

Tianneng Power

2019 results beat; GM of lead-acid batteries rises on falling lead prices

Results Review

2019 results beat our expectations

2019 revenue rose 17.5% YoY to Rmb40.61bn, with lead-acid battery revenue falling 1.8% YoY to Rmb28.22bn; attributable net profit grew 34.3% YoY to Rmb1.682bn. The results beat our expectations. Gross margin of batteries expanded by 2.7ppt YoY to 15.39% on falling lead prices in 2019, boosting better-than-expected growth.

Trends to watch

Gross margin of lead-acid batteries recovers on lower lead prices; stable shipment leads to rapid earnings growth.

Distribution channels improve; operating efficiency continues rising.

Tianneng steadily gains industrial competitiveness in stable e-bike market.

See page 3 for additional details.

Financials and valuation

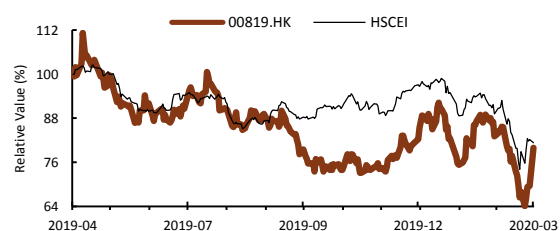
Given low lead prices, we raise our 2020 net profit forecast 16% to Rmb1.87bn and introduce a 2021 net profit forecast of Rmb2.07bn. The stock is trading at 2.9x 2020e and 2.6x 2021e P/E. With impacts of the epidemic, the industry's valuation has fallen. Therefore, we keep TP of HK\$8.00 (4.2x 2020e and 3.7x 2021e P/E) and maintain OUTPERFORM, offering 44.1% upside.

Risks

E-bike output falls short of our expectation; lead prices grow rapidly.

Maintain OUTPERFORM

Ticker	00819.HK
CICC investment rating	OUTPERFORM
Last close	HK\$ 5.55
CICC target	HK\$ 8.00
52wk price range	HK\$ 7.74~4.43
Market cap (bn)	HK\$6
Daily value (mn)	HK\$ 26.48
Shares outstanding (mn)	1,127
Free float (%)	100
Daily volume (mn sh)	5.17
Business sector	Electrical Equipment



(Rmb mn)	2018A	2019A	2020E	2021E
Revenue	34,552	40,614	43,040	48,575
(+/-)	28.4%	17.5%	6.0%	12.9%
Net profit	1,252	1,682	1,866	2,072
(+/-)	6.3%	34.3%	11.0%	11.0%
EPS	1.11	1.49	1.66	1.84
BPS	4.92	5.92	7.22	8.56
DPS	0.33	0.35	0.50	0.55
CPS	1.84	1.54	1.67	2.10
P/E	4.4	3.3	2.9	2.6
P/B	1.0	0.8	0.7	0.6
EV/EBITDA	1.9	1.5	1.1	0.7
Dividend yield	6.9%	7.0%	10.4%	11.5%
ROAA	8.2%	9.4%	9.5%	9.8%
ROAE	24.0%	27.6%	25.2%	23.3%

Source: Wind, Bloomberg, Corporate filings, CICC Research

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Financial summary

Financial statement (Rmb mn)	2018A	2019A	2020E	2021E	Financial ratios	2018A	2019A	2020E	2021E
Income statement					Growth ability				
Revenue	34,552	40,614	43,040	48,575	Revenue	28.4%	17.5%	6.0%	12.9%
COGS	-30,466	-35,926	-38,039	-43,134	Operating profit	14.4%	33.8%	3.6%	10.7%
Selling expenses	-890	-897	-904	-971	EBITDA	14.1%	25.3%	4.8%	10.8%
Administrative expenses	-564	-663	-646	-704	Net profit	6.3%	34.3%	11.0%	11.0%
Other ops income (expense)	-41	-16	-41	-41	Profitability				
Operating profit	1,780	2,381	2,466	2,730	Gross margin	11.8%	11.5%	11.6%	11.2%
Finance costs	-178	-255	-71	-71	Operating margin	5.2%	5.9%	5.7%	5.6%
Other income (expense)	3	0	0	0	EBITDA margin	6.3%	6.7%	6.6%	6.5%
Profit before income tax	1,605	2,126	2,394	2,658	Net margin	3.6%	4.1%	4.3%	4.3%
Income tax	-304	-400	-479	-532	Liquidity				
Minority interest	-48	-44	-49	-54	Current ratio	1.10	1.15	1.24	1.32
Net profit	1,252	1,682	1,866	2,072	Quick ratio	0.80	0.82	0.90	0.95
EBITDA	2,174	2,724	2,853	3,162	Cash ratio	0.37	0.38	0.44	0.51
Recurrent net income	1,252	1,682	1,866	2,072	Liabilities / assets	65.3%	61.9%	56.6%	54.1%
Balance sheet					Net debt / equity	net cash	net cash	net cash	net cash
Cash and bank balances	3,834	4,154	4,707	5,686	Return				
Trade and bill receivables	1,259	1,514	1,469	1,658	RoA	8.2%	9.4%	9.5%	9.8%
Inventories	3,130	3,740	3,637	4,124	RoE	24.0%	27.6%	25.2%	23.3%
Other current assets	3,148	3,357	3,361	3,285	Per-share data				
Total current assets	11,371	12,765	13,174	14,754	EPS (Rmb)	1.11	1.49	1.66	1.84
Fixed assets and CIP	4,114	4,783	5,919	6,387	BPS (Rmb)	4.92	5.92	7.22	8.56
Intangible assets and others	1,157	1,582	988	988	DPS (Rmb)	0.33	0.35	0.50	0.55
Total non-current assets	5,270	6,365	6,907	7,375	Cash flow per share (Rmb)	1.84	1.54	1.67	2.10
Total assets	16,641	19,130	20,082	22,129	Valuation				
Short-term borrowings	2,235	1,659	1,659	1,659	P/E	4.4	3.3	2.9	2.6
Trade and bill payables	4,618	4,666	4,169	4,727	P/B	1.0	0.8	0.7	0.6
Other current liabilities	3,445	4,747	4,773	4,804	EV/EBITDA	1.9	1.5	1.1	0.7
Total current liabilities	10,298	11,072	10,601	11,190	Dividend yield	6.9%	7.0%	10.4%	11.5%
Long-term borrowings	69	253	253	253	Cash flow statement				
Other non-current liabilities	501	519	519	519	Pretax profit	1,252	1,682	1,866	2,072
Total non-current liabilities	570	771	771	771	Depreciation & amortization	394	342	387	432
Total liabilities	10,868	11,844	11,372	11,962	Change in working capital	473	-134	-327	-88
Share capital	110	110	110	110	Others	-42	-151	-49	-54
Retained profit	5,430	6,555	8,026	9,539	Cash flow from operations	2,077	1,739	1,878	2,362
Shareholders' equity	5,540	6,665	8,136	9,649	Capital expenditure	-663	-1,118	-900	-900
Minority interest	233	622	573	519	Others	-1,453	234	0	0
Total liabilities & equity	16,641	19,130	20,082	22,129	Cash flow from investing	-2,116	-884	-900	-900
Cash flow statement					Equity financing	0	0	0	0
Pretax profit	1,252	1,682	1,866	2,072	Bank borrowings	474	-791	0	0
Depreciation & amortization	394	342	387	432	Others	-474	256	-425	-483
Change in working capital	473	-134	-327	-88	Cash flow from financing	0	-534	-425	-483
Others	-42	-151	-49	-54	Foreign exchange gain (loss)	0	0	0	0
Cash flow from operations	2,077	1,739	1,878	2,362	Net changes in cash	-39	320	553	979
Capital expenditure	-663	-1,118	-900	-900					
Others	-1,453	234	0	0					
Cash flow from investing	-2,116	-884	-900	-900					
Equity financing	0	0	0	0					
Bank borrowings	474	-791	0	0					
Others	-474	256	-425	-483					
Cash flow from financing	0	-534	-425	-483					
Foreign exchange gain (loss)	0	0	0	0					
Net changes in cash	-39	320	553	979					

Source: Corporate filings, CICC Research

Company description

Tianneng Power International Ltd. is one the largest EV battery makers in China. The company focuses on R&D, production and sales of batteries for EVs, and batteries for wind and solar energy storage, under its own brand TIANNENG. It also provides services of recycling for used batteries. According to an announcement by the China Light Industry Association, Tianneng ranked No.1 in China's battery industry in 2011.



Trends to watch in full

Gross margin of lead-acid batteries recovers on lower lead prices; stable shipment leads to rapid earnings growth. In 2019, lead prices dropped 12.7% YoY to Rmb16,700, resulting in lower costs and selling prices for lead-acid batteries. Gross margin of batteries increased to 15.4% thanks to the relatively stable profit of a single battery. Lead-acid battery shipment rose 11% YoY in 2019 to 268mn units. Revenue from lead-acid batteries declined slightly, but earnings recovered markedly.

Distribution channels improves; operating efficiency continues rising. The firm has over 3,000 partners and 400,000 point of sales nationwide, boasting a sales network with strong control and high response. In 2019, turnover days of bills and accounts receivable further decreased, and expense ratio fell by 0.34ppt YoY to 4.47%. We believe the firm's share will continue rising in the aftermarket thanks to its channel and management advantages.

Tianneng steadily gains industrial competitiveness in stable e-bike market. Domestic e-bike output rose 6% YoY in 2018 and 11% YoY in 1-11M19, driving e-bike ownership to increase steadily to 290mn units at end-2019. As a result, the pre-installation market grew steadily, and the aftermarket remained stable for lead-acid batteries. As prices of lead-acid batteries declined on falling lead prices, we expect the proportion of lead-acid battery installation to remain stable in the pre-installation market, with limited short-term impact from lithium-ion batteries. The firm's shipment rose 11% YoY in 2019, higher than growth of the total demand for batteries, enhancing its competitiveness steadily. We expect positives from lead prices to remain in the near term and the lead-acid battery business to maintain growth. We suggest watching the firm's spin-off and lithium-ion battery business in the medium-to-long term.



Figure 1: Results review

Rmb mn	2018A	2019A	yoy	2019E	2019A vs. CICC estimate	2020E	YoY
Revenue	34,552.1	40,613.6	17.5%	44,856.0	-9.5%	43,039.5	6.0%
Cost of sales	30,466.4	35,925.8	17.9%	40,067.0	-10.3%	38,038.8	5.9%
Gross profit	4,085.7	4,687.8	14.7%	4,789.0	-2.1%	5,000.8	6.7%
Net profit	1,252.4	1,681.8	34.3%	1,416.0	18.8%	1,866.4	11.0%
Gross margin	11.8%	11.5%	-0.3ppt	10.7%	0.9ppt	11.6%	0.1ppt
Net profit margin	3.6%	4.1%	0.5ppt	3.2%	1ppt	4.3%	0.2ppt

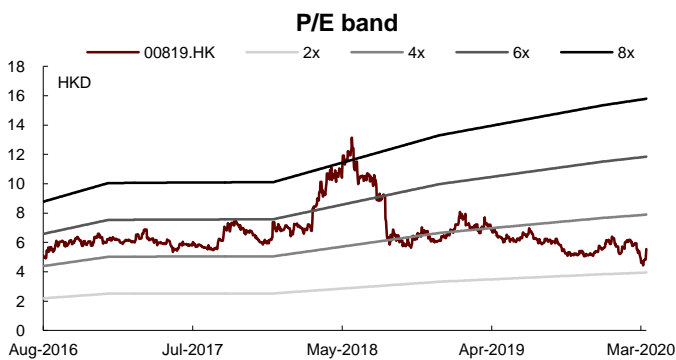
Source: Wind Info, Corporate filings, CICC Research

Figure 2: Earnings forecast revisions

Income Statement (Rmb mn)	2020E			2021E
	Before	After	Change	Forecast
Revenue	48,989	43,040	-12%	48,575
Cost of sales	-44,108	-38,039	-14%	-43,134
Gross profit	4,881	5,001	2%	5,441
Operating profit	2,194	2,466	12%	2,730
Net profit	1,611	1,866	16%	2,072

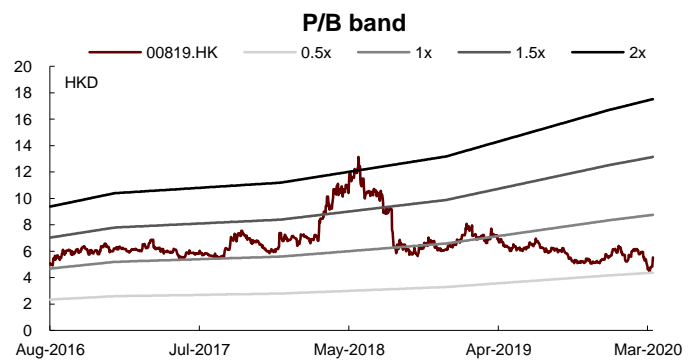
Source: Wind Info, Corporate filings, CICC Research

Figure 3: Historical P/E



Source: Wind Info, Bloomberg, CICC Research

Figure 4: Historical P/B



Source: Wind Info, Bloomberg, CICC Research

Figure 5: Valuations of comparable companies

Ticker	Company	Reporting currency	Mkt cap (USD mn)	Net profit (Reporting CY mn)		P/E	
				2020E	2021E	2020E	2021E
601311.SH	CAMEL GROUP*	CNY	1,033	714	817	10.3	9.0
00819.HK	TIANNENG POWER*	CNY	807	1,866	2,072	2.9	2.6

Note: CICC covers the companies marked * and we use our estimates, and time weighted average forecasts are used; as of market close on March 30, 2020 (Beijing time)

Source: Wind Info, Bloomberg, corporate filings, CICC Research



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