

# Tianneng (819 HK)

## 2019N Results Beat Consensus, Maintain Buy rating as the Underestimate Valuation

15 April 2020

Hong Kong | Automobile parts | Update Report

### Investment Summary

Tianneng Power's 2019 revenue and net profit increased by 17% and 42%, respectively, but the gross profit margin declined slightly. We believe that the current market is too pessimistic about the company, as current valuation near a decade low, which does not reflect the company's leading position in domestic lead-acid battery market and expectation of stable growth. For valuation we cut our target price to HK\$8.51 to reflect the possible challenge of the Company, maintain a Buy rating.

### Better-Than-Expected Results in 2019 with 40% More Earnings

Tianneng Power recorded a sales revenue of RMB40,614 million, a yoy increase of 16.9%; the profit attributable to shareholders stood at RMB1.682 billion, a -yoy increase of 41.5%. Basic earnings per share were RMB1.49. The proposed final dividend was HKD0.39 per share. The dividend payout ratio reached 23%. Results were better than expected, but the dividend payout ratio was slightly lower than last year.

### Gross Margin in Manufacturing Industry Increased and Expenses Were Well Controlled

The gross profit was RMB4,688 million with a gross margin of 11.54% during the period. There was an increase of 16% and a fall of 0.3 pts yoy, respectively. Due to the new trading business, the overall gross margin was lower than in 2018. Excluding the trading business, the gross margin in the manufacturing industry increased by 2.7 pts to 15.39%, reflecting an optimized sales structure and a decrease in the price of raw material lead.

The Company's expenses were properly controlled. The period cost rate (sales + administration + R&D) dropped by 1 pts to 6.66. This was mainly because the expenses for sales and R&D only increased by 0.8% and 3.5% yoy, respectively.

By optimizing the debt structure, at the end of the period, the asset-liability ratio reduced by 6.1 pts and the ROE rose by 0.8 pts to 23.7%.

### Battery Slightly Dropped, While Trading Business Surged

In 2019, the Company's market share in the domestic lead-acid battery of light electric vehicle has exceeded 44%, more than 3 pts higher than in 2018. In H1, due to some changes in the industry policies, customers' wait-and-see attitude led to a drop in the demand for the lead-acid battery. With further integration in the industry, the demand recovered in H2, resulting in a better sales situation than in H1. Battery sales revenue increased by about 25% hoh and the net profit doubled to RMB1.14 billion hoh. The full-year profit contribution was RMB1.71 billion.

### BUY (Maintain)

CMP HKD: 6.64  
(Closing price as at 9 April)  
TARGET HKD: 8.51 (+28%)

#### COMPANY DATA

O/S SHARES (MN) :	1127
MARKET CAP (HKD MN) :	7481
52 - WK HI/LO (HKD):	8.2/4.43

#### SHARE HOLDING PATTERN, %

Prime Leader Global Limited	36.42
Morgan stanley	4.98
Blackrock Inc	4.97

#### PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY18	FY19	FY20E	FY21E
Net Sales	35107	40983	43395	46787
Net Profit	1188	1682	1818	2058
EPS, CNY	1.05	1.49	1.61	1.83
P/E, x	5.5	4.0	3.7	3.3
BVPS, CNY	5.12	6.47	7.79	9.23
P/BV, x	1.1	0.9	0.8	0.6
DPS (HKD)	0.33	0.35	0.37	0.45
Div. Yield (%)	5.7%	5.9%	6.2%	7.5%

Source: Company reports, Phillip Securities Est.

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By category, full-year sales revenue of lead-acid batteries reached RMB28.22 billion, dropped by 2.6% yoy, accounting for 91% of the whole battery sales revenue. Among them, the revenue of lead-acid battery in electrical bicycles/tricycles reduced by 3% to RMB25.685 billion yoy. The revenue of lead-acid battery in electric vehicles rose by 2.6% to RMB2.06 billion yoy. As for the special-purpose lead-acid battery, the revenue increased by 6.7% to RMB478 million yoy, including the tubular battery, starter battery, energy storage battery and emergency battery.

In the business of lithium battery and renewable lead, the revenue of lithium battery increased by 13.5% to RMB630 million but renewable lead down by 54% to RMB940 million yoy. The decline in the recycled lead business was mainly due to the fact that some products were converted to internal sales after the technology was upgraded, and the profit contributed by the division still maintained rapid growth.

The Company's trading business recorded a turnover of more than RMB10 billion. The earning improved in H2, turning losses into profits. However, its profitability was not powerful, with the recorded full-year net profit of RMB16.34 million.

### Investment Thesis

With the increasing requirements of environmental protection in domestic, the concentration of the lead-acid battery industry will continue to improve. As the leading enterprise, Tianneng Power's "cash cow" — lead-acid battery business will remain stable. The Company plans to spin off the subsidiaries and list on the Sci-Tech innovation board in Shanghai. It is going to raise RMB3.6 billion, mainly for the upgrading and transformation of the existing lead-acid batteries (RMB840 million), also for some project construction such as high-energy lithium batteries (RMB850 million) and high-capacity start-stop batteries (RMB430 million), as well as the supplement of fluid capital (RMB1 billion). The Company is expected to complete the spin-off and listing early next year.

We expect the company's EPS for 2020/2021 to reach 1.61/1.83 yuan and the target price of HK\$8.51, corresponding to 2020/2021 4.7/4.2x P/E. We maintain a Buy rating. (Closing price as at 9 April)

### Forward P/E,P/B



Source: Bloomberg, Phillip Securities Hong Kong Research

## Financials

FYE DEC	FY17	FY18	FY19	FY20F	FY21F
<b>Valuation Ratios</b>					
P/E (X), adj.	5.3	5.5	4.0	3.7	3.3
P/B (X)	1.3	1.1	0.9	0.8	0.6
Dividend Yield (%)	5.6%	5.7%	5.9%	6.2%	7.5%
<b>Per share data (RMB)</b>					
EPS, (Basic)	1.05	1.05	1.49	1.61	1.83
EPS, (Diluted)	1.02	1.03	1.47	1.58	1.79
DPS	0.31	0.33	0.35	0.37	0.45
BVPS	4.33	5.12	6.47	7.79	9.23
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	25.2%	27.4%	16.7%	5.9%	7.8%
EBIT	20.1%	6.7%	35.5%	7.2%	11.3%
Net Income, adj.	37.4%	8.0%	41.5%	8.1%	13.2%
<b>Margins</b>					
Gross margin	13.0%	11.5%	11.4%	11.5%	11.7%
EBIT margin	5.6%	4.8%	5.6%	5.7%	5.8%
Net Profit Margin	4.4%	3.4%	4.1%	4.2%	4.4%
<b>Key Ratios</b>					
ROE	26.7%	22.3%	25.8%	22.6%	21.5%
<b>Income Statement (RMB mn)</b>					
<b>Revenue</b>	<b>26939</b>	<b>35107</b>	<b>40983</b>	<b>43395</b>	<b>46787</b>
<b>Gross profit</b>	<b>3507</b>	<b>4042</b>	<b>4688</b>	<b>4990</b>	<b>5474</b>
EBIT	1498	1689	2288	2453	2730
Profit before tax	1408	1531	2126	2286	2581
<b>Tax</b>	<b>227</b>	<b>295</b>	<b>400</b>	<b>423</b>	<b>472</b>
Profit for the period	1181	1235	1726	1863	2108
Minority interests	2	47	44	45	50
Total capital share	1127	1127	1127	1127	1127
<b>Net profit</b>	<b>1179</b>	<b>1188</b>	<b>1682</b>	<b>1818</b>	<b>2058</b>

Source: PSR

(Closing price as at 9 April)

### 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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