OCBC Investment Research

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SINGAPORE **Company Update**

30 November 2004

Asia Power Corp

Reuters: ASPW.SI
Bloomberg: API SP

Sector: Industrial

Price S$0.155

Rating: Maintain **Outperform**

Y/E 31-Dec	6M02A	6M03A	2004F	2005F
Net Profit (S$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$0.155	47.0	55.4	9.2	8.4
NTA (S$)	0.15	0.15	0.19	0.20

Performance (%)	1mth	3mth	12mth
Absolute	-3	-3	-14
Relative against STI	-6	-10	-32

Market Capitalisation :	S$	50m
Issued Shares :		321m
30-day avg daily vol ('000) :		45

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

Impact from coal hike is mitigated by tariff hike

- **Several alarming coal-related news hit the market**
- **Impact is more obvious for the bigger power players**
- **Negligible impact on API**
- **Maintain OUTPERFORM rating, but stock is looking attractive as a yield play at current price**

Summary: Coal news in China has hogged recent headlines. First, there was a coal mine explosion over the weekend. Secondly, the China National Coal Association is expecting a drop in overall coal production. These events have affected several big HK-listed power-plant stocks. A check with Asia Power Corp's (API) management indicates that its operations are unlikely to be as severely affected as its bigger peers. Firstly, API's source of coal supplies is fairly assured and is of a different type (different power plants use different types of coal). For API, the price appreciation so far this year is around an acceptable 10%. Secondly, the rise in coal prices has been largely mitigated by increases in electricity tariffs. We are maintaining our FY04 earnings and retaining our **OUTPERFORM** rating and fair value of 19 cents. The dividend yield is attractive at 3.2% based on its share price of 15.5 cents and gross dividend per share of 0.5 cents.

Event – recent news on coal supplies/prices. In recent days, there were several key pieces of coal-related developments in China. Firstly, there was the news of a gas explosion in a coal mine in Shaanxi province on 28 Nov 2004. This was followed by news of a projected drop in coal output, which caused the price of several HK-listed power-related stocks to fall after comments from a China National Coal Association official. The coal association is expecting coal output to drop by 19%, from 1.67 billion tonnes last year to 1.36 billion tonnes by 2020. The coal association represents about 925 coal suppliers in China.

On the back of a recent sharp rise in domestic demand which has been fuelling the growing Chinese economy, coal prices have been on an uptrend this year. This is not surprising considering that crude oil price futures have also surged strongly this year. According to the National Bureau of Statistics, coal prices rose 22% in October. With rising costs, this has hurt the bottomline of power producers. According to a Bloomberg report,

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the "average prices charged by Yanzhou Coal Mining Co., China's only overseas-listed coal miner, jumped 73% in the third quarter. For the first nine months, the gain was 45%." This reflects the recent gains in coal prices, which is also fairly reflective of current oil prices.

Coal price hike is within acceptable levels. With the above developments, we take this opportunity to re-look at API. A check with API's management revealed that the impact of higher coal prices on its performance is fairly negligible. For the particular type of coal that API uses at its Heilongjiang plant (also known as the Xinbao plant), which is sourced from nearby Inner Mongolia mines, API has assured supplies and the transportation cost is minimal compared to its peers located at Jiangsu province, where there are no mines.

Meanwhile, API experienced coal price increases of around RMB20 per tonne, or an acceptable 10% increase in cost compared to more than 30% for other plants, especially those located away from coal mines. While costs have gone up, the government has allowed the company to increase electricity costs to mitigate the impact of rising coal prices. As such, the net impact is fairly negligible.

Recap of 1H earnings. API posted a strong 173% YoY rise in 1H04 net earnings to S$3.6m, up from S$1.4m in 1H03. This 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 a lower tax rate. Associates saw a strong 159% YoY improvement to S$2.4m in 1H04. This came 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 prices, depreciation, staff costs and rental of machinery. 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 contributions from associates and lower taxes, net profit saw a 167% rise to S$3.6m. For more details on its results, refer to our last report dated 24 Aug 2004.

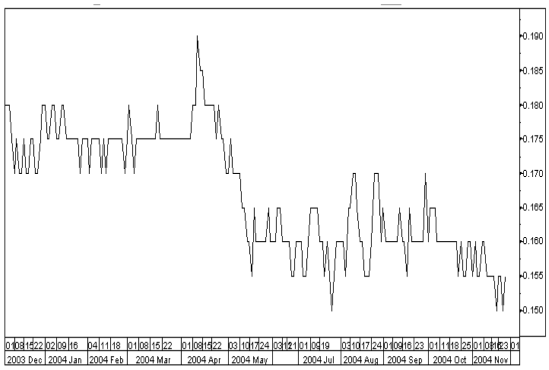
Valuation. We have a FY04 net earnings projection of S$5.38m. At the current price of 15.5 cents, the stock is trading at 9.2x FY04 earnings and 8.4x FY05 earnings and a price-to-book of 0.8x. Yield is fairly attractive at 3.2% based on the current price, and as compared to the average for China power stocks of about 2.5% yield and price-to-book of 1.56x. Since our last report in Aug, the stock has stagnated at 15.5 cents, a slight outperformance vis-à-vis the small-cap sector with the UOB Sesdaq Index down 4% over the same period. We are retaining our **OUTPERFORM** rating as the stock offers a fairly stable dividend yield (with consistent payout of 0.5 cents for the past few years), undemanding valuations and a discount in terms of P/B to its bigger peers. Our medium term fair valuation stays at 19 cents.

EARNINGS FORECAST Year Ended 31 Dec (S$m)	12-mth to Jun 03A	6-mth to Dec 03A	FY04F	FY05F
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
DPS (cents)	0.5	0.3	0.5	0.5
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%

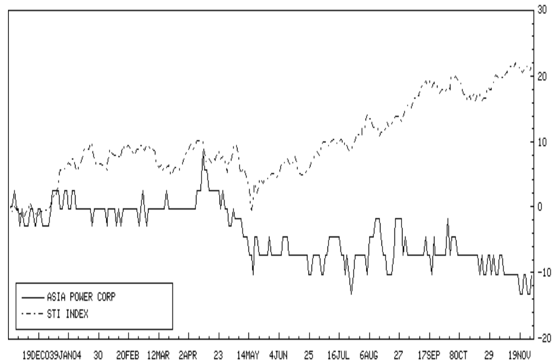
SUMMARY BALANCE SHEET As at 31 Dec (S$m)	Jun 03A	Dec 03A	FY04F	FY05F
Share capital	26.6	26.6	26.7	26.7
Reserves	30.5	28.3	32.4	37.1
Shareholders' Funds	**57.1**	**55.0**	**59.1**	**63.8**
Fixed assets	67.6	72.1	79.0	82.7
Current assets	65.0	52.3	59.3	69.3
Current liabilities	38.4	38.7	44.0	45.4
Long-term 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 31 Dec (S$m)	Jun 03A	Dec 03A	FY04F	FY05F
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

Price Chart



Asia Power Corp vs STI



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