



Tianneng Share Data

Table with 2 columns: Metric and Value. Metrics include Price (23/05/2011), 52 wk high/low (HK\$), Stock code, Issued shares (mn), Market cap (HK\$ mn), Free-float, 15-day avg vol (mn), Auditors, and Major shareholders (Zhang Tianren*, Pinpoint Capital Management, Deutsche Bank).

Chaowei Share Data

Table with 2 columns: Metric and Value. Metrics include Price (23/05/2012), 52 wk high/low (HK\$), Stock code, Issued shares (mn), Market cap (HK\$ mn), Free-float, 15-day avg vol (mn), Auditors, and Major shareholders (Zhou Ming Ming*, Zhou Longrui#).

* Chairman of Co., #Executive Director of Co.

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Recent update on lead-acid batteries industry

Investment idea: Lead-acid battery producers Tianneng (819) and Chaowei (951) will be the main beneficiaries of a 3% drop in lead prices since the beginning of May. Chaowei is slightly more sensitive than Tianneng. There is an EPS growth sensitivity of +/- 21% for Chaowei vs. +/- 18% for Tianneng for every +/-10% change in lead prices.

Recent update

- Lead price dropped: We have noticed that lead price in China has dropped 3.1% since beginning of May (or down 4.8% since beginning of Feb) to Rmb15,325/ton amid market correction.

Table showing lead price trends from 1Q11 to 1 Apr-22 May. Columns: 1Q11, 2Q11, 3Q11, 4Q11, 1Q12, 1 Apr-22 May. Rows: Av lead price (Rmb/ton) and QoQ Chg.

Source: Bloomberg; ABCI Securities



Source: Bloomberg

- Who are the beneficiaries: Lead-acid batteries producers, Tianneng (819) and Chaowei (951) will benefit from the decline in lead price as lead accounts for more than 50% of their production costs. The decline of non-ferrous metal prices due to the expected slowdown of global economies will help the producers to contain cost.
- Who to pick? The average lead cost in Jan-Apr 2012 was Rmb15,700/ton, which is 1.9% lower than our estimated average of Rmb16,000/ton in our financial models. Based on our assumptions, Chaowei is slightly more sensitive to change in lead cost than Tianneng. There is an EPS growth sensitivity of +/- 21% for Chaowei vs. +/- 18% for Tianneng for every +/-10% change in lead prices. Therefore, we expect a continuous drop in lead price will give rise to more upside potential to Chaowei than to Tianneng.



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- **Low valuation:** We remain positive on both Chaowei (951) and Tianneng (819). We estimate Chaowei FY12 EPS to be Rmb0.5124, up 13.1% YoY. Meanwhile, we estimate Tianneng FY12 FD EPS to be Rmb0.6573, up 17.8% YoY. Tianneng/ Chaowei is currently trading at est FY12 PE of 5.04x/5.94x. The low valuations were partly caused by recent high risk aversion to small cap private Chinese entity stocks as well as the sales discount offered in Q2FY12. We believe valuation should rise when systematic risks drop and sales start to pick up again in summer.
 - **Possible price cut:** We do aware that price of lead-acid batteries will normally be adjusted in accordance with lead price change. But according to Chaowei CFO, sales discount is offered to distributors in Q2FY12 due to traditional low season rather than to lead price drop. But the magnitude of the sales rebate given to distributors in Apr FY12 is the same they have given last year in Q2FY11.
 - **High dividend yield:** Since 10 May, Tianneng and Chaowei have risen by 2.3% and 8.2% compared to 5.8% drop of HSI. The weaker performance of Tianneng in comparison with Chaowei is caused by their difference in ex-div date. Tianneng ex div date is on 16 May while Chaowei ex-div is on 28 May. Chaowei will pay out DPS of Rmb0.136 (expected payable date: 8 Jun), representing a dividend yield of 4.68%.
 - **Risks:** Demand drop in lead-acid batteries, greater-than-expected drop in ASP, products substitution risks, raw material cost fluctuation



Comparison

For the yr ended 31 Dec (Rmb mn)	2009	2010	2011E	2012E
Tianneng (819)				
GP margin	28.46%	23.22%	28.17%	26.94%
EBIT margin	14.77%	11.81%	16.70%	14.39%
NP margin	12.00%	9.23%	11.33%	9.87%
ROAA	13.79%	12.96%	15.66%	15.44%
ROAE	18.55%	19.03%	27.64%	27.25%
PE	-	-	5.88	5.04
PB	-	-	1.44	1.25
Chaowei (951)				
GP margin	28.93%	26.29%	32.08%	30.59%
EBIT margin	12.05%	12.12%	15.28%	13.69%
NP margin	9.29%	9.40%	11.96%	10.86%
ROAA	15.56%	13.08%	12.63%	10.58%
ROAE	19.66%	39.05%	26.34%	37.50%
PE	-	-	6.72	5.94
PB	-	-	1.75	1.48

Source: ABCI Securities estimates; Company reports

P&L (Tianneng)

For the yr ended 31 Dec (Rmb mn)	2009	2010	2011E	2012E
Revenue	2,254.9	3,752.8	5,438.3	7,345.0
CoS	(1,613.1)	(2,881.4)	(3,906.2)	(5,366.1)
Gross profit	641.8	871.4	1,532.2	1,978.9
Other income	62.2	74.8	91.0	73.5
Other gains and losses	0.0	0.0	11.0	0.0
S&D	(197.1)	(224.7)	(261.9)	(367.3)
Admin	(83.4)	(110.9)	(197.9)	(264.4)
R&D	(65.3)	(112.4)	(198.0)	(271.8)
Other expenses	(25.2)	(55.1)	(67.5)	(91.8)
Share of associate		0.0	(0.3)	0.0
EBIT	333.0	443.1	908.5	1,057.1
Finance costs	(13.3)	(14.3)	(78.8)	(90.0)
EBT	319.7	428.8	829.6	967.1
Tax	(49.0)	(82.5)	(213.7)	(241.8)
Net profit	270.7	346.3	615.9	725.3
Chg (YoY)	15.58%	27.92%	77.88%	17.75%
DPS (Rmb)	0.0780	0.0976	0.1690	0.1979
Basic EPS (Rmb)	0.2506	0.3196	0.5652	0.6598
Fully-diluted EPS (Rmb)	0.2430	0.2993	0.5630	0.6573
NBV (Rmb/share)	1.5579	1.8057	2.2944	2.6519
No. of issued shares (mn)	1,080.0	1083.3	1089.8	1,099.3
No. of issuable shares				
Share options @ HK\$1.22	33.8	29.5	0.0	0.0
Share options @ HK\$3.18	0.0	44.2	4.2	4.2
Total no. of diluted shares	1,113.8	1,157.0	1,094.0	1,103.5

Source: ABCI Securities estimates; Company reports



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P&L (Chaowei)

For the yr ended 31 Dec (Rmb mn)	2009	2010	2011E	2012E
Revenue	2,433.9	3,224.8	4,932.0	6,160.0
CoS	(1,729.9)	(2,377.0)	(3,350.1)	(4,275.7)
Gross profit	704.0	847.7	1,582.0	1,884.3
Other income	13.7	53.6	26.7	37.0
S&D	(321.9)	(309.3)	(412.1)	(523.6)
Admin	(83.7)	(116.8)	(222.9)	(277.2)
R&D	(15.8)	(51.4)	(182.7)	(227.9)
Other expenses	(4.2)	(33.1)	(37.0)	(49.3)
Gain on disposal	3.2	0.0	0.0	0.0
Share of associate	(2.2)	0.0	0.0	0.0
EBIT	293.3	390.7	753.9	843.2
Finance costs	(9.6)	(20.8)	(43.0)	(37.2)
EBT	283.7	369.9	710.9	806.0
Tax	(57.7)	(66.8)	(121.1)	(137.0)
Net profit	226.0	303.1	589.8	669.0
MI	(24.1)	(34.9)	(134.5)	(153.9)
Net profit to owners of company	201.9	268.2	455.3	515.1
<i>Chg (YoY)</i>	57.61%	32.83%	69.78%	13.13%
DPS (Rmb)	-	0.0800	0.1360	0.1537
Basic EPS (Rmb)	0.2700	0.3100	0.4529	0.5124
NBV (Rmb/share)	0.9069	1.3662	1.7386	2.0566
No. of issued shares (mn)	750.0	1,005.3	1,005.3	1,005.3

Source: ABCI Securities estimates; Company reports



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