

Analyst: Kelvin Li

Main Board Listing – Research

天能動力國際有限公司

Tianneng Power International Limited [Stock Code: 0819]
Global Coordinator, Sole Bookrunner, Lead Manager and Sponsor : Kingsway Group

Sector : Automobiles and components

Business : Production of motive battery used in electric bikes

Total share offer: <u>300,000,000</u> shares (30.0% of the enlarged share capital) (including 50,000,000 sale shares) Public Offer: 30,000,000 shares (10%) Placing: 270,000,000 shares (90%) Greenshoe: 45,000,000 shares (including 30,000,000 sale shares)	<u>Business of Tianneng Power</u> Tianneng Power mainly engages in the manufacturing of motive battery products, which are predominantly used in electric bikes (電動自行車) in the Mainland. The Group mainly manufactures lead-acid type motive batteries. Its products are mainly distributed through sales representatives and exclusive distributors in 29 provinces, autonomous regions and municipalities in the Mainland. The Group is also developing the retail market sales for replacement of battery products. Apart from battery products, the Group also produces chargers for the battery products, electric bike controller (for controlling direction and speed of an electric bike) and motors for electric bikes. These products accounted for about 5% of total turnover in 2006.
Price: HK\$1.48 – HK\$1.92 per share Market Cap: HK\$1.48 billion – HK\$1.92 billion Pro forma FY2006 PER: 10.0x to 13.0x Adjusted NTA per share: HK\$0.79 – HK\$0.90 Staffing: 5,535 (as of 23 rd May 2007)	
HK Public Offer period: 29 th May 2007 – 1 st June 2007 noon Receiving bank: Standard Chartered Bank (HK) Share registrar: Tricor Investor Services Limited Listing date: 11 th June 2007	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Mr. Zhang Tianren, Chairman of Tianneng Power	41.42%
Senior management of Tianneng Power	18.87%
Power Active Limited, the Selling Shareholder of 33,333,382 Sale shares in the offering and a subsidiary of New World Development (HKEx: 0017)	6.47%
PraxCapital Fund, the Selling Shareholder of 16,666,618 Sale shares in the offering	3.24%
Public investors	30.00%
	<u>100.00%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$391.7 million (Assuming an offer price of HK\$1.70, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For the expansion and technical improvement of the production plants	197.0
For research and development of new battery products	41.8
For enhancement of the sales and distribution network and for marketing and promotion	23.0
For repayment of bank loans	100.0
For general working capital	29.9

Financial Highlights

(RMB '000)	2004	2005	2006
Turnover	370,964	521,691	1,019,559
Gross profit	129,944	162,223	272,214
Operating profit	110,563	101,137	163,567
Attributable profit to shareholders	49,934	68,683	147,661
Gross profit margin	35.0%	31.1%	26.7%
Operating profit margin	29.8%	19.4%	16.0%
Net profit margin	13.5%	13.2%	14.5%

Turnover Breakdown by products

(RMB '000)	2004	%	2005	%	2006	%
Lead-acid motive battery products	333,929	90.0%	461,591	88.5%	898,604	88.1%
Chargers, controllers and motors	24,876	6.7%	21,467	4.1%	51,256	5.0%
Others	12,159	3.3%	38,633	7.4%	69,699	6.8%
Total	370,964	100.0%	521,691	100.0%	1,019,559	100.0%

Strengths/Opportunities

- ✓ Electric bike has become more popular in China, as it is more energy-saving, immune to high oil prices and less costly in maintenance. According to industry statistics, demand for electric bikes in the Mainland jumped more than 13 times from 580,000 units in 2001 to 8.5 million units in 2005, representing a CAGR of 95.7% during the period. As about 90% of electric bikes in the Mainland are equipped with lead-acid battery, the strong demand for electric bike should provide the Group with enormous business and growth opportunities.
- ✓ China's accumulative electric bike population grew to more than 21 million units by the end of 2005. Given that a lead-acid electric bike battery possesses an average life of 1.5 years, the growing population would create further room for expansion in the replacement market.
- ✓ To be priced at 10x-13x historical price-earnings multiple, the counter's valuation is not demanding given a pleasant growth outlook.

Weaknesses/Threats

- × Electrolytic lead is one of the major raw materials used in the production of lead-acid battery products. Owing to rising prices of electrolytic lead, the Group saw its gross profit margin slipped to 26.7% in 2006 from 35.0% in 2004.
- × Solid waste, sewage and fumes are generated during the battery production. Further tightening of environment-related requirements by the government may force the Group to incur greater resources and expenditure for compliance, leading to pressure on profit margins.

Recommendation: Trading Buy

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