

Asia Power Corp

Reuters: ASPW.SI
Bloomberg: API SP

Sector: Industrial

Rating:
Price S\$0.14

 Maintain **Outperform**

Y/E 31-Dec	6M 2002A	6M 2003A	2004F	2005F
Net Profit (\$m)	1.1	0.9	5.4	5.9
EPS (S cent)	0.3	0.3	1.7	1.9
EPS Growth (%)	-	-15	+500	+10
Consensus EPS	-	-	1.7	1.9
PER (x) @ S\$0.14	42.4	50.0	8.3	7.6
NTA (\$)	0.15	0.15	0.19	0.20

Performance (%)	1mth	3mth	12mth	Market Capitalisation :	S\$	48m
Absolute	-10	-13	-20	Issued Shares :		321m
Relative against STI	-11.2	-17	-42	30-day avg daily vol ('000) :		33

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

Profit is back on track

- **FY04 will mark its first 12-month contribution for Dec year end**
- **1H profits of S\$3.6m, and expecting 2H profit of S\$1.8m**
- **The 2H is traditionally lower as bulk of revenue recognised in 1H**
- **Maintain OUTPERFORM rating**

Summary: Asia Power (API) changed its year-end from Jun to Dec late last year. As a result of this change, the coming set of results is for the 12-month period ended 31 Dec 2004. We take a re-look at its performance ahead of the FY04 results. With market capitalisation of around S\$45m, Asia Power is not required to do quarterly reporting. Based on the last set of results, which covered the first six months of the year, the company reported a strong 173% YoY rise in net earnings to S\$3.6m. This marked a sharp turnaround in other operating income from a loss of S\$1.44m to a profit of S\$0.12m. In addition, finance costs fell 29% YoY, associates contribution grew 159% YoY and tax rate also came off. More significantly, the results saw the maiden contribution from two associates that were acquired in Jun 2003. In total, both associates contributed profit of slightly less than

S\$1m. For the full year, we are projecting net profit of S\$5.4m. Traditionally, the second half of the calendar year is usually slower. While it is a fairly small company, yield is fair at 3.6%. Together with its undemanding valuations, API stays as an **OUTPERFORM** with medium term fair value estimate of 19 cents.

Recent developments. Some of the key events in 2004 included the change in Asia Power's (API) financial year-end from June to Dec. In addition, its performance was also aided by the maiden contribution from two associates, which joined the group in 2003. Recently, one of the key global trends is the high price of oil and this has similarly led to higher coal prices. At our last report, we gathered from management that the hike in coal prices for this year is within acceptable range. API has an assured source for its coal supplies and price appreciation this year is around 10% which was mitigated by a hike in electricity tariffs.

Strong 1H performance, with slight tapering in profits expected for the 2H. Traditionally, the second half of the calendar year is usually slower than the 1H. The main reason being that while profits are largely recognised in the 1H, costs are spread out evenly

over the whole year. As such, this gives rise to better profit contribution in the 1H.

API's earnings peaked in FY01 when it reported profit of \$8.3m on revenue of \$109m. Since then, its profitability has been on a downtrend, partly brought on by start-up losses from new ventures. Excluding the exceptional items, group profit would have averaged about S\$4-5m per year. To bring the group back to its previous profitability track, management undertook several rounds of restructuring exercises, which led to Asia Power reporting profits of S\$3.6m in the recent interim period.

At S\$3.6m, this translated into a strong 173% YoY rise in 1H04 net earnings. The strong performance was due to a sharp turnaround in other operating income from a loss of S\$1.44m to a profit of S\$0.12m, lower finance costs (down 29% YoY), higher associates contribution (+159% YoY) and lower tax rate. Associates saw a strong 159% YoY improvement to S\$2.4m, mainly coming from two newly acquired associates in June 2003 which contributed profits of less than \$1m.

Revenue rose 5.3% YoY to S\$45.6m in 1H04. However, cost of sales rose from 78% in 1H03 to 81%

by 1H04. This was due to rising costs for its Xinbao plant pertaining to coal price, depreciation, staff costs and rental of machineries. This led to a decline in gross profit margin from 22.3% to 18.8% as gross profit fell from S\$9.65m to S\$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 grew 167% to S\$3.6m.

Valuation. In the last four financial years (FY6/00-FY6/03), the group has paid out dividends of at least 0.5 cent per year. Based on 1H net earnings of S\$3.6m and together with a traditionally slower 2H, we are projecting 2H net earnings of S\$1.8m, giving full year net earnings of S\$5.4m.

At current price of 14 cents, the stock is trading at 8.3x FY04 earnings and 7.6x FY05 earnings and a price-to-book of 0.8x. Yield is fairly attractive at 3.6% based on current price compared to the average for China power stocks of about 2.5% yield and P/B of 1.56x. For its undemanding valuations, discount in P/B versus premiums for the bigger peers, fairly stable dividend policy, Asia Power stays as an **OUTPERFORM**. Our medium term fair valuation estimate for the stock is 19 cents.

EARNINGS FORECAST

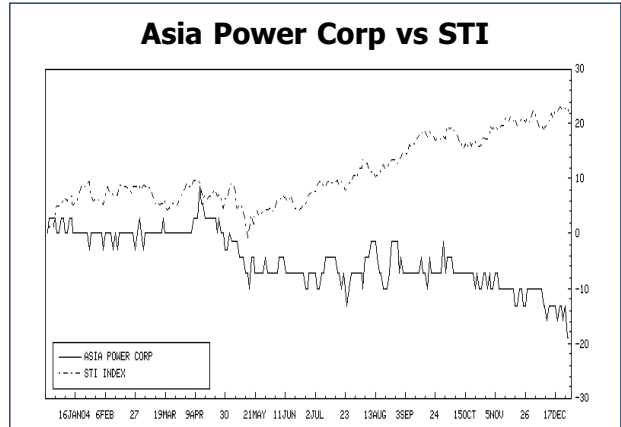
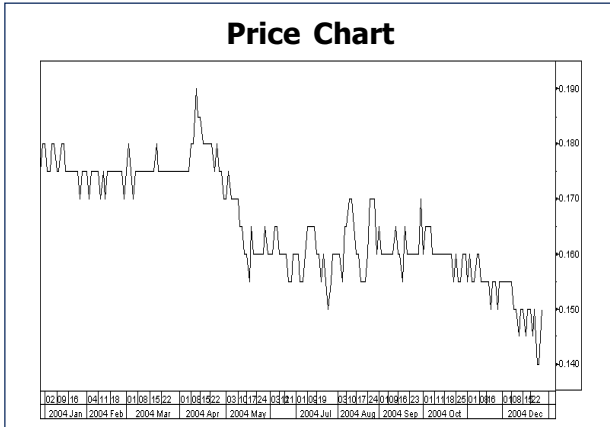
Year Ended 31 Dec (S\$m)	FY6/03A	FY12/03A	FY04F	FY05F
	12-mth to Jun 03	6-mth to Dec 03		
Power Plant	80.6	39.6	84.2	88.2
Others	0.1	0.0	0.8	1.1
Revenue	80.7	39.6	85.0	89.3
Cost of sales	-70.0	-37.3	-73.0	-75.9
Gross profits	10.7	2.3	12.0	13.4
Pre-tax profits	6.2	1.4	10.3	11.6
Net Profits	2.4	0.9	5.4	5.9
EPS (cents)	1.4	0.3	1.7	1.9
NAV (cents)	15.9	15.3	18.5	19.9
KEY RATIOS				
Revenue growth (%)	-15.7%	-51.0%	114.8%	5.0%
Pre-tax growth (%)	-57.3%	-77.4%	639.6%	12.6%
Net Profit growth (%)	-61.5%	-63.3%	503.7%	10.2%
Pre-tax profit margin (%)	7.6%	3.5%	12.1%	13.0%
Net profit margin (%)	3.0%	2.3%	6.3%	6.6%

SUMMARY BALANCE SHEET

As at 31 Dec (S\$m)	Jun-03	Dec-03	2004F	2005F
Share capital	26.6	26.6	26.7	26.7
Reserves	30.5	28.3	32.4	37.1
Shareholders' Funds	57.1	55.0	59.1	63.8
Fixed assets	67.6	72.1	79.0	82.7
Current assets	65.0	52.3	59.3	69.3
Current liabilities	38.4	38.7	44.0	45.4
Long-term liabilities	13.2	8.8	9.2	14.8
Others	23.9	21.9	26.0	28.1
Assets less Liabilities	57.1	55.0	59.1	63.8

SUMMARY CASH FLOW

Year ended	12-mth to Jun 03	6-mth to Dec 03	2004F	2005F
Pretax profits	6.0	1.4	10.3	11.6
Depreciation	3.8	2.1	2.5	2.5
Others	-1.0	-2.4	-4.8	-5.2
Changes in working capital	-12.6	19.0	-6.7	-2.1
Operating cash flow	-3.8	20.1	1.3	6.9
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	-6.7	-1.5
End cash/(debt)	15.5	17.8	11.1	9.6



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