

MITA No. 139/06/2005

10 August 2005

Asia Power Corp

Upgrade to

BUY

Previous Rating: BUY

S\$0.120

Fair Value: S\$0.15

Stock Code:

Reuters: ASPW.SI

Bloomberg: API SP

Event:

Results

General Data

Issued Capital (m)	352
Mkt Cap (\$m/US\$m)	42/26
Major Shareholder	Global Fin (24%)
Free Float (%)	75
NAV per share (\$)	0.17
Daily Vol 3-mth ('000)	336
52Wk High (\$)	0.185
52Wk Low (\$)	0.105

Start-up costs dragged down its 1H performance

1H results were dragged down by higher start-up costs. Asia Power Corporation (API) reported a dismal set of 1H05 results with pretax profit down 68% YoY to S\$2.3m. While revenue saw a 7.8% YoY increase to S\$49.1m, giving an 8.1% YoY decline in gross profit to S\$7.9m, higher operating expenses eroded its operating profits. This was due to exceptionally high administrative expenses, which rose 208% YoY to S\$8.7m. As a result of this, the group incurred an operating loss of S\$0.25m versus a profit of S\$5.2m in the previous period. Management attributed this to the new subsidiary, Asia Wind Power (Mudanjiang) for research, feasibility and survey costs. This came up to a total of S\$5.9m. This plant is only expected to be operational in 2006.

Announced two new joint ventures. In another development, Asia Power has also entered into an agreement to set up a joint venture called Asia Power (Leibo) Hydroelectricity Co., Ltd. Asia Power will inject RMB37.5m (about S\$7.7m) into the venture and hold a 75% interest. This venture is to develop and operate 3 hydro power electricity generation plants (namely Lami, Huzhu and Sichuanjiao) in Sichuan Province, PRC. The total installation capacity is expected to be 65MW. Management views this as a more stable source of earnings as the running of hydro power plants are relatively unaffected by the fluctuations in oil and coal prices.

Asia Power is also buying a 51% stake in Great Rich Finance Ltd for about RMB24.5m (S\$5.0m). Great Rich's key investment is a deemed interest of 31.6% in Chongqing Yujiankou Hydroelectricity Co., Ltd. The principal activity is to operate hydropower electricity generation plants with 60MW installation capacity in Chongqing province, PRC. The plants have been in operation since January this year.

Lowering fair value to 15 cents. While management is not able to comment on further start-up related costs in 2H, we have prudently toned down our estimates. We are lowering FY05 earnings from S\$5.9m to S\$4.2m. We have also revised down our fair value to 15 cents, using the same 11x valuation parameter. Based on the normal DPS of 0.5 cents, net yield is 4.2% at current price. We retain our **BUY** rating.

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Year to 31 Dec	Turnover (\$m)	EBIT (\$m)	Net Profit (\$m)	EPS (cents)	EPS Growth (%)	Consensus EPS (cents)	PER (x)	Net Div Yield (%)
FY 03	82.9	4.5	2.3	0.7	-	-	17.1	17.5
FY 04	85.6	5.3	5.5	1.7	142.9	-	7.1	48.3
FY 05F	93.5	-0.6	4.2	1.2	-29.4	-	10.0	35.0
FY 06F	100.7	3.6	4.9	1.4	16.7	-	8.6	35.0

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

Asia Power Corp Year Ended 31 Dec	1H04 (S\$m)	1H05 (S\$m)	% Chg (YoY)
Turnover	45.6	49.2	7.8
Cost of sales	-37.0	-41.3	11.5
Gross profit/loss	8.6	7.9	-8.1
Other operating income	0.1	0.5	338.7
Distribution & admin expenses	-2.8	-8.7	207.9
Other operating expenses	-0.7	0.0	-99.7
Profits from operation	5.2	-0.3	-104.9
Associates	2.4	2.9	19.7
Pre-tax profit	7.3	2.3	-68.2
Net profit	3.6	2.1	-42.2
EPS (cts)	1.1	0.6	-46.5
Gross margin (%)	18.8	16.0	
Operating margin (%)	11.3	-0.5	
PBT margin (%)	16.0	4.7	
PAT margin (%)	8.0	4.3	

Asia Power Corp Ltd's Key Financial Data

EARNINGS FORECAST				
Year Ended 31 Dec (S\$m)	FY03 (6-mth)	FY04	FY05F	FY06F
Power Plant	39.6	84.2	92.4	98.0
Others	0.0	0.8	1.1	2.7
Revenue	39.6	85.0	93.5	100.7
Cost of sales	-37.3	-73.6	-82.0	-87.8
Gross profits	2.3	11.4	11.5	12.9
Pre-tax profits	1.4	9.9	4.7	9.5
Net Profits	0.9	5.5	4.2	4.9
EPS (cents)	0.3	1.7	1.2	1.4
DPS (cents)	0.3	0.7	0.7	0.5
NAV (cents)	15.3	16.6	17.9	19.1
KEY RATIOS				
Revenue growth (%)	-51.0	114.8	10.0	7.7
Pre-tax growth (%)	-77.4	607.8	-51.9	100.7
Net Profit growth (%)	-63.3	511.8	-22.2	15.0
Pre-tax profit margin (%)	3.5	11.6	5.1	9.4
Net profit margin (%)	2.3	6.4	4.5	4.8

SUMMARY BALANCE SHEET				
As at 31 Dec (S\$m)	FY03	FY04	FY05F	FY06F
Share capital	26.6	26.7	29.2	29.2
Reserves	28.3	31.5	33.8	36.7
Shareholders' Funds	55.0	58.2	63.0	65.9
Fixed assets	72.1	72.4	75.2	78.9
Current assets	52.3	53.9	81.2	83.8
Current liabilities	38.7	44.0	54.4	57.3
Long-term liabilities	8.8	2.6	6.6	6.5
Others	21.9	21.4	32.4	33.0
Assets less Liabilities	55.0	58.2	63.0	65.9

SUMMARY CASH FLOW				
Year Ended 31 Dec (S\$m)	FY03	FY04	FY05F	FY06F
Pretax profits	1.4	9.9	4.7	9.5
Depreciation	2.1	4.2	2.5	2.5
Others	-2.4	-4.6	-6.0	-6.7
Changes in working capital	19.0	-7.5	-0.5	-1.8
Operating cash flow	20.1	1.9	0.7	3.5
Net cash used in investing activities	-5.5	-2.1	-2.1	-1.9
Cash flow from financing activities	-12.1	-3.5	6.2	-7.3
Change in cash/(debt)	2.5	-3.7	4.9	-5.7
End cash/(debt)	17.8	14.2	19.5	13.8

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