

## Tianneng Power

# Rising raw material prices weigh on 2021 earnings; results miss our forecast


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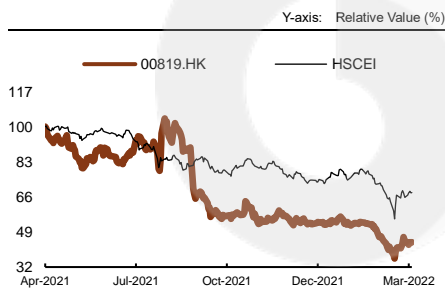
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### Maintain OUTPERFORM

Ticker	Rating	Target Price
00819.HK	→ OUTPERFORM	HK\$9.00

Ticker	00819.HK
Last close	HK\$6.77
52wk price range	HK\$16.42-5.50
Market cap (bn)	HK\$8



(Rmb mn)	2020A	2021A	2022E	2023E
Revenue	53,525	85,617	93,686	102,916
(+/-)	31.8%	60.0%	9.4%	9.9%
Net profit	2,477	1,301	1,886	2,107
(+/-)	47.3%	-47.5%	44.9%	11.8%
Recurrent net income	2,477	1,301	1,886	2,107
(+/-)	47.3%	-47.5%	44.9%	11.8%
EPS	2.20	1.16	1.67	1.87
BPS	7.77	11.53	12.88	14.28
DPS	0.33	0.32	0.47	0.53
CPS	1.87	1.87	3.65	2.69
P/E	2.6	4.8	3.5	3.1
P/B	0.7	0.5	0.5	0.4
EV/EBITDA	1.2	1.6	0.6	0.3
Dividend yield	5.9%	5.9%	8.1%	9.0%
ROAA	11.7%	4.7%	5.6%	5.8%
ROAE	32.1%	12.0%	13.7%	13.8%

Source: Wind, Bloomberg, corporate filings, CICC Research

### Results Review

#### 2021 results miss our forecast

Tianneng Power announced its 2021 results: Revenue rose 60.0% YoY to Rmb85.62bn, while net profit attributable to shareholders declined 47.5% YoY to Rmb1.30bn. In 2H21, revenue rose 58.9% YoY and 35.1% QoQ to Rmb49.20bn, and attributable net profit dropped 61% YoY and 3.3% QoQ to Rmb640mn. Its 2021 results missed our forecasts due to rising prices of accessories.

#### Trends to watch

**Traditional lead-acid battery business grows steadily; battery recycling business a bright spot.** In 2021, revenue from the manufacturing business rose 18.8% YoY to Rmb37.92bn, and that from trading and other businesses totaled Rmb47.70bn, up 60.0% YoY.

- ▶ Revenue from lead-acid batteries grew 12.3% YoY to Rmb31.82bn. Shipments of lead-acid batteries for electric two-wheeled and three-wheeled vehicles rose 10.8% YoY to 344mn units, with the market share remaining at 45–50%. Thanks to rising product prices, revenue from lead-acid batteries for electric two-wheeled and three-wheeled vehicles rose 14.1% YoY to Rmb29.15bn. Revenue from the start-stop battery and energy-storage battery business jumped 185.6% YoY to Rmb514mn. Revenue from batteries for special vehicles rose 12.3% YoY to Rmb592mn.
- ▶ Revenue from lithium-ion batteries slid 6.8% YoY to Rmb987mn, mainly due to weaker demand for bicycle sharing and higher costs that resulted in a decline in orders received.
- ▶ Revenue from the battery recycling business surged 121.8% YoY to Rmb2.68bn thanks to large-scale capacity expansion and a higher rate of external supply. At end-2021, the firm had recycling capacities of 0.7mnt/yr for used lead-acid batteries and 7,000t/yr for used lithium-ion batteries, which will likely increase to 1mnt/yr and 0.1mnt/yr in the future, according to the company. We expect capacity expansion to fuel high growth of the firm's recycling business.

**GM falls due to rising raw material prices; Tianneng Power passes on higher costs to customers; GM to resume growth in 2022.** Overall GM of the manufacturing business declined 5ppt YoY to 12.1% due to higher

raw material prices. Specifically, GM of lead-acid batteries dropped 4.4ppt YoY to 13.3% in 2021, mainly dragged by higher prices of raw materials such as sulfuric acid and plastic shells. We estimate the firm's GM dropped 4.4ppt YoY to 13.3% in 2021. Meanwhile, higher prices of raw materials such as lithium and cobalt also weighed on the GM of lithium-ion batteries. However, in 4Q21, the firm passed on higher costs to downstream lead-acid battery customers and focused on high-end lithium-ion battery customers. We expect its overall GM to resume growth in 2022.

**Expanding lithium-ion battery capacity and energy-storage battery.**

As of end-2021, the firm's lithium-ion battery capacity stood at about 3GWh. It plans to increase capacity by 10GWh in the next 2–3 years, which might mainly be used for its energy-storage battery business. The firm has developed and mass-produced 180Ah air-cooling energy-storage battery boxes and 280Ah liquid-cooling energy-storage battery boxes. It is winning clients from home and abroad. Given strong demand worldwide, we believe its energy-storage battery business will serve as a new growth engine for the company.

**Stepped-up expense control pays off, as evidenced by lower costs and improved efficiency.** In 2021, the firm's selling, G&A, and financial expense ratios declined 0.54ppt, 0.32ppt, and 0.10ppt YoY to 1.21%, 1.16%, and 0.30%.

**Financials and valuation**

Considering slower growth in downstream demand for two-wheeled vehicles and rising raw material prices, we lower our 2022 earnings forecast 34% to Rmb1.89bn, and introduce our 2023 earnings forecast of Rmb2.11bn. We cut TP 47% to HK\$9.0, implying 4.4x 2022e and 3.9x 2023e P/E, offering 32.9% upside. The stock is trading at 3.5x 2022e and 3.1x 2023e P/E. Maintain OUTPERFORM.

**Risks**

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

## Financial summary

Financial statement (Rmb mn)	2020A	2021A	2022E	2023E	Financial ratios	2020A	2021A	2022E	2023E					
<b>Income statement</b>					<b>Growth ability</b>									
Revenue	53,525	85,617	93,686	102,916	Revenue	31.8%	60.0%	9.4%	9.9%					
COGS	-48,033	-80,995	-87,846	-96,476	Operating profit	32.8%	-33.7%	43.9%	8.6%					
Selling expenses	-938	-1,037	-1,021	-1,122	EBITDA	29.3%	-27.8%	38.8%	8.6%					
Administrative expenses	-791	-989	-974	-1,070	Net profit	47.3%	-47.5%	44.9%	11.8%					
Other ops income (expense)	10	1	0	0	Recurrent net income	47.3%	-47.5%	44.9%	11.8%					
Operating profit	3,163	2,095	3,015	3,275	<b>Profitability</b>									
Finance costs	-212	-254	-351	-298	Gross margin	10.3%	5.4%	6.2%	6.3%					
Other income (expense)	-1	-3	0	0	Operating margin	5.9%	2.4%	3.2%	3.2%					
Profit before income tax	2,950	1,838	2,664	2,977	EBITDA margin	6.8%	3.1%	3.9%	3.8%					
Income tax	-445	-286	-414	-463	Net margin	4.6%	1.5%	2.0%	2.0%					
Minority interest	-28	-251	-364	-406	Recurrent net margin	4.6%	1.5%	2.0%	2.0%					
Net profit	2,477	1,301	1,886	2,107	<b>Liquidity</b>									
EBITDA	3,633	2,622	3,640	3,952	Current ratio	1.26	1.51	1.60	1.68					
Recurrent net income	2,477	1,301	1,886	2,107	Quick ratio	0.90	1.22	1.29	1.35					
<b>Balance sheet</b>					Cash ratio	0.36	0.57	0.71	0.76					
Cash and bank balances	4,455	8,698	10,939	12,143	Liabilities / assets	59.2%	53.0%	50.3%	48.5%					
Trade and bill receivables	2,363	3,402	3,154	3,465	Net debt / equity	net cash	net cash	net cash	net cash					
Inventories	4,486	4,485	4,865	5,343	<b>Return</b>									
Other current assets	4,370	6,502	5,748	6,039	RoA	11.7%	4.7%	5.6%	5.8%					
Total current assets	15,674	23,087	24,706	26,990	RoE	32.1%	12.0%	13.7%	13.8%					
Fixed assets and CIP	5,455	6,504	6,779	7,002	<b>Per-share data</b>									
Intangible assets and others	2,071	3,148	3,248	3,348	EPS (Rmb)	2.20	1.16	1.67	1.87					
Total non-current assets	7,526	9,652	10,027	10,350	BPS (Rmb)	7.77	11.53	12.88	14.28					
Total assets	23,200	32,739	34,733	37,340	DPS (Rmb)	0.33	0.32	0.47	0.53					
Short-term borrowings	919	2,875	2,375	2,075	Cash flow per share (Rmb)	1.87	1.87	3.65	2.69					
Trade and bill payables	4,965	6,282	6,283	6,579	<b>Valuation</b>									
Other current liabilities	6,548	6,130	6,739	7,367	P/E	2.6	4.8	3.5	3.1					
Total current liabilities	12,432	15,287	15,397	16,020	P/B	0.7	0.5	0.5	0.4					
Long-term borrowings	719	1,409	1,409	1,409	EV/EBITDA	1.2	1.6	0.6	0.3					
Other non-current liabilities	590	666	666	666	Dividend yield	5.9%	5.9%	8.1%	9.0%					
Total non-current liabilities	1,309	2,075	2,075	2,075										
Total liabilities	13,741	17,362	17,472	18,095										
Share capital	110	110	110	110										
Retained profit	8,636	12,871	14,391	15,969										
Shareholders' equity	8,746	12,981	14,501	16,079										
Minority interest	713	2,396	2,760	3,166										
Total liabilities & equity	23,200	32,739	34,733	37,340										
<b>Cash flow statement</b>														
Pretax profit	2,477	1,301	1,886	2,107										
Depreciation & amortization	470	526	625	677										
Change in working capital	-91	-2,102	1,233	-157										
Others	-834	2,289	364	406										
Cash flow from operations	2,102	2,107	4,107	3,034										
Capital expenditure	-1,304	-2,356	-1,000	-1,000										
Others	205	-2,522	0	0										
Cash flow from investing	-1,099	-4,878	-1,000	-1,000										
Equity financing	0	0	0	0										
Bank borrowings	-304	2,630	-500	-300										
Others	1,307	-5,401	3,607	2,334										
Cash flow from financing	1,003	-2,771	3,107	2,034										
Foreign exchange gain (loss)	0	0	0	0										
Net changes in cash	302	4,240	2,241	1,204										

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 2021, it has accounted for more than 45-50% of the domestic two-wheeled lead-acid battery market, and 14-15% of the two-wheeled lithium battery market.

Figure 1: Annual results review

(Rmb mn)	2018A	2019A	2020	2021A	2021A YoY	2021E	vs. CICC estimate	2022E	2022E YoY
Revenue	34,552	40,614	53,525	85,617	60.0%	64,499	32.7%	93,686	9.4%
Gross profit	4,086	4,688	5,492	4,622	-15.8%	6,398	-27.8%	5,840	26.3%
Operating profit	1,780	2,381	3,163	2,095	-33.7%	2,899	-27.7%	3,015	43.9%
Net profit	1,253	1,682	2,477	1,301	-47.5%	2,204	-41.0%	1,886	44.9%
<b>Fully-diluted EPS (Rmb)</b>	<b>1.11</b>	<b>1.49</b>	<b>2.20</b>	<b>1.16</b>	<b>-47.5%</b>	<b>1.96</b>	<b>-41.0%</b>	<b>1.67</b>	<b>44.9%</b>
Gross margin	11.8%	11.5%	10.3%	5.4%	-4.9ppt	9.9%	-4.5ppt	6.2%	0.8ppt
Operating margin	5.2%	5.9%	5.9%	2.4%	-3.5ppt	4.5%	-2ppt	3.2%	0.8ppt
Net margin	3.6%	4.1%	4.6%	1.5%	-3.1ppt	3.4%	-1.9ppt	2.0%	0.5ppt

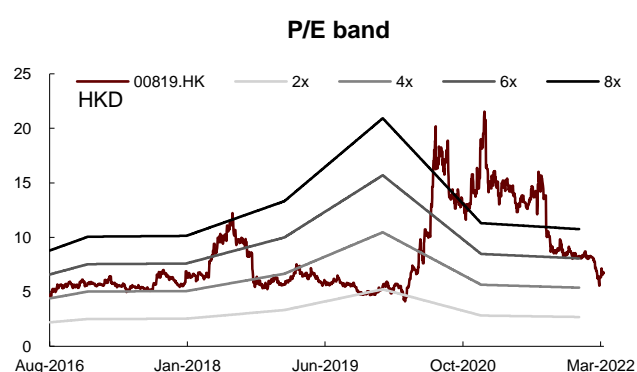
Source: Corporate filings, Wind Info, CICC Research

Figure 2: Earnings forecast revisions

Income statement (Rmb mn)	2022E			2023E
	Before	After	Change	
Revenue	70,229	93,686	33%	102,916
Cost of sales	-62,504	-87,846	41%	-96,476
Gross profit	7,725	5,840	-24%	6,440
Operating profit	3,726	3,015	-19%	3,275
<b>Net profit</b>	<b>2,864</b>	<b>1,886</b>	<b>-34%</b>	<b>2,107</b>

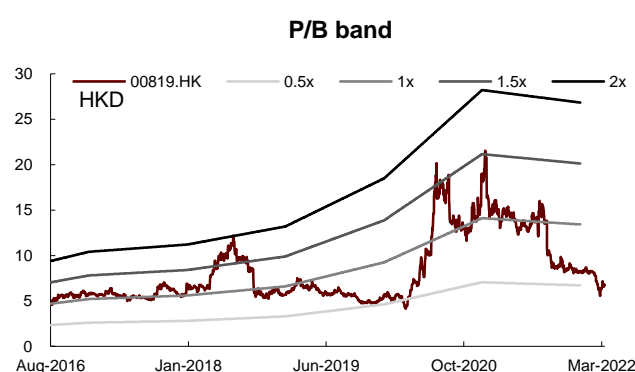
Source: Corporate filings, Wind Info, CICC Research

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 (RMB mn)	NET PROFIT (Report CY mn)		P/E		Last price
				2022E	2023E	2022E	2023E	
601311.SH	Camel Group*	CNY	13,210	1,353	1,624	9.8	8.1	11.26
00819.HK	Tianneng Power*	CNY	6,170	1,886	2,107	3.5	3.1	6.77
00951.HK	Chilwee Power*	CNY	1,528	772	786	2.0	1.9	1.71

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

002580.SZ as of market close on March 31, 2022 (Beijing time); 601311.SH, 300068.SZ as of market close on April 1, 2022 (Beijing time); H-shares as of market close on April 1, 2022 (Beijing time)

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





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