

Asia Power Corp

PRICE S\$0.145
Long term Buy
Key Stock Statistics

NRA EPS Est. 2005 (cts)	1.8
P/E on NRA Est. 2005	8.0
NRA EPS Est. 2006 (cts)	2.0
P/E on NRA Est. 2006	7.4
Dividend/Share (cts)	0.7
Dividend yield (%)	4.8%
Shs. Outstg. (m)	351.2
Market capitalisation (\$m)	50.9
Avg. daily vol (m)	0.455
Book Value/Share (cts)	16.4
Shareholders:	
Wong Sow Voon	28.4%
Global Financial Holdings	26.3%
Peter Chang Pan	12.4%

Per share data

Year:	2002	2003	2004	2005F	2006F
Book Value (\$)	15.9	15.3	16.4	18.1	19.8
Cash Flow (cts)	1.2	1.2	1.3	1.4	1.4
Earnings (cts)	0.8	0.3	1.7	1.8	2.0
Dividend (cts)	0.5	0.5	0.7	0.7	0.7
Payout Ratio	65.8%	178.6%	41.2%	38.5%	35.7%
PER (x)	19.1	51.8	8.5	8.0	7.4
P/CF (x)	12.1	12.1	11.0	10.4	10.4
P/BV (x)	0.9	0.9	0.9	0.8	0.7
Dividend yield %	3.4%	3.4%	4.8%	4.8%	4.8%
ROE (%)	4.3%	4.0%	9.4%	9.1%	8.9%

P&L analysis (\$m)

	2002	2003	2004	2005F	2006F
Revenue	95,758	82,884	85,631	97,731	99,197
Operating Profit	13,197	4,534	5,343	3,920	4,213
Depreciation	3,623	3,836	4,187	4,653	4,879
Interest Expense	(868)	(699)	(482)	(518)	(623)
Pretax Profit	14,403	7,175	9,860	8,712	9,006
Effective tax rate	14%	26%	18%	22%	22%
Net Profit	6,317	2,257	5,451	5,815	6,244
Margins					
Operating	13.8%	5.5%	6.2%	4.0%	4.2%
Pre tax	15.0%	8.7%	11.5%	8.9%	9.1%
Net	6.6%	2.7%	6.4%	6.0%	6.3%

Operations have reached steady state. Upside from new projects

- Asia Power Corp announced a 142% rise in 2004 earnings to \$5.45m, over the re-stated \$2.26m for 2003, which is made up of the audited results for the six months from 1 July 2003 to 31 December 2003 and unaudited six months from 1 January 2003 to 30 June 2003. 2003 marked a year of restructuring (when it booked a one-off loss of \$1.96m) while 2004 should be seen as the year when operations "normalized".
- The better earnings were achieved on just a 3% rise in revenue to \$85.6m, mainly due to higher sales from Heilongjiang Asiapower Xinbao Heating (Xinbao) and Asia Power (Neijiang) Hydroelectricity (Neijiang), due to higher electricity generation volume of 8.6% and 5.1% respectively.
- Disclosure appears to have improved. Asia Power added the improved contribution from four of its plants led to the higher earnings (see next section) though this was partly offset by a higher share of pre-operating loss from Anning River.
- Outlook remains bright. We expect earnings to be sustainable above \$5m given the continued shortage of power in China. Potential upside to estimates will come from new projects, which we expect its new management to be working on and hopefully announce this year.
- Management has declared a final tax-exempt dividend of 0.5 cent and a special tax-exempt dividend of 0.2 cent, a total dividend of 0.7 cent. Given that yield is now 4.8% at yesterday's closing price, we maintain our Long term Buy recommendation. Fair value is pegged at 19 cents, about 1x our projected book NTA for Dec 31, 2005.

Earnings within expectations

Earnings Forecast			
(S\$'000)	2003	2004	change
Turnover	82,884	85,631	3%
Cost of sales	(70,946)	(73,596)	4%
Gross profit	11,938	12,035	1%
Other op income	(1,139)	152	-113%
Admin costs	(6,046)	(5,913)	-2%
Other op costs	(219)	(931)	325%
Operating profit	4,534	5,343	18%
Interest expense	(699)	(482)	-31%
Associates	3,340	4,999	50%
Profit before Tax	7,175	9,860	37%
Tax	(1,863)	(1,801)	-3%
Minorities	(3,055)	(2,608)	-15%
Net Profit	2,257	5,451	142%

The revenue growth within Asia Power Corp was due to its biggest power station, Xinbao as well as from its Neijiang plant. The former saw a S\$2.4m increase in revenue and the latter reported a S\$0.3m increase in revenue. These were due to electricity generation growth of 8.6% and 5.1%, respectively. Other operating income improved from a loss of S\$1.1m to a profit of S\$0.15m. This was due to the one-off loss from the partial disposal of a subsidiary in 2003.

We are not too concerned that the cost of sales rose from 81% in the 1H to 91% in the 2H. This is due to the nature of its business, as the group recognises higher revenue in the 1H, but costs are spread out equally throughout the year. The higher operating profit was mainly attributable to improved contribution from Changzhou Huayuan, Neijiang, Shanghai Witlong and Shenzhen NARI Technologies by S\$1.8m, S\$267k, S\$228k and S\$338k respectively.

However, the share of higher pre-operating loss incurred by Sichuan Anning River of S\$801k and lower profit contributions by Changzhou Suyuan and Xinbao by S\$197k and S\$1.2m respectively eroded some of the gains. Xinbao's lower contribution was due to provision for doubtful debt of S\$718k last year and a government grant of S\$317k received in 2003 being an incentive given by the Financial Bureau of Qiqihaer City to defray its repair and maintenance expenses incurred. There was no such government grant received by Xinbao in Year 2004.

Outlook remains positive

Though rising oil and coal prices will continue to impact APC's margins, the Chinese Government has also acted to increase electricity tariffs, which will mitigate the pressure somewhat. The continued growth of industries, and the expected increase in the electricity consumption from the residential sector will continue to fuel demand growth in China for electricity.

More positively, given prevailing high oil and coal prices, power companies have begun to look for alternative energies to remain competitive. Asia Power has also identified environmentally-friendly and renewable energies such as wind power and hydro power to be the next engine of growth. We expect some announcement and development in this area within the next few months.

We maintain our Long term Buy recommendation. The group has reached steady state in its operations, and appears willing to pay out higher dividends unless new businesses warrant further investment. Valuation of 8x FY2005 and 7.4x FY2006 is not demanding, with a 4.8% yield and at 0.9x book. The main drawback and the reason we are not upgrading to an outright Buy is the stock's illiquidity.

Balance sheet

Balance Sheet & Other Fin. Data (\$'000)

	2001	2002	2003	2004
Fixed assets	46,932	45,253	44,966	43,605
Long term assets	60,320	62,099	72,086	72,376
Current assets	77,521	56,593	52,252	53,865
Current liabilities	46,078	27,565	38,706	44,016
Long term liabilities	8,148	9,627	8,752	2,608
Total net assets	83,615	81,500	76,880	79,617
Shareholders funds	53,786	56,150	54,959	58,183
Net debt	7156.2	10528.0	11620.0	4247.0
Gearing	13.3%	18.7%	21.1%	7.3%

Power assets

1. Heilongjiang Asiapower Xinbao Heating & Power Co (Xinbao) – 51%

Xinbao is a coal-fired combined heat-and-power (CHP) plant with a total installed capacity of 225MW. Being the only CHP plant in Qiqihar city in Heilongjiang, it supplies electricity to the power grid and provides heat and steam to industrial and residential users. Acquired in May 1998, Xinbao accounts for a substantial portion of AsiaPower's earnings.

2. Asia Power (Neijiang) Hydroelectricity Co (Neijiang) – 60%

Neijiang is a hydropower plant in Neijiang city in Sichuan province. Touted as an environmentally friendly hydropower plant, Neijiang uses water to generate electricity. The plant has a total installed capacity of 13.5MW. It is strategic in that it also holds a 30% stake in Sichuan Anning River Energy Development Co., Ltd, a hydropower development company with a total installed capacity of 49.5MW under construction in Sichuan Province (description follows this.)

3. Sichuan Anning River Energy Development Co (Anning River)

Neijiang has a 30% stake in Anning River, which is building three hydropower stations along the Anning River with a total installed capacity of 117MW. The Sankeshu hydropower station at a capacity of 49.5MW is the first of the three. Construction is in progress and commercial operation is expected to start later this year.

4. Changzhou Suyuan Electric Power Co (Changzhou Suyuan) - 25%

Changzhou Suyuan owns, manages and operates two oil-fired power plants with a total installed capacity of 99MW in Jiangsu province. The first plant was acquired in March 1999 and the second in June 2001 through a restructuring exercise. Asia Power is now the single largest shareholder of Changzhou Suyuan.

5. Changzhou Huayuan Electric Power Co (Changzhou Huayuan) - 25%

Acquired in June 2003. Changzhou Huayuan developed, managed and operates a new peak-load, combined-cycle power plant in Changzhou City in Jiangsu Province that started operations at the end of 2003. The plant has capacity of 59.6MW, comprising a gas turbine of 39.6MW and a steam turbine of 20MW. APC's investment in Changzhou Huayuan was RMB16.5m (S\$3.51m).

6. Shenzhen NARI Technologies Co., Ltd (Shenzhen NARI) – 35%

Shenzhen NARI is a power-related technology company specializing in the design, manufacturing and assembly of computerized power protection and automation systems used by substations and other electric power regulating and transmission facilities. The company has its products sold to over 3,000 substations both in China and overseas, and has been classified as a "high-tech" company by Shenzhen municipal government.

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