



Company Report

Chaowei Power (951 HK) – Buy Auto Parts & Equipment Industry 12-month target price: HK\$6.09

Key data

Share price (HK\$)	4.50
Target price (HK\$)	6.09
Upside potential (%)	35.3%
52Wk H/L(HK\$)	4.89 / 2.70
Issued shares (mn)	1,005.3
Market cap (HK\$mn)	4,523.8
30-day avg turnover (HK\$mn)	5.55
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	0.5	(0.5)
3-mth	16.3	9.6
6-mth	15.1	26.2

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

Report Date: 30 August 2012

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Key takeaways from analyst meeting

Chaowei announced 1H2012 results that are in line with its profit alert earlier. As the group has already met its 2012 annual capacity target in 1H2012, we raise our sales output volume for 2012 which leads to 28% increase in our 2012 EPS to Rmb0.6179. We raise our 1-year target price from HK\$5.23 to HK\$6.09, based on FY2012 PER of 8.0x. Maintain BUY.

Results in line with expectation: The group posted revenue of Rmb4,208.6mn in 1H2012, up 117.0% YoY/40.6% HoH. In particular, revenue from secondary market increased by 156.0% YoY/25.6% HoH while revenue from primary market increased by 83.5% YoY/64.2% HoH in 1H2012. Gross profit increased by 94.9% YoY/14.5% HoH to Rmb1,141.3mn and net profit increased by 127.1% YoY/2.8% HoH to Rmb322.2mn.

Valuation: As the group meets its capacity target earlier than expected, we raise our sales volumes output assumptions to 75mn units in 2012 and 90mn units in 2013. We raise our 2012 EPS forecast by 16% to Rmb0.6179. The counter is trading at est. 2012 PER of 5.91x and P/B of 1.68x. We raise our 1-year target price from HK\$5.23 to HK\$6.09, based on FY2012 PER of 8.0x. Maintain BUY.

Upside potential: The Entry Requirements of the Lead-acid Battery Industry which took effect on 1 Jul 2012, stated that production of lead-acid batteries with cadmium content higher than 0.002% must be suspended by the end of 2013. Currently, only approximately 20% of the production capacity in China can meet the emission requirement of the Entry Requirement, of which we estimate that 80% of the qualified products are produced by Chaowei. The requirement may therefore lead to a sudden shortage of supply near the end of 2013. Price hikes and GP margin expansion are possible during end of 2013 and beginning of 2014.

Risk factors: Demand drop in lead-acid batteries, greater-than-expected drop in ASP, products substitution risks, fluctuation of lead price

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
YoY Chg (%)	5.0%	32.5%	52.9%	79.4%	20.0%
Net Income (Rmb mn)	201.9	268.2	455.3	621.2	786.0
YoY Chg (%)	57.6%	32.8%	69.8%	36.4%	26.5%
FD EPS (Rmb)	0.2700	0.3100	0.4529	0.6179	0.7818
YoY Chg (%)	58.8%	14.8%	46.1%	36.4%	26.5%
NBV (Rmb/share)	0.9069	1.3662	1.7386	2.1711	2.7184
PE (x)	-	-	8.07	5.91	4.67
PB (x)	-	-	2.10	1.68	1.34
ROAA (%)	15.56%	13.08%	12.63%	11.16%	10.94%
ROAE (%)	19.66%	39.05%	52.10%	43.39%	44.63%
Net D/E (%)	7.69%	-2.49%	14.55%	37.24%	61.93%

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



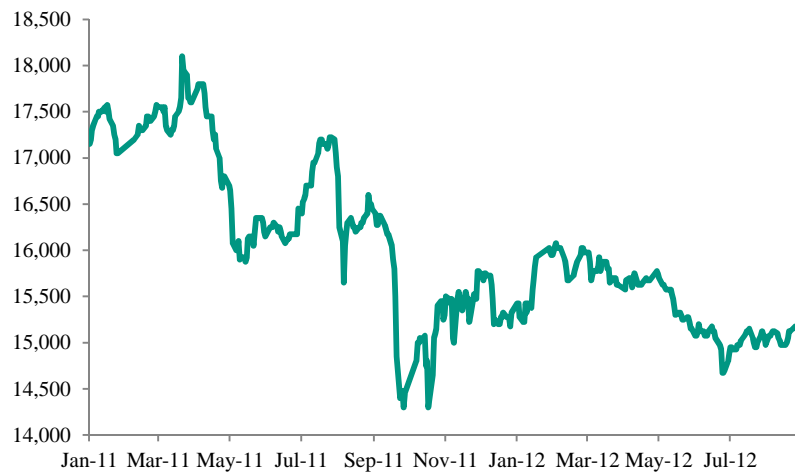
Key takeaways

Results in line with expectation: The group posted revenue of Rmb4,208.6mn in 1H2012, up 117.0% YoY/40.6% HoH. In particular, revenue from secondary market increased by 156.0% YoY/25.6% HoH while revenue from primary market increased by 83.5% YoY/64.2% HoH in 1H2012. Gross profit increased by 94.9% YoY/14.5% HoH to Rmb1,141.3mn and net profit increased by 127.1% YoY/2.8% HoH to Rmb322.2mn.

Strong sales growth was a result of sales volume growth and ASP growth in 1H2012. Total sales volume increased 100.0% YoY/55.5% HoH to 35mn units, while ASP of lead-acid batteries increased 110% YoY to Rmb118/unit in 1H2012 (vs Rmb115.7/unit in 2011).

However, GP margin of the group dropped 3.1ppts YoY/6.2ppts HoH from 30.2%/33.3% in 1H2011/2H2011 to 27.1% in 1H2012 primarily due to the increase in OEM arrangement. We expect GP margin to slightly improve in 2H2012 as lead price, which accounted for 65% of production costs, continue to drop. We estimate GP margin to be 27.5% in 2012 and 27.9% in 2013.

Exhibit 1: Lead price in China (Rmb/ton)



Source: Bloomberg

Exhibit 2: 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	15,602
QoQ Chg	0.16%	-5.16%	-1.27%	-6.33%	3.03%	-2.52%	1.55%

Source: Bloomberg; ABCI Securities estimates



Capacity expansion exceeds annual target: As at 30 Jun 2012, the group's annual production capacity for lead-acid motive batteries reached 75mn units, which exceed previous annual capacity target for 2012. The new production facilities in Changxing County in Zhejiang and Xinhe County in Hebei which commenced constructions since Jan and Apr 2012 are expected to add a total of 24mn units of capacity upon completion. The management expects total capacity of the group will reach 90-100mn units by the end of this year. In our view, the increased in OEM arrangements in 1H2012 implied capacity has reached full utilization rate in 1H2012 and the capacity expansion will reduce productions costs in terms of less reliance on OEM productions.

Concerns on higher leverage: All borrowings of the group are due within one year. The short term debt has increased by 77.4% from Rmb1,094mn as of 31 Dec 2011 to Rmb1,940.5 as of 30 Jun 2012. As a result, net debt of the group increased from Rmb254.3mn to Rmb1,041.4mn and net debt to equity of the group increased from 14.6% to 53.9% for the same period. However, given that the group had a net profit of at least Rmb600mn this year while inventories of Rmb1,326.3mn (as of 30 Jun 2012) were mostly lead (which are considered as highly liquid assets), we believe the group is still in a healthy financial position, and the higher leverage will enable the group to continue to enjoy a high ROE. We estimate ROE of the group to reach 46-47% in 2012-2013.

Valuation: As the group meets its capacity target earlier than expected, we raise our sales volumes output assumptions to 78mn units in 2012 and 90mn units in 2013. We raise our 2012 EPS forecast by 16% to Rmb0.6179. The counter is trading at est. 2012 PER of 5.91x and P/B of 1.68x. We raise our 1-year target price from HK\$5.23 to HK\$6.09, based on FY2012 PER of 8.0x. Maintain BUY.

Upside potential: One of the major competitive edges of the group is its large-scale application of the technology of enclosed battery formation process which yields cadmium-free lead acid batteries in the production process. The Entry Requirements of the Lead-acid Battery Industry which took effect on 1 Jul 2012, stated that production of lead-acid batteries with cadmium content higher than 0.002% must be suspended by the end of 2013. Currently only approximately 20% of the production capacity in China can meet the emission requirement of the Entry Requirement, of which we estimate that 80% of the qualified products are produced by Chaowei. The requirement may therefore lead to a sudden shortage of supply near the end of 2013. Price hikes and GP margin expansion are possible during end of 2013 and beginning of 2014. On the other hand, in order to survive, competitors may buyout the whole R&D team of Chaowei to develop the technology of their own, or the government may delay the implantation of the requirement in view of the supply shortage, which may counter off the upside potential.



Exhibit 6: Share price Chart: Chaowei (951) vs Tianneng (819)



Source: Bloomberg

Exhibit 4: Our revisions to revenue and earnings forecasts

FY ended Dec 31 (Rmbmn)	New Forecast		Previous Forecast		Difference	
	2012F	2013F	2012F	2013F	2012F	2013F
Revenue	8,850	10,620	6,976	8,580	26.86%	23.78%
Gross profit	1,582	2,434	2,089	2,489	-24.29%	-2.23%
Net profit	621	786	534	612	16.33%	28.49%
FD EPS (Rmb/share)	0.6179	0.7818	0.5312	0.6085	16.33%	28.49%

Exhibit 5: Consensus

FY ended Dec 31 (Rmbmn)	New Forecast		Consensus		Difference	
	2012F	2013F	2012F	2013F	2012F	2013F
Revenue	8,850	10,620	7,596.00	9,280.00	16.51%	14.44%
Gross profit	1,582	2,434	2,180.05	2,723.68	-27.43%	-10.64%
Net profit	621	786	560	728	10.92%	7.96%
FD EPS (Rmb/share)	0.6179	0.7818	0.6180	0.7630	-0.02%	2.47%

Source: Bloomberg, ABCI Securities estimates

Half-year results

FY ended Dec 31 (Rmbmn)	1H11	2H11	1H12	YoY	HoH
Revenue	1,939.2	2,992.8	4,208.6	117.0%	40.6%
Cost of Sales	(1,353.6)	(1,996.5)	(3,067.3)	126.6%	53.6%
Gross Profit	585.6	996.4	1,141.3	94.9%	14.5%
Other income	11.3	15.4	17.4	53.7%	13.0%
D&S	(195.0)	(217.1)	(294.7)	51.1%	35.7%
Admin	(78.9)	(144.1)	(149.2)	89.2%	3.6%
R&D	(62.4)	(120.3)	(151.0)	141.8%	25.5%
Other expenses	(15.7)	(21.3)	(9.2)	-41.7%	-57.0%
Gain on disposal	0.0	0.0	0.0	-	-
Share of associate	0.0	0.0	0.0	-	-
EBIT	244.9	509.0	554.7	126.5%	9.0%
Finance costs	(12.0)	(31.0)	(52.7)	338.7%	70.3%
EBT	232.8	478.0	502.0	115.6%	5.0%
Tax	(50.0)	(71.0)	(97.7)	95.3%	37.6%
MI	(40.9)	(93.6)	(82.1)	100.5%	-12.3%
Net profit to owners of company	141.9	313.5	322.2	127.1%	2.8%

Source: Company, ABCI Securities estimates



Profit Forecast

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Revenue	2,433.9	3,224.8	4,932.0	8,850.0	10,620.0
Cost of Sales	(1,729.9)	(2,377.0)	(3,350.1)	(6,416.3)	(7,652.5)
Gross Profit	704.0	847.7	1,582.0	2,433.8	2,967.5
Other income	13.7	53.6	26.7	44.3	63.7
D&S	(321.9)	(309.3)	(412.1)	(619.5)	(743.4)
Admin	(83.7)	(116.8)	(222.9)	(318.6)	(382.3)
R&D	(15.8)	(51.4)	(182.7)	(327.5)	(392.9)
Other expenses	(4.2)	(33.1)	(37.0)	(26.6)	(31.9)
Gain on disposal	3.2	0.0	0.0	0.0	0.0
Share of associate	(2.2)	0.0	0.0	0.0	0.0
EBIT	293.3	390.7	753.9	1,185.9	1,480.7
Finance costs	(9.6)	(20.8)	(43.0)	(120.0)	(132.0)
EBT	283.7	369.9	710.9	1,065.9	1,348.7
Tax	(57.7)	(66.8)	(121.1)	(266.5)	(337.2)
MI	(24.1)	(34.9)	(134.5)	(178.3)	(225.6)
Net profit to owners of company	201.9	268.2	455.3	621.2	786.0
Dividend	-	80.4	136.7	186.3	235.8
D&A	30.2	42.2	63.6	121.4	167.0
EBITDA	323.5	432.9	817.4	1,307.3	1,647.7
No. of issued shares (mn)	750.0	1,005.3	1,005.3	1,005.3	1,005.3
Per share value (Rmb)					
DPS (Rmb)	-	0.0800	0.1360	0.1854	0.2345
Basic EPS (Rmb)	0.2700	0.3100	0.4529	0.6179	0.7818
NBV (Rmb/share)	0.9069	1.3662	1.7386	2.1711	2.7184

Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Profitability					
GP Margin	28.93%	26.29%	32.08%	27.50%	27.94%
EBITDA Margin	13.29%	13.42%	16.57%	14.77%	15.52%
EBIT Margin	12.05%	12.12%	15.28%	13.40%	13.94%
EBT Margin	11.66%	11.47%	14.41%	12.04%	12.70%
NP Margin	8.30%	8.32%	9.23%	7.02%	7.40%
ROAA	15.56%	13.08%	12.63%	11.16%	10.94%
ROAE	19.66%	39.05%	52.10%	43.39%	44.63%
Working capital management					
Avg. inventories/COGS (days)	73.6	84.2	82.9	60.0	75.0
Avg. trade receivables/turnover (days)	4.2	4.6	11.1	12.0	15.0
Avg. trade payables/COGS (days)	40.0	44.0	51.3	44.0	52.0
Liquidity					
Current ratio	1.79	2.05	1.30	1.12	1.14
Quick ratio	0.87	1.38	0.91	0.81	0.69
Equity/ Assets	48.1%	51.1%	38.7%	33.0%	35.2%
Net Debt/ Total Equity	7.7%	-2.5%	14.6%	37.2%	61.9%

Source: Company, ABCI Securities estimates



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
PPE	364.4	613.7	1,145.7	1,826.6	2,461.9
Prepaid lease payments	64.9	67.3	126.2	123.5	120.9
Others	69.1	86.7	253.2	252.5	251.8
Non-current assets	498.4	767.7	1,525.1	2,202.6	2,834.5
Inventories	470.7	626.6	895.9	1,213.5	1,931.3
Trade receivables	19.4	61.9	237.0	344.9	528.0
Bills receivable	176.3	593.2	736.6	1,203.1	1,706.5
Prepayments and other receivables	84.6	157.6	128.0	454.0	244.3
Amounts due from related parties	4.4	0.3	0.2	0.2	0.2
Prepaid lease payments-current portion	1.5	1.5	2.7	2.7	2.7
Restricted bank deposits	7.9	0.2	150.9	150.9	150.9
Bank balances and cash	150.8	477.8	844.8	1,036.3	356.6
CURRENT ASSETS	915.6	1,919.1	2,996.1	4,405.6	4,920.5
Trade payables	220.2	353.6	588.0	959.0	1,221.5
Bills payable	7.1	0.0	37.6	46.7	53.9
Other payables	140.0	269.8	413.5	746.7	637.0
Amounts due to related parties	2.1	0.0	9.0	9.0	9.0
Income tax payable	29.0	33.7	37.5	37.5	37.5
Dividend payable	0.0	32.5	0.0	0.0	0.0
Provision	57.5	80.0	125.1	135.7	146.9
Bank borrowings-due within one year	55.0	167.8	1,094.0	2,000.0	2,200.0
Other borrowings	0.0	0.0	0.0	0.0	0.0
CURRENT LIABILITIES	510.9	937.2	2,304.7	3,934.6	4,305.7
Obligations under finance leases	0.0	0.0	0.0	0.0	0.0
Deferred income	17.2	16.8	51.1	51.1	51.1
Deferred tax liabilities	2.1	0.7	8.0	8.0	8.0
Bank borrowings – due after one year	156.0	276.0	156.0	0.0	0.0
NON-CURRENT LIABILITIES	175.3	293.6	215.1	59.1	59.1
Total Assets	1,414.0	2,686.8	4,521.2	6,608.2	7,755.1
Net Assets	727.7	1,455.9	2,001.5	2,614.5	3,390.3
Capital & reserves:					
Paid-in capital/Share capital	210.0	68.1	68.1	68.1	68.1
Reserves	470.2	1,305.3	1,679.7	2,114.5	2,664.6
Equity to owners	680.2	1,373.4	1,747.8	2,182.6	2,732.8
MI	47.6	82.5	253.7	431.9	657.5
TOTAL EQUITY	727.7	1,455.9	2,001.5	2,614.5	3,390.3

Source: Company, ABCI Securities estimates

Cash Flow Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
EBITDA	323.5	432.9	817.4	1,307.3	1,647.7
Change in inventories.	(221.6)	(158.8)	(237.4)	(317.6)	(717.8)
Change in bills, trade and other receivables	2.3	(521.1)	(271.7)	(900.4)	(476.8)
Change in trade payables	(54.0)	255.7	320.6	713.4	159.9
Others	11.6	33.1	78.7	9.0	9.6
Cash (used in)/generated from operations	61.8	41.8	707.6	811.7	622.6
Income tax paid	(47.9)	(83.2)	(147.0)	(266.5)	(337.2)
CF from operating activities	13.9	(41.3)	560.6	545.3	285.4
Cash flows from investing activities	14.8	(301.9)	(811.5)	(797.3)	(797.3)
Cash flows from financing activities	(54.0)	670.2	617.9	443.7	(167.8)

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



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