

Tianneng Power (819 HK)


華泰金融控股(香港)有限公司
 HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Huatai Research

1 September 2019

Equity | China | Auto Parts

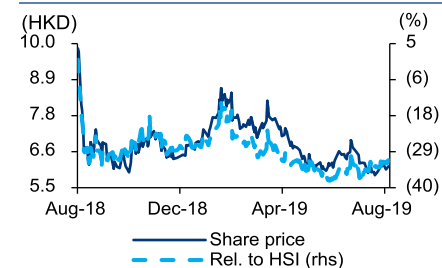
BUY | TP HKD12.00**Maintained**

Zhixuan LIN Analyst	+86 21 2897 2090 zhixuan.lin@htsc.com
Wentian GU Analyst	+86 21 3847 6179 wentian.gu@htsc.com
Chongyang XING Analyst	+86 21 3847 6205 xingchongyang@htsc.com
Jiawen DING Analyst	+86 21 2897 2090 dingjiawen@htsc.com

Key data

Closing price (HKD as of 30 Aug)	6.19
Mkt cap (USDmn)	910
6m avg daily val (USDmn)	2.25
52wk price range (HKD)	9.75/5.89
BVPS (RMB)	4.92

Share performance



Source: FactSet

Net earnings up 10% yoy in 1H19 due to decline in lead price

1H19 net earnings up 10% yoy

Tianneng Power (Tianneng) reported (30 August) its financial results for 1H19: total revenue increased by 39% yoy to RMB20.1bn and NPAT rose by 10% yoy to RMB564mn. The high growth in sales revenue was mainly because of a jump in the trading segment which started from 2H18. Revenue from lead-acid battery manufacturing sales declined by 6% yoy to RMB13.6bn due to lower lead prices and lower average selling price (ASP). The trading segment contributed sales revenue of RMB6.5bn in 1H19, but sales were margin dilutive. Tianneng is China's biggest lead-acid battery manufacturer, and we believe it will benefit from rising demand for lead-acid batteries for electric bikes going forward. The results were good overall, and we maintain BUY.

Higher margin on battery sales due to lower material costs

The cost of lead makes up over 70% of the total production cost of lead-acid batteries. In 1H19, lead price declined by around 15%, which led to the ASP decline and margin improvement in the battery manufacturing segment. In 1H19, total revenue from battery sales declined by 6% yoy to RMB13.5bn, and GPM for the battery manufacturing segment improved from 11.8% in 1H18 to 13.5%. Other than the decline in lead price, advanced factory management and cost control measures also contributed to the margin expansion in 1H19.

Tianneng benefiting from market consolidation

Starting from 15 April, new regulations on electric bikes have been implemented nationwide limiting the maximum size and body weight of electric bikes. The new regulations pushed the consolidation of the lead-acid battery industry as the smaller players don't have adequate R&D capabilities to upgrade their products to comply with the new regulations. In addition, the strict regulations on battery assembly, waste disposal and material recycling further propelled market integration. Tianneng is the biggest suppliers of lead-acid batteries for electric bikes in China. We believe the company will manage to gain market share from smaller players by leveraging its large scale, strong R&D resources and quality customer portfolios.

A-share listing should strengthen Tianneng's competitiveness

Tianneng has a strong balance sheet and it was net cash by end-June. It recently reorganized its battery manufacturing business for listing on the China A-share market. We believe the A-share listing should: 1) give Tianneng more financial resources for development of new products in the long run; and 2) improve its brand awareness in mainland China and enable further market share gains.

Maintain BUY on its leading market position

The 1H19 results were good, in our view. We believe Tianneng, as the biggest manufacturer of lead-acid batteries, will continue to gain market share by leveraging its large scale and outstanding R&D and managerial capabilities, and deliver steady returns to shareholders. Maintain BUY.

Valuation methodology and risks statement

Our target price of HKD12.00 is based on an average of DCF and PE valuations.

Risks: 1) weaker-than-expected sales and profit margins; and 2) disruptive technologies or products that will replace lead-acid batteries.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers; and no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in this report. Zhixuan LIN; Wentian GU; Chongyang XING; Jiawen DING

Important Disclosures

Huatai Financial Holdings (Hong Kong) Limited is regulated by the Securities and Futures Commission in Hong Kong and is the wholly owned subsidiary of HTSC (A joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name “华泰证券股份有限公司” and carrying on business in Hong Kong as HTSC).

Huatai Financial Holdings (Hong Kong) Limited and/or its affiliated companies has acted, currently is acting and/or may act as market maker in the bond securities of the companies mentioned or recommended in the report.

Guide to Huatai Financial Holdings (Hong Kong) Limited Investment Rating

Huatai Financial Holdings (Hong Kong) Limited investment ratings are according to analysts' expectations of stock performance within six months, as indicated below.

Stock Rating Definitions

BUY: The analyst expects the absolute return of the stock to be no less than 15%.

HOLD: The analyst expects the absolute return of the stock to be within -10%~15%.

SELL: The analyst expects the absolute return of the stock to be -10% or below.

Rating suspended: The rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies.

Not rated: Stocks are not in regular research coverage. Investors should not expect continuing or additional information from Huatai relating to such securities and/or companies.

Industry Rating Definitions

OVERWEIGHT: The analyst expects the performance of his or her industry coverage universe to be favorable.

NEUTRAL: The analyst expects the performance of his or her industry coverage universe to be flat.

UNDERWEIGHT: The analyst expects the performance of his or her industry coverage universe to be unfavorable.

Additional Information is available upon request.

General Disclosures

DISTRIBUTION TO INSTITUTIONAL AND PROFESSIONAL INVESTOR (AS DEFINED BY SECURITIES AND FUTURES ORDINANCE (CHAPTER 571)) CUSTOMERS

This document has been furnished to you solely for your information and may not be reproduced or redistributed to any other person.

The information herein is prepared and published by Huatai Financial Holdings (Hong Kong) Limited and is strictly confidential to the recipient. This publication is intended for Huatai Financial Holdings (Hong Kong) Limited, its clients, Huatai Financial Holdings (Hong Kong) Limited's subsidiaries, branches of Huatai Financial Holdings (Hong Kong) Limited, HTSC and its subsidiaries, to whom it has been delivered and may not be reproduced, transmitted or communicated, in whole or in part, to any other person without the prior written consent of Huatai Financial Holdings (Hong Kong) Limited. To the extent that onward distribution is permitted by Huatai Financial Holdings (Hong Kong) Limited, the recipient shall obtain independent local advice to comply with applicable laws and regulations before onward distribution.

Huatai Financial Holdings (Hong Kong) Limited is not a U.S. Financial Industry Regulatory Authority (“FINRA”) registered member, and Huatai Financial Holdings (Hong Kong) Limited research analysts are not registered/qualified as research analysts with FINRA.

This publication is (i) for your private information, and we are not soliciting any action based upon it; (ii) not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal; (iii) based upon information from sources that we consider reliable, but has not been independently verified by Huatai Financial Holdings (Hong Kong) Limited. This publication provides general information only. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. This publication may contain information obtained from third parties, including ratings from credit ratings agencies and the distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability of fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

The facts described in this publication, as well as the opinions, estimates, forecasts and projections expressed in it are as of the date hereof and are subject to change without notice. No representation or warranty, express or implied, is made as to and no reliance should be placed on information contained in this publication. Huatai Financial Holdings (Hong Kong) Limited accepts no liability whatsoever for any direct, indirect or consequential losses or damages arising from or in connection with the use or reliance of this publication or its contents. This publication is not intended to provide, and should not be relied upon as professional advice (including without limitation, accounting, legal or tax advice or investment recommendations) and is not to be taken in substitution for your exercise of judgment. Huatai Financial Holdings (Hong Kong) Limited does not act as an adviser and assumes no fiduciary responsibility or liability for any consequences, financial or otherwise. Investors

shall consider whether any information or recommendation in this publication is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

Investors should consider this publication as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Huatai Financial Holdings (Hong Kong) Limited produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise.

Huatai Financial Holdings (Hong Kong) Limited, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, options or other derivative instruments based thereon, of issuers or securities mentioned herein. Huatai Financial Holdings (Hong Kong) Limited may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this publication, perform services for or solicit business from such issuers. Huatai Financial Holdings (Hong Kong) Limited may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, other investment banking services, significant advice or investment services in relation to the investment concerned or a related investment. Huatai Financial Holdings (Hong Kong) Limited may also act as market maker or liquidity provider in the financial instruments of the issuers.

Huatai Financial Holdings (Hong Kong) Limited manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

© 2019 Huatai Financial Holdings (Hong Kong) Ltd. All rights reserved.

Legal Entity Disclosures

China: HTSC is approved by the China Securities Regulatory Commission under a qualification to carry out "securities investment consulting" business. Business license no: Z23032000.

Hong Kong: Huatai Financial Holdings (Hong Kong) Limited holds a license issued by the Securities and Futures Commission in Hong Kong to carry out "advising on securities" business. License no: AOK809.

Unit 5808-12, 58/F, The Center, 99 Queens Road Central, Central, HONG KONG

Tel: +852 3658 6000

Fax: +852 2169 0770

Email: research@htsc.com

<http://www.htsc.com.hk/>