

Tianneng Power

1H21 results slightly miss; earnings under pressure amid business recovery


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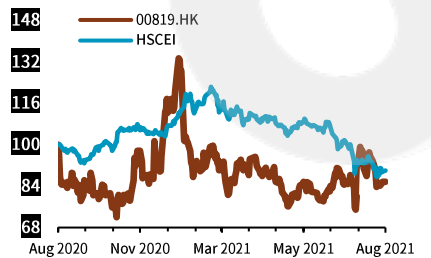
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Ticker	Rating	CICC target
00819.HK	→ OUTPERFORM	HK\$17.00

OUTPERFORM

Ticker	00819.HK
Last close	HK\$13.84
52wk price range	HK\$21.87-11.56
Market cap (bn)	HK\$16

Y-axis: Relative Value (%)



(Rmb mn)	2019A	2020A	2021E	2022E
Revenue	40,614	53,525	64,499	70,229
(+/-)	17.5%	31.8%	20.5%	8.9%
Net profit	1,682	2,477	2,204	2,864
(+/-)	34.3%	47.3%	-11.0%	30.0%
Recurrent net income	1,682	2,477	2,204	2,864
(+/-)	34.3%	47.3%	-11.0%	30.0%
EPS	1.49	2.20	1.96	2.54
BPS	5.92	7.77	9.39	11.34
DPS	0.36	0.34	0.59	0.76
CPS	1.54	1.87	2.57	3.03
P/E	8.3	5.3	6.1	4.7
P/B	2.1	1.5	1.3	1.0
EV/EBITDA	4.3	3.0	2.8	1.7
Dividend yield	2.9%	2.9%	4.9%	6.4%
ROAA	9.4%	11.7%	9.1%	10.7%
ROAE	27.6%	32.1%	22.8%	24.5%

Source: Wind, Bloomberg, corporate filings, CICC Research

For analyst certification and other

Results Review

1H21 results slightly miss our expectations

Tianneng Power announced its 1H21 results: Revenue grew 60.3% YoY to Rmb36.28bn; net profit attributable to shareholders dropped 21.0% YoY to Rmb661mn; and adjusted EBIT fell 33.6% YoY to Rmb584mn, slightly missing our expectations on declining earnings caused by upstream raw material price hikes. [单击此处输入文字。](#)

Trends to watch

All business segments showed robust recovery in 1H21. Tianneng Power recorded strong growth across all segments in 1H21 thanks to the recovery in downstream demand and a low base in 1H20. Overall, the firm's manufacturing business booked revenue of Rmb14.79bn (+18.9% YoY), and revenue from trading and other businesses totaled Rmb21.49bn (+110.8% YoY). By segment: 1) Revenue from lead-acid battery business grew 12.7% YoY to Rmb13.12bn. Shipments of lead-acid batteries for two-wheeled and three-wheeled electric vehicles rose 14.9% YoY to 36.2GWh amid robust downstream demand in 1H21, with revenue rising 12.8% YoY to Rmb11.99bn. Revenue from the special battery (start-stop battery and energy-storage battery) business jumped 84.4% YoY to Rmb449mn thanks to the ramp-up of new orders and boom in infrastructure construction. 2) Shipments of lithium-ion batteries increased 16.9% YoY to 0.72GWh (most of which were ternary lithium-ion batteries), with revenue rising 5.2% YoY to Rmb424mn. 3) Revenue from the battery recycling business surged 213.0% YoY to Rmb1.24bn. Currently, the firm has recycling capacities of 0.7mnt/yr for used lead-acid batteries (equivalent to about 0.4mnt secondary lead) and 7,000t/yr for used lithium-ion batteries.

Earnings face downward pressure due to rising raw material prices. In 1H21, lead prices rose 4.8% YoY, and prices of other raw materials such as copper and tin increased 30–50% YoY. We estimate that the prices of lead-acid batteries for two-wheeled and three-wheeled electric vehicles remained flat with 2020, with gross margin falling 4.3ppts to 13.7%. The firm has signed contracts with downstream clients to adjust product prices along with changes in lead prices. However, as downstream clients' earnings came under pressure in 1H21 affected by

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upstream price hikes, the firm shall bear part of the cost pressure in order to maintain its market share and long-term strategic partnerships with clients, in our view. As a result, share of the firm's lead-acid batteries in two-wheeled electric vehicle market stayed high at 40–50% in 1H21. Thanks to capacity expansion, improved profitability of the firm's secondary lead business partially offset the earnings decline of its lead-acid battery business. In 1H21, the firm's blended gross margin dropped 4ppt YoY to 5.3%.

Enhanced cost control to improve management efficiency. In 1H21, the firm's selling expense ratio fell 0.5ppt YoY to 1.1%; G&A expense ratio dropped 0.3ppt YoY to 1.2%; and financial expense ratio declined 0.1ppt YoY to 0.3%. The firm has stepped up efforts in cost control amid rising raw material prices.

Financials and valuation

Given the raw material price hikes, we lower our 2021 net profit forecast 16% to Rmb2.2bn, and leave our 2022 earnings forecast unchanged at Rmb2.86bn. The stock is trading at 6.1x 2021e and 4.7x 2022e P/E. We maintain OUTPERFORM and cut our TP 15% to HK\$17, implying 7.2x 2021e and 5.6x 2022e P/E and offering 22.8% upside.

Risks

Domestic sales volume of two-wheeled and three-wheeled electric vehicles disappoints; sharper-than-expected price increases in lead and other raw materials.

Financial summary

Financial statement (Rmb mn)	2019A	2020A	2021E	2022E	Financial ratios	2019A	2020A	2021E	2022E					
Income statement					Growth ability									
Revenue	40,614	53,525	64,499	70,229	Revenue	17.5%	31.8%	20.5%	8.9%					
COGS	-35,926	-48,033	-58,101	-62,504	Operating profit	33.8%	32.8%	-8.3%	28.5%					
Selling expenses	-897	-938	-1,290	-1,405	EBITDA	32.1%	26.9%	-3.6%	25.4%					
Administrative expenses	-663	-791	-935	-1,053	Net profit	34.3%	47.3%	-11.0%	30.0%					
Other ops income (expense)	-16	-26	-41	-41	Recurrent net income	34.3%	47.3%	-11.0%	30.0%					
Operating profit	2,381	3,163	2,899	3,726	Profitability									
Finance costs	-255	-212	-112	-105	Gross margin	11.5%	10.3%	9.9%	11.0%					
Other income (expense)	0	-1	-1	-1	Operating margin	5.9%	5.9%	4.5%	5.3%					
Profit before income tax	2,126	2,950	2,785	3,620	EBITDA margin	7.0%	6.8%	5.4%	6.3%					
Income tax	-400	-445	-557	-724	Net margin	4.1%	4.6%	3.4%	4.1%					
Minority interest	-44	-28	-25	-32	Recurrent net margin	4.1%	4.6%	3.4%	4.1%					
Net profit	1,682	2,477	2,204	2,864	Liquidity									
EBITDA	2,862	3,633	3,501	4,391	Current ratio	1.15	1.26	1.37	1.50					
Recurrent net income	1,682	2,477	2,204	2,864	Quick ratio	0.82	0.90	0.99	1.10					
Balance sheet					Cash ratio	0.38	0.36	0.46	0.59					
Cash and bank balances	4,154	4,456	5,923	7,910	Liabilities / assets	61.9%	59.2%	55.8%	52.1%					
Trade and bill receivables	1,514	2,349	2,328	2,534	Net debt / equity	net cash	net cash	net cash	net cash					
Inventories	3,740	4,486	4,975	5,352	Return									
Other current assets	3,357	4,383	4,563	4,223	RoA	9.4%	11.7%	9.1%	10.7%					
Total current assets	12,765	15,674	17,789	20,019	RoE	27.6%	32.1%	22.8%	24.5%					
Fixed assets and CIP	4,783	5,455	5,776	6,036	Per-share data									
Intangible assets and others	1,582	2,071	1,898	1,972	EPS (Rmb)	1.49	2.20	1.96	2.54					
Total non-current assets	6,365	7,526	7,673	8,008	BPS (Rmb)	5.92	7.77	9.39	11.34					
Total assets	19,130	23,200	25,462	28,027	DPS (Rmb)	0.36	0.34	0.59	0.76					
Short-term borrowings	1,659	919	859	802	Cash flow per share (Rmb)	1.54	1.87	2.57	3.03					
Trade and bill payables	4,666	5,599	6,208	6,679	Valuation									
Other current liabilities	4,747	5,914	5,879	5,907	P/E	8.3	5.3	6.1	4.7					
Total current liabilities	11,072	12,432	12,946	13,388	P/B	2.1	1.5	1.3	1.0					
Long-term borrowings	253	719	667	619	EV/EBITDA	4.3	3.0	2.8	1.7					
Other non-current liabilities	519	590	590	590	Dividend yield	2.9%	2.9%	4.9%	6.4%					
Total non-current liabilities	771	1,309	1,257	1,209										
Total liabilities	11,844	13,741	14,203	14,597										
Share capital	110	110	110	110										
Retained profit	6,555	8,636	10,461	12,664										
Shareholders' equity	6,665	8,746	10,571	12,774										
Minority interest	622	713	689	657										
Total liabilities & equity	19,130	23,200	25,462	28,027										
Cash flow statement														
Pretax profit	1,682	2,477	2,204	2,864										
Depreciation & amortization	481	470	603	665										
Change in working capital	-134	-683	110	-86										
Others	-290	-163	-25	-32										
Cash flow from operations	1,739	2,102	2,892	3,411										
Capital expenditure	-1,803	-1,405	-1,000	-1,000										
Others	920	306	0	0										
Cash flow from investing	-884	-1,099	-1,000	-1,000										
Equity financing	0	0	0	0										
Bank borrowings	-350	-189	-112	-105										
Others	-185	-512	-312	-320										
Cash flow from financing	-534	-701	-425	-425										
Foreign exchange gain (loss)	0	0	0	0										
Net changes in cash	320	302	1,467	1,986										

Source: Corporate filings, CICC Research

Company description

Tianneng Power International Ltd. is one the largest lead-acid battery makers in China. It focuses on R&D, production, and sales of batteries for bikes and for wind and solar energy storage under its own brand TIANNENG. It also provides recycling services for used batteries. In recent years, Tianneng has developed lithium battery business for bikes. By 2020, it has accounted for more than 40% of the domestic two-wheeled lead-acid battery market, and 15% of the two-wheeled lithium battery market.

Please read carefully the important disclosures at the end of this report

Figure 1: Interim results review

(Rmb mn)	1H18A	2H18A	1H19A	2H19A	1H20A	2H20A	1H21A	YoY	HoH	2021E	1H of FY
Revenue	14,507	20,045	20,087	20,527	22,635	30,890	36,276	60.3%	17.4%	64,499	56.2%
Gross profit	1,709	2,377	1,823	2,865	2,116	3,376	1,934	-8.6%	-42.7%	6,398	30.2%
Operating profit	664	941	691	1,435	1,111	1,839	958	-13.8%	-47.9%	2,899	33.1%
Net profit	513	739	564	1,172	837	1,640	661	-21.0%	-59.7%	2,204	30.0%
Fully-diluted EPS (Rmb)	0.46	0.66	0.50	1.04	0.74	1.46	0.59	-21.0%	-59.7%	1.96	30.0%
Gross margin	11.8%	11.9%	9.1%	14.0%	9.3%	10.9%	5.3%	-4ppt	-5.6ppt	9.9%	
Operating margin	4.6%	4.7%	3.4%	7.0%	4.9%	6.0%	2.6%	-2.3ppt	-3.3ppt	4.5%	
Net margin	3.5%	3.7%	2.8%	5.7%	3.7%	5.3%	1.8%	-1.9ppt	-3.5ppt	3.4%	

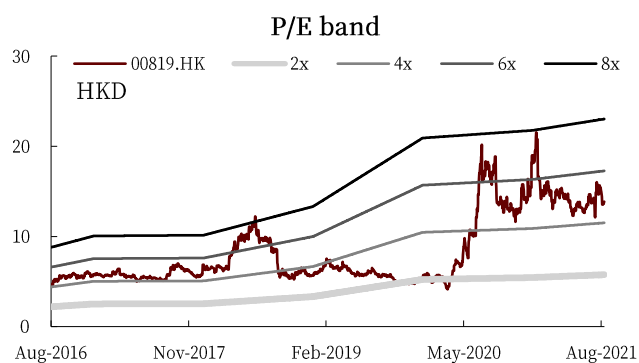
Source: Corporate filings, Wind Info, CICC Research

Figure 2: Earnings forecast revisions

Income statement (Rmb mn)	2021E			2022E
	Before	After	Change	
Revenue	64,499	64,499	0%	70,229
Cost of sales	-57,561	-58,101	1%	-62,504
Gross profit	6,938	6,398	-8%	7,725
Operating profit	3,438	2,899	-16%	3,726
Net profit	2,631	2,204	-16%	2,864

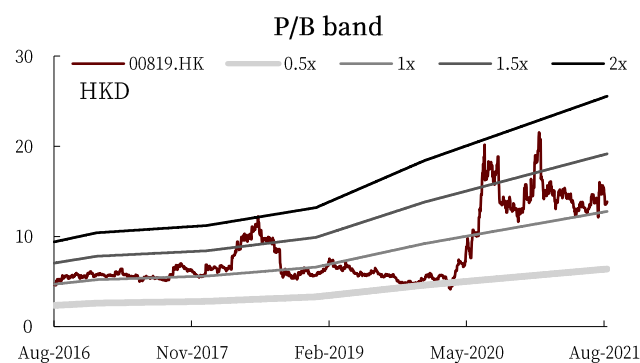
Source: Corporate filings, Wind Info, CICC Research

Figure 3: P/E band



Source: Wind Info, Bloomberg, CICC Research

Figure 4: P/B band



Source: Wind Info, Bloomberg, CICC Research

Figure 5: Valuations of comparable companies

Ticker	Company	Reporting currency	Mkt cap(USD mn)	NET PROFIT (Report CY mn)		P/E	
				2021E	2022E	2021E	2022E
601311.SH	Camel Group*	CNY	2,587	1,079	1,353	15.5	12.4
300068.SZ	NARADA POWER	CNY	1,705	574	731	19.2	15.0
00819.HK	Tianneng Power*	CNY	2,001	2,204	2,864	6.1	4.7
00951.HK	Chaowei Power*	CNY	415	673	772	4.1	3.5

Note: CICC covers the companies marked * and we use our estimates; the others represent market consensus

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



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