



Key Data

Share price (HK\$)	4.27
Target price (HK\$)	5.75
Upside potential (%)	34.6%
52Wk H/L(HK\$)	4.75 / 2.70
Issued shares (mn)	1,005.3
Market cap (HK\$mn)	4,292.6
30-day avg turnover (HK\$mn)	7.12
Major shareholder (%):	
Zhou Ming Ming*	41.7
Zhou Longrui#	7.2

*Chairman of Co., #Executive Director of Co
Source: Company, Bloomberg

Revenue composition in FY11 (%)

Lead-acid battery products	98.1%
E-bikes battery	94.7%
E-cars and storage battery	3.5%
Others	1.6%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(5.5)	(7.8)
3-mth	14.5	8.5
6-mth	4.1	5.6

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

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

CB issuance

Chaowei issued Rmb633mn CB to finance its business expansion. The move will raise the gearing as well as finance costs of the group. We lower our FY12 EPS by 5.4% to Rmb0.5845, assuming CB is not converted. We lower our TP from HK\$6.09 to HK\$5.75.

Issuing CB: Chaowei announced on 18 Sep to issue a 5-yr Rmb633mn CB with a conversion price of HK\$5.2. In addition, the Chaowei has granted option bonds of Rmb158mn to Goldman Sachs. The CB will be convertible into 149mn shares, representing 12.9% of the enlarged share capital. Net proceeds from the issuance are estimated to be Rmb608mn. The option bond will be convertible into 37mn shares, representing 2.7% of the enlarged share capital and net proceeds will be Rmb153mn.

Raise funds for expansion: The CB bears 7.25% of interest rate which is reasonable compared to 5.0-9.5% of interest rate of the group's borrowing costs in 2011. Proceeds from CB will be used to fund an expansion of its production capacity, including the earlier announced construction and installation of additional production facilities in Zhejiang, Jiangxi and Hebei provinces.

Impact: We expect the CB issuance will raise debt to equity ratio from 100% as of 30 Jun 2012 to 129% but net debt to equity ratio will remain at ~54% immediately after the issuance. We estimate that net profit will decrease 5.4% to Rmb587.6mn in FY12 and we lower our FY12 EPS estimate from Rmb0.6179 to Rmb0.5845, assuming bonds are not converted. We lower our 1-year target price from HK\$6.09 to HK\$5.75. Maintain Buy.

Risks: Demand drop in lead-acid batteries, greater-than-expected drop in ASP, products substitution risks, fluctuation of lead price, earnings dilution

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
<i>YoY Chg (%)</i>	5.0%	32.5%	52.9%	79.4%	20.0%
Net Income (Rmb mn)	201.9	268.2	455.3	587.6	752.6
<i>YoY Chg (%)</i>	57.6%	32.8%	69.8%	29.0%	28.1%
FD EPS (Rmb)	0.2700	0.3100	0.4529	0.5845	0.7486
<i>YoY Chg (%)</i>	58.8%	14.8%	46.1%	29.0%	28.1%
NBV (Rmb/share)	0.9069	1.3662	1.7386	2.1477	2.6718
PE (x)	-	-	7.66	5.93	4.63
PB (x)	-	-	1.99	1.61	1.30
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 not converted
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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