

# Asia Power Corp

**PRICE S\$0.12**
**HOLD**
**Key Stock Statistics**

NRA EPS Est. 2005 (cts)	1.4
P/E on NRA Est. 2005	8.5
NRA EPS Est. 2006 (cts)	1.4
P/E on NRA Est. 2006	8.1
Dividend/Share (cts)	0.7
Dividend yield (%)	6.1%
Shs. Outstg. (m)	352.2
Market capitalisation (\$m)	40.5
Avg. daily vol (m)	0.262
Book Value/Share (cts)	16.8
Shareholders:	
Global Financial Holdings	26.3%
Peter Chang Pan	12.4%
Northeastern Holdings	10.00%

**Per share data**

Year:	2002	2003	2004	2005F	2006F
Book Value (\$)	15.9	15.3	16.4	17.7	19.0
Cash Flow (cts)	1.2	1.2	1.3	1.2	1.4
Earnings (cts)	0.8	0.3	1.7	1.4	1.4
Dividend (cts)	0.5	0.5	0.7	0.7	0.7
Payout Ratio	65.8%	178.6%	41.2%	51.5%	49.3%
PER (x)	15.1	41.1	6.8	8.5	8.1
P/CF (x)	9.6	9.6	8.7	9.3	8.3
P/BV (x)	0.7	0.8	0.7	0.7	0.6
Dividend yield %	4.3%	4.3%	6.1%	6.1%	6.1%
ROE (%)	4.3%	4.0%	9.4%	7.0%	7.4%

**P&L analysis (\$m)**

	2002	2003	2004	2005F	2006F
Revenue	95,758	82,884	85,631	99,831	105,322
Operating Profit	13,197	4,534	5,343	363	540
Depreciation	3,623	3,836	4,187	4,897	4,879
Interest Expense	(868)	(699)	(482)	(563)	(623)
Pretax Profit	14,403	7,175	9,860	5,623	6,032
Effective tax rate	14%	26%	18%	33%	28%
Net Profit	6,317	2,257	5,451	4,345	4,993

**Margins**

	2002	2003	2004	2005F	2006F
Operating	13.8%	5.5%	6.2%	0.4%	0.5%
Pre tax	15.0%	8.7%	11.5%	5.6%	5.7%
Net	6.6%	2.7%	6.4%	4.4%	4.7%

**Earnings down 42%. Two new projects announced**

- Asia Power has announced a 42% fall in interim net earnings to \$2.1m, mainly due to higher than expected costs for its Asia Wind Power (Mudanjiang) project. The group also announced two new projects, which will lend to more stability in earnings in the medium term.
- We maintain our Hold recommendation. We downgraded our Long Term Buy call last month after a series of management and board changes resulted in some uncertainty over the stock and its new direction. We continue to be cautious on this.
- Also, the Asia Wind Power project comes on only in 2006. We would prefer to see there is no delay on this before getting more optimistic.
- Group simultaneously announced two new projects. An agreement to set up a joint venture called Asia Power (Leibo) Hydroelectricity Co. and an indirect 16.12% stake in Chongqing Yujiankou Hydroelectricity Co., which has a 60MW hydropower electricity generation plant in Chongqing.
- Current valuations are not demanding at 8.5x current year and 8.1x FY2006. Stock is also a low 0.7x book value, while yield is circa 6.1%. However, we don't believe a re-rating is likely till there is more stability in the group's earnings. The cost over-runs seen in this 1H were not expected, and it remains to be seen if there will be similar costs in the 2H.
- Note that if Asia Power had not recognized Mudanjiang's pre-operating costs, net profit would have been \$4.2m, an increase of 15.5% over the last corresponding period. The stock would be cheap on this basis, once operations normalize.

## Interim results

Interim results	1H:04	1H:05	change
Turnover	45,595	49,153	7.80%
Cost of sales	-37,021	-41,273	11.50%
Gross profit	8,574	7,880	-8.10%
Other op income	124	544	338.70%
Others	0	0	
Admin costs	-2,817	-8,673	207.90%
Other op costs	-721	-2	-99.70%
Operating profit	5,160	-251	-104.90%
Interest expense	-254	-285	12.20%
Associates	2,389	2,859	19.70%
Profit before Tax	7,295	2,323	-68.20%
Tax	-1,359	-1,056	-22.30%
Minorities	-2,288	840	-136.70%
Net Profit	3,648	2,107	-42.20%

Revenue grew 7.8% to \$49.2m due to the increase in sales of \$3.1m and \$431,000 respectively from Heilongjiang Asiapower Xinbao Heating & Power Co. (Xinbao) and Asia Power (Neijiang) Hydroelectricity Co. (Neijiang). This was due to higher electricity volume for Xinbao and Neijiang by 5.5% and 18.9% respectively, and also a higher average tariff price.

However, cost of sales also rose by 11.5% mainly due to the increase in Xinbao's costs such as coal price, depreciation and repair and maintenance expenses.

The unexpected 208% hike in administrative expenses to \$8.7m was unexpected. The jump mainly included pre-operating costs for Mudanjiang, which includes preliminary research, feasibility and survey costs. Mudanjiang will only be operational in the beginning of the year 2006. If Asia Power had not recognized Mudanjiang's pre-operating costs, net profit would have been \$4.2m, an increase of 15.5% over the last corresponding period.

The higher associates contribution was mainly due to Sichuan Anning River Energy Development Co. which started operations early this year and contributed \$739,000 to earnings.

## New projects announced

In a separate announcement, Asia Power said it has an agreement to set up a joint venture called Asia Power (Leibo) Hydroelectricity Co., Ltd. It will invest RMB37.5m (about S\$7.7m) for a 75% stake in the j-v. Leibo will develop and operate three hydropower electricity generation plants (Lami, Huzhu and Sichuanjiao) in Sichuan Province, China. The total installation capacity is about 65MW. The strategy is that earnings from hydropower plants will be more stable given it is not subject to fluctuations in oil and coal prices.

In a third announcement, Asia Power said it is also buying a 51% stake in Great Rich Finance Ltd for RMB24.5m (S\$5.0m). Great Rich's main asset is a deemed interest of 31.6% in Chongqing Yujiankou Hydroelectricity Co., Ltd. This will give Asia Power an indirect 16.12% in Chongqing Yujiankou. Chongqing Yujiankou has been operating hydropower electricity generation plants with capacity of 60MW since January this year.

## Valuation and recommendation

Current valuations are not demanding at 8.5x current year and 8.1x FY2006. Stock is also a low 0.7x book value, while yield is circa 6.1%. However, we don't believe a re-rating is likely till there is more stability in the group's earnings. The cost over-runs seen in this 1H were not expected, and it remains to be seen if there will be similar costs in the 2H. We maintain our Hold recommendation on the stock.

However, long-term investors should note that if Asia Power had not recognized Mudanjiang's pre-operating costs, net profit would have been \$4.2m, an increase of 15.5% over the last corresponding period. The stock would be cheap on this basis, assuming operations normalize.

## Balance Sheet

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

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>1H:05</b>
Fixed assets	45,253	44,966	43,605	44,180
Long term assets	62,099	72,086	72,376	72,538
Current assets	56,593	52,252	53,865	66,112
Current liabilities	27,565	38,706	44,016	35,264
Long term liabilities	9,627	8,752	2,608	6,807
Total net assets	81,500	76,880	79,617	96,579
Shareholders funds	56,150	54,959	58,183	64,214
Net debt	10528.0	11620.0	4247.0	18920.0
Gearing	18.7%	21.1%	7.3%	29.5%

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