



Chaowei Power Holdings Limited

Share Data

Price (23/02/2012)	HK\$3.61
52 wk high/low (HK\$)	5.02/2.4
Stock code	951
Issued shares (mn)	1,005.29
Market cap (HK\$ mn)	3,629.10
Free-float	51.31%
15-day avg vol (mn)	3.08
Auditors	Deloitte
Major shareholders:	
Zhou Ming Ming*	41.48%
Zhou Longrui#	7.20%

* Chairman of Co., Executive Director of Co.



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Report date: 23 Feb, 2012

Analyst:

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Chaowei Power (951) - BUY

Due to price hikes in the lead-acid batteries industry in 2H2011, we expect net profit of Chaowei to increase by 77.6% YoY to Rmb476.4mn in FY2011. In view of the new production plant, which is expected to add 20% of production capacity by the end of this year, we had a meeting with Chaowei's CFO. We maintain our BUY rating on the stock and set our 1-year target price at HK\$4.96, representing FY2012 PE of 8.0x.

Recent Highlights

- Strong FY2011 results will be announced on 29 Feb, one month earlier than expected.
- Capacity plan carried on schedule, indicating bullish view of the management. Output will grow by 30% to 52 mn units of lead acid batteries in FY2012.
- Gross profit margin maintains at over 30%, thanks to decline in raw material costs.
- Benefited from the industry consolidation, expansion of profit margin and increase in output, we forecast its FY2011 EPS to be Rmb0.4739/share, up 52.9% YoY. The counter is trading at est. FY2012 PER of 5.82x and P/B of 1.43x with expected FY2011 ROAA of 35% and ROAE of 55%.
- We set 1-year target price at HK\$4.96, representing FY2012 PER of 8.0x. BUY.

Results & Forecasts

FY ended Dec 31	2009	2010	2011E	2012E	2013E
Revenue (Rmb mn)	2,433.9	3,224.8	4,628.0	5,720.0	7,480.0
Chg (% YoY)	5.05%	32.49%	43.52%	23.60%	30.77%
Net profit (Rmb mn)	201.9	268.2	476.4	506.2	628.2
Chg (% YoY)	57.61%	32.83%	77.63%	6.25%	24.11%
Basic EPS (Rmb)	0.2700	0.3100	0.4739	0.5035	0.6249
Chg (% YoY)	58.82%	14.81%	52.87%	6.25%	24.11%
PER (x)	-	9.46	6.19	5.82	4.69
DPS (Rmb)	-	0.080	0.142	0.151	0.187
Yield	-	2.73%	4.85%	5.15%	6.39%
NBV (Rmb/share)	0.9069	1.3662	1.6979	2.0504	2.4878
P/B (x)	-	2.15	1.73	1.43	1.18

@Rmb0.8121/HK\$

Source: ABCI Securities estimates; Company reports



Recent updates

- **Strong FY2011 results coming out one month earlier than expected:** Due to two price hikes in Jul and Aug, thanks to forced suspension and closures of inefficient lead-acid batteries producers since May, and falling lead cost in 2H2011, the group's GP margin is expected to fetch up to 35.0% in FY2011, compared to 26.3% in FY2010. Compounded with a sales volume growth of 19.8% YoY to 40mn units, we expect the group to post a NP of Rmb476.4mn, up 77.6% YoY in FY2011.
- **Capacity plan carried on schedule:** It was announced on 20 Jan 2012 that a new lead-acid battery production plant is being built and will commence production in Jun 2012. The new production plant, with a capacity of 12mn units of batteries will raise total capacity by 20% to 68mn units by the year end of 2012, which is in line with Chaowei's CAPEX plan. We expect sales volume to reach 52mn units in FY2012, up 30% YoY.
- **GP margin expected to stay above 30%:** In our view, further price hikes are unlikely as suspended manufacturers resume their production gradually. In fact, Chaowei had their ASP cut by 10% in Oct 2011. According to China Battery Industry Association, number of suspended lead-acid battery manufacturers accounted for 78% of total manufacturers under environmental inspection by the end of Nov 2011, compared to 84% in Jul 2011. On the other hand, Chaowei's ASP has remained at Rmb 117/unit since Oct, and it is questionable that whether the remaining suspended producers are qualified to produce, given that it has already been 7 months since the inspection started. To be conservative, we expect Chaowei to achieve an ASP of Rmb110/unit in FY2012, which is 5% lower than the average ASP in FY2011.

For lead cost, which accounted for 70% of Chaowei's cost of sales, continue to remain at a relatively low level. The average lead price in Jan and Feb 2012 dropped 9.5% YoY to Rmb15,711/ton and was 4.4% lower than the average price in 2011. With our conservative ASP assumption but falling lead cost, we forecast GP margin to diminish slightly in FY2012 to 32.2%, down 2.8ppts YoY.

- **Government policy lifting up entry barrier:** In order to carry out a stricter environmental control, the approval process for entering into the market has extended from local government level to the province level. Moreover, a production capacity of 3mn units of lead-acid motive batteries, which required approx Rmb 200mn of initial investment, has become the minimum requirement of entering the market. The longer approval process and higher initial investment cost have raised the entry barrier to the industry, which will in turn speed up the process of industry consolidation.



Chaowei Power Holdings Limited

- **Valuation:** With major assumptions set out below, we estimated 2011 EPS to be Rmb0.4739/share; 2012 EPS to be Rmb0.5035/share. With 2012 PE of 8.0x, we value the stock at Rmb4.02/share (or HK\$4.96/share).

In addition, the group will maintain its payout ratio at 30%. Given its strong profitability (FY2012 ROAA: 30%; ROAE: 37%), we expect DPS to reach Rmb0.142/share in FY2011, representing dividend yield of 4.8%. The high dividend yield also provides support to the share price.

Major Assumptions	2009	2010	2011	2012	2013	Explanations
Sales volume (mn)	26.2	33.3	40.0	52.0	68.0	Year-end capacity expected to reach 68mn units in 2012 Assumptions subject to management guidance change during results announcement.
Growth	34.5%	27.3%	19.8%	30.0%	30.8%	
ASP (Rmb/unit)	89.5	90.6	115.7	110.0	110.0	Av ASP was Rmb107 in 1H2011. ASP est in 2011 is based on 2 price hikes of 8-10% each in Jul and Aug 2011 plus a price cut of 10% in Oct. Assume temporary imbalance in supply and demand continues till 1H2012 but effect will fade out when existing players expand their capacity and suspended manufacturers resume production. Batteries price are expected to revise down in accordance to lead price.
Growth	-15.6%	1.3%	19.9%	-4.93%	0.00%	
Av lead price (Rmb/ton)	13,816	16,108	16,430	16,000	16,000	Lead price dropped 9.5% YoY to Rmb15,711/ton in Jan and Feb 2012.
Consumption rate of lead (kg/unit)	3.8	3.7	3.7	3.7	3.7	Increase every year with inflation.
Av unit cost - lead (Rmb/unit)	52.1	59.2	60.4	58.8	58.8	
Av unit cost - non-lead (Rmb/unit)	11.4	10.3	11.1	12.0	13.0	
Total unit cost (Rmb/unit)	63.5	69.5	75.23	74.55	75.51	
GP margin	25.7%	27.9%	35.0%	32.2%	31.4%	



Risk factors:

- **Policy risks** – Driving licenses are not required for e-bikes in China. For safety concerns, e-bikes are prohibited in some of the cities including Guangzhou and Zhuhai. In Jul 2011, Shenzhen has also banned the use of e-bike in main downtown areas, effective till Dec 2011. Although we have mentioned e-bikes are encouraged in rural areas, increasing usage of e-bikes in some of the first and second tier cities in China remain a downside risks to the demand for lead-batteries.
- **Regulation risks** – In Jun 2011, the Ministry of Industry Information and Information Technology urges local authorities to use the existing e-bikes standards that were published in 1999 to regulate the manufacture and use of e-bikes. Under those requirements, e-bikes can weigh no more than 40kg with a speed limit of 20km/hour. However, the bulk of the estimated 120mn e-bikes in China has designed capacity of 30-40km/hour and typically carry four batteries, which by themselves weigh at least 16-28kg. The tightening management in existing standards may phase out many of the existing e-bikes, affecting the demand for lead-acid motive batteries.
- **Substitution risks** –Currently, the cost of producing lithium battery is 3 times more than producing a lead-acid battery. The increase in the price of lead-acid battery will lead to an increase in the substitution risks to lithium batteries. Apart from cost, stability issue is a major concern for limited use of lithium-ion batteries in e-bikes, but a technical breakthrough may lead to obsolescence of lead-acid batteries.



Financial Analysis

P&L

For the yr ended 31 Dec (Rmb mn)	2009	2010	2011E	2012E	2013E
Revenue	2,433.9	3,224.8	4,628.0	5,720.0	7,480.0
CoS	(1,729.9)	(2,377.0)	(3,009.4)	(3,876.4)	(5,134.6)
Gross profit	704.0	847.7	1,618.6	1,843.6	2,345.4
Other income	13.7	53.6	23.1	34.3	44.9
D&S	(321.9)	(309.3)	(462.8)	(572.0)	(748.0)
Admin	(83.7)	(116.8)	(185.1)	(228.8)	(299.2)
R&D	(15.8)	(51.4)	(148.1)	(183.0)	(239.4)
Other expenses	(4.2)	(33.1)	(46.3)	(45.8)	(59.8)
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	799.5	848.4	1,043.9
Finance costs	(9.6)	(20.8)	(36.0)	(37.2)	(37.2)
EBT	283.7	369.9	763.5	811.2	1,006.7
Tax	(57.7)	(66.8)	(168.0)	(178.5)	(221.5)
Net profit	226.0	303.1	595.5	632.7	785.2
MI	(24.1)	(34.9)	(119.1)	(126.5)	(157.0)
Net profit to owners of company	201.9	268.2	476.4	506.2	628.2
<i>Chg (YoY)</i>	57.61%	32.83%	77.63%	6.25%	24.11%
D&A	30.2	42.2	70.9	99.3	110.7
EBITDA	323.5	432.9	870.3	947.7	1,154.6
DPS (Rmb)	-	0.080	0.142	0.151	0.187
Basic EPS (Rmb)	0.2700	0.3100	0.4739	0.5035	0.6249
NBV (Rmb/share)	0.9069	1.3662	1.6979	2.0504	2.4878
No. of issued shares (mn)	750.0	1,005.3	1,005.3	1,005.3	1,005.3

Source: ABCI Securities estimates; Company reports

Major Financial Ratios

For the yr ended 31 Dec (Rmb mn)	2009	2010	2011E	2012E	2013E
Profitability					
GP Margin	28.93%	26.29%	34.97%	32.23%	31.36%
EBITDA Margin	13.29%	13.42%	18.81%	16.57%	15.44%
EBIT Margin	12.05%	12.12%	17.27%	14.83%	13.96%
EBT Margin	11.66%	11.47%	16.50%	14.18%	13.46%
NP Margin	9.29%	9.40%	12.87%	11.06%	10.50%
ROAA	15.56%	13.08%	35.46%	29.66%	22.10%
ROAE	19.66%	39.05%	55.82%	36.93%	38.18%
Working capital management					
Avg. inventories/COGS (days)	73.6	84.2	68.0	73.0	73.0
Avg. trade receivables/turnover (days)	4.2	4.6	6.0	6.0	6.0
Avg. bill receivables/turnover (days)	25.4	43.6	55.0	50.0	50.0
Avg. trade payables/COGS (days)	40.0	44.0	12.0	12.0	12.0
Avg. bill and other payables/COGS (days)	28.0	31.5	44.0	44.0	44.0
Liquidity					
Current ratio	1.79	2.05	1.94	1.75	1.78
Quick ratio	0.87	1.38	1.49	1.05	1.20
Equity/ Assets	48.11%	51.12%	50.01%	48.25%	48.98%
Net Debt/ Total Equity	7.69%	-2.49%	5.38%	12.11%	13.25%

Source: ABCI Securities estimates; Company reports



Chaowei Power Holdings Limited

Balance Sheet

As at 31 Dec (Rmb mn)	2009	2010	2011E	2012E	2013E
PPE	364.4	613.7	1,039.0	1,442.0	1,816.5
Prepaid lease payments	64.9	67.3	84.4	82.8	81.2
Goodwill	15.0	15.0	25.1	25.1	25.1
Others	54.1	71.7	101.6	100.9	100.2
Non-current assets	498.4	767.7	1,250.2	1,650.8	2,023.0
Inventories	470.7	626.6	494.7	1,055.8	998.0
Trade receivables	19.4	61.9	90.2	97.9	148.1
Bills receivable	176.3	593.2	801.5	765.6	1,283.7
Prepayments and other receivables	84.6	157.6	146.7	229.4	262.4
Amounts due from related parties	4.4	0.3	0.1	0.1	0.1
Prepaid lease payments-current portion	1.5	1.5	1.6	1.6	1.6
Restricted bank deposits	7.9	0.2	0.2	0.2	0.2
Bank balances and cash	150.8	477.8	628.0	470.3	388.4
Current assets	915.6	1,919.1	494.7	1,055.8	998.0
Total assets	1,414.0	2,686.8	3,413.2	4,271.7	5,105.5
Trade payables	220.2	353.6	2,163.0	2,620.9	3,082.5
Bills payable	7.1	0.0	372.0	562.6	675.3
Other payables	140.0	269.8	1.6	0.5	2.3
Amounts due to related parties	2.1	0.0	274.4	426.6	501.9
Income tax payable	29.0	33.7	10.0	10.0	10.0
Dividend payable	0.0	32.5	0.0	0.0	0.0
Provision	57.5	80.0	0.0	0.0	0.0
Bank borrowings-due within one year	55.0	167.8	109.1	145.1	192.3
Other borrowings	0.0	0.0	350.0	350.0	350.0
Current liabilities	510.9	937.2	1,117.1	1,494.8	1,731.8
Deferred income	17.2	16.8	16.8	16.8	16.8
Deferred tax liabilities	2.1	0.7	0.7	0.7	0.7
Bank borrowings – due after one year	156.0	276.0	370.0	370.0	370.0
Non-current liabilities	175.3	293.6	387.6	387.6	387.6
Total liabilities	686.2	1,230.8	3,413.2	4,271.7	5,105.5
Net assets	727.7	1,455.9	1,908.5	2,389.4	2,986.2
Capital & reserves:					
Paid-in capital/Share capital	210.0	68.1	68.1	68.1	68.1
Reserves	470.2	1,305.3	1,638.8	1,993.1	2,432.8
MI	47.6	82.5	201.6	328.1	485.2
Total equity	727.7	1,455.9	1,908.5	2,389.4	2,986.1

Source: ABCI Securities estimates; Company reports

Cash Flow

For the yr ended 31 Dec (Rmb mn)	2009	2010	2011E	2012E	2013E
EBITDA	323.5	432.9	870.3	947.7	1,171.7
Change in inventories.	(221.6)	(158.8)	131.9	(561.1)	57.8
Change in trade receivables	2.3	(521.1)	(225.6)	(54.5)	(601.3)
Change in bills and other receivables	(54.0)	255.7	(41.5)	341.6	189.9
Change in trade payables	(54.0)	255.7	(41.5)	341.6	189.9
Others	65.6	(222.5)	69.1	(307.2)	(144.4)
Cash (used in)/generated from operations	61.8	41.8	762.6	708.2	863.6
Income tax paid	(47.9)	(83.2)	(168.0)	(178.5)	(221.5)
CF from operating activities	13.9	(41.3)	594.6	529.7	642.2
Cash flows from investing activities	14.8	(301.9)	(541.7)	(498.4)	(498.4)
Cash flows from financing activities	(54.0)	670.2	97.3	(189.0)	(225.7)
Change in cash and cash equivalents					
Cash and cash equivalents at beg of year	(25.3)	326.9	150.2	(157.7)	(81.9)
Effect of foreign exchange rates, net	177.1	150.8	477.8	628.0	470.3
Cash and cash equivalents at end of year	151.8	477.8	628.0	470.3	388.4

Source: ABCI Securities estimates; Company reports



Disclosures

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