

First take on AeJ results

Equity: Telecoms

Global Markets Research
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Tianneng Power Quick Note

Research Analysts

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Tianneng Power [819 HK] (Ethan Zhang)

(Neutral, TP: HKD8.10; 27 March closing price: HKD4.83)

2019 results review: battery margin expansion; recovery of lithium business

Tianneng Power recorded 17% y-y revenue growth to CNY40.6bn in 2019, while the core business of battery manufacturing was down 4% y-y to CNY30.6bn. Segment-wise:

- Revenue from the sales of lead-acid battery products for electrical bicycles and tricycles declined by 3% y-y mainly due to the downward ASP trend as a result of the falling price of lead in 2019, in our view.
- LSEV and special-purpose battery products posted 3% and 7% y-y revenue growth, respectively.
- Revenue from renewable resources products dropped by 54% y-y owing to a higher portion of self-consumption for recycled lead, in our view.
- Lithium battery products grew by 13% y-y, as a result of the low base in 2018 after the company changed its strategy on lithium battery business to focus more on the lithium battery products for electrical bicycles and LSEVs, in our view.

Tianneng Power delivered 2.7pp y-y GPM expansion for the core battery business, thanks to the improvement in the cost structure, in our view, while the overall GPM stayed relatively flattish. With effective cost control and favourable operating leverage, the company enjoyed 42% y-y earnings growth to CNY1.7bn. Management declared a final dividend of HK0.39 per share, representing a pay-out ratio of 23.5%.

We maintain our Neutral rating and TP of HKD8.10, while we are reviewing our forecast numbers.

Fig. 1: Tianneng Power – 2019 earnings summary

CNYmn	2016 Actual	2017 Actual	2018 Restated	2019 Actual	y-y
Revenue	21,481	26,904	34,751	40,614	17%
Core business	21,481	26,904	32,034	30,606	-4%
	% yoy	21%	25%	19%	-4%
Trading	-	-	2,717	10,008	268%
COGS	(18,506)	(23,397)	(30,709)	(35,926)	17%
Gross Profit	2,975	3,507	4,042	4,688	16%
OPEX					
SG&A	(960)	(1,124)	(1,483)	(1,560)	5%
Selling and distribution costs	(587)	(675)	(890)	(897)	1%
Administration expenses	(373)	(449)	(593)	(663)	12%
R&D expenses	(697)	(883)	(1,154)	(1,154)	0%
Other operating expenses	(133)	(108)	(41)	(16)	-61%
EBIT (core earnings)	1,185	1,393	1,363	1,958	44%
	% yoy	50%	17%	-2%	44%
Other income & gain	(40)	15	168	168	0%
Profit before taxation	1,145	1,408	1,531	2,126	39%
	% yoy	54%	23%	9%	39%
Taxation	(240)	(227)	(295)	(400)	
Net profit	906	1,180	1,235	1,726	40%
Non-controlling interest	(47)	(2)	(47)	(44)	
Profit to owners of the company	859	1,178	1,188	1,682	42%
	41%	37%	1%	42%	
Key ratios					
GPM	13.8%	13.0%	11.6%	11.5%	-0.1pp
GPM (core business)	13.8%	13.0%	12.7%	15.4%	2.7pp
OPM	5.5%	5.2%	3.9%	4.8%	0.9pp
NPM	4.0%	4.4%	3.4%	4.1%	0.7pp

Source: Company data, Nomura research

Fig. 2: Tianneng Power – 2019 earnings summary by segment

CNYmn	2016 Actual	2017 Actual	2018 Restated	2019 Actual	
Revenue	21,481	26,904	34,751	40,614	17%
Lead-acid battery products	19,069	23,761	28,942	28,220	-2%
Electrical Bicycle/Tricycle Battery	17,115	21,707	26,489	25,685	-3%
Micro Electric Vehicle Battery	1,928	1,477	2,005	2,058	3%
Other Special-Purpose Battery	26	577	448	478	7%
Renewable Resources Products	955	1,492	2,046	941	-54%
Lithium Battery Products	616	1,223	553	627	13%
Trading	-	-	2,717	10,008	268%
Others	841	428	493	818	66%
Weight					
Lead-acid battery products	88.8%	88.3%	83.3%	69.5%	
Electrical Bicycle/Tricycle Battery	79.7%	80.7%	76.2%	63.2%	
Micro Electric Vehicle Battery	9.0%	5.5%	5.8%	5.1%	
Other Special-Purpose Battery	0.1%	2.1%	1.3%	1.2%	
Renewable Resources Products	4.4%	5.5%	5.9%	2.3%	
Lithium Battery Products	2.9%	4.5%	1.6%	1.5%	
Trading			7.8%	24.6%	
Others	3.9%	1.6%	1.4%	2.0%	

Source: Company data, Nomura research

Valuation methodology and risks

Our TP of HKD8.1 is based on 6x FY19F EPS of CNY1.15, in line with its historical median of 5.7x.

Downside risks include: 1) lead price volatility; 2) changes in environmental and EV-related policies; 3) changes in competitive environment.

Upside risks include: 1) faster volume and ASP growth in lead-acid battery segment; 2) better restructuring of lithium battery business; 3) faster expansion of recycling business.

Appendix A-1

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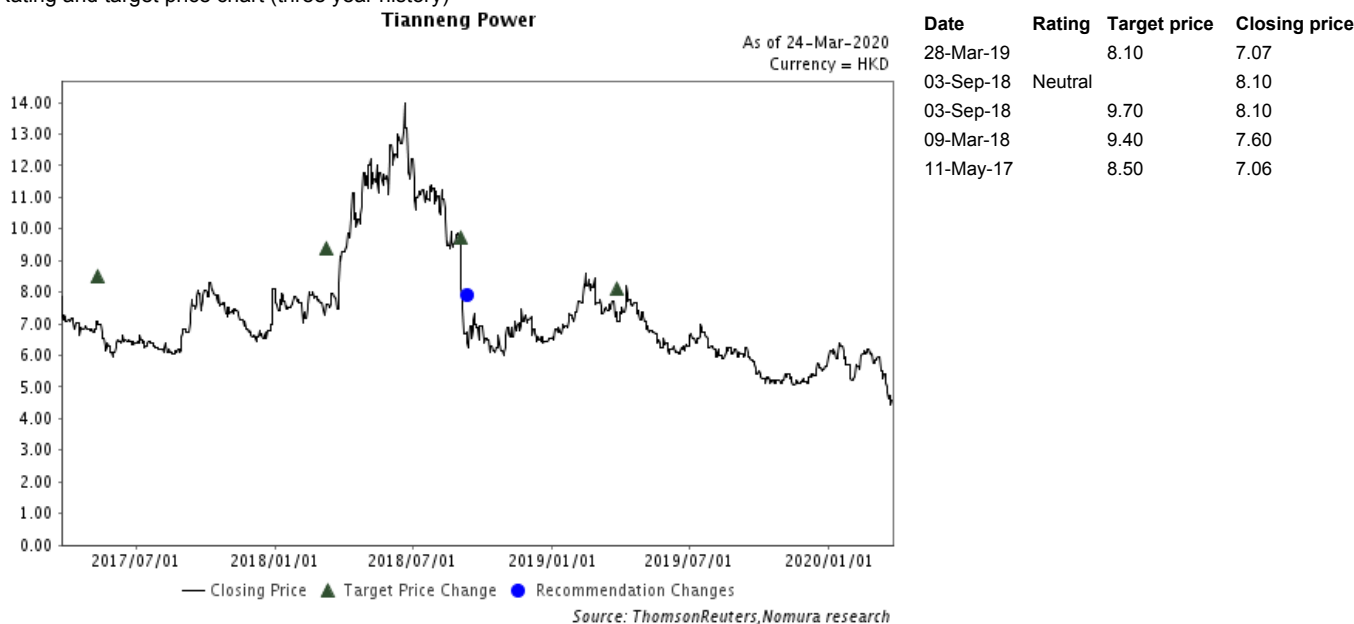
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Tianneng Power	819 HK	HKD 4.83	27-Mar-2020	Neutral	N/A	

Tianneng Power (819 HK)

HKD 4.83 (27-Mar-2020) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD8.1 is based on 6x FY19F EPS of CNY1.15, in line with historical median of 5.7x. The benchmark index for this stock is Hang Seng Index.

Risks that may impede the achievement of the target price Downside risks include: 1) lead price volatility; 2) changes in environmental and EV related policies; 3) changes in competition environment. Upside risks include: 1) faster volume and ASP growth in lead-acid battery segment; 2) better restructuring of lithium battery business; 3) faster expansion of recycling business.

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