



Company Report

Chaowei Power (951 HK)

March 26, 2013

Rating: Buy
TP: HK\$4.14

Key data

Share price (HK\$)	3.75
Upside potential (%)	10.4
52Wk H/L(HK\$)	4.75/ 3.16
Issued shares (mn)	1,005
Market cap (HK\$mn)	3,769
30-day avg vol (HK\$mn)	18.9
Auditors	Deloitte
Major shareholder (%):	
Zhou Ming Ming*	27.2
Zhou Longrui#	7.2

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

Source: Company & Bloomberg

Revenue composition in FY12 (%)

Lead-acid battery products	97.1%
E-bikes battery	89.4%
E-cars and storage battery	7.7%
Others	3.0%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(18.1)	(15.7)
3-mth	(10.4)	(8.7)
6-mth	(15.5)	(20.7)

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

Analyst

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Revise down FY13 EPS, but maintain Buy

Results in line with expectation. Chaowei recorded FY12 revenue of Rmb9,559.4mn, up 93.8% YoY. Revenue growth was driven by 102% YoY of volume growth. Sales volume of lead-acid batteries reached 86.7mn units in FY12. NP for FY12 grew by 9.0% YoY to Rmb496.3mn, which was in line with expectation as the group announced a profit alert on 25 Feb. The much slower growth in NP than revenue was due to a substantial margin squeeze in 4QFY12. GP margin dropped from 27.4% in 1HFY12 to 14.1% in 2HFY12.

Healthy balance sheet despite GP margin squeeze: Inventory turnover days dropped from 79 days in FY11 to 55 days in FY12. After the issuance of Rmb633mn CB in Sep, net D/E of the group dropped from 53.9% in 1HFY12 to 29.6% in 2HFY12. As net cash from operating activities increased 13.2% YoY to Rmb 635 mn in FY12, we believe the group has no cash flow problem and the CB issuance is more of the purpose to increase their proportion of their long term loan. The proportion of ST loans to total loans (including CB) dropped from 87% in FY11 to 65% in FY12, which in our view is more beneficial to the group. CAPEX is estimated to be Rmb600-700mn in FY13. We believe the group has the financial capability to raise their production capacities to the group targets of 120mn units in FY13, representing increase of 30% YoY.

Outlook: The rapid capacity expansion of Chaowei and its major competitor Tianneng (819), the two largest market leaders of the industry, has led to an oversupply in the market. To keep the market leading position in the industry, Chaowei, instead of lowering ASP, gave distributors a sales rebate of up to 8% in 4QFY12, hence leading to a significant decrease in GP margin. It is estimated that the market share of the two players increase from 50% in 2011 to 60% in 2012. However, in our view, due to the large sales rebates given, we believe products from the 2 players are indifferent to customers. According to the management, no big improvement was seen in 1QFY13 apart from a slight increase in ASP (~3%) in Jan this year. We expect the market leaders can only take advantage of their market leading position in 2014 when the new industry standards become effective. We expect Chaowei's FY13 NP growth to be mainly driven by 20% volume growth. With lower GP margin, we revise down our FY13 EPS by 19.0% to Rmb0.4732 and adjust our TP down from HK\$5.50 to HK\$4.14, based on 7x FY13 PE. Due to low valuation and 5.0% dividend yield (FY13 DPS: Rmb0.148), we maintain our 'Buy' rating on the stock.

Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12A	FY13F	FY14F
Revenue (Rmb mn)	3,224.8	4,932.0	9,559.4	10,820.2	12,816.5
<i>YoY Chg (%)</i>	32.5%	52.9%	93.8%	13.2%	18.5%
Net Income (Rmb mn)	268.2	455.3	496.3	546.3	664.1
<i>YoY Chg (%)</i>	32.8%	69.8%	9.0%	10.1%	21.6%
FD EPS (Rmb)	0.3100	0.4529	0.4937	0.4732	0.5753
<i>YoY Chg (%)</i>	14.8%	46.1%	9.0%	-4.2%	21.6%
NBV (Rmb/share)	1.3662	1.7386	2.1556	2.4741	2.9375
PE (x)	-	6.62	6.08	6.34	5.22
PB (x)	-	1.73	1.39	1.21	1.02
ROAA (%)	13.08%	12.63%	8.53%	6.96%	7.46%
ROAE (%)	39.05%	52.10%	34.86%	33.34%	30.27%
Net D/E (%)	-2.49%	14.55%	29.60%	24.35%	44.08%

Source: Company, ABCI Securities estimates

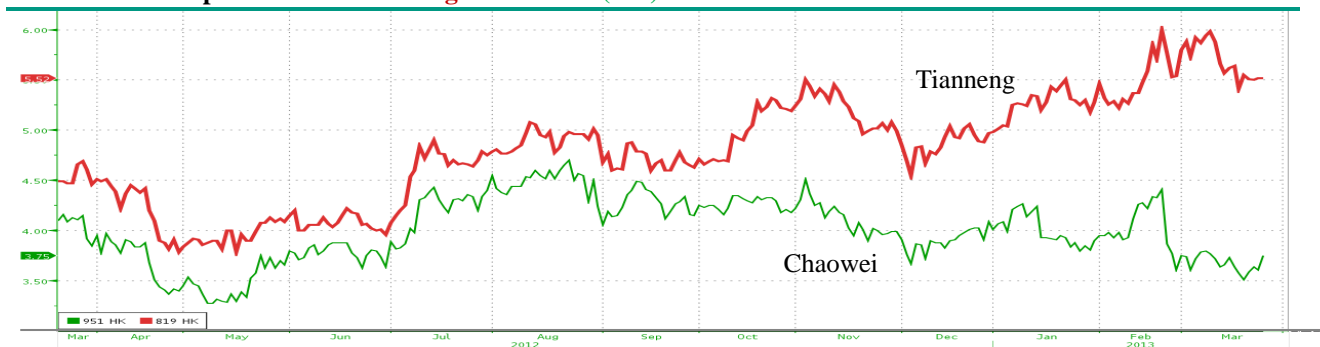


Exhibit 1: Consensus

FY ended Dec 31 (Rmbmn)	New Forecast		Consensus		Difference	
	2013F	2014F	2013F	2014F	2013F	2014F
Revenue	10,820	12,816	11,357	12,498	-4.73%	2.55%
Gross profit	2,201	2,610	2,924	3,179	-24.75%	-17.88%
Net profit	546	664	711	839	-23.15%	-20.81%
FD EPS (Rmb/share)	0.4584	0.5573	0.6390	0.7700	-28.26%	-27.62%

Source: Bloomberg, ABCI Securities estimates

Exhibit 2: Share price Chart: Tianneng vs Chaowei (951)



Source: Bloomberg

Profit Forecast

FY ended Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
Revenue	3,224.8	4,932.0	9,559.4	10,820.2	12,816.5
Cost of Sales	(2,377.0)	(3,526.0)	(7,664.7)	(8,619.6)	(10,206.2)
Gross Profit	847.7	1,406.0	1,894.8	2,200.5	2,610.3
Other income	53.6	26.7	49.5	64.9	76.9
D&S	(309.3)	(236.2)	(396.7)	(465.3)	(538.3)
Admin	(116.8)	(222.9)	(339.3)	(389.5)	(461.4)
R&D	(51.4)	(182.7)	(314.4)	(357.1)	(422.9)
Other expenses	(33.1)	(37.0)	(30.7)	(32.5)	(38.4)
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	1,021.1	1,226.1
Finance costs	(20.8)	(43.0)	(91.0)	(166.9)	(183.9)
EBT	369.9	710.9	752.5	854.3	1,042.3
Tax	(66.8)	(121.1)	(132.5)	(151.2)	(187.6)
MI	(34.9)	(134.5)	(123.6)	(156.8)	(190.6)
Net profit to owners of company	268.2	455.3	496.3	546.3	664.1
Dividend	-	80.4	136.7	186.3	235.8
D&A	42.2	63.6	113.8	145.4	175.6
EBITDA	432.9	817.4	957.4	1,166.5	1,401.8
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)					
DPS (Rmb)	0.0800	0.1360	0.1480	0.1630	0.1982
Basic EPS (Rmb)	0.2700	0.3100	0.4529	0.6179	0.7818
FD EPS (Rmb)	-	-	0.4300	0.4732	0.5753
NBV (Rmb/share)	1.3662	1.7386	2.1556	2.4741	2.9375

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



Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
Profitability					
GP Margin	26.29%	28.51%	19.82%	20.34%	20.37%
EBITDA Margin	13.42%	16.57%	10.01%	10.78%	10.94%
EBIT Margin	12.12%	15.28%	8.82%	9.44%	9.57%
EBT Margin	11.47%	14.41%	7.87%	7.90%	8.13%
NP Margin	8.32%	9.23%	5.19%	5.05%	5.18%
ROAA	13.08%	12.63%	8.53%	6.96%	7.46%
ROAE	39.05%	52.10%	34.86%	33.34%	30.27%
Working capital management					
Avg. inventories/COGS (days)	84.2	78.8	54.5	55.0	55.0
Avg. trade receivables/turnover (days)	4.6	11.1	9.8	10.0	10.0
Avg. trade payables/COGS (days)	44.0	48.7	44.3	52.0	52.0
Liquidity					
Current ratio	2.05	1.30	1.17	1.15	1.17
Quick ratio	1.38	0.91	0.79	0.83	0.82
Equity/ Assets	51.1%	38.7%	30.4%	30.0%	31.1%
Net Debt/ Total Equity	-2.5%	14.6%	29.6%	24.4%	44.1%

Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
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	1,384.2	1,691.7
Trade receivables	61.9	237.0	277.4	248.0	454.3
Bills receivable	593.2	736.6	1,001.4	872.0	1,094.4
Prepayments and other receivables	157.6	128.0	419.3	435.4	618.0
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	1,792.8	1,596.7
CURRENT ASSETS	1,919.1	2,996.1	4,238.6	4,974.5	5,697.2
Trade payables	353.6	588.0	1,271.7	1,497.0	1,411.0
Bills payable	0.0	37.6	8.5	5.2	22.7
Other payables	269.8	413.5	522.0	670.2	727.9
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	288.6	338.6
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	4,323.6	4,862.9
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	8,304.0	9,500.4
Net Assets	1,455.9	2,001.5	2,626.2	3,111.9	3,769.0
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	2,419.1	2,883.9
Equity to owners	1,373.4	1,747.8	2,167.0	2,487.2	2,953.0
MI	82.5	253.7	459.1	624.7	816.0
TOTAL EQUITY	1,455.9	2,001.5	2,626.2	3,111.9	3,769.0

Source: The group (for historical figures only), 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

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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