

Asia Power Corp

PRICE S\$0.155
Hold / LT Buy
Key Stock Statistics

NRA EPS Est. 2004 (cts)	1.5
P/E on NRA Est. 2004	10.2
NRA EPS Est. 2005 (cts)	1.8
P/E on NRA Est. 2005	8.8
Dividend/Share (cts)	0.5
Dividend yield (%)	3.2%
Shs. Outstg. (m)	320.1
Market capitalisation (\$m)	49.6
Avg. daily vol (m)	0.079
Book Value/Share (cts)	15.3
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	18.6	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%	32.9%	28.2%
PER (x)	7.9	20.4	55.4	10.2	8.8
P/CF (x)	13.7	12.9	24.2	11.7	10.0
P/BV (x)	1.0	1.0	1.0	0.8	0.8
Dividend yield %	3.2%	3.2%	1.6%	3.2%	3.2%
ROE (%)	11.3%	4.3%	1.6%	8.1%	8.7%

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	3,829	4,899
Depreciation	3,623	3,836	2,059	4,236	4,897
Interest Expense	-868	-704	-340	-705	-775
Pretax Profit	14,403	6,155	1,393	6,129	7,299
Effective tax rate	14%	26%	47%	24%	25%
Net Profit	6,317	2,431	891	4,858	5,674
Margins					
Operating	13.8%	4.1%	-2.2%	4.4%	4.9%
Pre tax	15.0%	7.6%	3.5%	7.0%	7.3%
Net	6.6%	3.0%	2.3%	5.5%	5.7%

Investment highlights:

- Though Asia Power Corp (APC) is the only listed power play stock on the SGX, we are more sanguine about the stock given its erratic earnings performance of the last two years. Part of this was due to some restructuring done earlier, which has since tapered off. We would prefer to see more stable profits and margins before being more aggressive on its outlook.
- Initiating coverage with Hold / LT Buy. Long term investors can Accumulate. Valuations are not demanding at a PER of 10x current year, dropping to 8.8x FY2005. What is supporting APC's share price is the 3.2% dividend yield. The stock is also trading at just 1x book NTA of 15.27 cents. There is probably a slight discount too for the low market cap and illiquidity.
- We believe investors are waiting for management to deliver on its earlier promise of new acquisitions to drive earnings. Current cash position of RMB17.8m and low gearing of 0.2x facilitates this.
- Group's FY has been changed to Dec 31 from 2004. FY04 will see full year contribution from its 59.6 MW gas-fired, combined-cycle peaking plant in Jiangsu Province, operational Dec 2003.
- Another 52 MW hydropower station currently under construction in Sichuan Province, will be fully operational at end 2004 and contribute to FY 2005.
- Should the group deliver in its mid year earnings, we think a re-rating to 19 cents is possible. This is 1.2x book, while its peers are trading up to 2.4x book.
- Future expansion to be focused on hydropower plants, CHP power plants with large capacity, and other forms of environment-friendly power facilities.

Background

Incorporated in March 1997 and listed in Nov 1999, AsiaPower (APC) is the only electric utility company on the SGX. An independent power producer in China, it is majority-owned by Singapore investors who have been involved in the ownership, management and operation of power plants and power-related businesses in China. The group comprises one power consulting firm, two power-related technology companies and seven power plants with a total installed capacity of 529.1 MW as of Dec 2003 (see corporate structure chart on page 3.)

The biggest asset is the 51%-owned Xinbao station in Qiqihar City, Heilongjiang province. It is a coal-fired, combined heat-and-power plant. It has an installed capacity of 225MW. More details on the other assets are found in page 4.

The current structure is the result of some restructuring in the last two years, which led to the enlarged stake in its biggest plant Xinbao, an indirect investment of 30% in Anning River Energy Development, the acquisition of a 35% stake in Shenzhen NARI, and the disposal of a 40% stake in Neijiang Hydroelectricity.

Besides the power plant assets, the group also holds stakes in Shanghai Witlong, a high-tech company involved in the manufacturing and distribution of power automation systems and auxiliary equipment. Its products are used by electric power regulating, generation and transmission facilities. It was awarded ISO9001 certification in Nov 2001.

Asia Power (Shanghai) provides power-related business consultation and management services. It will also assist the parent company to manage power plants and business development in China.

Valuation

Comparative valuation

	Price @ May 18	2003 PER	2004F PER	2005F PER	P/NTA
AsiaPower Corp	0.165	55.4	10.2	8.8	1.0
Beijing Datang Power	5.70	16.3	13.6	12.1	1.9
China Resources Power	3.55	17.8	13.2	8.5	1.5
Huadian Power Int'l	2.15	10.8	9.7	9.1	1.2
Huaneng Power Int'l	6.7	14.9	13.5	12.6	2.4

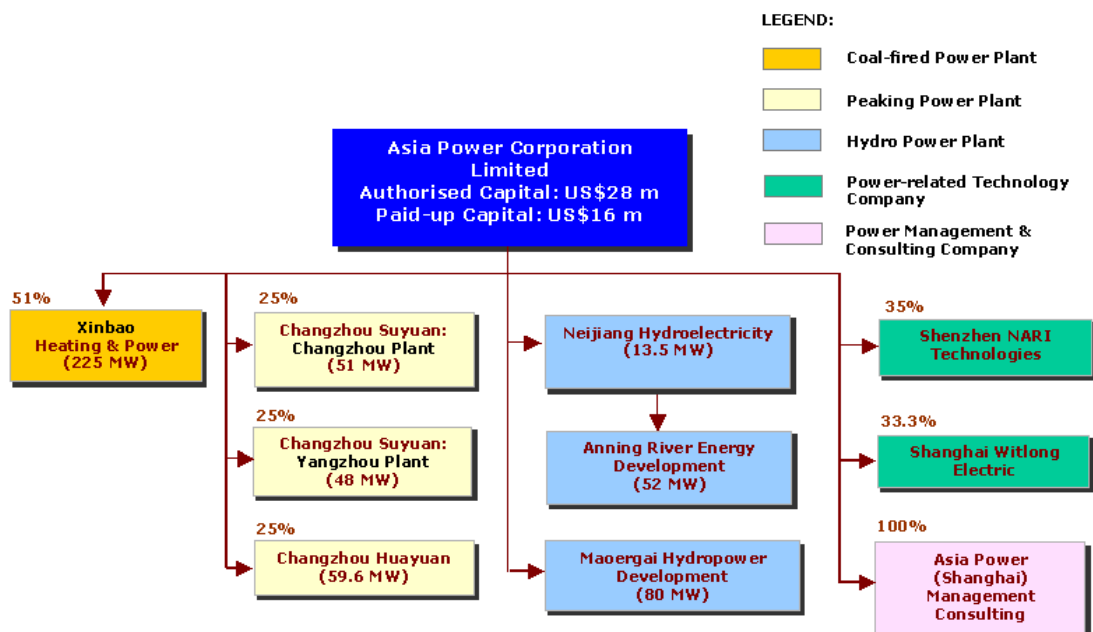
Note: Only AsiaPower is in S\$, the others are in HK\$

As we have mentioned, AsiaPower is currently the only power play listed on the SGX, so there is a lack of comparables. But comparing the group with some of the HK-listed China power plant related stocks, the group is trading in line with FY2004 valuations but is relatively cheaper at only 1x book compared to 1.2x to 2.4x for the HK-listed comparables.

Given the volatility of earnings the past two years, we are still conservative for this year but expect re-rating to be fairly immediate should the group deliver on profits for 1H:2004. This will be in July or August. If numbers are ahead of expectations, we think it will re-rate back to 19 cents quite easily. This will put it at 15x FY2004 earnings and 1.2x price to book value.

Should earnings exceed expectations significantly, then it could trade at a higher price to book, given the difficulty in assembling a similar group of power plants in China.

We initiate coverage with a Hold, given the stock's relative illiquidity and small market capitalization of \$50m. However, long term and value investors should keep AsiaPower on the radar screen given the sustainable 3.2% yield and reasonable 1x book valuation. Note that substantial shareholders Global Financial Holdings recently raised its stake through the purchase of 9.58m shares at \$0.18 per share.



Investment Portfolio At A Glance

Investments	Stake	Location	Date of Investment	Installed Capacity	Type
Xinbao	51%	Heilongjiang	May 1998	225 MW	Coal-fired, CHP
Changzhou Suyuan-Changzhou plant	25%	Jiangsu	Mar 1999	51 MW	Combined-cycle, peaking
Changzhou Suyuan-Yangzhou plant	25%	Jiangsu	Jan 2001	48 MW	Heavy diesel-fired, peaking
Changzhou Huayuan	25%	Jiangsu	Jun 2003	59.6 MW	Combined-cycle, peaking
Neijiang	60%	Sichuan	Feb 1998	13.5 MW	Hydro, run-of-river
Anning River – Sankeshu Plant	30% ¹	Sichuan	May 2002	52 MW	Hydro, diversion
Maoergai – Zhugeduo Plant	35%	Sichuan	Jul 2002	80 MW	Hydro, diversion
Shenzhen NARI	35%	Guangdong	Jul 2000	n.a.	Power automation and protection systems
Shanghai Witlong	33.3%	Shanghai	Jun 2003	n.a.	Power automation and auxiliary equipment
Asia Power (Shanghai)	100%	Shanghai	Aug 2002	n.a.	Power Business Consulting

¹The investment was made through Neijiang and Asia Power's effective interest in Anning River is 18%

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 has the lowest margins amongst all the plants.

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 52MW under construction in Sichuan Province (description follows this.)

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

Neijing has a 30% stake in Anning River, which is building hydropower stations along the Anning River. The Sankeshu hydropower station at a capacity of 52MW is the first to be developed. Construction is in progress and commercial operation is expected to start later this year. New hydropower stations downstream of the river are under feasibility study.

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.

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%

The Maoergai project is still at the planning stage. Nevertheless, the purpose of the project is to build hydropower stations along the Heishui River. The Zhugeduo hydropower station is the first to be developed at a capacity of 80 MW. Asia Power has signed an agreement to take up a 35% stake in Maoergai.

Recent developments

In 2003, the group acquired stakes in Shanghai Witlong (33%) and Changzhou Huayuan (25%). Though the intention was to grow through acquisitions, APC has not been able to make many of these as the Chinese based power companies are also cash rich and able to fund expansion on their own. As well, given that AsiaPower is fairly rigid in expecting a 15% IRR on its projects, its success in such bids and tenders has been limited.

In March 2004, there was a restructuring amongst its shareholders with the result that Wong Sow Voon's direct and deemed interest in the company total 28.4%. Peter Chang Pan subsequently sold some shares and his deemed and direct stake is now 12.4% while Global Financial Hldgs bought some 9.58m shares at \$0.18, raising its stake to 26.31%.

Investment Risk

Being an energy company, it is relatively vulnerable to movement in coal prices though it is fortunate in that near one of its largest plants, Xinbao, is a coal mine so the lower transportation cost averages down its total cost.

APC's revenues are in RMB, but the investments and other costs are mainly in US\$. There have been forex losses and gains in the past two years – we think the group is looking at how to better manage this risk.

We are less concerned about the potential impact on the company if China's economic growth succumbs to overheating and deflates, as there is still an immense shortage of power supply in China and most of the group's plants are not situated in the overheated cities.

What may happen is there is downward pressure on tariffs as a new pricing mechanism is phased in gradually.

Balance sheet

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

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

Balance sheet is fairly healthy for an asset heavy company. Gearing is still a moderate 21% from 18.7% and 13% the previous two years. Cash on hand of circa \$18m is also a comfortable war chest for the size of assets it is looking at.

Review of financial performance

Earnings has been fairly volatile the last few years mainly due to exceptional gains and an adjustment for previous overstatement of divestment gains. But profits will normalize from this year, with the additional full year contribution from Changzhou Huayuan that started operations last year.

We are conservatively forecasting earnings of \$4.24m for FY2004 (EPS 1.5 cents) placing it at 10.2x current year earnings. This is because management has guided for earnings to normalize back to pre-2003 levels and margins. There could be upwards adjustment when the interims are announced.

Our FY2005 forecast is for a stronger 17% growth to \$5.67m (EPS 1.8 cts), given expectations that contribution from Changzhou Huayuan would have stabilized and improved, as well as maiden contribution from Anning River when it starts operations in 2H:04. We have also factored for some start-up losses from these in 2004.

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