

Keppel Securities, 13 September 2001

BuyS\$0.13

DEFENSIVE NATURE AND A SAFE BET

Daily Highlights

KEY POINTS:

Earnings boosted by new acquisitions and a one-off exceptional gain

Asia Power reported a 78.3% improvement in revenue to \$108.6 million for FY01. The significant jump was mainly attributed to the maiden contribution from its newly acquired subsidiary, Shenzhen NARI Technologies, and the change of operation contracts for two generators in its coal-fired power plant, Xinbao.

Pre-tax profit (PBT) rose 53.0% to \$19.6 million, despite higher depreciation and amortisation expenses as well as a loss in foreign exchange from a gain last year. PBT was boosted by an exceptional gain of \$2.8 million from the reduction of its stake (from 48.0% to 25.0%) of the larger combined peaking facilities in Changzhou Suyuan. The 27.8% increase in depreciation and amortisation expenses to \$4.1 million was mainly due to the amortisation of goodwill resulting from the acquisition of Asia Technologies, which holds a majority stake in Shenzhen NARI Technologies.

Two of its subsidiaries, Shenzhen NARI and Xinbao, lost their tax-free status and higher minority interests depressed the net earnings (PAT). PAT rose 12.3% to \$8.3 million, while earnings per share (EPS) increased by 0.2 cents to 2.58 cents. A final dividend of 0.75 SGD cents (tax exempt) was declared.

Operating in China and poised to enjoy good prospects

China has been enjoying a stable 7% - 8% economic growth amidst sluggish global economic conditions. The surge in foreign investment has fuelled a rapid expansion and industrialisation. This coupled with China's successful bid for the 2008 Olympic Games will accelerate China's economic growth in the years ahead. The robust economy will therefore create higher demand for energy, particularly electric power. This bodes well for established power suppliers such as Asia Power as it is in a position to benefit from China's bright prospects.

The impending restructuring of China's power industry will also change the landscape as a result of more mergers and acquisitions. Asia Power is looking at growing new income streams, and will continue to broaden its operation and diversify its portfolio via the acquisition of power plants and power related entities. Currently, it is engaged in negotiations with two potential acquisition targets.

Maintaining BUY for Asia Power

Amidst the deteriorating global economic outlook, we favour Asia Power for its defensive nature. Asia Power is currently trading at attractive forward PERs of 4.6x and 4.2x, with a dividend yield of 5.8%. Its presence in the growing China economy will differentiate it from other companies currently operating under tough and weak global conditions. Asia Power boasts of sound fundamentals as well as a stable stream of core income. Together with its undemanding valuations, Asia Power stands out in this present dishevelled market for its ability to continue to derive a stable earnings stream in a growing economy. **BUY.**

FYE Jun (S\$m)	00 A	01 A	02 F	03 F
Turnover	60.9	108.6	122.0	132.6
PBT	12.8	19.6	21.9	24.5
PAT	7.4	8.3	9.1	10.0
EPS (cts)	2.4	2.6	2.8	3.1
PER (x)	5.4	5.0	4.6	4.2
DPS (cts)	0.5	0.8	0.8	0.8
Yield (%)	3.8	5.8	5.8	5.8

**Tax exempted dividend of US0.29 cents for FY00 was converted to SGD cents. [Exchange rate USD/SGD: 1.737]

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