75%

\*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates



## Key takeaways

**Site visit:** We visited Tianneng's recycling plant and production factory at Wushan, Zhejiang Province in Sep. The lead-acid batteries production site was clean with 4 new fully-automated production lines, which accounted for 25% of the group's current capacity. The new production lines significantly reduce the use of labour by 80%. The continue effort put on improving production efficiency, we believe, is seen as one of the indicators for sustainable growth.

### Exhibit 1: Lead-acid batteries production factory in Wushan



Source: Site Visit

### Exhibit 2: Recycled lead



Source: Site Visit

**Lead recycling plant:** Full trial operation of the lead recycling plant in Wushan, has started in Jun 2012. The management has updated us that the GP margin and NP margin of the recycling projects can reach 15% and 10% respectively upon full capacity. It is expected 30,000 tons of lead can be produced in 2012, which is 25% lower than previous estimates. After full production ramp-up, 150,000 tons of used lead-acid batteries can be processed and 100,000 tons of lead can be produced at full capacity.

Based on 10% of NP margin, we estimated that production of 100,000 tons (full capacity) of self-recycled lead can reduce lead-acid batteries production costs by Rmb150mn, giving the group a cost advantage over its peers. This is especially the case when QE3 is believed to boost up commodity prices. Assuming a 6 month ramp up period, we anticipate cost savings will be fully reflected in 2013 results.



In addition, the cost advantage is not easy to intimate given that a total of Rmb300mn of CAPEX, construction period of at least 2 years and an extensive collecting network are required for the recycling project of 100,000 tons of capacity. However, since the plant is still in trial operation and no actual operating figures are given, we are still skeptical about the execution risks and profitability of the plant.

Exhibit 3: Lead price in China (Rmb/ton)



Source: Bloomberg

Exhibit 4: Lead price in China

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	Jul till now
Av lead price (Rmb/ton)	17,438	16,539	16,329	15,296	15,760	15,363	15,597
QoQ Chg	0.16%	-5.16%	-1.27%	-6.33%	3.03%	-2.52%	1.52%

Source: Bloomberg; ABCI Securities estimates

**Aggressive Expansion plan:** Since the government has raised the standards of lead-acid batteries production, it is the best timing for market leaders to capture market share through capacity expansion during industry consolidation. This partly explained why Chaowei, another industry leader and a comparable peer of Tianneng, issued CB in Sep 2012 to raise Rmb633mn for capacity production. It is possible that Tianneng will follow in order to gain market share and maintain its market leader position. Tianneng is expected to invest Rmb800-1,000mn in 2012 and 2013 respectively compared to Rmb703mn in 2011 and Rmb353mn in 2010. In our view, there is room for further leverage given that D/E of the group is 88% (as of 30 Jun 2012) compared to 129% of Chaowei.

**Valuation:** Management indicated sales volume growth is strong in 3Q2012 and we maintained our sales target of 65mn units this year. We have also cross check with Chaowei, which confirms on the strong sales performance for the same period. Hence, we believe 65mn sales volume in 2012 is achievable. The counter is trading at est. FY2012 PER of 5.8x and PB of 1.4x. We maintain our BUY rating with TP of HK\$6.5, representing 7.0x 2013 PER. Due to uncertainty in the recycling business, we have not priced in the potential profit and its lead cost impact into our valuation model. But if we assume the group can sell lead at ASP of Rmb15,600, the business could bring in Rmb150mn cost savings (or Rmb0.136/share) to the group based on 10% of net profit margin.



## Profit Forecast

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Revenue	2,254.9	3,752.8	5,438.3	7,345.0	9,040.0
CoS	(1,613.1)	(2,881.4)	(3,906.2)	(5,303.7)	(6,585.6)
<b>Gross profit</b>	<b>641.8</b>	<b>871.4</b>	<b>1,532.2</b>	<b>2,041.3</b>	<b>2,454.4</b>
Other income	62.2	74.8	91.0	73.5	90.4
S&D	(197.1)	(224.7)	(261.9)	(367.3)	(452.0)
Admin	(83.4)	(110.9)	(197.9)	(264.4)	(325.4)
R&D	(65.3)	(112.4)	(198.0)	(271.8)	(334.5)
Other expenses	(25.2)	(55.1)	(67.5)	(91.8)	(113.0)
Share of associate		0.0	(0.3)	0.0	0.0
<b>EBIT</b>	<b>333.0</b>	<b>443.1</b>	<b>908.5</b>	<b>1,119.5</b>	<b>1,319.9</b>
Finance costs	(13.3)	(14.3)	(78.8)	(160.6)	(208.2)
<b>EBT</b>	<b>319.7</b>	<b>428.8</b>	<b>829.6</b>	<b>958.9</b>	<b>1,111.7</b>
Tax	(49.0)	(82.5)	(213.7)	(239.7)	(277.9)
<b>Net profit</b>	<b>270.7</b>	<b>346.3</b>	<b>615.9</b>	<b>719.2</b>	<b>833.7</b>
D&A	52.0	65.4	79.9	125.8	161.8
EBITDA	385.0	508.4	988.3	1,245.3	1,481.6
No. of issued shares (mn)	1,080.0	1,083.3	1,089.8	1,099.3	1,099.3
No. of issuable shares					
Share options @ HK\$1.22	33.8	29.5	0.0	0.0	0.0
Share options @ HK\$3.18	0.0	44.2	4.2	4.1	4.1
<b>Total no. of diluted shares</b>	<b>1,113.8</b>	<b>1,157.0</b>	<b>1,094.0</b>	<b>1,103.4</b>	<b>1,103.4</b>
<b>Per share value (Rmb)</b>					
<b>DPS (Rmb)</b>	<b>0.0780</b>	<b>0.0976</b>	<b>0.1690</b>	<b>0.1963</b>	<b>0.2275</b>
<b>Basic EPS (Rmb)</b>	0.2506	0.3196	0.5652	0.6542	0.7584
<b>Fully-diluted EPS (Rmb)</b>	0.2430	0.2993	0.5630	0.6518	0.7556
<b>NBV (Rmb/share)</b>	1.5579	1.8057	2.2944	2.7324	3.2633

## Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
<b>Profitability</b>	28.46%	23.22%	28.17%	27.79%	27.15%
GP Margin	17.07%	13.55%	18.17%	16.95%	16.39%
EBITDA Margin	14.77%	11.81%	16.70%	15.24%	14.60%
EBIT Margin	14.18%	11.42%	15.26%	13.06%	12.30%
EBT Margin	12.00%	9.23%	11.33%	9.79%	9.22%
NP Margin	28.46%	23.22%	28.17%	27.79%	27.15%
ROAA	13.79%	12.96%	15.66%	12.79%	11.33%
ROAE	18.55%	19.03%	27.64%	26.13%	25.30%
<b>Working capital management</b>					
Avg. inventories/COGS (days)	85	160	123	180	180
Avg. trade receivables/turnover (days)	37	82	71	100	100
Avg. trade payables/COGS (days)	61	112	80	110	110
<b>Liquidity</b>					
Current ratio	2.48	1.77	1.33	1.11	1.07
Quick ratio	1.44	1.03	0.84	0.68	0.69
Equity/ Assets	74.50%	63.42%	52.28%	46.47%	43.45%
Net Debt/ Total Equity	-19.92%	2.85%	22.05%	48.87%	46.75%

Source: The group (for historical figures only), ABCI Securities estimates



### Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
PPE	712.7	981.6	1,583.5	2,362.2	3,002.5
Prepaid lease payments	84.4	97.3	102.2	187.9	185.9
Others	30.4	60.6	79.9	79.9	79.9
<b>Non-current assets</b>	<b>827.4</b>	<b>1,139.5</b>	<b>1,765.6</b>	<b>2,630.0</b>	<b>3,268.2</b>
Inventories	599.1	818.8	1,124.7	1,490.8	1,756.9
Held-for-trading investments	0.0	0.0	34.6	34.6	34.6
Bills, trade and other receivables	374.9	634.8	822.2	1,190.2	1,286.5
Prepaid lease payments	1.8	2.1	2.3	2.3	2.3
Amount due from a related company	0.0	0.0	0.0	0.0	0.0
Time deposits	0.0	0.0	110.0	110.0	110.0
Restricted bank deposits	94.8	65.0	166.1	166.1	166.1
Bank balances and cash	360.3	424.3	752.9	836.3	1,627.1
Others	0.0	0.0	4.5	4.5	4.5
<b>Current assets</b>	<b>1,431.0</b>	<b>1,945.0</b>	<b>3,017.3</b>	<b>3,834.7</b>	<b>4,988.0</b>
Bills, trade and other payables	440.2	545.4	710.0	888.4	1,096.3
Amount due to a related company	0.0	0.0	0.1	0.1	0.1
Taxation payable	15.7	37.9	83.9	83.9	83.9
Bank borrowings	120.0	515.0	1,470.4	2,470.4	3,470.4
<b>Current liabilities</b>	<b>575.9</b>	<b>1,098.4</b>	<b>2,264.3</b>	<b>3,442.7</b>	<b>4,650.6</b>
Bank borrowings	0.0	30.0	0.0	0.0	0.0
Deferred tax liabilities	0.0	0.0	18.1	18.1	18.1
<b>Non-current liabilities</b>	<b>0.0</b>	<b>30.0</b>	<b>18.1</b>	<b>18.1</b>	<b>18.1</b>
<b>Total assets</b>	<b>2,258.4</b>	<b>3,084.5</b>	<b>4,782.9</b>	<b>6,464.7</b>	<b>8,256.2</b>
<b>Net assets</b>	<b>1,682.5</b>	<b>1,956.2</b>	<b>2,500.5</b>	<b>3,003.9</b>	<b>3,587.5</b>
<b>Capital &amp; reserves:</b>					
Share capital	106.1	106.4	106.9	106.9	106.9
Reserves	1,576.4	1,849.8	2,393.6	2,897.0	3,480.6
<b>Total equity</b>	<b>1,682.5</b>	<b>1,956.2</b>	<b>2,500.5</b>	<b>3,003.9</b>	<b>3,587.5</b>

### Cash Flow Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
<b>EBITDA</b>	<b>385.0</b>	<b>508.4</b>	<b>988.3</b>	<b>1,245.3</b>	<b>1,481.6</b>
Change in inventories.	(231.2)	(219.7)	(303.8)	(366.1)	(266.1)
Change in bills, trade and other receivables	(234.9)	(254.6)	(171.7)	(368.0)	(96.4)
Change in trade payables	187.9	89.7	125.7	178.4	207.9
Others	(27.0)	19.5	4.4	0.0	0.0
<b>Cash (used in)/generated from operations</b>	<b>79.9</b>	<b>143.3</b>	<b>642.9</b>	<b>689.6</b>	<b>1,327.0</b>
Interest paid	(13.0)	(14.0)	(64.6)	(160.6)	(208.2)
Income tax paid	(44.2)	(68.1)	(166.1)	(239.7)	(277.9)
<b>CF from operating activities</b>	<b>22.6</b>	<b>61.2</b>	<b>412.2</b>	<b>289.3</b>	<b>840.9</b>
<b>Cash flows from investing activities</b>	<b>(292.1)</b>	<b>(341.9)</b>	<b>(910.2)</b>	<b>(990.2)</b>	<b>(800.0)</b>
<b>Cash flows from financing activities</b>	<b>99.4</b>	<b>344.7</b>	<b>826.6</b>	<b>784.2</b>	<b>749.9</b>

Source: The group (for historical figures only), ABCI Securities estimates





## 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 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.

ABC Securities Company Limited and/or its member companies ("ABC") may pursue financial interests to the companies mentioned in the report.

## Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, Groups or affiliates of ABCI Securities Company Limited. ABCI Securities Company Limited will not pay any research analyst any bonus, salary or other form of compensation that is based upon a specific investment banking transaction. The analysts' compensation shall be based upon several factors. Chiefly among such factors is the quality of the research and financial advice provided to our customers and the impact that the analysts' research has on the success of the Company's overall business. The final compensation of the analyst who prepared this report is determined exclusively by research management and senior management of ABCI Securities Company Limited. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income



**農銀國際**

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

**Tianneng Power International Limited**

---

from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2012 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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

**Tel** : (852) 2868 2183