



China Auto Sector

NEV sales rebound signals stronger growth ahead

	Ticker	Rec	Mkt cap		Price	PT	Up/ dn (%)	PER		PBR		EV/EBITDA	
			(US\$m)	Ccy				2017E	2018E	2017E	2018E	2017E	2018E
Tianneng Power	819 HK	Buy	1135.6	HKD	7.87	9.2	17%	7.1	5.8	1.6	1.3	4.2	3.5
Chaowei Power	951 HK	Buy	685.4	HKD	4.83	5.4	13%	6.8	5.7	1.1	1.0	6.9	5.9

Source: Bloomberg, CSCI estimates

- Jul-Aug saw a dramatic rebound in NEV sales growth thanks to fading impacts of the reduced subsidy. We expect the strong NEV shipments to lead to a solid sales volume recovery for upstream NEV parts suppliers, albeit their GPM will continue to come under pressure due to lower ASP (shrinking subsidy) and higher costs (rising raw material prices), in our view.
- In contrast, the sluggish 4.7% YoY growth of ICE shipment in Jan-Aug this year suggests a moderate sales recovery in the coming peak season, and hence we have retained our estimate of a low-to-mid single-digit growth in ICE shipments for FY17E.
- In view of the diminishing policy impacts and strong demand for raw materials of upstream parts, we expect to see continued strong recovery of NEV sales over the coming months. We reiterate our positive view on NEV OEMs and upstream suppliers including Tianneng Power (819 HK) and Chaowei Power (951 HK).

Tepid ICE sales growth in Jan-Aug indicated a moderate peak-season recovery. Although the general inventory levels have been effectively reduced during 2Q17, which will spur OEMs' wholesales growth in the coming peak season, the tepid shipment growth in Jan-Aug period that suggests a moderate recovery ahead may drive up the inventory levels again, particularly for those OEMs with a weak product cycle and require rather significant promotional activities in securing their market share. As such, we have retained our estimate of a mid-to-low single-digit ICE shipment growth rate for FY17E.

Strong NEV sales rebound in Jul-Aug signaled stronger growth in 2H17 and 1H18. July and August saw a dramatic rebound in NEV shipment growth of 55% and 76% respectively, ending six consecutive months of weak growth (below 36%), which in our view was primarily due to the fading impacts of the subsidy policy launched in FY17E. We believe NEV shipments will resume growth in 2H17 and reach 700k units for the full year of FY17E as per our prior estimate. On the other hand, given that majority of the NEV parts suppliers have been severely affected by the reduced orders and extended payment period of the OEMs during 1H17, we expect the strong NEV shipments to lead to a solid sales volume recovery for upstream NEV parts suppliers, albeit their GPM will continue to come under pressure due to lower ASP and higher costs.

New subsidy policy exerted relatively less influence on motive lead battery suppliers. Since motive lead acid batteries are primarily used in low-speed vehicles rather NEVs, lead acid battery manufacturers were less impacted by the NEV subsidy policy implementation in 1H17, delivering solid sales growth, whilst their slightly lower GPM in the interim was mainly attributable to the upsurge in lead prices which we foresee will likely remain at the current high level in the coming months given tightening environmental protection requirements in winter season of China, though at the same time we believe their GPM will see a mild recovery on the back of increasing shipments and stable production costs, in our view.

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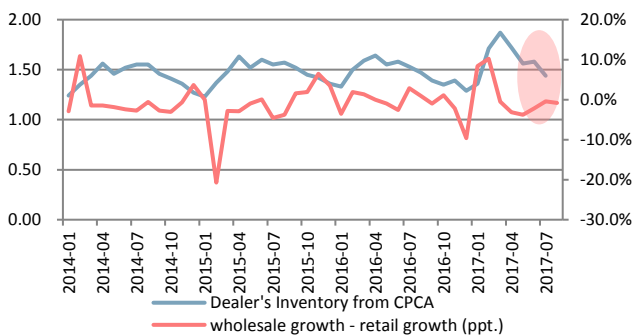
Tepid ICE sales growth indicated moderate peak-season recovery

Subsequent to the extensive inventory destocking process during 2Q17, dealers' inventory has largely reduced since Mar-17. We think such a generally lower inventory level will benefit OEMs in driving up their wholesales growth in preparation for the coming peak season.

However, taking into account of the relatively higher accumulated inventory in Jan-Aug FY17E when compared to the same period in FY16 and FY15, and even slower sales growth in FY17E, we estimate the inventory level will likely gradually rise again in 4Q17, especially for those OEMs with a weak product cycle which tends to carry out more promotional activities to secure their market share.

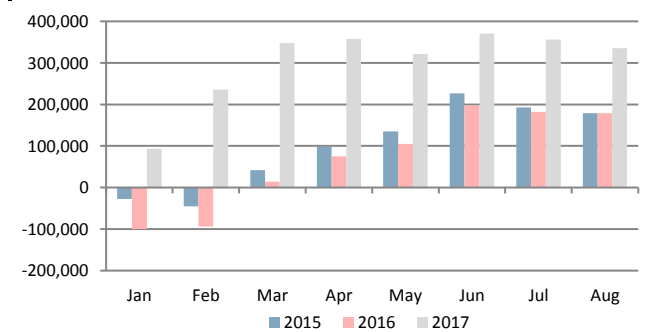
Retail sales and wholesales growth both came in slightly weaker at 6.2% and 5.4% in Aug-17 as compared with 6.3% and 5.9% for Jul-17 respectively, which led to only a 4.7% YoY growth in total accumulated vehicle sales for the month. As such, we have retained our estimate of a mid-to-low single-digit growth in ICE shipments for FY17E, and foresee a moderate sales growth recovery in the coming peak season.

Figure 1: Inventory level reduced in 2Q17



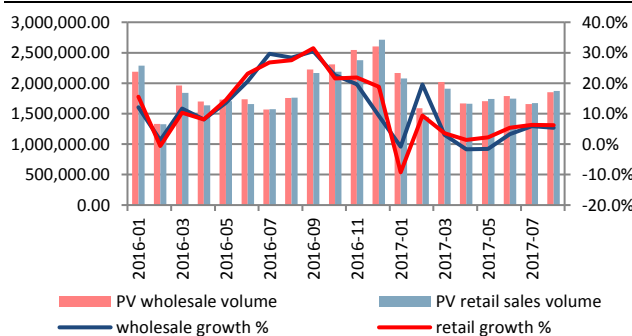
Source: CPCA, CSCI Research

Figure 2: YTD wholesales vol. minus YTD retail sales vol.



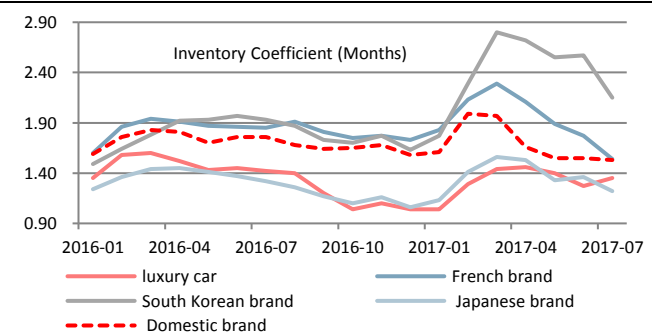
Source: CPCA, CSCI Research

Figure 3: Wholesales growth vs. retail sales growth



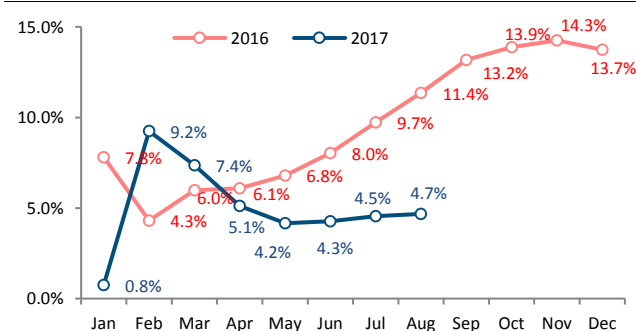
Source: CPCA, CSCI Research

Figure 4: Inventory coefficient by brands



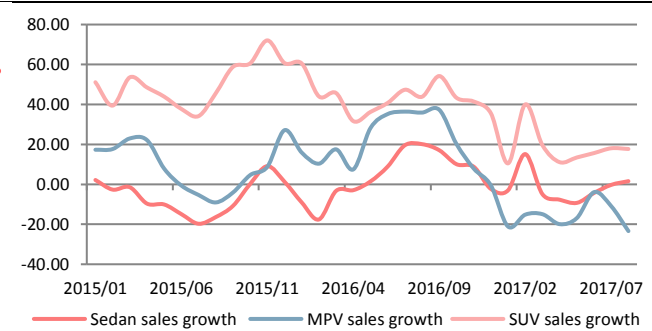
Source: CPCA, CSCI Research

Figure 5: Accumulated sales volume growth (yoy %)



Source: CAAM, CSCI Research

Figure 6: Sedan sales recovery



Source: CAAM, CSCI Research

EV sales rebound in Jul-Aug signalled a stronger growth ahead

July and August saw a dramatic rebound in NEV shipment growth of 55% and 76% respectively thanks to strong BEV PV and CV sales, ending six consecutive months of weak growth of below 36%. More specifically, BEV PV shipments amounted to a peak of c.44,000 units in Aug-17, whilst BEV CV sales registered positive growth for the first time in Jun-17 and saw shipments continue to grow strongly in July and August, posting 94% and 89% YoY increase respectively.

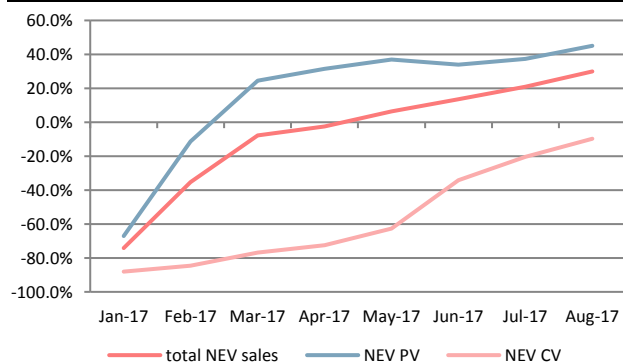
We believe the adverse impacts of the subsidy reduction have mitigated substantially, with shipment growth having resumed in 2H17 and shipments are thus expected to reach 700k units for the full year of FY17E as per our estimate. With shipments amounting to a total of 317k units and growth rate reaching 30% for the Jan-Aug period, we estimate the total shipments in the Sep-Dec period this year will exceed the volume registered for the Jan-Aug period, demonstrating an even stronger monthly growth compared to 1H17, in our view.

Figure 7: NEV monthly sales data

CAAM sales	total NEV	NEV YoY	- NEV PV	PV YoY	BEV	BEV YoY	PHEV	PHEV YoY	- NEV CV	CV YoY	BEV	BEV YoY	PHEV	PHEV YoY
2017-1	5682	-74.4%	4608	-66.2%	3908	-49.3%	700	-88.2%	1074	-87.4%	1070	-86.2%	4	-99.5%
2017-2	17596	30.3%	16667	67.3%	13346	114.0%	3321	-10.9%	929	-73.8%	573	-81.4%	356	-24.1%
2017-3	31120	35.6%	28490	81.0%	23673	120.7%	4817	-3.9%	2630	-63.6%	1669	-76.0%	961	268.2%
2017-4	34361	7.9%	30478	45.2%	25413	79.5%	5065	-25.8%	3883	-64.2%	3157	-67.7%	726	-33.0%
2017-5	45300	28.4%	38853	49.4%	32438	88.9%	6415	-27.3%	6447	-30.6%	6092	-29.8%	335	-41.9%
2017-6	59000	33.0%	43000	26.1%	33000	33.3%	10000	5.9%	16000	55.9%	15000	64.0%	1000	0.9%
2017-7	56000	55.2%	44000	49.5%	33000	63.7%	11000	17.7%	12000	79.4%	11000	93.5%	1000	5.0%
2017-8	68000	76.3%	55000	81.1%	44000	97.4%	11000	36.9%	13000	58.1%	12000	88.8%	1000	-47.4%

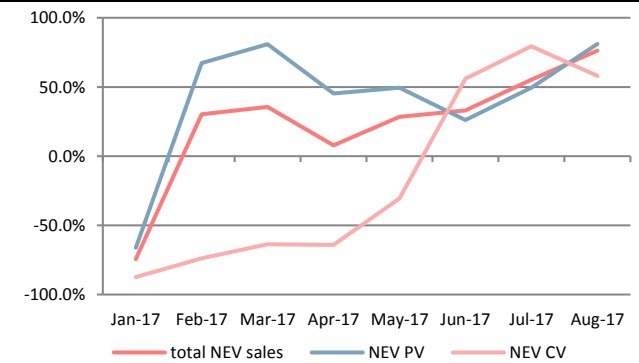
Source: CAAM, CSCI Research

Figure 8: NEV YTD sales growth YoY



Source: CAAM, CSCI Research

Figure 9: NEV monthly sales growth YoY



Source: CAAM, CSCR Research

Subsidy reduction weighed on the NEV parts suppliers in 1H17

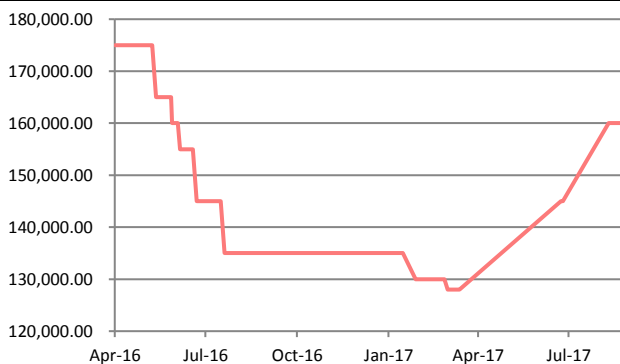
After comparing the NEV upstream parts suppliers in the A-share market, we noticed that majority of the NEV parts suppliers have been severely affected during 1H17, due to the reduced orders and extended payment period of their downstream NEV OEMs during that specific interim period. 50% of the stocks in the list of parts suppliers demonstrated earnings decline in 1H17 whilst 86% witnessed GPM decline, and we attribute such weak interim results primarily to: (1) Lower demand: shrinking production of NEV OEMs in 1Q17 due to uncertainty of the cash subsidy list. (2) Higher costs: 20% subsidy reduction in FY17E equivalent to higher production costs for NEV OEMs, which will be partly undertaken by OEM's upstream parts suppliers.

In 2H17, we expect NEV production will see a substantial recovery on the back of higher demand amid the peak season, which will largely enhance NEV upstream suppliers' sales volume. However, their profitability levels are unlikely to see substantial improvement due to lower ASP subsequent to shrinking cash subsidy and higher costs as a result of rising raw material prices.

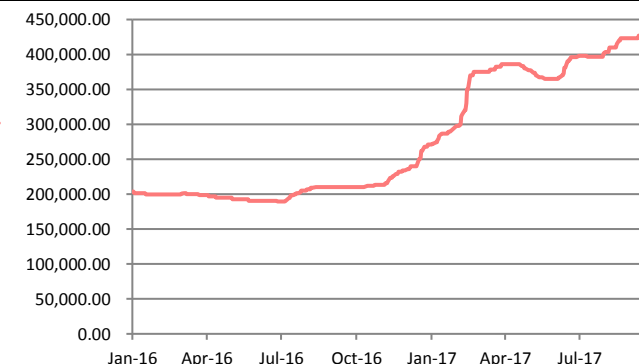
Figure 10: NEV upstream parts suppliers posted weak interim results

RMBmn		1H17 interim results							Results Period
		Revenue	YoY	Net Profit	YoY	GPM	GPM Chg ppts.		
Battery Packs	002074.SZ 国轩高科	2,397	-0.1%	445	-16.6%	36.8%	-10.9	1H17	
	300014.SZ 亿纬锂能	1,344	63.7%	233	161.4%	29.5%	-1.3	1H17	
	000839.SZ 中信国安	2,302	37.4%	241	41.9%	21.3%	0.9	1H17	
Electrolytes	002709.SZ 天赐材料	935	16.8%	177	-8.2%	36.1%	-6.2	1H17	
	002407.SZ 多氟多	1,531	20.2%	151	-39.8%	25.0%	-18.0	1H17	
	002759.SZ 天际股份	461	120.7%	135	404.6%	49.6%	18.8	1H17	
	300037.SZ 新宙邦	788	15.3%	127	2.0%	37.2%	-5.5	1H17	
	002411.SZ 必康股份	1,731	-5.8%	456	-5.9%	48.1%	-7.7	1H17	
	603026.SH 石大胜华	2,476	37.2%	87	-15.4%	8.7%	-2.7	1H17	
	002091.SZ 江苏国泰	16,160	21.7%	369	65.2%	11.3%	-4.0	1H17	
	600884.SH 杉杉股份	3,852	57.8%	339	51.5%	25.2%	-3.6	1H17	
Positive Electrode	002070.SZ *ST众和	419	-10.1%	(69)	turn profits to losses	14.7%	-16.7	1H17	
	000760.SZ 斯太尔	63	-22.2%	120	turn losses to profits	-22.9%	-32.3	1H17	
	002466.SZ 天齐锂业	2,415	41.6%	924	23.7%	68.6%	-3.7	1H17	
	002460.SZ 赣锋锂业	1,625	21.0%	607	118.4%	34.2%	-0.7	1H17	
	000762.SZ 西藏矿业	164	-40.3%	(33)	turn profits to losses	10.0%	-28.9	1H17	
	002176.SZ 江特电机	1,021	-22.8%	62	-42.0%	24.5%	-4.1	1H17	
	600773.SH 西藏城投	580	-58.2%	38	6.4%	20.8%	7.0	1H17	
	300224.SZ 正海磁材	403	-44.3%	(15)	turn profits to losses	21.5%	-0.8	1H17	
Separator	300568.SZ 星源材质	247	-2.8%	71	-23.7%	53.1%	-9.2	1H17	
	002108.SZ 沧州明珠	1,635	34.5%	285	11.0%	29.5%	-5.8	1H17	
Lead Acid battery	002733.SZ 雄韬股份	1,326	13.0%	58	2.0%	14.4%	0.6	1H17	
	300068.SZ 南都电源	3,719	26.3%	156	1.4%	13.4%	-2.6	1H17	
	600482.SH 中国动力	11,641	23.2%	561	21.5%	15.5%	-1.1	1H17	
	601311.SH 骆驼股份	3,194	28.8%	214	10.2%	19.9%	-4.2	1H17	
	0819.HK 天能动力	11,376	24.8%	439	10.2%	12.7%	-1.8	1H17	
0951.HK 超威动力	10,296	7.8%	281	-9.5%	12.8%	-2.1	1H17		

Source: Wind, CSCI Research

Figure 11: Price of CO₃Li (≥99.5%, RMB per ton)


Source: Wind, CSCI Research

Figure 12: Price of electrolytic cobalt (≥99.8%, RMB ton)


Source: Wind, CSCI Research

NEV subsidy policy to have less impacts on lead battery suppliers

Since motive lead acid batteries are primarily used in low-speed vehicles production in China rather than BEVs or PHEVs, majority of the lead acid battery suppliers were less impacted by the NEV subsidy reduction policy in 1H17. Albeit the solid sales growth in 1H17, lead acid battery manufacturers generally posted a slightly lower GPM when compared to 1H16 primarily due to the lead price upsurge. Thus, we estimate the lead price will likely remain at the current high level in 2H17, given the tightening environmental protection during the winter season in China, though at the same time we believe their GPM will see a mild recovery on the back of increasing shipments and stable production costs, in our view.

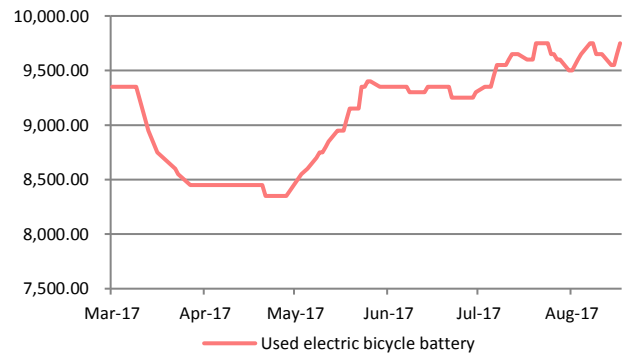


Figure 13: lead price (RMB ton)



Source: SHMET, CSCI Research

Figure 14: Price of used EB battery (RMB ton)



Source: WIND, CSCI Research

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Recycled lead sales mitigates cost pressure

- Weighed down by higher lead prices albeit partially offset by internal recycled lead sales, Tianneng Power's GPM slipped to 12.7% in 1H17 from 14.5% in 1H16.
- However, looking forward, we are upbeat on lead acid battery shipments and foresee a margin improvement in 2H17 on the back of rising ASP amid the peak season in 3Q17.
- Taking into account of the rising costs in FY17E, we have lowered our FY17E/18E GPM estimates but revised up FY17E earnings forecast by 2.4% on the back of potentially higher shipments in 2H17, deriving a new PT of HKD9.2, pegging on FY17E 8.0x PER (Prev. FY17E 8.0x PER) Maintain BUY.

Rising material costs partially offset by increasing recycled lead sales.

Tianneng reported a 25% increase in revenue, thanks to a 7.7% YoY growth in shipments and 16.8% YoY hike in ASP in 1H17, though its GPM had declined to 12.7% from 14.5% in 1H16 due to higher lead prices. However, such adverse effects have been partially offset by robust internal recycled lead sales, with the total production value of recycled lead amounting to RMB1.38bn in 1H17 of which merely RMB548mn was reported as revenue from external clients, which suggested that around RMB832mn were used for internal production, mitigating their rising costs. We estimate total recycled lead revenue (external + internal) will reach more than RMB2bn in FY17E and likely to maintain a low double-digit percentage growth rate from 2H17 onwards given the current high base and lower capacity utilization of the lead recycling plants, for instance c.20% at the Changxing phase II plant and 50% at the Henan plant.

Amid stable lead prices, stronger shipments of lead acid battery in 2H17. In view of the tightening environmental regulations in China, management expects lead supply to become constrained in 2H17 and thus lead prices to remain at a high level, which will be favourable for margin recovery. For the electric bicycle (EB) segment, given that the second half of each year usually accounts for 60% of total sales, and 3Q is also normally the peak season for EB sales, the continuously rising lead prices since May-17 will very likely spur retail market sales in 3Q17 and drive up 2H17 sales to exceed 60% of total. As for the electric tricycle (ET) segment, the strong sales growth of 28% in 1H17, which benefited from the breakthrough orders from SF Express cargo ET, will be favorable in terms of sales growth in 2H17. Meanwhile, for the pure electric car (EV) segment, the company has expanded production capacity to meet the demand growth of low-speed EVs and posted a 30% YoY sales growth in 1H17 on anticipation of an imminent policy launch as soon as in early FY18E, which has been a major concern for the EV battery producers in the past few years. Accordingly, we expect EV sales will likely to maintain a growth rate of above 30% in 2H17.

Motive lithium battery likely a re-rating catalyst. We anticipate robust lead acid battery shipments during the peak season of 3Q17 and also foresee margin improvement in 2H17 on the back of rising ASP. Thus, taking into account of rising costs in FY17E, we have lowered our FY17E GPM estimate and revised up FY17E earnings forecast by 2.4% on potentially higher shipments in 2H17, deriving a new PT of HKD9.2, pegging on FY17E 8.0x PER (Prev. FY17E 8X) Maintain BUY.

Tianneng Power (819 HK)

Buy

(unchanged)

Price Target	HKD9.2
(Revision)	(6%)
(upside)	(17%)

EPS	2017E	2018E
revision	(+2.4%)	(-8.7%)

Close price	HKD7.87
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Market cap.	USD1,135.6mn
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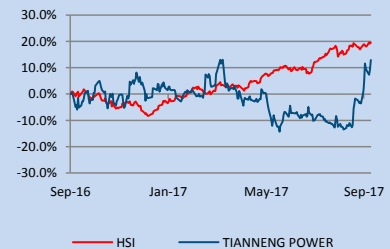
Free float	58.6%
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52-week range	HKD5.92 – HKD8.15
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3-mth ave. T/O	HKD26.1mn
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Price as of 20 Sep 2017

Stock rel HSI performance (%)



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Income statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	17,804	21,481	26,144	29,413	32,955
COGS	(15,376)	(18,506)	(22,785)	(25,148)	(28,144)
Gross profit	2,428	2,975	3,360	4,265	4,811
Selling expenses	(598)	(587)	(682)	(824)	(923)
General and administrative	(324)	(373)	(392)	(500)	(560)
Other operating expenses	(151)	(133)	(95)	(104)	(115)
EBITDA	1,100	1,533	1,732	2,287	2,588
Depreciation & Amortization	(311)	(347)	(382)	(420)	(462)
Other income	120	98	166	98	118
EBIT	909	1,283	1,515	1,964	2,244
Net interest	(163)	(139)	(158)	(152)	(152)
JVs and associates					
Pretax profit	746	1,145	1,361	1,812	2,092
Taxation	(118)	(240)	(231)	(453)	(523)
Minority interests	17	47	52	83	133
Net profit	611	859	1,078	1,276	1,436
Net profit (adjusted)					
Basic EPS (RMB)	0.55	0.76	0.96	1.13	1.27
Diluted EPS (RMB)	0.54	0.74	0.96	1.13	1.27
DPS (RMB)	0.27	0.23	0.29	0.34	0.38

Balance sheet (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	1,398	1,878	2,775	2,925	3,619
Short term investments					
Accounts receivables	2,845	2,687	3,500	4,500	4,500
Inventory	1,354	1,885	1,600	1,700	1,701
Other current assets	827	1,319	1,084	1,584	1,584
Total current assets	6,424	7,769	8,959	10,708	11,404
PP&E	3,551	3,788	4,194	4,640	5,131
Intangible Assets	0	0	0	0	0
Associates and JVs					
Other long term assets	570	573	533	513	513
Total long term assets	4,122	4,361	4,727	5,154	5,645
TOTAL ASSETS	10,546	12,130	13,686	15,862	17,048
Short term debt	822	1,164	1,500	1,600	1,600
Accounts payables	4,825	5,828	6,000	7,000	7,000
Other current liabilities	44	150	73	83	83
Total current liabilities	5,691	7,142	7,573	8,683	8,683
Long term debt	547	36	300	300	300
Deferred tax	51	48	60	60	60
Convertible bonds					
Other long term liabilities	791	797	774	804	804
Total long term liabilities	1,388	881	1,134	1,164	1,164
TOTAL LIABILITIES	7,079	8,023	8,707	9,847	9,847
Shareholders' funds	3,388	3,931	4,752	5,704	6,757
Minority Interests	79	175	228	311	444
TOTAL LIAB AND EQUITY	10,546	12,130	13,686	15,862	17,048
Net cash / (debt)	29	678	975	1,025	1,719

Source: Company, Bloomberg, CSCI Research estimates

Cash flow statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	909	1,283	1,515	1,964	2,244
Depreciation & am	311	347	382	420	462
Net interest	163	139	158	152	152
Taxes paid	(118)	(240)	(231)	(453)	(523)
Changes in working	1,018	625	(198)	(590)	(1)
Others	(274)	(66)	(313)	(304)	(304)
Cash flow from op	2,010	2,089	1,314	1,190	2,031
Capex	(422)	(779)	(788)	(867)	(953)
Acquisitions					
Disposals	13	20	-	-	-
Others	(486)	(419)	39	20	-
Cash flow from inv	(895)	(1,178)	(749)	(847)	(953)
Dividends	-	(304)	(258)	(323)	(383)
Issue of shares					
Change in debt	600	100	-	-	-
Others	(1,943)	(227)	590	130	-
Cash flow from fin	(1,342)	(431)	332	(193)	(383)
Change in cash	(228)	481	897	149	694
Free cash flow	1,588	1,310	526	323	1,077

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	13.64	13.85	12.85	14.50	14.60
EBITDA margin (%)	6.2	7.1	6.6	7.8	7.9
Effective tax rate (%)	15.8	20.9	17.0	25.0	25.0
Revenue growth (%)	26.8	20.7	21.7	12.5	12.0
Net income growth	(300.4)	40.5	25.6	18.3	12.5
EPS growth adj (%)	(300.0)	38.0	26.4	18.3	12.5
DPS growth (%)		(14.3)	25.6	18.3	12.5
Efficiency ratios					
ROE (%)	18.0	21.8	22.7	22.4	21.2
ROCE (%)	18.7	25.7	24.8	27.4	26.8
Asset turnover (x)	1.7	1.8	1.9	1.9	1.9
Op cash / EBIT (x)	2.2	1.6	0.9	0.6	0.9
Depreciation / CAP	0.7	0.4	0.5	0.5	0.5
Accounts receivabl	42.2	47.0	43.2	49.6	49.8
Accounts payable c	84.9	105.1	94.7	94.3	90.8
Leverage ratios					
Net gearing (%)	(0.9)	(17.3)	(20.5)	(18.0)	(25.4)
Net debt / EBITDA	(0.0)	(0.4)	(0.6)	(0.4)	(0.7)
Interest cover (x)	5.6	9.2	9.6	12.9	14.8
Current ratio (x)	1.1	1.1	1.2	1.2	1.3
Valuation					
PER (x)	11.3	8.2	6.5	5.5	4.9
EV/EBITDA (x)	6.5	4.2	3.6	2.7	2.2
PBR (x)	2.1	1.8	1.5	1.2	1.0
Dividend yield (x)	4.3	3.7	4.6	5.5	6.2

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Surging lead price benefit ASP hike in 2H17

- The high level of lead prices recorded in 1H17, which will likely be sustainable in 2H17, has dragged down lead acid battery shipments and GPM in the interim period.
- We see limited impacts from high-margin products (e.g. Black gold and Start-stop battery) in driving up profitability in 2H17 due to unresolved technical defects.
- Given the weak GPM in 1H17, we trimmed our earnings estimates in FY17E/FY18E by 8%/7.2% respectively, and derived a new PT of HKD5.4, pegging on FY17E 7.0x PER (Prev. FY17E 7.0x PER). Maintain Buy.

Sluggish 1H17 lead acid battery sales growth amid fluctuating lead prices.

The company posted 2.3% and 13.6% YoY growth in electric bicycle (EB) and tricycle (ET) sales during 1H17, both significantly lower as compared to Tianneng Power (819.HK) which reported an above 20% YoY growth for both segments for the same period. Management attributed their sluggish growth to the lead price fluctuations in 1H17, which drove ASP higher and subsequently reduced shipments, especially during the off season. However, management believes lead prices are likely to be maintained at around the current high level of between RMB19,000 and RMB21,000 per ton in 2H17 in anticipation of more restrictive environmental regulations to constrain the lead supply. Accordingly, we expect lead acid battery shipments to see a more than 20% increase in 2H17 as compared to 1H17 whilst the GPM will largely rebound from 12.8% in 1H17 on the back of stable costs and stronger shipments during the peak season in 3Q17.

Technical defects for capacity expansion of Black gold battery won't be resolved until FY18E. Amid the continuously strong demand, BG battery shipments witnessed substantial improvement in 1H17, accounting for 15% of total lead acid battery shipments compared to a single-digit percentage in 1H16. However, given that the technical defects are not expected to be resolved until FY18E, significant contribution from the higher margin BG batteries in driving up profitability will not be realised at least until FY18E. As such, contribution from BG battery is likely to come in at c.15% in 2H17 and even higher in FY18E, per our estimate.

Account receivables concerns will be mitigated in 2H17. Increasing account receivables days and weak operating cash flow in FY16 have raised concerns on receivables risk, in particularly amid a resurgence in the lead price in May-17. Nonetheless, we estimate receivables days will gradually reduce in 2H17 provided that lead prices remain stable at the current level going forward. For the cash balance increase of about RMB944mn by the end of Jun-17, a majority had come from bank borrowings during 1H17 in order to set aside enough cash flow to deal with potential further lead price hike.

Attractive valuation. In view of the weak sales of lead acid battery and margin erosion as a result of the rising costs in 1H17, we have lowered our FY17E/18E earnings estimates by 8%/7.2% respectively, deriving a new PT of HKD5.4, pegging on FY17E 7.0x PER (Prev. FY17E 7.0x PER) and 1.3x PBR. Maintain Buy.

Chaowei Power (951 HK)

Buy

(unchanged)

Price Target	HKD5.4
(Revision)	(-2.4%)
(upside)	(13%)

EPS	2017E	2018E
revision	(-8%)	(-7.2%)

Close price	HKD4.83
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Market cap.	USD685.4mn
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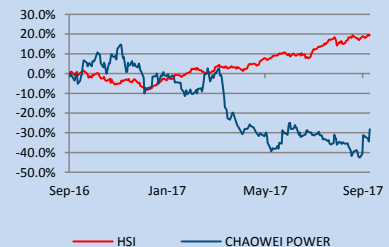
Free float	55.8%
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52-week range	HKD3.85 – HKD7.82
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3-mth ave. T/O	HKD18.9mn
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Price as of 20 Sep. 2017

Stock rel HSI performance (%)


TIAN Yang
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Income statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Revenue	18,870	21,455	22,896	25,130	27,601
COGS	(16,461)	(18,369)	(19,811)	(21,529)	(23,473)
Gross profit	2,410	3,086	3,084	3,601	4,128
Selling expenses	(798)	(813)	(899)	(905)	(966)
General and administrative	(589)	(663)	(504)	(779)	(856)
Other operating expenses	(563)	(864)	(784)	(885)	(972)
EBITDA	1,096	1,258	1,648	1,858	2,242
Depreciation & Amortizatic	(324)	(353)	(386)	(424)	(467)
Other income	313	160	365	401	440
EBIT	773	905	1,262	1,434	1,775
Net interest	(224)	(193)	(195)	(201)	(207)
JVs and associates	(3)	(6)	(16)	(16)	(16)
Pretax profit	546	705	1,051	1,217	1,552
Taxation	(58)	(86)	(170)	(183)	(233)
Minority interests	(156)	(115)	(167)	(197)	(251)
Net profit	332	504	714	838	1,069
Net profit (adjusted)	332	504	714	838	1,069
Basic EPS (RMB)	0.33	0.48	0.64	0.76	0.96
Diluted EPS (RMB)	0.33	0.48	0.64	0.76	0.96
DPS (RMB)	0.10	0.07	0.10	0.11	0.14

Balance sheet (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
Cash	961	588	776	1,048	1,518
Short term investments					
Accounts receivables	1,129	1,611	1,772	1,949	2,144
Inventory	2,067	2,316	2,779	3,335	4,002
Other current assets	1,782	3,311	3,791	4,352	5,009
Total current assets	5,939	7,826	9,118	10,683	12,673
PP&E	3,729	4,081	4,511	4,951	5,391
Intangible Assets	20	18	16	15	14
Associates and JVs	106	179	192	207	223
Other long term assets	973	882	933	988	1,048
Total long term assets	4,828	5,160	5,652	6,160	6,675
TOTAL ASSETS	10,767	12,986	14,770	16,844	19,349
Short term debt	1,390	1,665	1,998	2,398	2,877
Accounts payables	1,822	1,652	1,735	1,821	1,912
Other current liabilities	2,207	3,927	4,256	4,618	5,015
Total current liabilities	5,419	7,244	7,989	8,837	9,804
Long term debt	772	1,265	1,519	1,822	2,187
Deferred tax	6	2	2	2	2
Convertible bonds	304	-	-	-	-
Other long term liabilities	951	324	336	349	363
Total long term liabilities	2,033	1,591	1,856	2,173	2,551
TOTAL LIABILITIES	7,452	8,835	9,845	11,010	12,356
Shareholders' funds	2,585	3,303	3,909	4,622	5,530
Minority Interests	731	848	1,016	1,212	1,463
TOTAL LIAB AND EQUITY	10,767	12,986	14,770	16,844	19,349
Net cash / (debt)	(1,201)	(2,342)	(2,740)	(3,172)	(3,545)

Source: Company, Bloomberg, CSCI Research estimates

Cash flow statement (RMBm)

Year end: Dec	2015	2016	2017E	2018E	2019E
EBIT	773	905	1,262	1,434	1,775
Depreciation & amortisatic	324	353	386	424	467
Net interest	224	193	195	201	207
Taxes paid	(92)	(96)	(170)	(183)	(233)
Changes in working capital	1	(2,137)	(1,540)	(1,776)	(2,052)
Others	332	837	636	713	799
Cash flow from operations	1,561	55	769	814	962
Capex	(555)	(674)	(814)	(863)	(906)
Acquisitions	(68)	(81)	(14)	(16)	(17)
Disposals	40	15	-	-	-
Others	(275)	(121)	(50)	(54)	(58)
Cash flow from investing	(858)	(861)	(878)	(932)	(982)
Dividends	-	(99)	(107)	(126)	(160)
Issue of shares	-	1	2	3	4
Change in debt	(283)	769	586	703	844
Others	(475)	(237)	(184)	(191)	(197)
Cash flow from financing	(758)	433	297	390	491
Change in cash	(55)	(372)	188	271	471
Free cash flow	1,006	(618)	(45)	(49)	56

Key ratios

Year end: Dec	2015	2016	2017E	2018E	2019E
Operating ratios					
Gross margin	12.8	14.4	13.5	14.3	15.0
EBITDA margin (%)	5.8	5.9	7.2	7.4	8.1
Effective tax rate (%)	10.6	12.2	16.2	15.0	15.0
Revenue growth (%)	3.8	13.7	6.7	9.8	9.8
Net income growth (%)		51.9	41.6	17.4	27.5
EPS growth adj (%)		48.1	33.3	17.4	27.5
DPS growth (%)		(29.9)	42.1	17.4	27.5
Efficiency ratios					
ROE (%)	12.8	15.3	18.3	18.1	19.3
ROCE (%)	14.4	15.8	18.6	17.9	18.6
Asset turnover (x)	1.8	1.7	1.6	1.5	1.4
Op cash / EBIT (x)	2.0	0.1	0.6	0.6	0.5
Depreciation / CAPEX (x)	0.6	0.5	0.5	0.5	0.5
Accounts receivable days	16.9	23.3	27.0	27.0	27.1
Accounts payable days	30.8	34.5	31.2	30.1	29.0
Leverage ratios					
Net gearing (%)	46.5	70.9	70.1	68.6	64.1
Net debt / EBITDA (x)	1.1	1.9	1.7	1.7	1.6
Interest cover (x)	3.5	4.7	6.5	7.1	8.6
Current ratio (x)	1.1	1.1	1.1	1.2	1.3
Valuation					
PER (x)	12.3	8.3	6.2	5.3	4.2
EV/EBITDA (x)	5.5	6.1	5.0	4.8	4.2
PBR (x)	1.6	1.3	1.1	1.0	0.8
Dividend yield (x)	2.4	1.7	2.4	2.8	3.6



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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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