ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

30 April 2013

Equity Focus

Lead-acid Battery Sector

Key Data

Average FY13E PE (x)	4.93
Average FY13E PB (x)	1.37

Source: Bloomberg, ABCI Securities

Net income in FY2012 (Rmb mn)

Tianneng (819)	709.4
Chaowei (951)	619.9
Leoch (842)	71.6
Coslight Tech (1043)	-32.3
Scud Group (1399)	-192.6

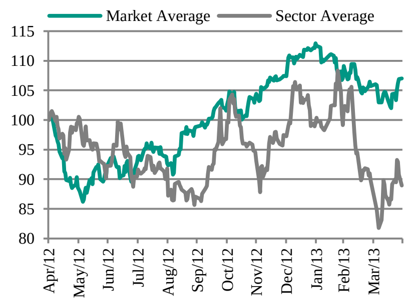
Source: Company

Average share performance (%)

	Absolute	Relative*
1-mth	(0.9)	1.2
3-mth	(11.9)	(5.4)
6-mth	(7.3)	1.2

**Relative to Hang Seng Index*
Source: Bloomberg

1 year price performance



Source: Bloomberg

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1Q2013 Results Review

Major operating units of Tianneng and Chaowei announced 1Q2013 results. Figures showed a strong improvement in GP margin, which we expect the trend to continue especially in 2H2013 when smaller players might close down parts of their capacities for facility upgrade. We re-iterate our 'Buy' rating on Chaowei given its low valuation and high dividend yield and we put Tianneng under review due to recent negative news.

Discrepancy in revenue growth: In terms of revenue, Chaowei has replaced Tianneng to become the largest player in the industry in 1Q2013. In 1Q2013, Tianneng's sales dropped 11.2% QoQ to Rmb2,688.5mn while Chaowei's sales increased 12.1%QoQ to Rmb2,893.3mn**.**

Recovery trend in GP margin: Despite a discrepancy in revenue growth, a good sign has been seen in the 1Q2013 figures. GP margin of Tianneng/ Chaowei rebounded to 14.7%/17.1% in 1Q 2013 from historical low of 6.8%/4.0% in 4Q2013, mainly due to a 5% increase in ASP in beginning of this year. In our view, the strong recovery in the GP margin trend might mark the end of price war in 4Q 2012 in which the two market leaders gave a higher percentage of sales rebates in order to gain market share over the smaller players. As a result of GP margin expansion, net profit of Tianneng/Chaowei increased 21.5%/140.3%QoQ to 106.7mn/110.4mn.

Valuation: Annualized sales calculated based on 1Q2013 figures are estimated to be Rmb10,754/11,573mn for Tianneng and Chaowei, which are largely in line with our forecast of Rmb10,400/10,820mn. Although GP margin of the two market leaders in 1Q2013 are still lower than our full year estimate of 20%, we expect our target will be met with the continuous recovery in GP margin, which will be brought by reduction in sales rebates , lower proportion of OEM production and a more balanced supply and demand situation assuming that smaller players might need to upgrade their facility and hence close part of their capacity in 2H2013 order to meet the new standards which will be effective in Jan 2014.

Due to relatively low valuation high dividend yield, we maintain our 'Buy' rating on both Chaowei. Our TP for Chaowei is HK$4.14, which represents 7x FY13 PE; DPS is Rmb0.148 (ex-div date: 10 Jun). We previously had a buy rating on Tianneng but we currently put it under our review category given that it was excluded from the list of lead-acid batteries producers that are in compliance with environmental standards (announced in 16 Apr by Ministry of Environmental of PRC), plus negative news on heavy pollution about its production plant in Jiangsu.

Summary on selected companies in the sector

Company	Ticker	Price HK$	Ratings	TP HK$	12 PE x	13 PE x	PB x	Divi yld %
Tianneng	819	4.79	Reviewing	-	6.0	5.4	1.14	5.00
Chaowei	951	3.64	Buy	4.14	5.9	6.2	1.35	5.08
Leoch	842	1.03	-	-	16.2	3.7	0.46	1.42
Coslight Tech	1043	2.21	-	-	-	-	0.43	0.00
Scud Group	1399	0.37	-	-	-	-	0.27	0.00

Source: Bloomberg, ABCI Securities

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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