

Asia Power Corp

Reuters: ASPW.SI
Bloomberg: API SP

Sector: Industrial

Rating:
Price S\$0.145

 Maintain **Outperform**

Y/E 31-Dec	2003A	2004A	2005F	2006F
Net Profit (\$m)	2.3	5.5	5.9	6.6
EPS (S cent)	0.7	1.7	1.7	1.9
EPS Growth (%)	-	+143	-1	+11
Consensus EPS	-	-	1.9	-
PER (x) @ S\$0.145	20.7	8.5	8.6	7.7
NTA (S\$)	0.15	0.16	0.18	0.20

Performance (%)	1mth	3mth	12mth	Market Capitalisation :	S\$	53m
Absolute	+3	-3	-17	Issued Shares :		351m
Relative against STI	+2	-7	-33	30-day avg daily vol ('000) :		1,820

Excellent FY04 results

- **FY04 earnings up 142% YoY to S\$5.5m**
- **Associates gained 50% YoY to S\$5.0m**
- **Recent placement of shares depressed stock performance**
- **Declared tax-exempt dividend of 0.7 cent for yield of 4.8%**

Summary: Asia Power Corp (API) reported a 142% YoY jump in FY04 earnings to S\$5.5m, in line with our expectation of S\$5.4m. Revenue rose 3% YoY to S\$85.6m, also in line with our projection of S\$85m. Revenue improvement was due to its Xinbao and Neijiang plants. Other operating income improved from a loss of S\$1.1m to a profit of S\$0.2m. Apart from this, the key reason for the better bottomline performance was higher contribution from associates, which increased from S\$3.3m in FY03 to S\$5.0m in FY04. Management has declared a final tax-exempt dividend of 0.5 cent and a special tax-exempt dividend of 0.2 cent, giving a total dividend of 0.7 cent (higher than its previous norm of around 0.5 cent per year). Based on yesterday's closing price of 14.5 cents, this translates to a fairly good dividend yield of 4.8%. We are retaining our FY05 forecast of a 9% rise in earnings to S\$5.9m due to continued good demand for electricity consumption in the PRC – coming from both industries

Asia Power Corp Year Ended 31 Dec	FY03 (S\$m)	FY04 (S\$m)	Chg (%)
Turnover	82.9	85.6	3.3
Cost of sales	-70.9	-73.6	3.7
Gross profit/loss	11.9	12.0	0.8
Other operating income	-1.1	0.2	-113.3
Distribution & admin expenses	-6.0	-5.9	-2.2
Other operating expenses	-0.2	-0.9	325.1
Profits from operation	4.5	5.3	17.8
Associates	3.3	5.0	49.7
Pre-tax profit	7.2	9.9	37.4
Net profit	2.3	5.5	141.5
EPS (cts)	0.7	1.7	142.9
NTA (cts)	15.3	16.4	
Operating margin (%)	5.5	6.2	
Pre-tax profit margin (%)	8.7	11.5	
Net profit margin (%)	2.7	6.4	

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and consumers. At 14.5 cents, the stock is trading at 8.6x FY05 earnings and 7.7x FY06 earnings. With profit returning to the old level of more than S\$5m per year, we are retaining our **OUTPERFORM** rating and fair value estimate of 19 cents.

FY04 earnings of S\$5.5m. Asia Power Corp (API) reported a 142% YoY jump in FY04 earnings to S\$5.5m. This is in line with our expectation of net earnings of S\$5.4m. Revenue rose 3% YoY to S\$85.6m, again in line with our projection of S\$85m. The slight increase in group revenue was due to the biggest power station in its stable, the Heilongjiang Asiapower Xinbao Heating & Power Company (Xinbao plant), 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 figures were consistent with 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\$0.2m. This was due to one-off losses from the partial disposal of a subsidiary in 2003. Apart from this, the key reason for the better bottomline performance was the higher contribution from associates. Contribution from associates showed a dramatic improvement from S\$3.3m in FY03 to S\$5.0m in FY04. Pre-tax profit rose 37% YoY to S\$9.9m.

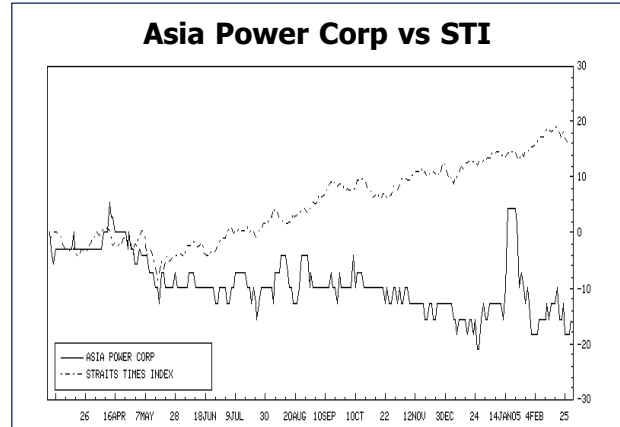
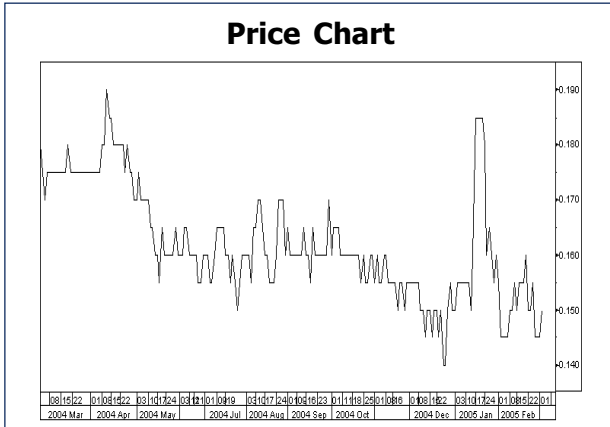
Cost of sales rose from 81% in 1H04 to 91% by 2H04. However, this is the nature of its business as the group recognised higher revenue in the 1H, but costs are evenly spread out throughout the year. Gross margin fell marginally from 14.4% to 14.1% in FY04. Due to the lack of one-off losses in FY04, the group was able to report a higher operating margin, which improved from 5.5% in FY03 to 6.2% in FY04.

Segmental comparisons are not available or directly comparable as its FY04 results comprised of the period from Jan-Dec 2004 while its FY03 results comprised of audited results from Jul-Dec 2003 and unaudited results from Jan-Jun 2003 due to the change of its financial year-end from Jun to Dec.

Together with the results, management has declared a first and final dividend of 0.5 cent (tax-exempt) and a special dividend of 0.2 cent (also tax-exempt). This implies full year tax-exempt dividend of 0.7 cent (higher than its previous norm of around 0.5 cent per year). Based on yesterday's closing price of 14.5 cents, this translates to a fairly attractive dividend yield of 4.8%.

Valuation and outlook. Recently, API announced a new venture to set up wind powered plants in China. However, this venture is unlikely to contribute to FY05 earnings. Together with this deal, API also placed out 30 million new shares at 15.5 cents each. This raised about S\$4.48m. As we had warned during the share placement (see report dated 25 Jan 2005), the discounted price for the placement shares would have a negative effect on its share price. Indeed, API's share price fell to the current level of 14.5 cents (the 52-week high is 19 cents and the 52-week low is 13.5 cents).

As API's FY04 performance is in line with our expectation, we are retaining our FY05 estimates. We are projecting a 9% rise in FY05 earnings to S\$5.9m due to continued strong demand for electricity consumption in the PRC – coming from both industries and consumers. At 14.5 cents, the stock is trading at 8.6x FY05 earnings and 7.7x FY06 earnings. Yield is also fairly attractive at 4.8%. With its profit returning to the old level of more than S\$5m per year, we are retaining our **OUTPERFORM** rating and medium term fair value of 19 cents.



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