

Tianneng (819.HK)

2018H results slightly lower than expected, cut target price but maintain Buy rating

28 September 2018

Hong Kong | Automobile parts | Update Report

Investment Summary

Tianneng Power's 2018H1 revenue and net profit increased by 28% and 16%, respectively, but the gross profit margin declined slightly. The lead battery business was better than expected, but the correction of the lithium battery business dragged down the company's net profit growth slightly lower than expected. We adjust our EPS forecast for 2018/2019 to 1.13/1.33 yuan. We believe that the current market is too pessimistic about the company, after its stock price retraced more than half from the high point. The current valuation does not reflect the company's leading position in domestic lead-acid battery market. For valuation we cut our target price to HK\$8.4 to reflect the possible challenge of the company, but maintain a Buy rating. (Closing price as at 26 Sept 2018)

16% More Revenue in the Middle of the Period

Tianneng Power recorded a revenue of RMB14,507 million in the first half of 2018 with a net profit of RMB534 million, an increase of 27.7% and 15.8%, respectively, compared with those of 2017. The operational cash flow was around RMB1,159 million. The EPS was RMB0.44. The gross profit was RMB1,709 million with a gross margin of 11.8% during the period. Compared with that of the same period of 2017, there was an increase of 18.8% and a fall of around 0.9 percentage point, respectively. The main reason why the gross margin dropped was the rise of the price of lead, a main raw material.

A Prominent Growth in Lead-acid Battery

As the traditional main business, the lead-acid battery sector has been providing stable cash flow for the company. The integration-based bonus in the industry was further released and the revenue from the lead-acid battery was as high as RMB13,313 million, a yoy increase of 31.7%, accounting for 91.8% of the total sales. Among others, the sales of lead-acid battery used in electrical bicycles/tricycles increased by 31.8% to RMB12,178 million yoy. The revenue from the special-purpose battery went up by 30.2% to RMB1.14 billion yoy. The company further enhanced its leading position in this field with a steady expansion of market shares.

Adjustment is Made in the Lithium Battery

The revenue from the lithium battery was RMB278 million, a fall of 39.0% yoy, accounting for 1.9% of the total sales. Affected by the reduction of the national subsidy policy, the lithium battery industry is going through an adjusting period. From the perspective of prudent operation, the company decided to select its customers and shrink its production lines for the moment. The total effective productivity is around 2.5GWh with a capacity utilization rate of about 50%. We believe that the company's lithium battery segment will go through a period of adjustment for technology & clients reserve.

BUY (Maintain)

CMP HKD: 6.81
(Closing price as at 26 Sept 2018)
TARGET HKD: 8.40 (+23%)

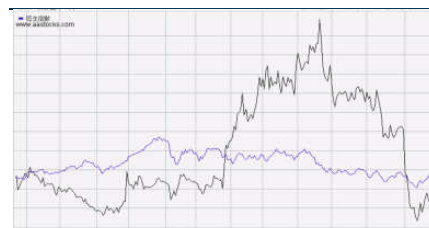
COMPANY DATA

O/S SHARES (MN) :	1127
MARKET CAP (HKD MN) :	7672
52 - WK HI/LO (HKD):	14.34/6.18

SHARE HOLDING PATTERN, %

Prime Leader Global Limited	36.42
Morgan stanley	4.98
Blackrock Inc	4.97

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY16	FY17	FY18E	FY19E
Net Sales	21511	26939	34311	37706
Net Profit	858	1179	1274	1500
EPS, CNY	0.76	1.05	1.13	1.33
P/E, x	14.3	9.7	5.3	4.5
BVPS, CNY	3.49	4.33	5.13	5.99
P/BV, x	3.1	2.3	1.2	1.0
DPS (HKD)	0.23	0.31	0.34	0.40
Div. Yield (%)	2.1%	3.1%	5.7%	6.7%

Source: Company reports, Phillip Securities Est.

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The Rapid Growth of Recycled Lead

The sales revenue from the recycled lead was RMB745 million, an increase of 36.0% yoy, accounting for about 5.1% of the total sales revenue. During the reporting period, with an annual processing capacity of 400,000 tonnes of used batteries, the company processed 120,000 tonnes, in which 66,000 tonnes were undergoing a recollection period and would enter the internal recycling afterwards. By recycling, RMB125 million can be saved in terms of material costs. The company plans to actively expand the layout recycling productivity, including building new bases or expanding the existing ones. In the case of building new bases, the company will follow the rules of local provincial governments for granting licenses.

Investment Thesis

Tianneng Power is a leading enterprise in China’s lead-acid power battery industry. We believe that the Company’s lead-acid battery business will continue to maintain its stable growth characteristics and become the Company’s “cash cow” business. Its recycle business is expected to become a new profit growth point. While its lithium battery business will go through an adjusting period. We expect the company’s EPS for 2018/2019 to reach 1.13/1.33 yuan and the target price of HK\$8.4, corresponding to 2018/2019 6.5/5.6x P/E. We maintain a Buy rating.

Forward P/E,P/B



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj.	(19.6)	10.5	8.0	5.4	5.3	4.5
P/B (X)	2.2	1.9	1.8	1.3	1.2	1.0
Dividend Yield (%)	0.0%	4.7%	3.8%	5.5%	5.7%	6.7%
Per share data (RMB)						
EPS, (Basic)	-0.27	0.54	0.76	1.05	1.13	1.33
EPS, (Diluted)	-0.27	0.53	0.74	1.02	1.11	1.31
DPS	0.00	0.27	0.23	0.31	0.34	0.40
BVPS	2.40	2.96	3.49	4.33	5.13	5.99
Growth & Margins (%)						
Growth						
Revenue	12.4%	5.0%	20.7%	25.2%	27.4%	9.9%
EBIT	11.2%	12.1%	43.5%	20.1%	6.7%	17.7%
Net Income, adj.	15.8%	17.4%	40.4%	37.4%	8.0%	17.7%
Margins						
Gross margin	9.0%	13.6%	13.8%	13.0%	87.8%	87.4%
EBIT margin	-1.5%	4.9%	5.8%	5.6%	4.7%	5.0%
Net Profit Margin	-2.2%	3.4%	4.0%	4.4%	3.7%	4.0%
Key Ratios						
ROE	-10.8%	20.3%	23.5%	26.7%	23.9%	23.9%
Income Statement (RMB mn)						
Revenue	14058	17825	21511	26939	34311	37706
Gross profit	1264	2428	2975	3507	30129	32961
EBIT	-214	869	1247	1498	1599	1882
Profit before tax	-407	746	1145	1408	1528	1804
Tax	-114	118	240	227	252	301
Profit for the period	-293	628	905	1181	1276	1503
Minority interests	12	17	47	2	2	3
Total capital share	1112	1122	1134	1127	1127	1127
Net profit	-305	611	858	1179	1274	1500

Source: PSR

(Financial figures as at 26 September 2018)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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