

20 September 2007

Update

CHINA POWERPLUS

Investing In Nickel Alloy Business

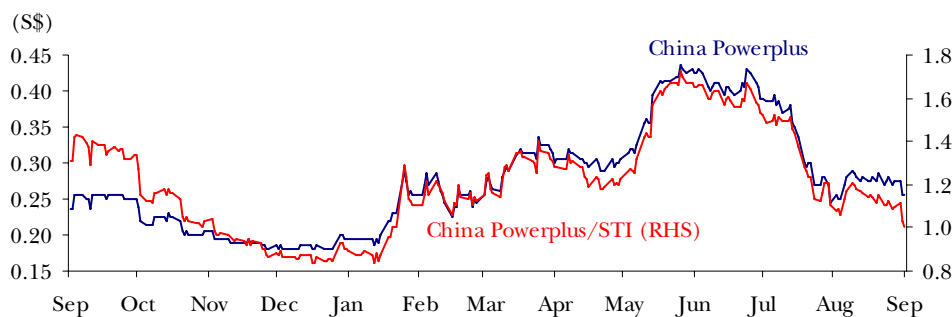
BUY | Current Price : S\$0.255
Target (12-mth): S\$0.38

China Powerplus (Powerplus) has announced its intention to take a 30% stake in China-based nickel alloy processing company China Steel for a total consideration of Rmb114m. This figure translates into 8.5x of China Steel's FY07 (financial year-end: 30 June) historical PE.

Moving upstream. Although Powerplus uses a lot of iron steel in its products, it will gradually switch to stainless steel in accordance with requests from its customers. Nickel is one of the key materials of stainless steel and Powerplus' acquisition of a 30% stake in China Steel is a move upstream.

Betting on China Steel's IPO. The announcement also mentioned that China Steel is going to list on a reputable stock exchange. If it fails to list before Jul 08, Powerplus has the right to acquire another 20% stake at the same valuation. An overseas listing will boost the value of Powerplus' stake in China Steel.

Earnings upgraded. We have lifted Powerplus' 2008 and 2009 forecasts by 19% and 25% to Rmb93m and Rmb101m respectively to factor in an associate company's contribution. However, as we have used a WACC of 14%, higher than the 12% return from investing in China Steel (8.5x), the DCF model derives a lower target price of S\$0.38 (previous: S\$0.40). Wild fluctuations in nickel prices and the uncertainty over China Steel's profit are the main risks faced by Powerplus. Also, the recent poor market sentiments will remain a challenge for small-cap stocks. As the current price of S\$0.255 represents only 6.8x 2008 PE, we maintain our BUY call.



Sector Industrial
Bloomberg ZPISP
Website
www.powerplusindustries.com

Exchange Rate S\$1.509/US\$
S\$0.2008/Rmb

52-Wk Range (S\$) 0.445/0.175
52-Wk Avg Daily Vol. ('000) 2,162

No. of Shares (m) 424.8
Market Cap (S\$m) 108.3
(US\$m) 71.8

Major Shareholders (%)
Hoggeston Limited 14.5
Alpha China Enterprises Ltd 18.2

Book NTA per Share (Rmb) 1.03
ROE (%) 21.4
Net Cash per Share (Rmb) 0.53

Alternative Instruments
Nil

Results Due
1Q: Apr 1H: Aug
3Q: Nov Final: Feb

Market PE - STI (x)
2006 16.1
2007F 18.7

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS* (S¢)
2005	290.9	84.5	71.7	0.20	(34.1)	6.3	3.7	0.25
2006	322.2	79.6	63.5	0.18	(11.6)	7.1	3.9	0.00
2007F	411.1	100.4	73.3	0.18	1.0	7.0	3.1	0.89
2008F	467.5	130.1	93.5	0.22	21.3	5.8	2.4	1.32
2009F	497.3	139.7	100.8	0.24	7.9	5.4	2.2	1.42

Consensus net profit – n.a.

* Excludes 1.25¢ special dividend for FY05

Figure 1: Profit & Loss

Year to 31 Dec (Rmbm)	2005	2006	2007F	2008F	2009F
Turnover	290.9	322.2	411.1	467.5	497.3
Cost of Sales	(190.0)	(219.9)	(286.8)	(327.1)	(353.1)
Other Operating Income	0.0	0.0	2.7	18.6	25.5
Other Operating Expenses	(16.5)	(22.7)	(26.7)	(29.1)	(30.2)
EBITDA	84.5	79.6	100.4	130.1	139.7
Depreciation & Amortisation	1.7	5.1	13.4	13.5	13.9
Operating Profit	82.8	74.5	87.0	116.6	125.8
Forex Gain (Loss)	0.0	0.0	0.0	0.0	0.0
Interest Income	3.3	3.1	0.2	0.2	0.2
Interest Expense	(0.2)	(2.2)	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	85.9	75.4	87.2	116.8	126.0
Taxation	(14.2)	(11.8)	(14.0)	(23.4)	(25.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	71.7	63.5	73.3	93.5	100.8

Source: Powerplus, UOB Kay Hian

Figure 2: Balance Sheet

Year to 31 Dec (Rmbm)	2005	2006	2007F	2008F	2009F
Current Assets					
Prepayments, Deposits, Other Receivables	0.0	0.0	0.0	0.0	0.0
Inventories	36.5	53.0	70.7	78.9	85.1
Trade Receivables	39.9	39.7	50.7	57.6	61.3
Cash & Equivalents	167.4	143.8	72.5	126.9	174.4
Others	0.0	0.0	0.0	0.0	0.0
Non-Current Assets					
Fixed Assets	55.6	144.0	144.5	149.4	168.9
Intangible Assets	0.6	0.5	0.3	0.1	0.0
Others	0.0	0.0	114.1	114.1	114.1
Current Liabilities					
Interest Bearing Loans	0.0	0.0	0.0	0.0	0.0
Trade Payables	32.7	52.0	68.4	76.2	82.2
Other Payables and Accruals	1.3	1.9	2.3	3.3	3.5
Due to Related Companies	0.0	0.0	0.0	0.0	0.0
Tax Payables	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities					
Interest Bearing Bank Loans	0.3	0.3	0.3	0.4	0.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	265.7	326.8	381.7	447.2	517.7
Total Equity & Liabilities	300.0	380.9	452.8	527.0	603.9

Source: Powerplus, UOB Kay Hian

Figure 3: Cash Flow

Year to 31 Dec (Rmbm)	2005	2006	2007F	2008F	2009F
Operating	105.3	72.4	74.8	100.6	111.1
Pre-tax Profit	85.9	75.4	87.2	116.8	126.0
Depreciation	1.9	5.3	13.4	13.5	13.9
Working Capital Changes	31.8	3.6	(11.9)	(6.3)	(3.7)
Income Tax Paid	(14.2)	(11.8)	(14.0)	(23.4)	(25.2)
Investing	(38.5)	(91.1)	(13.7)	(18.3)	(33.3)
Capex	(38.6)	(93.4)	(13.7)	(18.3)	(33.3)
Interest Received	0.2	2.2	0.0	0.0	0.0
Financing	(30.2)	(4.8)	(18.3)	(28.0)	(29.2)
Share Issue	0.0	0.0	0.0	0.0	1.0
Borrowings	(7.0)	0.0	0.0	0.0	0.0
Dividends Paid	(26.2)	0.0	(18.3)	(28.0)	(30.2)
Others	3.0	(4.8)	0.1	0.0	0.0
Net Cash Inflow/(Outflow)	36.7	(23.5)	42.8	54.4	48.6
Cash & Cash Equivalent at Start of Year	130.9	167.4	143.8	72.5	126.9
Cash & Cash Equivalent at End of Year	167.4	143.8	72.5	126.9	174.4

Source: Powerplus, UOB Kay Hian

Figure 4: Ratios

Year to 31 Dec (%)	2005	2006	2007F	2008F	2009F
Growth					
Sales	(1.5)	10.8	27.6	13.7	6.4
EBITDA	0.4	(5.8)	26.1	29.5	7.4
Pre-tax Profit	4.3	(12.2)	15.7	33.9	7.9
Net Profit	(12.9)	(11.4)	15.3	27.5	7.9
EPS	(34.3)	(11.4)	(1.1)	24.0	7.9
Profitability					
EBITDA Margin	29.0	24.7	24.4	27.8	28.1
Pre-tax Margin	29.5	23.4	21.2	25.0	25.3
Net Margin	24.7	19.7	17.8	20.0	20.3
ROA	23.9	16.7	16.2	17.7	16.7
ROE	27.0	19.4	19.2	20.9	19.5
Leverage					
Total Debt/Total Assets	0.0	0.0	0.0	0.0	0.0
Total Debt/Equity	0.0	0.0	0.0	0.0	0.0
Net Cash /Equity	63.1	44.1	19.0	28.4	33.7
Interest Cover (x)	548.6	35.5	-	-	-
Working Capital Management (Days)					
Creditors' Turnover	63	86	87	85	85
Debtors' Turnover	50	45	45	45	45
Inventory Turnover	70	88	90	88	88

Source: Powerplus, UOB Kay Hian

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