

MITA No. 139/06/2005

9 December 2005

# Asia Power Corp

Maintain

## BUY

Previous Rating: BUY

### S\$0.125

### Fair Value: S\$0.15

Stock Code:

Reuters: ASPW.SI

Bloomberg: API SP

Event: Update

#### General Data

Issued Capital (m)	352
Mkt Cap (S\$m/US\$m)	44/26
Major Shareholder	Global Fin (24%)
Free Float (%)	75
NAV per share (S\$)	0.17
Daily Vol 3-mth ('000)	173
52Wk High (S\$)	0.185
52Wk Low (S\$)	0.105

## New management team is in place

**New management team in place.** With the new management in place for a while, we recently met up with several key executives of Asia Power Corp (API) to get an outline of their new initiatives for the group. One clear theme was that future investments will be channelled towards water-related power projects as this is still a potential growth area and not reliant on expensive raw materials due to reusable energy source. For example, coal-powered power plants have in recent months been affected by rising coal prices, where some plants experienced more than 100-200% rise in coal prices. Secondly, water-powered plants are also more environmentally friendly. Management also highlighted that it intends to grow at a gradual pace with new power plant related investment planned on a yearly basis.

**Existing plants are humming along.** For the biggest power plant in its portfolio, the 225MW Heilongjiang Asiapower Xinbao Heating & Power Company Ltd (Xinbao), there was a 20% increase in tariff since May 2005 for electricity and also a 20% hike in steam tariff since Oct 2005. However, this is to counter the recent hike in coal costs, although the hike in coal costs is not as sharp for API versus its bigger listed peers.

**API remains a BUY.** Overall performance during the interim was affected by losses at its wind operation. Since then, the group has sold off its investment in this venture as completion for the project was delayed by eight months. Management also reckons that with the same amount of investment, it could derive more financial benefits from re-channelling resources to hydro operations. For the hydro projects, it is looking at opportunities in the Xichuan area for power plants with capacity of about 60-70MW each. Typically, the first half of the year is stronger, but this round, API's financial performance was dragged down by the wind project. The new management also indicated that it is likely to maintain its dividend payout. On this basis and based on our FY05 profit estimate of S\$4.2m, and at current price of 12.5 cents, the dividend yield is fairly good at 4.0%. We retain our **BUY** rating on the stock.

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Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	Consensus EPS (cents)	PER (x)	Net Div Yield (%)
FY 03	82.9	11.9	2.3	0.7	-	-	17.9	2.0
FY 04	85.6	12.0	5.5	1.7	142.7	-	7.4	5.6
FY 05F	93.5	11.5	4.2	1.2	-28.9	1.2	10.4	4.0
FY 06F	100.7	12.9	4.9	1.4	15.0	1.4	9.0	4.0

Please refer to the important disclosures at the back of this document.

**EARNINGS FORECAST**

Year Ended 31 Dec (S\$m)	12-mth to Jun 03	FY04A	FY05	FY06
<b>Revenue</b>	<b>80.7</b>	<b>85.0</b>	<b>93.5</b>	<b>100.7</b>
Cost of sales	-70.0	-73.6	-82.0	-87.8
Gross profits	10.7	11.4	11.5	12.9
Pre-tax profits	6.2	9.9	4.7	9.5
Net Profits	2.4	5.5	4.2	4.9
EPS (cents)	1.4	1.7	1.2	1.4
DPS (cents)	0.5	0.7	0.5	0.5
NAV (cents)	15.9	16.6	18.1	19.1
<b>KEY RATIOS</b>				
Revenue growth (%)	-15.7%	5.3%	10.0%	7.7%
Pre-tax growth (%)	-57.3%	60.2%	-51.9%	100.7%
Net Profit growth (%)	-61.5%	124.3%	-22.2%	15.0%
Pre-tax profit margin (%)	7.6%	11.6%	5.1%	9.4%
Net profit margin (%)	3.0%	6.4%	4.5%	4.8%

**SUMMARY BALANCE SHEET**

As at 31 Dec (S\$m)	12-mth to Jun 03	FY04A	FY05	FY06
Share capital	26.6	26.7	29.2	29.2
Reserves	30.5	31.5	34.3	37.8
<b>Shareholders' Funds</b>	<b>57.1</b>	<b>58.2</b>	<b>63.6</b>	<b>67.0</b>
Fixed assets	67.6	72.4	75.2	78.9
Current assets	65.0	53.9	81.8	84.5
Current liabilities	38.4	44.0	54.4	57.3
Long-term liabilities	13.2	2.6	6.6	6.5
Others	23.9	21.4	32.4	33.5
<b>Assets less Liabilities</b>	<b>57.1</b>	<b>58.2</b>	<b>63.6</b>	<b>67.0</b>

**SUMMARY CASH FLOW**

Year Ended 31 Dec (S\$m)	12-mth to Jun 03	FY04A	FY05	FY06
Pretax profits	6.0	9.9	4.7	9.5
Depreciation	3.8	4.2	2.5	2.5
Others	-1.0	-4.6	-6.0	-6.7
Changes in working capital	-12.6	-7.5	-0.5	-1.8
<b>Operating cash flow</b>	<b>-3.8</b>	<b>1.9</b>	<b>0.7</b>	<b>3.5</b>
Net cash used in investing activities	-8.0	-2.1	-2.1	-1.9
Cash flow from financing activities	15.1	-3.5	6.8	-6.7
Change in cash/(debt)	3.3	-3.7	5.5	-5.2
End cash/(debt)	15.5	14.2	20.1	15.0

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