

Keppel Securities, 13 September 2001

BuyS\$0.13

A DEFENSIVE STOCK WITH STABLE EARNINGS

Daily Highlights

KEY POINTS:

Re-iterating our BUY call for Asia Power

We are re-iterating our BUY call for Asia Power as the company has proven itself to be an outperformer by recording a 12% rise in net profits for FY6/01. Based on its current share price of 13 cents, the stock is trading at a discount to its NTA per share of 13.8 cents. In addition, forward PERs are extremely undemanding at 4.6 times FY02 earnings and 4.2 times FY03 earnings. For FY01, the company also announced an interim dividend of 0.75 cents. This translated into a dividend yield of 5.8%. Its ROE stood at 16.1%, with a favorable net profit margin of 14.6%.

We like the company for the defensive nature of its earnings stream. In addition, the company also boasts of a good and knowledgeable management team, attractive valuation, good dividend yield and an exposure to the still growing China economy.

Recently, Asia Power reported a 12% increase in net profit to \$8.3 million for the financial year ended June 2001. The better-than-expected result came from a maiden contribution from its newly acquired subsidiary, Shenzhen NARI Technologies

China remains a robust and growing economy

Apart from the widely known surge in industrialization in China and the strong inflow of foreign investments, China is also blessed with two exciting developments. The first is the successful bid to host the 2008 Olympic Games and the second is its acceptance into the World Trade Organization (WTO). Both events are likely to support economic growth for the next few years.

While the rest of the world is likely to see a sharp decline in the second half of this year due to the slowdown in consumer demand following the terrorist attacks in the US, we expect the Chinese economy to buck the trend, as domestic demand remains fairly robust.

More about Asia Power and its operation

Asia Power is an independent power producer in China. It currently has a portfolio of four power plants with a total installed capacity of 337.5 MW. Over the past few years, it has shown remarkable growth. Based on turnover, the company reported CAGR of 29% for the period from FY99-01. Net profit CAGR for the same period was 26%.

With the phased deregulation of the power industry in China, Asia Power is looking to expand its presence in China. Management has indicated to us that they are looking at the possibility of two new acquisition targets. This will provide the organic growth for the company.

Its two main business units are power plants and power-related technologies. The latter is a high margin business, but competition is starting to enter the market. Management expects to combat the competition by focusing on its strength and knowledge of the China market.

Overall, Asia Power is able to deliver a steady flow of income and we have projected net earnings CAGR of 10% for the next two years. As it is a stable business, we are expecting the company to maintain its profit margins. While these are unlikely to excite during the boom times, under present market circumstances, these are attractive factors for a company that is reasonably priced and trading at undemanding forward PERs.

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

Keppel Securities Pte Ltd 10 Hoe Chiang Road, #08-01 Keppel Towers, Singapore 089315 Tel: 2215688
Fax: 2261543 2258576 Telex No: RS21185 KSEC

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