

# Asia Power Corp

**Reuters:** ASPW.SI  
**Bloomberg:** API SP

**Sector:** Industrial

**Rating:**
**Price** S\$0.17

 Maintain **Market Perform**

Y/E 31-Dec	6M 2002	6M 2003	2004F	2005F
Net Profit (\$m)	1.1	0.9	4.8	5.4
EPS (cents)	0.3	0.3	1.5	1.7
EPS Growth (%)	-	-16	+442	+11
Consensus EPS	-	-	-	-
PER (x) @ S\$0.17	51.5	60.7	11.3	10.2
NTA (\$)	0.15	0.15	0.18	0.20

Performance (%)	1mth	3mth	12mth	Market Capitalisation :	S\$	55m
Absolute	+3	+6	+3	Issued Shares :		321m
Relative against STI	+2	-2	-17	30-day avg daily vol ('000) :		38

## Associates lead better 1H earnings

- 1H performance was better than expectation
- Net earnings came in at \$3.6m, up 173%
- Maintain MARKET PERFORM rating and fair value of 19 cents

Year Ended 31 Dec	1H04 (S\$m)	1H03 (S\$m)	Chg (%)
Turnover	45.6	43.3	5.3
Cost of sales	-37.0	-33.7	10.0
<b>Gross profit/loss</b>	<b>8.6</b>	<b>9.6</b>	<b>-11.1</b>
Other operating income	0.1	-1.4	-108.6
Distribution & admin expenses	-2.8	-2.8	1.0
Other operating expenses	-0.7	0.0	5908.3
<b>Profits from operation</b>	<b>5.2</b>	<b>5.4</b>	<b>-4.5</b>
Associates	2.4	0.9	159.1
<b>Pre-tax profit</b>	<b>7.3</b>	<b>6.0</b>	<b>22.3</b>
<b>Net profit</b>	<b>3.6</b>	<b>1.3</b>	<b>173.1</b>
EPS (cts) - Basic	1.1	0.4	165.1
EPS (cts) - Diluted	1.1	0.4	162.8
Operating margin (%)	11.3	12.5	
PBT margin (%)	16.0	13.8	
PAT margin (%)	8.0	3.1	

Asia Power Corporation (API) posted a strong 173% YoY rise in 1H net earnings to \$3.6m. The improvement came from a sharp turnaround in other operating income from a loss of \$1.44m to a profit of \$0.12m, lower finance costs (down 29% YoY), higher associates contribution (+159% YoY to \$2.4m) and a lower tax rate. Two newly acquired associates in June 2003 contributed a total of almost \$1m to the group. Revenue of \$45.6m in 1H04, up 5.3% YoY, was within our expectation. The increase in revenue came from the 51%-owned Xinbao plant, which saw a \$2.1m increase in sales while the 60%-owned Neijiang plant reported a \$0.233m increase in sales. Average tariff rose 5.2% during the period under review. However, the 1H of the calendar year is traditionally significantly stronger than the 2H. As such, while we have revised our FY04 estimates up, it is not a sharp increase due to the seasonality of earnings. But the revision is largely to reflect the stronger than expected contribution from associates. As highlighted in our earlier report, API has been consistent in its dividend payments, paying out at least 0.5 cent per year for a yield of about 2.9%. It has also been trading consistently close to its book value over the past few months and this level seems to be supporting its share price. We

maintain our **MARKET PERFORM** rating and fair value estimate of 19 cents for yield of 2.6%, valuation of 12.6x and P/B of 1.2x.

**1H performance was above expectation.** Asia Power Corporation (API) posted a strong 173% YoY rise in 1H net earnings to \$3.6m, up from \$1.4m in 1H03. The stronger-than-expected 1H04 improvement came from a sharp turnaround in other operating income from a loss of \$1.44m to a profit of \$0.12m, lower finance costs (down 29% YoY), higher associates contribution (+159% YoY) and a lower tax rate. Associates posted a higher contribution, up a strong 159% YoY, from less than \$1m in 1H03 to \$2.4m in 1H04. This was due to higher contributions from two new associates (acquired in June 2003) which contributed a total of nearly \$1m to group profits. Changzhou Huayuan Electric Power Company Ltd accounted for profits of \$881,000, while Shanghai Witlong Electric Company Ltd contributed \$84,000. In addition, contribution from another associate, Shenzhen NARI Technologies Company Ltd, increased by \$342,000.

Revenue rose 5.3% YoY to \$45.6m in 1H04. This was within our expectation as we were expecting full year revenue of about \$85m. The increase in revenue came from 51%-owned Heilongjiang Asiapower Xinbao Heating & Power Company Ltd (also known as Xinbao plant), which saw a \$2.1m increase in sales. Another key subsidiary, 60%-owned Asia Power (Neijiang) Hydroelectricity Company Ltd (also known as the Neijiang plant) reported a \$233,000 increase in sales. In terms of electricity volume, Xinbao saw 1.9% growth in volume while Neijiang saw 14.3% increase in volume. Average tariff rose 5.2% during the period under review.

However, cost of sales rose from 78% in 1H03 to 81% by 1H04. This was due to rising costs for Xinbao pertaining to coal prices, depreciation, staff costs and rental of machinery. This led to a decline in the gross profit margin from 22.3% to 18.8% as gross profit fell from \$9.65m to \$8.57m. Apart from this, operating margin also fell from 12.5% in 1H03 to 11.3% in 1H04. However, with higher contribution from associates and lower taxes, net profit saw a 167% rise to \$3.6m.

**Traditionally, 1H is sharply better than 2H.** Typically, the 1H of the calendar year has always been significantly stronger than the 2H. As such, while 1H04 saw a good increase in earnings, this same performance cannot be expected in the 2H of the year.

**Trends and changes.** According to management, demand remains strong in China, resulting in power shortages in several cities. While oil and coal prices have been on the uptrend these past few months, the group was able to pass this on as electricity tariffs moved up to compensate for the effect of rising fuel costs.

It has pulled out of the Sichuan Maoergai Hydropower Development power due to long delays in this project. Meanwhile, the 52MW San Ke Shu Hydropower station is slated to commence operation by end 2004.

**Prospects & valuation.** API's 1H net profit is already close to our full year FY04 results. In our earlier report, we stated that we prefer to be conservative due to the previous lumpy nature of its earnings and stated our preference to wait for the 1H04 results to review our slightly conservative estimates. After seeing the flow-through effect of the restructuring of its operations and changes to its core holdings on the 1H04 results, we are raising our FY04 earnings estimate from \$3.8m to \$4.8m. This is not a sharp increase due to the seasonality of earnings, where the 2H is typically significantly weaker than the 1H. The revision is largely to reflect the stronger than expected contribution from associates in 1H04. Earnings for the rest of the year will come to come from its core operations (Xinbao station, Changzhou Suyuan, Shenzhen NARI and Neijiang station), with additional contribution from the Changzhou Huayuan station which commenced full operation in Dec 2003.

As highlighted in our earlier report, API has been consistent in its dividend payments, paying out at least 0.5 cent per year or a yield of about 2.9%. It has also been trading consistently close to its book value over the past few months and this level seems to be supporting its share price. We maintain our **MARKET PERFORM** rating and fair value of 19 cents for yield of 2.6%, valuation of 12.6x and P/B of 1.2x.

	Stake	Location	Investment Date	Installed Capacity	Type
Asia Power (Neijiang) Hydroelectricity Co	60%	Sichuan	Feb-98	13.5MW	Hydro power plant, run-of-river
Heilongjiang Asiapower Xinbao Heating & Power Co	51%	Heilongjiang	May-98	225MW	Coal-fired power plant
Changzhou Suyuan Electric Power Company - Changzhou plant	25%	Jiangsu	Mar-99	51MW	Combined-cycle, peaking power plant
Changzhou Suyuan Electric Power Co - Yangzhou plant	25%	Jiangsu	Jan-01	48MW	Heavy diesel-fired, peaking power plant
Sichuan Anning River Energy Development Co - Sankeshu Station	30%	Sichuan	May-02	52MW	Hydro power plant, diversion. Under construction. Expected to be operational by end-2004.
Changzhou Huayuan Electric Power Company	25%	Jiangsu	Jun-03	59.6MW	Combined-cycle, peaking power plant

**EARNINGS FORECAST**

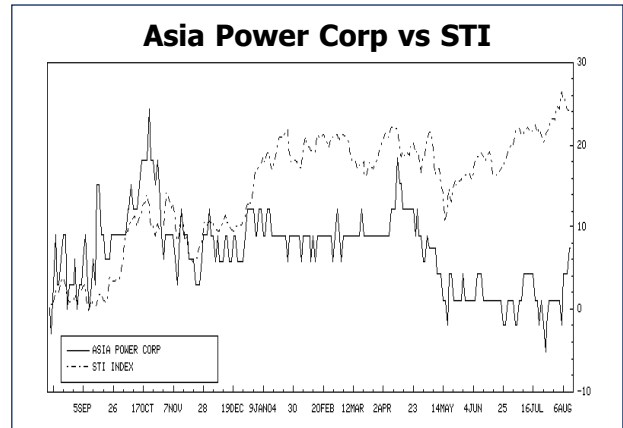
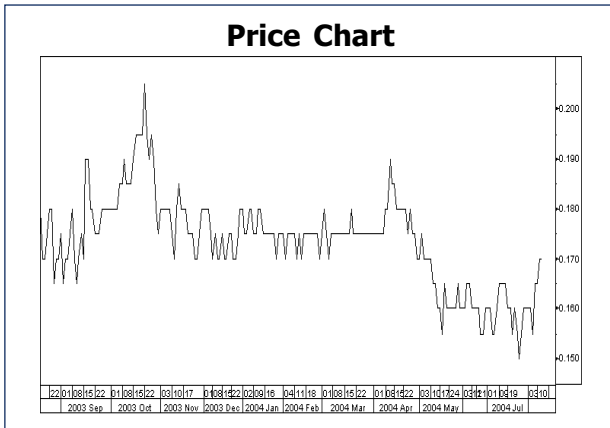
Year Ended 31 Dec (\$m)	12-mth to Jun 03	6-mth to Dec 03	FY04F	FY05F
Power Plant	80.6	39.6	84.2	95.3
Others	0.1	0.0	0.8	2.5
<b>Revenue</b>	<b>80.7</b>	<b>39.6</b>	<b>85.0</b>	<b>97.8</b>
Cost of sales	-70.0	-37.3	-73.0	-75.9
Gross profits	10.7	2.3	12.0	21.9
Pre-tax profits	6.2	1.4	9.6	10.8
Net Profits	2.4	0.9	4.8	5.4
EPS (cents)	1.4	0.3	1.5	1.7
DPS (cents)	0.5	0.3	0.5	0.5
NAV (cents)	15.9	15.3	18.3	19.6
<b>KEY RATIOS</b>				
Revenue growth (%)	-15.7%	-51.0%	114.8%	15.0%
Pre-tax growth (%)	-57.3%	-77.4%	589.3%	12.9%
Net Profit growth (%)	-61.5%	-63.3%	442.5%	10.7%
Pre-tax profit margin (%)	7.6%	3.5%	11.3%	11.1%
Net profit margin (%)	3.0%	2.3%	5.7%	5.5%

**SUMMARY BALANCE SHEET**

Year Ended 31 Dec (\$m)	12-mth to Jun 03	6-mth to Dec 03	FY04F	FY05F
Share capital	26.6	26.6	26.7	26.7
Reserves	30.5	28.3	31.9	35.9
<b>Shareholders' Funds</b>	<b>57.1</b>	<b>55.0</b>	<b>58.6</b>	<b>62.6</b>
Fixed assets	67.6	72.1	78.1	80.9
Current assets	65.0	52.3	59.4	69.5
Current liabilities	38.4	38.7	44.0	45.4
Long-term liabilities	13.2	8.8	9.1	14.8
Others	23.9	21.9	25.8	27.6
<b>Assets less Liabilities</b>	<b>57.1</b>	<b>55.0</b>	<b>58.6</b>	<b>62.6</b>

**SUMMARY CASH FLOW**

Year Ended 31 Dec (\$m)	12-mth to Jun 03	6-mth to Dec 03	FY04F	FY05F
Pretax profits	6.0	1.4	9.6	10.8
Depreciation	3.8	2.1	2.5	2.5
Others	-1.0	-2.4	-4.1	-4.4
Changes in working capital	-12.6	19.0	-6.6	-2.0
<b>Operating cash flow</b>	<b>-3.8</b>	<b>20.1</b>	<b>1.4</b>	<b>7.0</b>
Net cash used in investing activities	-8.0	-5.5	-1.5	-1.4
Cash flow from financing activities	15.1	-12.1	-6.5	-7.0
Change in cash/(debt)	3.3	2.5	-6.6	-1.4
End cash/(debt)	15.5	17.8	11.2	9.8



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