

# Weak 2H21 results dragged by cost increase of raw materials

Huatai Research

31 March 2022 | China (Hong Kong)

Annual Results Review

Auto Parts

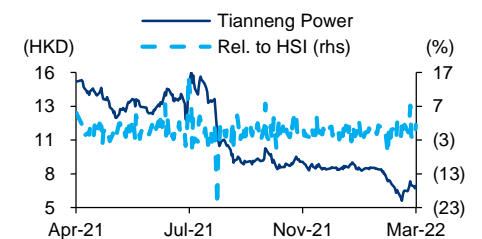
Rating (Maintain): **BUY**Target price (HKD): **12.68**
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## Key data

Target price (HKD)	12.68
Closing price (HKD as of 30 Mar)	6.77
Potential upside +/- (%)	87
Mkt cap (HKDmn)	7,624
6m avg daily val (HKDmn)	25.76
52wk price range (HKD)	5.50-16.42
BVPS (RMB)	11.53

## Share performance



Source: S&amp;P

## Net profit declined by 61% yoy in 2H21

Tianneng Power (Tianneng) reported 2021 results on 30 March 2021. Total sales revenue rose by 60% yoy to RMB85.6bn and net profit declined by 48% yoy to RM1.3bn, lower than our estimates of RMB2.2bn. The results were weak, in our view, driven by the increase in raw material costs in 2021. In 2H21, its revenue increased by 60% yoy to RMB49.3bn, and its net profit fell by 61% yoy to RMB639mn. We estimate its 2022/2023/2024 EPS at RMB1.95/2.32/2.62. We derive our target price of HKD12.68 based on 5.4x 2022E PE. Our target multiple is lower than its peer average of 8.3x 2022E PE based on Wind consensus estimates, mainly because of the volatility of the company's profitability. Maintain BUY.

## GPM deteriorated in 2H21 due to increase in raw material costs

Tianneng has two major business segments, ie battery manufacturing and battery raw material trading. In 2H21, sales revenue from battery manufacturing rose by 15% yoy to RMB21.8bn, and GPM was 12.4%, 5.2pct lower than 17.6% in 2H20, mainly due to the increase in costs of raw materials. Sales revenue from the battery raw material trading business increased by 130% yoy to RMB27.5bn. The battery raw material trading has a low GPM (1H21: 0.3%; 2H21: 0.0%). As a result, the blended GPM in 2H21 dropped substantially to 5.4%, from 10.9% in 2H20.

## Operating costs well under control, new business on track

In 2H21, Tianneng's GPM fell to 5.4% (2H20: 10.9%). Despite of the decline in GPM, Tianneng had good cost control in 2H21. Selling and distribution expense ratio was 1.3% (2H20: 1.8%), administrative expense ratio was 1.1% (2H20: 1.4%), and R&D expense ratio was 1.8% (2H20: 2.4%). The net profit margin was 1.3% (2H20: 5.3%). The company's cost control measures partly offset the drop in GPM, in our view. Despite of the headwinds, Tianneng continues to expand its new business, such as start-stop batteries, energy storage batteries, Lithium-ion batteries, and the recycling business.

## Cut earnings due to raw material cost increase; maintain BUY

Considering the weak 2021 results, we cut our 2022-2023 GPM estimates by 0.89/0.96pp to 6.7/7.0% and trim our net profit estimates by 16.3/16.1% to RMB2.3/2.7bn. We estimate its 2024 net profit at RMB3.0bn. We lower our target price to HKD12.68 (previous: HKD17.15 based on 7.5x 2021E PE), based on 5.4x 2022E PE. Our target multiple is lower than the peer average 2022E PE of 8.3x (previous: 9.1x 2021E PE) based on Wind consensus estimates, mainly because of the high volatility of the company's profitability.

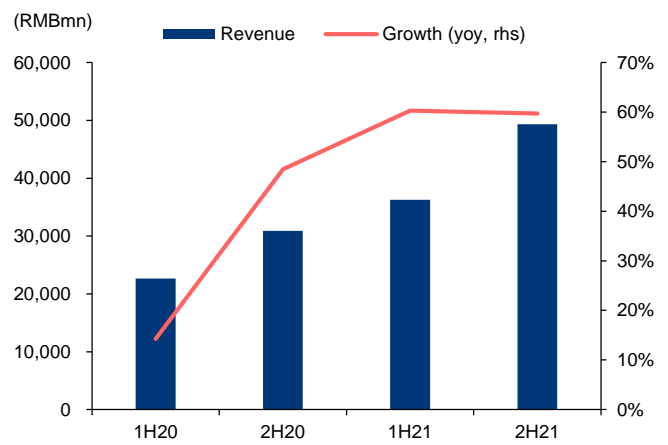
Risks: 1) weaker electric-bike demand than we expect; and 2) significant switch from lead-acid batteries to lithium batteries.

## Financials

YE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMBmn)	53,525	85,616	93,712	101,870	111,156
+/-%	31.79	59.95	9.46	8.71	9.12
Net profit (RMBmn)	2,477	1,300	2,251	2,679	3,016
+/-%	47.28	(47.52)	73.15	19.03	12.60
EPS (diluted, RMB)	2.15	1.13	1.95	2.32	2.62
ROE (%)	29.58	10.47	13.61	14.06	13.75
PE (x)	2.52	4.81	2.74	2.31	2.05
PB (x)	0.66	0.41	0.35	0.30	0.26
EV EBITDA (x)	2.20	2.24	1.39	0.91	0.57

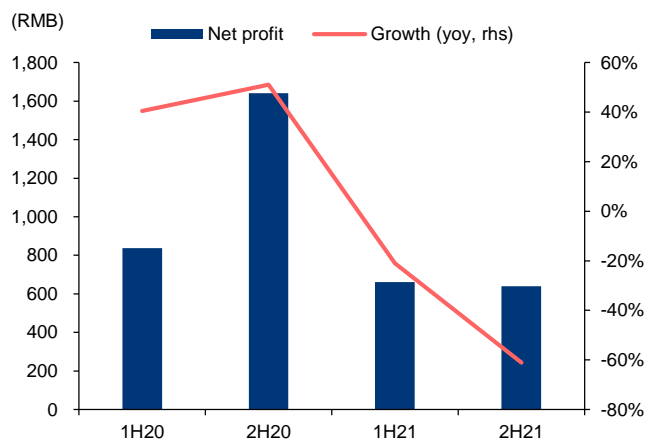
Source: Company announcements, Huatai Research estimates

Fig.1: Tianneng: sales revenue and growth



Source: Company announcement, Huatai Research

Fig.2: Tianneng: net profit and growth



Source: Company announcement, Huatai Research

Fig.3: Tianneng: peer valuation comparison

Company	Ticker	Market cap (HKDbn)	PE (x)	
			2022E	2023E
Fuyao-H	3606 HK	83.0	11.1	8.6
Nexteer	1316 HK	12.5	8.4	6.5
Xin point	1571 HK	2.2	5.3	4.4
<b>Average</b>		<b>32.6</b>	<b>8.3</b>	<b>6.5</b>

Note: data as of 30 March 2022 close; PE are from Wind consensus estimates

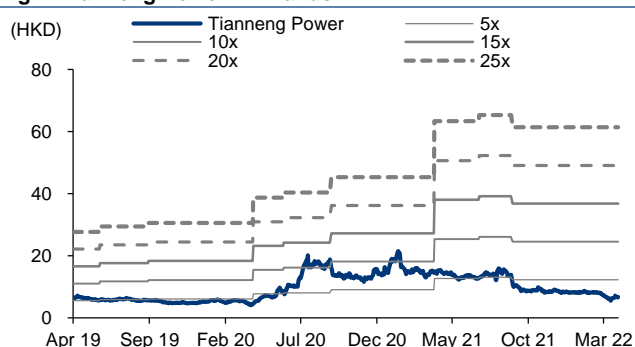
Source: Wind, Huatai Research

### Valuation method and risks statement

We lower our target price to HKD12.68, based on 5.4x 2022E PE (previous: HKD17.15, based on 7.5x 2021E PE). Our target multiple is lower than the peer average 2022E PE of 8.3x (previous: 9.1x 2021E PE) based on Wind consensus estimates, mainly because of the high volatility of the company's profitability.

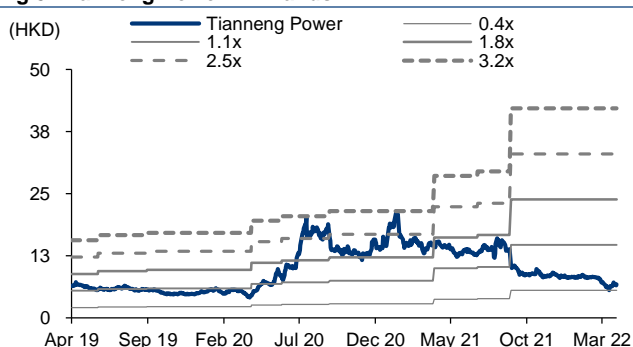
Risks: 1) weaker electric-bike demand than we expect; and 2) significant switch from lead-acid batteries to lithium batteries.

Fig.4: Tianneng Power PE-Bands



Source: S&P, Huatai Research

Fig.5: Tianneng Power PB-Bands



Source: S&P, Huatai Research

## Full financials

### Income statement

YE 31 Dec (RMBmn)	2020	2021	2022E	2023E	2024E
Revenue	53,525	85,616	93,712	101,870	111,156
Cost of goods sold	(48,033)	(80,995)	(87,472)	(94,747)	(103,226)
<b>Gross margin</b>	5,492	4,621	6,239	7,123	7,930
Selling and distribution cost	(937.66)	(1,037)	(1,031)	(1,121)	(1,223)
Admin expenses	(2,062)	(2,473)	(2,624)	(2,852)	(3,112)
Other income/expenses	(25.64)	(44.73)	(49.21)	(54.13)	(59.54)
Financial cost-net	(212.13)	(254.09)	(593.86)	(633.62)	(676.38)
Share of P&L of associate	(0.78)	(2.74)	0.15	0.15	0.15
<b>Profit before tax</b>	2,950	1,837	3,020	3,595	4,048
Tax expense	(445.15)	(285.73)	(573.88)	(683.07)	(769.10)
Minority interest/other	(27.65)	(251.26)	(195.72)	(232.96)	(262.30)
<b>Net profit</b>	2,477	1,300	2,251	2,679	3,016
Discount and amortization	(529.24)	(545.50)	(650.45)	(690.45)	(727.55)
EBITDA	3,691	3,724	4,445	5,175	5,175
EPS (RMB, basic)	2.20	1.15	2.00	2.38	2.68

### Balance sheet

YE 31 Dec (RMBmn)	2020	2021	2022E	2023E	2024E
Inventories	4,486	4,485	7,908	8,566	9,333
Account & bill receivables	2,349	3,329	4,108	4,466	4,873
Cash & cash equivalents	4,456	8,697	10,733	13,533	16,696
Other current assets	8,839	6,576	6,576	6,576	6,576
<b>Total current assets</b>	15,674	23,087	29,325	33,141	37,477
Fixed assets	5,455	6,504	6,904	7,275	7,613
Intangible assets	23.31	23.31	0.00	0.00	0.00
Other non-current assets	2,048	3,124	2,834	2,835	2,835
<b>Total non-current assets</b>	7,526	9,652	9,739	10,110	10,447
<b>Total assets</b>	23,200	32,739	39,064	43,250	47,924
Accounts payable	7,356	8,924	12,837	12,746	12,747
Short-term loans	919.12	2,875	3,019	3,170	3,328
Other liabilities	4,157	3,489	3,300	4,546	5,857
<b>Total current liabilities</b>	12,432	15,288	19,156	20,462	21,932
Interest-bearing bank borrowings	735.19	1,422	1,563	1,718	1,889
Other long term liabilities	573.67	652.11	656.39	656.39	656.39
<b>Total non-current liabilities</b>	1,309	2,074	2,220	2,375	2,545
Equity	109.85	109.85	109.85	109.85	109.85
Reserves/other items	8,636	12,871	15,378	18,336	21,631
Shareholder equity	9,459	15,377	17,688	20,414	23,447
Minority interests	0.00	2,396	2,201	1,968	1,705
<b>Total equity</b>	9,459	17,773	19,889	22,382	25,152

### Valuation

YE 31 Dec (x)	2020	2021	2022E	2023E	2024E
PE	2.52	4.81	2.74	2.31	2.05
PB	0.66	0.41	0.35	0.30	0.26
EV EBITDA	2.20	2.24	1.39	0.91	0.57
Dividend yield (%)	6.53	6.05	7.27	8.65	58.46
FCF yield (%)	36.22	28.79	47.03	42.61	49.17

### Cash flow statement

YE 31 Dec (RMBmn)	2020	2021	2022E	2023E	2024E
EBITDA	3,691	3,724	4,445	5,175	5,175
Finance costs	212.13	254.09	593.86	633.62	676.38
Changes in working cap	(971.14)	589.14	(289.10)	(1,106)	(1,173)
Tax	(445.15)	(285.73)	(573.88)	(683.07)	(769.10)
Others	(384.94)	(2,174)	(910.10)	(315.13)	194.73
<b>Operating cash flow</b>	2,102	2,107	3,265	3,705	4,105
Capital expenditure	0.00	(1,118)	(376.70)	(371.00)	(337.08)
Other investment activities	0.00	(839.36)	(803.31)	(690.45)	(727.55)
<b>Investing cash flow</b>	(1,518)	(1,957)	(1,180)	(1,061)	(1,065)
Increase in debt	(273.97)	2,643	284.61	305.88	328.93
Increase in equity	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Dividends paid	(404.26)	(374.81)	(450.16)	(535.81)	(3,620)
Other financing activities	368.72	1,823	115.43	387.13	3,414
<b>Financing cash flow</b>	(281.56)	4,091	(50.18)	157.14	122.79
Changes in cash	302.11	4,241	2,035	2,800	3,163
Cash at start of year	4,154	4,456	8,697	10,733	13,533
Effect of forex rate chg, net	0.00	0.00	0.00	0.00	0.00
<b>Year-end cash</b>	4,456	8,697	10,733	13,533	16,696

### Performance

YE 31 Dec (x)	2020	2021	2022E	2023E	2024E
<b>Growth (%)</b>					
Revenue	31.79	59.95	9.46	8.71	9.12
Gross profit	17.16	(15.86)	35.02	14.16	11.32
Operating profit	26.01	(56.77)	137.74	22.11	14.18
Net profit	47.28	(47.52)	73.15	19.03	12.60
EPS	47.32	(47.51)	73.15	19.03	12.60
<b>Profitability ratios (%)</b>					
Gross profit	10.26	5.40	6.66	6.99	7.13
EBITDA	6.90	4.35	4.74	5.08	4.66
Net profit	4.63	1.52	2.40	2.63	2.71
ROE	29.58	10.47	13.61	14.06	13.75
ROA	11.70	4.65	6.27	6.51	6.62
<b>Solvency</b>					
Net gearing ratio (%)	(29.62)	(28.62)	(34.77)	(42.35)	(48.96)
Current ratio	1.26	1.51	1.53	1.62	1.71
Quick ratio	0.90	1.22	1.12	1.20	1.28
<b>Operating capability (days)</b>					
Total assets turnover ratio (x)	2.53	3.06	2.61	2.48	2.44
Receivable	12.99	11.94	14.28	15.15	15.12
Payable	52.85	36.18	44.78	48.60	44.45
Inventory	30.83	19.94	25.50	31.30	31.21
Cash conversion cycle	(9.03)	(4.31)	(4.99)	(2.16)	1.88
<b>Index per share (RMB)</b>					
EPS	2.20	1.15	2.00	2.38	2.68
Book value per share	8.40	13.65	15.71	18.13	20.82

Source: Company announcements, Huatai Research estimates

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