

# Asia Power Corp

**PRICE S\$0.18**
**Long Term Buy**

## Share placement of 30m shares at \$0.155

- Asia Power Corp (APC) has just announced the planned investment of S\$7.56m in a joint venture for the construction and development of a new wind power plant in China. No other details are available at this time. Given the lead time needed to build the plant, we think the earliest it can come onstream is 2H:2006 and even then, only if all details are finalized soon.
- To help fund the investment, the group is placing 30m new shares at 15.5 cents apiece, to raise net proceeds of \$4.48m. The shareholder instrumental in this transaction is Global Financial Holdings (GFC), linked to APC's Executive Vice Chairman Addyson Xue (more on him in the following section) as his wife is a shareholder and director of GFC. The shares were placed out by Westcomb Securities to none APC-related parties.
- Though the placement was done at a 9.2% discount to Monday's average transacted prices, we think the improved liquidity will see the stock price recover back to pre-placement levels. We believe interest in the stock will continue to build up once details of this new plant are announced, as well as other possible new projects.
- We maintain our Long term Buy recommendation on the stock. It is the only power play listed on the SGX and valuations are undemanding at 10x FY2005 and about 1x book. The stock also offers a 2.8% dividend yield based on 18 cents.
- Fair value is likely to be revised upwards when the group announces its earnings at the end of February.

### Key Stock Statistics

NRA EPS Est. 2004 (cts)	1.5
P/E on NRA Est. 2004	11.8
NRA EPS Est. 2005 (cts)	1.8
P/E on NRA Est. 2005	10.2
Dividend/Share (cts)	0.5
Dividend yield (%)	2.8%
Shs. Outstg. (m)	321.2
Market capitalisation (\$m)	57.8
Avg. daily vol (m)	2.087
Book Value/Share (cts)	16.5
Shareholders:	
Wong Sow Voon	28.4%
Global Financial Holdings	26.3%
Peter Chang Pan	12.4%

### Per share data

Year:	2001	2002	2003	2004F	2005F
Book Value (cts)	15.6	15.9	15.3	18.4	20.4
Cash Flow (cts)	1.1	1.2	0.6	1.3	1.5
Earnings (cts)	2.0	0.8	0.3	1.5	1.8
Dividend (cts)	0.5	0.5	0.25	0.5	0.5
Payout Ratio	25.4%	65.8%	89.3%	32.7%	28.2%
PER (x)	9.1	23.7	64.3	11.8	10.2
P/CF (x)	15.9	15.0	28.1	13.6	11.8
P/BV (x)	1.2	1.1	1.2	1.0	0.9
Dividend yield %	2.8%	2.8%	1.4%	2.8%	2.8%
ROE (%)	11.3%	4.3%	1.6%	8.2%	8.9%

### P&L analysis (\$'000)

	2002	2003	6 mths:03	2004F	2005F
Revenue	95,758	80,685	39,573	87,705	99,803
Operating Profit	13,197	3,309	(870)	5,408	8,016
Depreciation	3,623	3,836	2,059	4,653	4,978
Interest Expense	(868)	(704)	(340)	(705)	(775)
Pretax Profit	14,403	6,155	1,393	8,873	10,416
Effective tax rate	14%	26%	47%	21%	22%
Net Profit	6,317	2,431	891	4,884	5,768

### Margins

Operating	13.8%	4.1%	-2.2%	6.2%	8.0%
Pre tax	15.0%	7.6%	3.5%	10.1%	10.4%
Net	6.6%	3.0%	2.3%	5.6%	5.8%

## Placement a prelude to more corporate activity?

Though the pricing of the placement at a discount to the last closing price may not be well received by the market, we think investors will soon get over this and look for signs of more corporate action from the group, given the stated intention to enhance its list of assets. Even more significant is the fact that Global Financial Holdings, the second largest shareholder, was instrumental in getting the placement done.

We have been expecting changes within the group when GFC emerged as a substantial shareholder and this was accompanied by many changes at the board level, with the new additions all having experience either from the power or financial sectors.

In particular, Executive Vice Chairman Addyson Xue is in charge of strategic planning and identifying new projects. Mr Xue was formerly the Chairman / President of Heilongjiang Electric Power Co; the Deputy Chief, Electrical Power Industry Bureau, Heilongjiang; the Deputy GM of Heilongjiang Provincial Electric Company; and the Chairman/ President of Huafu Power Investment.

## Balance Sheet

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

	2001	2002	2003	1H:04
Fixed assets	46,932	45,253	44,966	45,540
Long term assets	60,320	62,099	72,086	73,332
Current assets	77,521	56,593	52,252	56,366
Current liabilities	46,078	27,565	38,706	40,149
Long term liabilities	8,148	9,627	8,752	8,880
Total net assets	83,615	81,500	76,880	80,669
Shareholders funds	53,786	56,150	54,959	58,576
Net debt	7156.2	10528.0	11620.0	13090.0
Gearing	13.3%	18.7%	21.1%	22.3%

## Business

### 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.

#### **7. Sichuan Maoergai Hydropower Development Co., Ltd (Maoergai) - 35%**

Maoergai is building hydropower stations along the Heishui River, which in aggregate will host two reservoirs and five hydropower stations with a total installed capacity of 556MW. The Zhugeduo hydropower station is the first to be developed at a capacity of 80MW. Commercial operation is expected to start only in 2005.

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