

Asia Power Corp

Bloomberg: API SP

Sector: Industrial

Rating:
Price S\$0.175

Initiating Coverage

Market Perform

Y/E 31-Dec	2002A	2003A	2004F	2005F
Net Profit (\$m)	1.1	0.9	3.7	4.3
EPS (cts)	0.3	0.3	1.2	1.3
EPS Growth (%)	-	-16	+321	+14
Consensus EPS	-	-	-	-
PER (x) @ S\$0.175	58.3	58.3	14.6	13.5
NTA (\$)	0.15	0.15	0.16	0.17

Performance (%)	1mth	3mth	12mth	Market Capitalisation :	S\$56m
Absolute	-	+3	+46	Issued shares :	320m
Relative against STI	+1	-5	-10	30-day avg daily vol ('000) :	134

Note: FY02 & FY03 figures are for 6 mths due to change of year-end from Jun to Dec

China power play with yield angle

- A pure power related stock
- Current valuations are fair, with yield of 2.9%
- Initiating coverage with a MARKET PERFORM rating and fair value of 19 cents

As the only pure power play stock listed on the local bourse, Asia Power Corporation Ltd (API) offers fairly decent dividend yield. Over the last four financial years, API distributed dividends of at least 0.5 cent per year for a yield of about 2.9%. It is trading close to book and this should provide some support to its share price. Earnings were inconsistent over the recent 2-3 years due to the restructuring of its operations and changes to its core holdings. Management has indicated that the pace of restructuring will taper off and this should bring earnings back to normalised levels. Excluding the exceptional items from the peak years (FY01 and FY02), its historical profits should average about \$5m. FY04 will cover a 12-month period and should be an improvement over the 6-mth FY03. However, with the earnings volatility of the past, we prefer to be conservative and accord a MARKET PERFORM rating and peg fair value at

19 cents for a yield of 2.6%, valuation of 15x and P/B of 1.2x.

Earnings have been on a downtrend since FY01. Earnings for the group peaked in FY01 when it generated profits of \$8.3m on revenue of \$109m. Since then, profitability has been on a downtrend as several rounds of restructuring exercises have affected the group's profitability in addition to start-up losses of some newly acquired ventures.

However, stripping off the exceptional items due to the restructuring moves, its profits over the past 4-5 years amounted to about \$4-5m. In FY01, which was the peak year, the group saw the congregation of several factors that buoyed its bottomline performance. If these items were excluded, API's performance at the net level would have been closer to the normalised level of about \$5m.

Restructuring is tapering off. Moving on, the number of restructuring exercises are likely to come off as management has gradually shifted its focus to participating in more greenfield projects, also in power-related industries. This should help the group to stabilise its earnings stream over the longer run.

Overall, its earnings are unevenly distributed with the bulk of its profits booked in the first six months of the year, while costs are spread out over the whole year. As such, its 1H performance is on average about 3x better than the 2H.

Note: The group recently changed its financial year-end from Jun to Dec. This means that the first half from this year on will cover the period from Jan-Jun, which is likely to be significantly better than its performance in the 2H (Jul-Dec).

Industry trends and changes. According to management, generation capacity in China is projected to grow 26% from 340,000 MW at end-2002 to 430,000 MW by 2005. This is due to continued power shortages as a result of the country's rapid rise in power demand.

At the same time, the power industry in China is also experiencing some drastic changes. Recently, this was brought about by the de-regulation and restructuring of the power industry in China. It involved the separation of power generation from transmission and distribution as well as the segregation of state power company into a few national power generation and grid companies. This shift towards a market-driven pricing mechanism has intensified competition in the local power market and tariffs have come under pressure. However, this was partly mitigated by strong demand and that helped to support tariff rates.

Recent earnings performances. For the financial year ended Jun 2003 (FY6/03), the group generated profit of \$2.4m (-62% YoY) on revenue of \$80.7m (-16% YoY). The weaker set of earnings was due to the deconsolidation of Shenzhen NARI and start-up losses at one of its associates and a subsidiary. In addition, there was a \$1.9m adjustment for the overstatement of gain on partial disposal of a subsidiary recognised in the previous year. According to management, if the latter were excluded, FYJune/03 net profit would have been \$4.39m (versus the reported \$2.4m and about the same as the previous year's \$4.36m).

In September 2003, the group changed its financial year-end from Jun to Dec. For the six-month period to the end of 2003, the group reported net earnings of \$0.89m (-16% YoY) on revenue of \$39.6m (+6%). The decrease in earnings was due to higher taxes and

foreign exchange losses (due to the weakening of the USD and RMB against the SGD).

Dividend has stayed above 0.5 cent over the last four years. Over the last four financial years (FYJune/00-FYJune/03), the group had paid out dividends of at least 0.5 cent per year. Based on the current share price of 17 cents, the yield works out at about 2.9%. Management has indicated that it is likely to continue with its dividend policy and we are assuming the same level of 0.5 cent for FY04

Financials and risk. As at the end of 2003, its debt/equity ratio was a healthy 0.26. This is relatively low for an asset intensive industry. At the end of the previous two years, the figure ranged from 0.15 to 0.19. It also has a healthy cash balance of about \$17.8m as at the end of the year. Taken over 12-month, operating earnings came in at \$4.9m (again, reflecting the 3:1 split between 1H and 2H), against finance charges of \$0.7m.

Apart from the country and operational risks, there is also the translational risk as its operations are in China and it is reporting in SGD. The company reported forex loss of \$0.23m for the six-month ended Dec 2003 versus a gain of \$0.13m in the previous year. Changes in tariff rates will also have an impact on its performance.

Prospects & valuation. Earnings for the current year will come from its core operations (Xinbao station, Changzhou Suyuan, Shenzhen NARI and Neijiang station). For this year, there will be the additional contribution from the 59.6MW Changzhou Huayuan station as this combined-cycle peaking plant only went into full operation in Dec 2003. The construction of the San Ke Shu hydropower station (at the Anning River) is slated for completion by late 2004.

Name	PER (E)
Huaneng Power International	18.6
Beijing Datang Power	20.4
China Resources Power	31.6
Huadian Power International	14.4

Source: Bloomberg

Based on the comparisons with some of the HK-listed China power plant related stocks, the average valuation is about 21x estimated earnings. The listed included Huaneng Power International (18.6x), Beijing Datang Power (20.4x) and China Resources Power (31.6x). At 17 cents, Asia Power is trading at only 14.5x FY04 earnings and 12.8x FY05 earnings.

In terms of our earnings projections, we opted to be conservative and expect earnings to only revert back to normalised level from FY05 onwards.

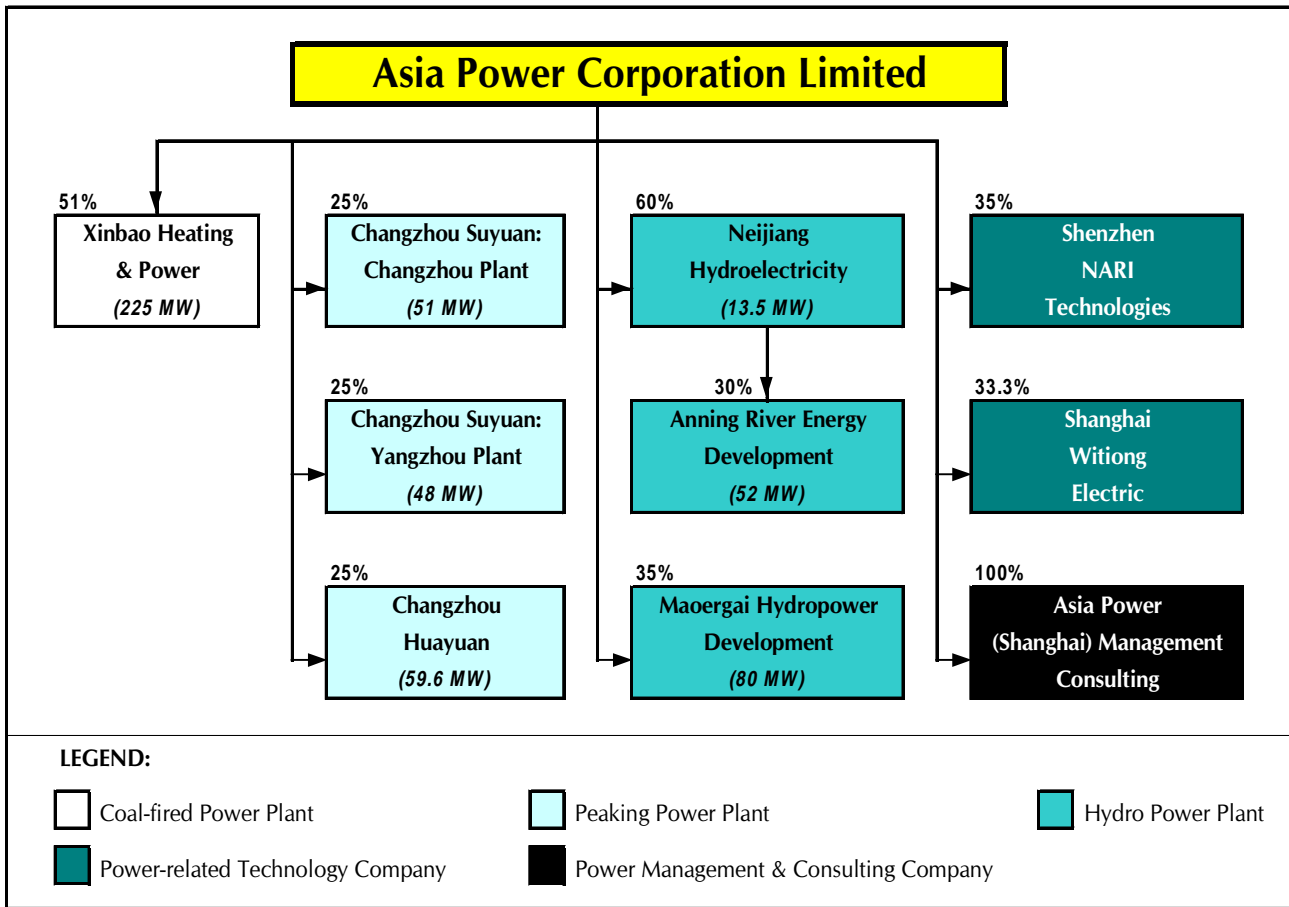
Taking a discount to the average valuation of the bigger players, we peg fair value at 15x. Based on blended earnings for FY04 and FY05, we arrive at a fair value of 19 cents. At this price, it is yielding 2.6% and is trading at a reasonable 1.2x book. At current price, there is limited price downside as its share price is well supported by a yield of 2.9% and 1.1x book.

We are initiating coverage with a **MARKET PERFORM** rating and fair value of 19 cents.

Background: The company was incorporated in March 1997 and listed on Nov 1999. It is an independent power producer in China. It is involved in the ownership, management and operation of power plants and power-related operations in China. As at the end of 2003, it has stakes in seven power plants with a total installed capacity of 529MW. In addition, it has stakes in two power-related technology companies.

The group undertook several rounds of key corporate restructuring in 2002-03. This included the enlargement of the capital of 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.

The biggest plant within API's stable is the 51%-owned Xinbao station. It is located in Qiqihar City, Heilongjiang province. It is a coal-fired, combined heat-and-power plant. It has an installed capacity of 225MW. Electricity is sold to the provincial grid, while heat is for local consumption.



Asia Power Corporation Limited

Investment Portfolio At A Glance

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

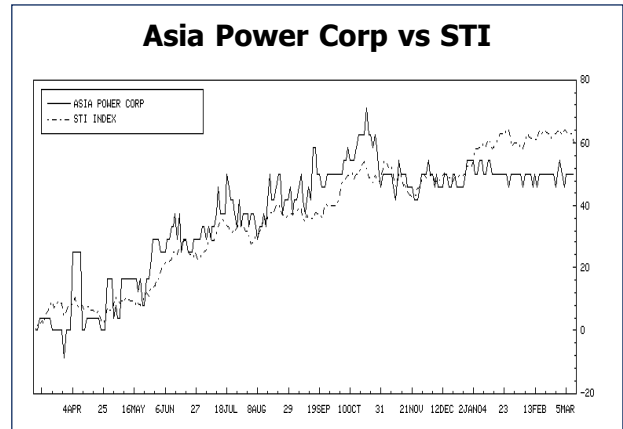
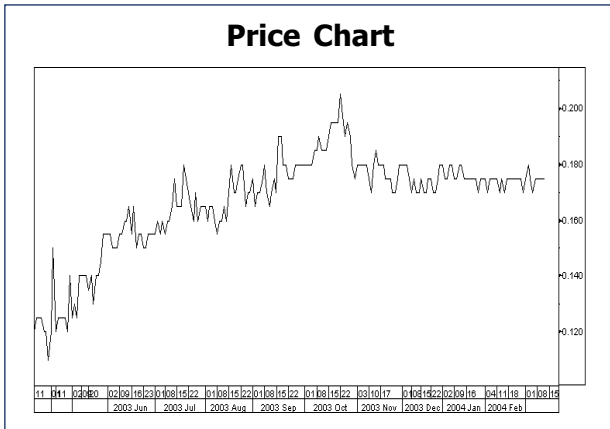
¹ The investment was made through Neijiang and Asia Power's effective interest in Anning River is 18%.

Income Statement

Y/E: Dec	6M FY12/02	6M FY12/03	FY04	FY05
Turnover	37.4	39.6	85.0	97.8
Cost of sales	-36.4	-37.3	-72.5	-83.1
Gross Profits/Loss	1.0	2.3	12.5	14.7
Other Operating Income	0.4	0.3	0.7	0.8
Distribution Exp	0.0	0.0	0.0	0.0
Admin Exp	-3.2	-3.3	-5.7	-6.6
Impairment loss W/B	0.0	0.0	0.0	0.0
Other Operating Exp	-0.3	-0.2	-0.3	-0.1
Profits from Operation	-2.1	-0.9	7.2	8.7
Finance Costs	-0.3	-0.3	-0.5	-0.5
Associates	2.6	2.6	3.4	3.7
Pre-tax profits	0.2	1.4	10.1	12.0
Net Profit	1.1	0.9	3.7	4.3
EPS (cents)	0.3	0.3	1.2	1.3
Tax (%)	107.4%	47.2%	24.0%	23.4%
Gross Margin (%)	2.7%	5.8%	14.7%	15.0%
Operating Margin (%)	-5.6%	-2.2%	8.4%	8.9%
PBT Margin (%)	0.5%	3.5%	11.9%	12.2%
PAT Margin (%)	2.8%	2.3%	4.4%	4.4%

Balance Sheet

In S\$m	As at end-2002	As at end-2003
Non-current Assets	69.8	72.1
- Property, plant & Equipment	44.2	45.0
- Investment in associates	24.9	26.5
Current Assets	41.0	52.3
- Trade & notes receivables	25.6	27.2
- Cash & Equivalent	10.9	17.8
Less: Current Liabilities	24.1	38.7
- Trade & other payables	22.2	31.1
- Current portion of interest bearing loans	0.1	6.2
Net Current Assets	16.9	13.5
Non-current Liabilities	8.9	8.8
Minority Interest	22.5	21.9
Net Assets	55.3	55.0
Share Capital & Reserves	55.3	55.0



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