

Tianneng Power

819.HK / 819 HK

China

Energy sector – Electric vehicles and batteries

Gem hidden by noise from EV sector

- ▶ **New standard little impact on e-bike business** – The new national standard came in force on 15 Apr. The main challenge for battery producers is to manufacture lightweight batteries for price sensitive customers. Although switching to lithium-ion batteries solves all technical issues, batteries on each bike would cost >RMB1,000, 2-2.5x lead-acid motive batteries (LAMB). Hence, both Tianneng and Chaowei are improving their LAMB to meet the new requirements, while forcing smaller peers to quit.
- ▶ **Ample opportunities overseas** – Contrary to popular belief, e-bike is still a growing business. SE Asia is the largest market for LAMB at 15m pcs annually, and is expected to grow >6% per year until 2023. Tianneng only sold <1m pcs overseas in 2018. Tianneng is considering a LAMB factory in SE Asia to capture over half of the regional market.

The demand for lithium battery powered e-bikes is growing in developed nations such as Germany, the Netherlands, Spain and Belgium, primarily as a substitute for a second vehicle to save money and avoid traffic jams. For instance, 980k e-bikes were sold in Germany in 2018, up 36% YoY, making up 23.5% of bikes sold.

- ▶ **Invest in battery swapping may be viable** – China Tower and startups like eHuandian (e 換電) and Hello Bike are building battery swapping “lockers” for e-bikes. This business may be feasible for Tianneng as it already has know-how and capacity for battery production. We believe battery swapping may prove more profitable for Tianneng as delivery and logistics companies are likely to be willing to pay extra for time saved from charging. Battery swapping service fees start at RMB99/month, on a yearly basis it can be up to 30% more profitable.
- ▶ **Spin-off to take place in late 2020 earliest** – Tianneng’s planned spin-off of its battery manufacturing business on Shanghai Stock Exchange (SSE) has been approved by shareholders and the HKEx. The SSE is reviewing Tianneng’s applications. We expect the spin-off to be completed in late 2020 or early 2021. Pre-IPO investors have subscribed for the spin-off group, valuing the business at RMB10.9b, double that of Tianneng Power’s market cap.
- ▶ **New TP=HK\$9.24, maintain LONG** – Our latest revenue and earnings estimates for 2019/20/21 are RMB41.9b/46.9b/49.6b and RMB1.24b/1.3b/1.62b respectively. Our TP represents 7x 2020F P/E (Prev: 7x 2019F P/E), the ‘low’ P/E is due to a stable outlook in China and management’s lack of overseas business experience.

LONG

Maintain

HK\$6.10*

Target price: HK\$9.24

Prior TP: HK\$9.25

Upside: 51%

HSI: 27,124.55

*Closing price as at 16 Sep 2019

Share Data

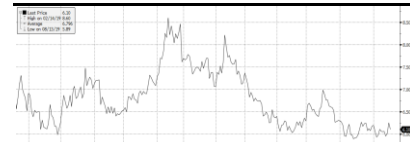
52week Hi/Lo (HK\$)	8.74/5.64
Avg. daily t/o (US\$m)	1.6
Market cap. (US\$m)	876
Total issued shares (m)	1,127
Auditor	Deloitte
Public float (%)	63.54%
Major shareholders:	
Mr. Zhang Tianren	36.46%

Source: HKEx & Bloomberg

Company Profile

Tianneng Power produces lead-acid and lithium-ion batteries mainly used in electric bikes and other electric vehicles, such as electric motorcycles and electric cars.

Share Price Chart



Source: Bloomberg

Earnings Forecasts & Valuation Summary

Years ended 31 Dec	2017A	2018A	2019F	2020F	2021F
Sales (RMB'm)	26,904	34,552	41,888	46,864	49,622
EBITDA (RMB'm)	1,842	2,142	2,087	2,209	2,625
Net profit (RMB'm)	1,178	1,252	1,240	1,304	1,623
Fully diluted EPS (RMB fen)	1.0	1.1	1.1	1.1	1.4
PER (x)	7.9	6.1	5.7	5.5	4.4
EV/EBITDA (x)	5.6	4.3	4.5	4.0	3.3
Yield (%)	5.2	5.3	5.6	5.6	7.0
ROE (%)	24.2	22.6	26.7	22.0	22.7
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
P/B (x)	1.6	1.1	1.3	1.0	0.8

Source: Company data, Sunwah Kingsway Research estimates

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Earnings revisions

Earnings estimates	2019F	2020F	2021F
Revenue (RMB'm) - new	41,888	46,864	49,622
<i>Old</i>	35,719	37,647	40,203
<i>Change</i>	17.3%	24.5%	23.4%
Gross profit (RMB'm) - new	4,132	4,528	5,071
<i>Old</i>	4,287	4,640	4,944
<i>Change</i>	-3.6%	-2.4%	2.6%
Net profit (RMB'm) - new	1,240	1,304	1,623
<i>Old</i>	1,300	1,502	1,665
<i>Change</i>	-4.6%	-13.1%	-2.5%
EPS (RMB) - new	1.10	1.16	1.44
<i>Old</i>	1.15	1.33	1.48
<i>Change</i>	-4.3%	-12.9%	-2.7%

Source: Sunwah Kingsway Research estimates

We have revised our earnings and revenue estimates to reflect the following:

1. Larger than expected revenue contribution in the new trading business;
2. Revised e-bike demand assumptions per latest market demand
3. Lowered demand forecasts for low-speed EVs

Operating assumptions

Volumes in 'm units, ASP in RMB	2019F	2020F	2021F
E-bike battery sales volume	189.72	196.92	203.93
ASP	100.0	110.3	110.9
E-trike battery sales volume	66.24	69.55	72.37
ASP	104.0	115.9	116.5
Lead-acid EV battery sales volume	39.08	50.90	61.56
ASP	47.3	44.9	42.7
Li-ion EV battery sales volume (in MWh)	550	550	550
ASP	1,375	1,306	1,247

Source: Sunwah Kingsway Research estimates

Financial forecasts

Tianneng Power (819)

Years ended 31 Dec	2017A	2018A	2019F	2020F	2021F
Income Statement (RMB'm)					
Lead-acid batteries	23,761	28,743	28,209	32,598	34,219
Lithium based batteries	1,223	553	756	718	686
Others	1,920	5,256	12,923	13,547	14,718
Turnover	26,904	34,552	41,888	46,864	49,622
YoY%	25.2	28.4	21.2	11.9	5.9
COGS	(23,397)	(30,466)	(37,757)	(42,336)	(44,552)
Gross profit	3,507	4,086	4,132	4,528	5,071
Gross margin	13.0%	11.8%	9.9%	9.7%	10.2%
Other income	247	338	375	400	425
Other gain and losses	(147)	(66)	(60)	(60)	(60)
R&D exp	(883)	(1,114)	(1,173)	(1,312)	(1,389)
Selling & distribution	(675)	(890)	(984)	(1,101)	(1,166)
Admin	(449)	(564)	(616)	(689)	(729)
Other opex	(108)	(41)	(34)	(37)	(40)
Total opex	(2,115)	(2,609)	(2,807)	(3,140)	(3,325)
Operating profit (EBIT)	1,493	1,748	1,640	1,728	2,111
Operating margin	5.5%	5.1%	3.9%	3.7%	4.3%
Finance income	63	31	69	64	73
Finance costs	(153)	(178)	(178)	(181)	(181)
Associated companies & JVs	5	3	0	0	0
Pre-tax profit	1,408	1,605	1,531	1,610	2,003
Tax	(227)	(304)	(291)	(306)	(381)
Minority interests	(2)	(48)	0	0	0
Net profit	1,178	1,252	1,240	1,304	1,623
YoY%	37	6	(1)	5	24
Net margin	4.4%	3.6%	3.0%	2.8%	3.3%
EBITDA	1,842	2,142	2,087	2,209	2,625
EBITDA margin	6.8%	6.2%	5.0%	4.7%	5.3%
EPS (RMB)	1.0	1.1	1.1	1.2	1.4
YoY%	38	6	(1)	5	24
DPS (RMB)	37.0	38.0	40.0	40.0	50.0
Years ended 31 Dec	2017A	2018A	2019F	2020F	2021F
Cash Flow (RMB'm)					
EBITDA	1,842	2,142	2,087	2,209	2,625
Chg in working cap	623	275	(1,828)	(193)	(431)
Others	130	32	0	0	0
Operating cash	2,595	2,449	259	2,015	2,194
Interest paid	(220)	(190)	(291)	(306)	(381)
Tax	(172)	(183)	(178)	(181)	(181)
Net cash from operations	2,202	2,077	(210)	1,528	1,633
Net CAPEX	(424)	(612)	(593)	(585)	(585)
Change in non-demand deposits	508	(1,333)	340	0	0
Acqn/disposal of subs/assos/JVs	(13)	(139)	0	0	0
Interests received	63	31	69	64	73
Change in prepaid lease payments	(47)	(24)	(6)	(6)	(6)
Others	(142)	(166)	0	0	0
Investing cash	(54)	(2,242)	(190)	(527)	(518)
FCF	2,148	(165)	(400)	1,001	1,115
Net Issue/(repurchase) of shares	0	0	0	0	0
Debt securities issued/(redeemed)	(20)	0	(380)	0	0
Net change in bank loans	136	471	0	0	0
Dividends paid	(254)	(341)	(428)	(451)	(451)
Others	(15)	(4)	339	0	0
Financing cash	(154)	126	(469)	(451)	(451)
Net change in cash	1,994	(39)	(868)	550	665
Opening cash	1,878	3,872	3,834	2,966	3,516
Adjustment	0	0	0	0	0
Closing cash	3,872	3,834	2,966	3,516	4,181
CFPS (RMB)	1.770	(0.034)	(0.771)	0.489	0.590

Years ended 31 Dec	2017A	2018A	2019F	2020F	2021F
Ratios					
Gross margin (%)	13.0	11.8	9.9	9.7	10.2
Operating margin (%)	5.5	5.1	3.9	3.7	4.3
Net margin (%)	4.4	3.6	3.0	2.8	3.3
OPEX/Sales (%)	7.9	7.6	6.7	6.7	6.7
Payout ratio (%)	35.4	34.2	36.4	34.5	34.7
Effective tax (%)	16.2	18.9	19.0	19.0	19.0
Total debt/equity (%)	46	48.8	60	40	34
Net debt/equity (%)	48.5	39.7	19	31	35
Current ratio (x)	1.15	1.17	1.07	1.12	1.18
Quick ratio (x)	0.88	0.85	0.66	0.63	0.59
Inventory T/O days	31	32	5	8	10
Receivables T/O days	30	16	14	20	22
Payables T/O days	52	46	10	10	9
Cash conversion cycle (days)	9	2	9	18	23
Asset turnover (x)	1.92	2.08	2.53	2.37	2.14
Financial leverage (x)	2.87	3.00	3.57	3.33	3.24
EBIT margin (%)	5.55	5.06	3.92	3.69	4.25
Interest burden (x)	(0.10)	(0.10)	(0.11)	(0.10)	(0.09)
Tax burden (x)	(0.16)	(0.19)	(0.19)	(0.19)	(0.19)
Return on equity (%)	24.2	22.6	26.7	22.0	22.7
As at 31 Dec	2017A	2018A			
Balance Sheet (RMB'm)					
Fixed assets	4,013	4,281			
Prepaid lease payment	240	325			
Goodwill	0	0			
Associated companies & JVs	16	0			
Deferred tax assets	336	367			
Other non-current assets	226	297			
Non-current assets	4,832	5,270			
Inventories	2,133	3,130			
Receivables	2,392	1,250			
Prepaid lease pmt	7	9			
Non-demand deposits	728	1,068			
Cash & cash equiv.	3,872	3,834			
Other current assets	17	2,079			
Current assets	9,149	11,371			
Payables	6,427	7,256			
Am't due to related parties	62	26			
Bank loans	1,325	1,857			
Non-bank borrowings	4	379			
Tax payable	123	232			
Current liabilities	7,942	9,749			
Bank borrowings	130	69			
Non-bank borrowings	774	399			
Deferred tax liabilities	73	103			
Other non-current liabilities	0	0			
MI	185	233			
Non-current liabilities	1,162	803			
Total net assets	4,879	6,089			
Shareholder's equity	4,879	5,540			
Share capital	110	110			
Reserves	4,769	5,430			
Book NAV (RMB/share)	4.33	5.41			
Total debts	2,233	2,703			
Net cash/(debts)	2,367	2,200			
BVPS (RMB)	4.331	4.917			

Source: Company data, Sunwah Kingsway Research estimates

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