



Chaowei Power (951 HK) – Buy Auto Parts & Equipment Industry

Key Data

Share price (HK\$)	4.24
Target price (HK\$)	5.50
Upside potential (%)	29.4%
52Wk H/L(HK\$)	4.75 / 2.81
Issued shares (mn)	1,005.3
Market cap (HK\$mn)	4,272.5
30-day avg turnover (HK\$mn)	11.08
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	14.8	10.1
3-mth	1.2	(8.5)
6-mth	(0.9)	(16.9)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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Possible price hike in Jan 2013

Sales rebate reduction in beginning of Jan, possible price hike in the e-bike lead acid batteries and dropping lead price are favourable to Chaowei, the market leader in the industry. However, the increase in use of OEM, which allows to group to expand capacity rapidly, can also lead to negative effect on profit margin. This might counter off the effect of the positive news. Nevertheless, given low valuation, we maintain Buy on the stock.

Sales rebate reduction and price hike: We have verified with the market leaders that there is a sales rebate reduction in beginning of Jan which is a regular move in peak season (i.e. Q1 and Q3) each year and there will be a possible price hike of approx. 3% in the short term.

Dropping lead price: Lead price has been on a downtrend since mid-Sep. Since 17 Sep, lead price in China has dropped 6.5% to Rmb14,800/ton on 7 Jan. As lead accounted for 65% of e-bike lead acid batteries production cost, the drop in lead price plus a slight upward revision in ASP will be favourable to the lead-acid batteries producers.

Increase in OEM can lead to stable supply but also slight margin squeeze: Chaowei has entered an agreement to provide an entrusted loan of Rmb200mn to Chisen in Dec. The loan has a term of three years with a fixed annual interest rate of 8%. Chisen, which accounted for 8% of total market share in 2011 in terms of production scale, is the third largest player in the e-bike lead acid batteries market and is also a major OEM company for Chaowei. We believe the loan proceeds allow Chisen to promote the enclosed battery formation process in order to produce lead-acid batteries that are in complaint with the regulations effective from Jan 2014. For Chaowei, the loans ensure a sustainable superior OEM product supply for its own capacity expansion. We expect the acceleration of industry consolidation will continue to lead to an increase in the use of OEM by market leaders, which might likely to increase production costs and counter off the effect of lower lead price and ASP upward revisions. We estimate GP margin of the group to maintain at 27% in both 2012 and 2013.

Valuation: The counter is trading at est. FY2013 PER of 5.5x and PB of 1.3x. We maintain our BUY rating with TP of HK\$5.5, representing 7.0x 2013 PER.

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
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)	-	-	7.62	5.91	5.46
PB (x)	-	-	1.99	1.61	1.29
ROAA (%)	15.56%	13.08%	12.63%	9.89%	9.50%
ROAE (%)	19.66%	39.05%	52.10%	41.39%	43.31%

Source: Company, Bloomberg, ABCI Securities



Disclosures

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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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
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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