



Company Report

Tianneng Power (819 HK) – Buy Auto Parts & Equipment 12-month target price: HK\$6.42

Key data

Share price (HK\$)	4.83
Target price (HK\$)	6.42
Upside potential (%)	32.9%
52Wk H/L(HK\$)	5.16 / 2.92
Issued shares (mn)	1,099.3
Market cap (HK\$mn)	5,309.8
30-day avg turnover (HK\$mn)	10.95
Major shareholder (%):	
Zhang Tianren*	37.1
Pinpoint Capital Management	6.0
Deutsche Bank	6.0

Source: Company & Bloomberg

Revenue composition in FY11 (%)

Lead-acid battery products	97.4%
Electrical Bicycle Battery	91.5%
Storage Battery	0.8%
Pure Electric Car Battery	5.1%
Battery for other usage	0.0%
Nickel hydride and lithium battery products	1.8%
Others	0.9%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	3.6	1.3
3-mth	21.1	14.6
6-mth	17.2	24.9

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

Report Date: 21 August 2012

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Key takeaways from analyst presentation

Tianneng announced better-than-expected 1H2012 results. Sales are on track, we keep our sales volume target of 65mn units unchanged for 2012. Since lead is continuing its downtrend due to economic slowdown, we lower our average lead cost assumption in our model and raised our TP to HK\$6.42, representing 8.0x FY12 PE. Maintain Buy.

Stronger-than-expected results: The group posted revenue of Rmb3,824.5mn in 1H2012, up 56.9% YoY; gross profit increased by 79.9% YoY to Rmb985.8mn and net profit increased by 87.2% YoY to Rmb376.3mn, which is 14% higher than consensus of Rmb330mn.

Strong sales growth was a result of 55.4% YoY/44.1% HoH sales volume growth in 1H2012. Total sales volume reached 31.7mn units. Sale volumes growth was mainly driven by replacement demand in the secondary market. In 1H2012, sale volumes in the primary market increased by 23.9% YoY/50.0% HoH/ to 11.4mn units while sales volume in secondary market increased by 81.3% YoY/41.0% HoH to 20.3mn units.

Progress of lead-acid battery recycling plant: Full trial operation of the recycling plant in Zhejiang started in Jun 2012 as expected. After full production ramp-up, 150,000 tons of used lead-acid batteries can be processed and 100,000 tons of lead can be produced at full capacity. It is expected 40,000 tons of lead can be produced in 2012. The recycled lead can be used for internally for lead-acid battery production. As lead accounted for 65% of production costs of lead-acid batteries, self-production of recycled lead can reduce the earnings sensitivity to lead price.

Valuation: We have raised our FD FY2012 EPS estimates by 10.2% to Rmb0.6518. The counter is trading at est. FY2012 PER of 6.02x and P/B of 1.44x. We raise our 1-year target price to HK\$6.42, based on FY2012 PER of 8.0x. Maintain BUY.

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

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	2,254.9	3,752.8	5,438.3	7,345.0	9,040.0
YoY Chg (%)	-12.8%	66.4%	44.9%	35.1%	23.1%
Net Income (Rmb mn)	270.7	346.3	615.9	719.2	833.7
YoY Chg (%)	15.6%	27.9%	77.9%	16.8%	15.9%
FD EPS (Rmb)	0.2430	0.2993	0.5630	0.6518	0.7556
YoY Chg (%)	3.8%	23.1%	88.1%	15.8%	15.9%
NBV (Rmb/share)	1.5579	1.8057	2.2944	2.7324	3.2633
PE (x)			6.97	6.02	5.19
PB (x)			1.71	1.44	1.20
ROAA (%)	13.79%	12.96%	15.66%	12.79%	11.33%
ROAE (%)	18.55%	19.03%	27.64%	26.13%	25.30%
Net D/E (%)		Net cash	2.85%	22.05%	48.87%

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



Key takeaways

Stronger-than-expected results: The group posted revenue of Rmb3,824.5mn in 1H2012, up 56.9%YoY; gross profit increased by 79.9%YoY to Rmb985.8mn and net profit increased by 87.2%YoY to Rmb376.3mn, which is 14% higher than consensus of Rmb330mn.

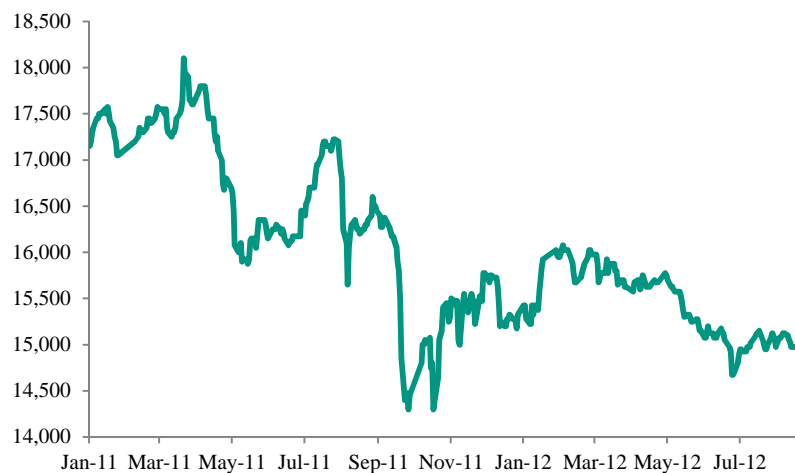
Strong sales growth was a result of 55.4%YoY/44.1%HoH sales volume growth in 1H2012. Total sales volume reached 31.7mn units. Sale volumes growth was mainly driven by replacement demand in the secondary market. In 1H2012, sale volumes in the primary market increased by 23.9%YoY/50.0%HoH/ to 11.4mn units while sales volume in secondary market increased by 81.3%YoY/41.0%HoH to 20.3mn units.

Due to two price hikes in Jul and Aug 2011, GP margin increased by 3.3ppts YoY in 1H2012. However, the 10% price cut in Oct 2011 and sales rebate in Apr and May this year has caused GP margin to drop from 32.8% in 2H2011 to 25.8% in 1H2012. Going forward, since sales rebates will not be given during Jul to Sep, which is the traditional peak season of e-bike sales, we expect GP margin to expand in 2H2012 and estimate that overall GP margin to be 27.8% in 2012, vs 28.2% in 2011.

Progress of lead-acid battery recycling plant: Full trial operation of the recycling plant in Zhejiang started in Jun 2012 as expected. After full production ramp-up, 150,000 tons of used lead-acid batteries can be processed and 100,000 tons of lead can be produced at full capacity. It is expected 40,000 tons of lead can be produced in 2012. The recycled lead can be used for internally of lead-acid battery production. As lead accounted for 65% of production costs of lead-acid batteries, self-production of recycled lead can reduce the earnings sensitivity to lead price.

However, lead price has been on a downtrend this year due to global economic slowdown. We believe the continue drop in lead price will reduce the profitability of the lead-recycling plant and counter off the effect of lower production costs that can bring to the lead-acid batteries production segment.

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	15,613
QoQ Chg	0.16%	-5.16%	-1.27%	-6.33%	3.03%	-2.52%	1.63%

Source: Bloomberg; ABCI Securities estimates

Valuation: Sale volumes were on track in 1H2012 and we maintained our sales target of 65mn units this year. However, lead price is weaker-than expected and we have lower our assumed lead price by 2.5% to Rmb15,600/ton which have raised our FD FY2012 EPS estimates by 10.2% to Rmb0.6518. Due to uncertainty in the recycling business, we have not priced in the potential profit and its lead cost impact into our valuation model. But if we assume the group can sell lead at ASP of Rmb15,600, the business could bring in an additional Rmb50mn net profit (or Rmb0.0454/share) to the group based on 8% of net profit margin. The counter is trading at est. FY2012 PER of 6.02x and P/B of 1.44x. We raise our 1-year target price to HK\$6.42, based on FY2012 PER of 8.0x. Maintain BUY.

Risks: ST borrowings increased rapidly by Rmb908mn to Rmb2,378mn as at the end of Jun 2012 since end of last year due to M&A and high CAPEX this year. Net debt to equity ratio of the group therefore increased from 22.1% from the end of 2011 to 53.2% as at the end of Jun 2012. CAPEX is expected to reach Rmb900mn in 2012 and Rmb800mn in 2013 and we believe there could be equity financing this year given the share is trading near its 52 week high.

Exhibit 4: Our revisions to revenue and earnings forecasts

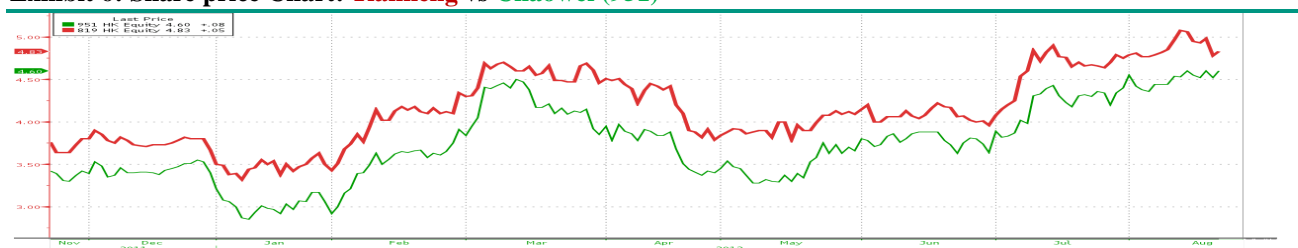
FY ended Dec 31 (Rmbmn)	New Forecast		Previous Forecast		Difference	
	2012F	2013F	2012F	2013F	2012F	2013F
Revenue	7,345.0	9,040.0	7,345.0	9,040.0	0.0%	0.0%
Gross profit	2,041.3	2,454.4	1,952.9	2,345.6	4.5%	4.6%
Net profit	719.2	833.7	652.9	752.1	10.2%	10.8%
FD EPS (Rmb/share)	0.6518	0.7556	0.5917	0.6816	10.2%	10.9%

Exhibit 5: Consensus

FY ended Dec 31 (Rmbmn)	New Forecast		Consensus		Difference	
	2012F	2013F	2012F	2013F	2012F	2013F
Revenue	7,345.0	9,040.0	7,335.0	8,830.0	0.1%	2.4%
Gross profit	2,041.3	2,454.4	1,946.0	2,303.6	4.9%	6.5%
Net profit	719.2	833.7	712.0	841.0	1.0%	-0.9%
FD EPS (Rmb/share)	0.6518	0.7556	0.635	0.754	2.6%	0.2%

Source: Bloomberg; ABCI Securities estimates

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



Source: Bloomberg



Profit Forecast

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Revenue	2,254.9	3,752.8	5,438.3	7,345.0	9,040.0
CoS	(1,613.1)	(2,881.4)	(3,906.2)	(5,303.7)	(6,585.6)
Gross profit	641.8	871.4	1,532.2	2,041.3	2,454.4
Other income	62.2	74.8	91.0	73.5	90.4
S&D	(197.1)	(224.7)	(261.9)	(367.3)	(452.0)
Admin	(83.4)	(110.9)	(197.9)	(264.4)	(325.4)
R&D	(65.3)	(112.4)	(198.0)	(271.8)	(334.5)
Other expenses	(25.2)	(55.1)	(67.5)	(91.8)	(113.0)
Share of associate		0.0	(0.3)	0.0	0.0
EBIT	333.0	443.1	908.5	1,119.5	1,319.9
Finance costs	(13.3)	(14.3)	(78.8)	(160.6)	(208.2)
EBT	319.7	428.8	829.6	958.9	1,111.7
Tax	(49.0)	(82.5)	(213.7)	(239.7)	(277.9)
Net profit	270.7	346.3	615.9	719.2	833.7
D&A	52.0	65.4	79.9	125.8	161.8
EBITDA	385.0	508.4	988.3	1,245.3	1,481.6
No. of issued shares (mn)	1,080.0	1,083.3	1,089.8	1,099.3	1,099.3
No. of issuable shares					
Share options @ HK\$1.22	33.8	29.5	0.0	0.0	0.0
Share options @ HK\$3.18	0.0	44.2	4.2	4.1	4.1
Total no. of diluted shares	1,113.8	1,157.0	1,094.0	1,103.4	1,103.4
Per share value (Rmb)					
DPS (Rmb)	0.0780	0.0976	0.1690	0.1963	0.2275
Basic EPS (Rmb)	0.2506	0.3196	0.5652	0.6542	0.7584
Fully-diluted EPS (Rmb)	0.2430	0.2993	0.5630	0.6518	0.7556
NBV (Rmb/share)	1.5579	1.8057	2.2944	2.7324	3.2633

Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Profitability	28.46%	23.22%	28.17%	27.79%	27.15%
GP Margin	17.07%	13.55%	18.17%	16.95%	16.39%
EBITDA Margin	14.77%	11.81%	16.70%	15.24%	14.60%
EBIT Margin	14.18%	11.42%	15.26%	13.06%	12.30%
EBT Margin	12.00%	9.23%	11.33%	9.79%	9.22%
NP Margin	28.46%	23.22%	28.17%	27.79%	27.15%
ROAA	13.79%	12.96%	15.66%	12.79%	11.33%
ROAE	18.55%	19.03%	27.64%	26.13%	25.30%
Working capital management					
Avg. inventories/COGS (days)	85	160	123	180	180
Avg. trade receivables/turnover (days)	37	82	71	100	100
Avg. trade payables/COGS (days)	61	112	80	110	110
Liquidity					
Current ratio	2.48	1.77	1.33	1.11	1.07
Quick ratio	1.44	1.03	0.84	0.68	0.69
Equity/ Assets	74.50%	63.42%	52.28%	46.47%	43.45%
Net Debt/ Total Equity	-19.92%	2.85%	22.05%	48.87%	46.75%

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



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
PPE	712.7	981.6	1,583.5	2,362.2	3,002.5
Prepaid lease payments	84.4	97.3	102.2	187.9	185.9
Others	30.4	60.6	79.9	79.9	79.9
Non-current assets	827.4	1,139.5	1,765.6	2,630.0	3,268.2
Inventories	599.1	818.8	1,124.7	1,490.8	1,756.9
Held-for-trading investments	0.0	0.0	34.6	34.6	34.6
Bills, trade and other receivables	374.9	634.8	822.2	1,190.2	1,286.5
Prepaid lease payments	1.8	2.1	2.3	2.3	2.3
Amount due from a related company	0.0	0.0	0.0	0.0	0.0
Time deposits	0.0	0.0	110.0	110.0	110.0
Restricted bank deposits	94.8	65.0	166.1	166.1	166.1
Bank balances and cash	360.3	424.3	752.9	836.3	1,627.1
Others	0.0	0.0	4.5	4.5	4.5
Current assets	1,431.0	1,945.0	3,017.3	3,834.7	4,988.0
Bills, trade and other payables	440.2	545.4	710.0	888.4	1,096.3
Amount due to a related company	0.0	0.0	0.1	0.1	0.1
Taxation payable	15.7	37.9	83.9	83.9	83.9
Bank borrowings	120.0	515.0	1,470.4	2,470.4	3,470.4
Current liabilities	575.9	1,098.4	2,264.3	3,442.7	4,650.6
Bank borrowings	0.0	30.0	0.0	0.0	0.0
Deferred tax liabilities	0.0	0.0	18.1	18.1	18.1
Non-current liabilities	0.0	30.0	18.1	18.1	18.1
Total assets	2,258.4	3,084.5	4,782.9	6,464.7	8,256.2
Net assets	1,682.5	1,956.2	2,500.5	3,003.9	3,587.5
Capital & reserves:					
Share capital	106.1	106.4	106.9	106.9	106.9
Reserves	1,576.4	1,849.8	2,393.6	2,897.0	3,480.6
Total equity	1,682.5	1,956.2	2,500.5	3,003.9	3,587.5

Cash Flow Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
EBITDA	385.0	508.4	988.3	1,245.3	1,481.6
Change in inventories.	(231.2)	(219.7)	(303.8)	(366.1)	(266.1)
Change in bills, trade and other receivables	(234.9)	(254.6)	(171.7)	(368.0)	(96.4)
Change in trade payables	187.9	89.7	125.7	178.4	207.9
Others	(27.0)	19.5	4.4	0.0	0.0
Cash (used in)/generated from operations	79.9	143.3	642.9	689.6	1,327.0
Interest paid	(13.0)	(14.0)	(64.6)	(160.6)	(208.2)
Income tax paid	(44.2)	(68.1)	(166.1)	(239.7)	(277.9)
CF from operating activities	22.6	61.2	412.2	289.3	840.9
Cash flows from investing activities	(292.1)	(341.9)	(910.2)	(990.2)	(800.0)
Cash flows from financing activities	99.4	344.7	826.6	784.2	749.9

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



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Tianneng Power International Limited

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