



## Chaowei Power (951 HK) – Buy

### Auto Parts & Equipment Industry

#### Key Data

Share price (HK\$)	4.25
Target price (HK\$)	5.40
Upside potential (%)	27.0%
52Wk H/L(HK\$)	4.75 / 2.70
Issued shares (mn)	1,005.3
Market cap (HK\$m)	4,272.5
30-day avg turnover (HK\$m)	8.03
Major shareholder (%):	
Zhou Ming Ming*	41.7
Zhou Longrui#	7.2

\*Chairman of Co., #Executive Director of Co

Source: Company, Bloomberg

#### Revenue composition in 1HFY12 (%)

Lead-acid battery products	98.5%
E-bikes battery	91.2%
E-cars and storage battery	7.4%
Others	1.1%

Source: Company

#### Share performance (%)

	Absolute	Relative*
1-mth	2.4	(6.7)
3-mth	5.7	(0.4)
6-mth	9.3	7.1

Source: Bloomberg

\*Relative to Hang Seng Index

#### 1 year price performance



Source: Bloomberg

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#### Key takeaways from CFO

We had an interview with Chaowei CFO. Sales performance is strong in 3Q2012 but we believe there will be costs pressures as lead prices have gone up recently. However, the group is in a good position to expand its market share after the CB issuance in Sep.

**Update on 3Q2012 sales:** Chaowei sold, on average, 7mn units (up 100% YoY) of lead-acid batteries per month in 1H2012. Management updated us that sales increased ~10% in Jul to Sep (i.e. ~7.7mn units in 3Q). We are confident that the group can achieve our annual sales volume assumption of 75mn units (up 87.5% YoY) in 2012 (or ~7.7mn units/mth in 3Q & ~5.6mn/mth in 4Q).

**Lead price increased after QE3:** Lead price increased by 7.4% to Rmb15,750/ton during end of Jun till 28 Sep. Although it is an industry norm to adjust ASP of lead-acid batteries in accordance to lead price, we believe there will be pricing pressure during traditional non-peak season in 4Q2012. Nevertheless, lead price is still at relatively low level (5 yr average: Rmb16,117/ton). Avg. lead price in 3Q2012 was 2.2% lower than in 1H2012.

**Further fund raising activity is unlikely:** As of 30 Jun 2012, Chaowei has no long term debt. Apart from raising funds for its capacity expansion, the CB issuance in Sep is a move to balance its ST/LT borrowings structure. Of the Rmb608mn net proceeds, 20% will be used to repay short term debt and the rest will be used for capacity expansion. CAPEX is expected to be Rmb700-800mn in 2013 and we believe with Rmb500mn cash on hand and a minimum of Rmb100mn cash inflow from operating activities, further fund raising activity is unlikely in the short term.

**Valuation:** The counter is trading at est. FY2012 PER of 5.9x and PB of 1.6x. We maintain our BUY rating with TP of HK\$5.4, representing 7.0x 2013 PER.

#### Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
<b>Revenue (Rmb mn)</b>	2,433.9	3,224.8	4,932.0	8,850.0	10,620.0
<i>YoY Chg (%)</i>	5.0%	32.5%	52.9%	79.4%	20.0%
<b>Net Income (Rmb mn)</b>	201.9	268.2	455.3	587.6	752.6
<i>YoY Chg (%)</i>	57.6%	32.8%	69.8%	29.0%	28.1%
<b>FD EPS (Rmb)</b>	0.2700	0.3100	0.4529	0.5845	0.6316
<i>YoY Chg (%)</i>	58.8%	14.8%	46.1%	29.0%	8.1%
<b>NBV (Rmb/share)</b>	0.9069	1.3662	1.7386	2.1477	2.6718
<b>PE (x)</b>	-	-	7.62	5.91	5.46
<b>PB (x)</b>	-	-	1.99	1.61	1.29
<b>ROAA (%)</b>	15.56%	13.08%	12.63%	9.89%	9.50%
<b>ROAE (%)</b>	19.66%	39.05%	52.10%	41.39%	43.31%
<b>Net D/E (%)</b>	7.69%	-2.49%	14.55%	39.18%	65.47%

\*We assume Rmb1 = HK\$1.23; Assume CB converted in FY13

Source: Company, Bloomberg, ABCI Securities



## Disclosures

I, Lee Oi-yee, Lisa, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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

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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