



# Company Report

## Tianneng Power (819 HK)

March 20, 2013

### Rating: Buy

TP: HK\$6.22

#### Key data

Share price (HK\$)	5.55
Upside potential (%)	12.1
52Wk H/L(HK\$)	6.71/ 3.70
Issued shares (mn)	1,099
Market cap (HK\$m)	6,101
30-day avg vol (HK\$m)	18.9
Auditors	Deloitte
Major shareholder (%):	
Zhang Tianren*	37.1
Deutsche Bank	7.0
Pinpoint Capital Management	69.0

Source: Company & Bloomberg

#### Revenue composition in FY12 (%)

Lead-acid battery products	97.9%
Electrical Bicycle Battery	93.4%
Storage Battery	0.6%
Pure Electric Car Battery	4.0%
Battery for other usage	0.0%
Nickel hydride and lithium battery products	1.0%
Electrode plates	0.4%
Others	0.7%

Source: Company

#### Share performance (%)

	Absolute	Relative*
1-mth	1.5	7.6
3-mth	9.7	12.8
6-mth	20.7	14.1

\*Relative to Hang Seng Index

Source: Bloomberg

#### 1 year share price performance



Source: Bloomberg

#### Analyst

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### Revise down FY13 EPS, but maintain Buy

FY12 results were slightly off consensus due to an increase in use of OEM production which led to a greater pressure on GP margin. Leverage climbed up to a higher level with net D/E ratio reaching 47.8%. The group raised funds twice in 2HFY12 through issuance of bonds and has proposed to issue senior notes on 19 Mar. The chance of equity issuance is lowered, thus lowering the potential of dilution risks. With falling ASP and higher unit production cost, we revise our FY13 EPS down by 6% to Rmb0.7106 and adjust our TP down from HK\$6.50 to HK\$6.22, based on 7x FY13 PE.

**Results slightly below expectation.** Tianneng recorded FY12 revenue of HK\$9,887.6 mn, up 81.8% YoY. NP for FY12 reached HK\$709.4mn, up 15.2% and was 5.4% lower than consensus mainly due to higher-than-expected unit production cost in 4QFY12. The higher-than-expected unit production cost was a result of an increase in use of OEM production. ASP of lead-acid batteries dropped 11.0% to Rmb104.4 in FY12 while GP margin declined from 26.4% in FY11 to 18.8% in FY12. OEM production has led to a greater margin squeeze in 2HFY12 apart from ASP drop. GP margin declined from 23.0% in 1HFY12 to 16.1% in 2HFY12, representing a decrease of 6.88ppts.

**Financial health attracted attention.** Cash conversion cycle increased by 15 days to 129 days but net cash generated from operating activities was negative (Rmb-172.1mn in FY12 vs Rmb412.2mn in FY11). Net D/E increased from 22.1% in FY11 to 53.1% in 1HFY12 but dropped slightly to 47.8% as at the end of FY12. The slight improvement was due to an issuance of Rmb400mn notes in Sep 2012 and Rmb80mn notes in Jul 2012. In addition to the notes issued in 2012, the group has proposed to issue senior notes on 19 Mar 2013 to finance its indebtedness and CAPEX.

**Valuation.** We believe that the ASP decline was mainly due to an aggressive capacity expansion by the market leaders, Tianneng and Chaowei. They are willing to run at full utilization rate and even increase their production from OEM in an attempt to increase market share. We believe the market leaders can only raise their market price aggressively in 2014 when the new industry standards become effective which will force the inefficient small players out of the market. We expect Tianneng to post slower growth in 2013 mainly contributed from 20% increase in sales volume and a slight improvement in GP margin due to a decline in OEM production proportion. However, with falling ASP and higher unit production cost, we revise down our FY13 EPS by 6% to Rmb0.7106 and adjust our TP down from HK\$6.50 to HK\$6.22, based on 7x FY13 PE.

### Results and valuation

(FY ended Dec 31)	FY10A	FY11A	FY12A	FY13F	FY14F
Revenue (Rmb mn)	3,752.8	5,438.3	9,887.6	10,400.0	12,318.8
YoY Chg (%)	66.4%	44.9%	81.8%	5.2%	18.5%
Net Income (Rmb mn)	346.3	615.9	709.4	790.0	963.9
YoY Chg (%)	27.9%	77.9%	15.2%	11.4%	22.0%
FD EPS (Rmb)	0.2993	0.5630	0.6384	0.7109	0.8674
YoY Chg (%)	23.1%	88.1%	13.4%	11.4%	22.0%
NBV (Rmb/share)	1.8057	2.2944	2.8402	3.3669	4.0280
PE (x)		7.89	6.96	6.25	5.12
PB (x)		1.94	1.56	1.32	1.10
ROAA (%)	12.96%	15.66%	12.62%	10.25%	9.42%
ROAE (%)	19.03%	27.64%	25.78%	23.56%	23.71%
Net D/E (%)	2.85%	22.05%	47.84%	41.33%	45.18%

Source: Company, ABCI Securities estimates



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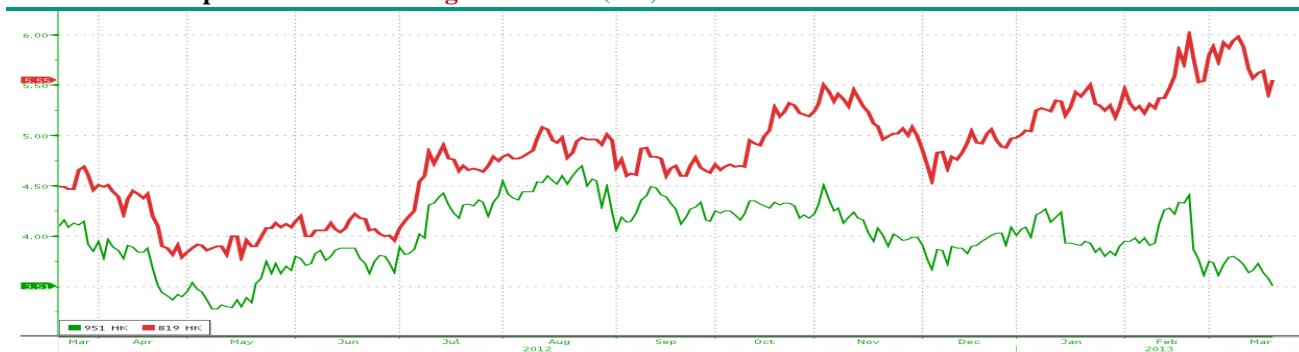
Tianneng Power International Limited

**Exhibit 1: Consensus**

FY ended Dec 31 (Rmbmn)	New Forecast		Consensus		Difference	
	2013F	2014F	2013F	2014F	2013F	2014F
Revenue	10,400	12,319	10,159	12,101	2.37%	1.80%
<b>Gross profit</b>	2,114	2,613	2,550	3,013	-17.10%	-13.30%
Net profit	790	964	904	1,085	-12.65%	-11.17%
FD EPS (Rmb/share)	0.711	0.867	0.789	0.976	-9.89%	-11.13%

Source: Bloomberg, ABCI Securities estimates

**Exhibit 2: Share price Chart: Tianneng vs Chaowei (951)**



Source: Bloomberg

**Profit Forecast**

FY ended Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
Revenue	3,752.8	5,438.3	9,887.6	10,400.0	12,318.8
CoS	(2,881.4)	(4,003.2)	(8,032.5)	(8,286.0)	(9,706.3)
<b>Gross profit</b>	<b>871.4</b>	<b>1,435.1</b>	<b>1,855.1</b>	<b>2,114.0</b>	<b>2,612.5</b>
Other income	74.8	91.0	129.9	104.0	123.2
S&D	(224.7)	(164.9)	(250.3)	(270.4)	(369.6)
Admin	(110.9)	(197.9)	(302.5)	(313.0)	(372.0)
R&D	(112.4)	(198.0)	(293.6)	(312.0)	(369.6)
Other expenses	(55.1)	(67.5)	(95.2)	(104.0)	(123.2)
Share of associate	0.0	(0.3)	(0.4)	0.0	0.0
<b>EBIT</b>	<b>443.1</b>	<b>908.5</b>	<b>1,034.9</b>	<b>1,218.5</b>	<b>1,501.4</b>
Finance costs	(14.3)	(78.8)	(122.4)	(205.7)	(265.7)
<b>EBT</b>	<b>428.8</b>	<b>829.6</b>	<b>912.5</b>	<b>1,012.9</b>	<b>1,235.7</b>
Tax	(82.5)	(213.7)	(203.1)	(222.8)	(271.9)
<b>Net profit</b>	<b>346.3</b>	<b>615.9</b>	<b>709.4</b>	<b>790.0</b>	<b>963.9</b>
D&A	65.4	79.9	130.1	161.4	197.4
<b>EBITDA</b>	<b>508.4</b>	<b>988.3</b>	<b>1,165.0</b>	<b>1,379.9</b>	<b>1,698.8</b>
No. of issued shares (mn)	1,083.3	1,089.8	1,099.3	1,099.3	1,099.3
No. of issuable shares					
Share options @ HK\$1.22	29.5	0.0	0.0	0.0	0.0
Share options @ HK\$3.18	44.2	4.2	11.9	11.9	11.9
<b>Total no. of diluted shares</b>	<b>1,157.0</b>	<b>1,094.0</b>	<b>1,111.3</b>	<b>1,111.3</b>	<b>1,111.3</b>
<b>Per share value (Rmb)</b>					
<b>DPS (Rmb)</b>	<b>0.0976</b>	<b>0.1690</b>	<b>0.1919</b>	<b>0.2156</b>	<b>0.2630</b>
<b>Basic EPS (Rmb)</b>	0.3196	0.5652	0.6453	0.7186	0.8768
<b>Fully-diluted EPS (Rmb)</b>	0.2993	0.5630	0.6384	0.7109	0.8674
<b>NBV (Rmb/share)</b>	1.8057	2.2944	2.8402	3.3669	4.0280

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



## Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
<b>Profitability</b>	23.22%	26.39%	18.76%	20.33%	21.21%
GP Margin	13.55%	18.17%	11.78%	13.27%	13.79%
EBITDA Margin	11.81%	16.70%	10.47%	11.72%	12.19%
EBIT Margin	11.42%	15.26%	9.23%	9.74%	10.03%
EBT Margin	9.23%	11.33%	7.17%	7.60%	7.82%
NP Margin	23.22%	26.39%	18.76%	20.33%	21.21%
ROAA	12.96%	15.66%	12.62%	10.25%	9.42%
ROAE	19.03%	27.64%	25.78%	23.56%	23.71%
<b>Working capital management</b>					
Avg. inventories/COGS (days)	160	123	140	180	180
Avg. trade receivables/turnover (days)	82	71	80	100	100
Avg. trade payables/COGS (days)	112	80	91	110	110
<b>Liquidity</b>					
Current ratio	1.77	1.33	1.12	1.09	1.08
Quick ratio	1.03	0.84	0.65	0.67	0.70
Equity/ Assets	63.42%	52.28%	41.94%	41.31%	38.48%
Net Debt/ Total Equity	2.85%	22.05%	47.84%	41.33%	45.18%

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

## Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2010	2011	2012	2013F	2014F
PPE	981.6	1,583.5	2,383.1	3,024.2	3,629.3
Prepaid lease payments	97.3	102.2	157.5	155.0	152.5
Others	60.6	79.9	243.8	243.8	243.8
<b>Non-current assets</b>	<b>1,139.5</b>	<b>1,765.6</b>	<b>2,784.4</b>	<b>3,423.0</b>	<b>4,025.6</b>
Inventories	818.8	1,124.7	1,953.8	2,132.4	2,654.2
Held-for-trading investments	0.0	34.6	47.0	47.0	47.0
Bills, trade and other receivables	634.8	822.2	1,557.6	1,291.7	2,184.9
Prepaid lease payments	2.1	2.3	3.8	3.8	3.8
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	65.0	166.1	120.3	120.3	120.3
Bank balances and cash	424.3	752.9	813.7	1,777.6	2,307.0
Others	0.0	4.5	4.5	4.5	4.5
<b>Current assets</b>	<b>1,945.0</b>	<b>3,017.3</b>	<b>4,660.8</b>	<b>5,537.4</b>	<b>7,481.7</b>
Bills, trade and other payables	545.4	710.0	1,280.5	1,216.6	2,036.8
Amount due to a related company	0.0	0.1	15.8	15.8	15.8
Taxation payable	37.9	83.9	102.3	102.3	102.3
Bank borrowings	515.0	1,470.4	2,357.8	3,357.8	4,357.8
Short-term loan notes	0.0	0.0	400.0	400.0	400.0
<b>Current liabilities</b>	<b>575.9</b>	<b>1,098.4</b>	<b>2,264.3</b>	<b>3,442.7</b>	<b>4,650.6</b>
Bank borrowings	30.0	0.0	70.0	70.0	70.0
Deferred tax liabilities	0.0	18.1	17.9	17.9	17.9
Long-term loan notes	0.0	0.0	78.6	78.6	78.6
<b>Non-current liabilities</b>	<b>30.0</b>	<b>18.1</b>	<b>166.5</b>	<b>166.5</b>	<b>166.5</b>
<b>Total assets</b>	<b>3,084.5</b>	<b>4,782.9</b>	<b>7,445.2</b>	<b>8,960.4</b>	<b>11,507.4</b>
<b>Net assets</b>	<b>1,956.2</b>	<b>2,500.5</b>	<b>3,122.3</b>	<b>3,701.4</b>	<b>4,428.3</b>
<b>Capital &amp; reserves:</b>					
Share capital	106.4	106.9	107.7	107.7	107.7
Reserves	1,849.8	2,393.6	2,945.2	3,524.3	4,251.1
Minority Interest			69.4	69.4	69.4
<b>Total equity</b>	<b>1,956.2</b>	<b>2,500.5</b>	<b>3,122.3</b>	<b>3,701.4</b>	<b>4,428.2</b>

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



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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 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 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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