

Tianneng Power (819 HK)


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

Huatai Research

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Equity | China | Auto Parts

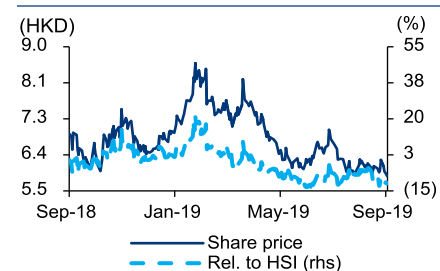
BUY | TP HKD12.00

Maintained

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Key data

Closing price (HKD as of 20 Sep)	5.86
Mkt cap (USDmn)	862
6m avg daily val (USDmn)	2.16
52wk price range (HKD)	8.60/5.86
BVPS (RMB)	4.92

Share performance

Source: FactSet

Takeaways from Huatai auto conference

Focus on margin improvement and new products

Tianneng Power (Tianneng) attended the Huatai auto conference in Shenzhen (19 September). Our key takeaways are: 1) Tianneng has maintained solid revenue growth after implementation of the new regulations for electric bikes, thanks to its leading position and outstanding R&D capability; 2) Tianneng will improve the profit margin of its conventional lead-acid battery business via production efficiency improvement, new technology and cost control; and 3) Tianneng will continue to invest in the development of lithium-ion batteries, in order to meet rising demand from consumers although the contribution remains limited. Maintain BUY.

Solid revenue growth continued in 2Q and 3Q

Starting from 15 April, new regulations on electric bikes have been implemented nationwide limiting the maximum size and body weight of electric bikes. Tianneng maintained solid revenue growth in 2Q19 and 3Q19 as the company took advantage of its outstanding R&D capability to launch lead-acid batteries compliant with the new regulations. The new regulations have also further propelled consolidation in the lead-acid battery market, as smaller players lack adequate R&D resources to upgrade their products. As a result, we believe leading players like Tianneng will be able to push up their market shares.

Improve the profitability of lead-acid battery business

The sale of lead-acid batteries is the core business of Tianneng, and accounts for c. 80% of total revenue. According to management, Tianneng will take measurements to improve the profitability of its conventional lead-acid battery business, including: 1) investment in production facility upgrade, which should improve production efficiency; 2) development of advanced lead-acid batteries with lower production cost; and 3) control material costs by leveraging its high bargaining power and its material trading and recycling businesses. Management believes that margin improvement of lead-acid battery business will drive the earnings growth of Tianneng in the next few years.

Investment in lithium-ion batteries

The lithium-ion battery has emerged as an alternative power source for electric bikes because of its compact size, lighter weight and potential for cost decline. The penetration of electric bikes powered by lithium ion batteries reached 12% in 2018, and will reach c. 50% by 2050, according to management estimates. Tianneng has been investing in the development of lithium-ion batteries for electric bikes, and will invest over RMB1.5bn in expanding its production capacities for lithium-ion batteries in the next few years. Meanwhile, Tianneng cooperates with leading electric bike manufacturers, which should enable it to secure more orders for lithium-ion batteries. Overall, management believes the rise of electric bikes powered by lithium-ion batteries is both a potential threat but also an opportunity for Tianneng.

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.

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