

VPower (1608 HK)

Myanmar project on track, high growth in sight

VPower formed JV with China National Technical Import & Export Corporation (CNTIC) for developing three IBO projects with aggregate 900MW contract capacity in Myanmar. Mgmt. expected those projects in Myanmar will commence operation from 2Q20, and to ramp up to full output by Jul 2020. For COVID-19's impact, VPower is subject to only slight impact from employee return to Myanmar project construction, and SI assembly in China. Overall, we believe VPower's Southeast Asia focus will unleash its growth potential back by rapid increasing power demand, and the Company is on track to deliver rapid earnings growth in FY20/21E. **Reiterate BUY.**

- **Co-developing Myanmar IBO market with powerful partner.** VPower had ~10 years' cooperation with CNTIC for EPC services. Backed by Chinese government, CNTIC has strong financing capabilities and long-term project experiences in various emerging market. With supports from CNTIC, the Company is able to leverage limited resource to develop mega size project scale in Myanmar. According to our estimate, those 900MW projects represents 18.0% of Myanmar's total power generating capacity. Together with existing IBO project, VPower will be involved for more than 22% capacity of Myanmar's power supply.
- **Project & pipeline update: largely on track.** VPower signed another two new projects in Sri Lanka, reaching about 100MW in the newly developed market. Indonesia and Brazil projects may be subject to slight delay. For UK peak shaving units, mgmt. expected Doncaster-20.3MW will be put in operation in 2H20, and the remaining 100MW+ pipeline will likely shift to 2021 depends on Brexit progress. We expect VPower to have 150MW IBO capacity addition in 2020. Adding up 450MW attributable capacity from Myanmar, we expect VPower to deliver significant IBO capacity growth in 2020.
- **High earnings growth in FY20/21E.** For FY19 earnings preview, we expect VPower to deliver HK\$249mn net profit, on track to our earnings rebound outlook in 2H19. Based on more conservative project addition forecast, we tune IBO capacity addition in 2020 from 190MW to 150MW. Our EPS outlooks remain largely intact, and we expect VPower to deliver EPS growth at 65.8%/57.9% to HK\$0.161/0.254 in FY20/21E respectively.
- **Reiterate BUY.** After share price correction, VPower is trading at only 13.3x/8.4x FY20/21E PER. The Company will release annual report on 30 Mar. We expect share price to re-rate as mgmt. share more color for future business expansion. **Our TP is unchanged at HK\$3.25, representing FY20/21E PER of 20.2/12.8x.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (HK\$ mn)	1,746	2,421	2,636	3,397	4,153
YoY growth (%)	14.0%	38.6%	8.9%	28.9%	22.2%
Net income (HK\$ mn)	332	213	249	412	651
EPS (HK\$ cent)	12.99	8.36	9.71	16.11	25.44
YoY growth (%)	20.4	(35.6)	16.1	65.8	57.9
P/E (x)	17.7	27.5	22.0	13.3	8.4
P/B (x)	2.4	2.3	2.0	1.8	1.5
Yield (%)	1.4	0.8	1.1	1.8	2.8
ROE (%)	13.5	8.3	8.9	13.2	17.9
Net gearing (%)	7.7	123.2	125.3	97.9	91.2

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.25
(Previous TP	HK\$3.25)
Up/Downside	+49.1%
Current Price	HK\$2.18

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Stock Data

Mkt Cap (HK\$ mn)	5,586
Avg 3 mths t/o (HK\$ mn)	2.1
52w High/Low (HK\$)	3.12/2.00
Total Issued Shares (mn)	2,562

Source: Bloomberg

Shareholding Structure

Energy Garden	70.5%
CITIC Pacific	8.0%
Free float	21.40%

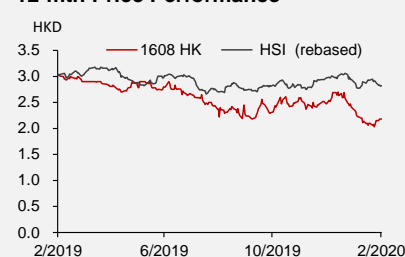
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.5%	-5.3%
3-mth	-15.8%	-15.1%
6-mth	-8.0%	-11.5%
12-mth	-27.6%	-21.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. VPower (1608 HK) – "Resume growth track from 2H19" – 5 Sep 2019
2. VPower (1608 HK) – "Earnings growth to release with IBO capacity" – 1 Apr 2019

Figure 1: VPower's project list update

Project	Capacity (MW)	Remark
IBO project in operation		
Indonesia		
Teluk Lembu I	20.3	In process of contract renewal
Teluk Lembu II	65.8	
Jambi	56.4	
Medan	54	
Rengat	20.3	
Subtotal	216.8	
Myanmar		
Kyauk Phyu I	49.9	COD: Feb, 2019 COD: Mar, 2019 COD: 1H20, 5-yr, minority shareholder COD: 1H20, 5-yr, minority shareholder COD: 1H20, 5-yr, minority shareholder COD: 1H20, 5-yr, fully consolidate
Kyauk Phyu II	49.9	
Myingyan I	149.8	
Myingyan II	109.7	
Yangon	4.7	
Thaketa	400	
Thanlyin	350	
Kyauk Phyu	150	
Kyun Chaung	20	
Subtotal	1284	
Peru		
Iquitos	79.8	
China		
Shandong - Biogas I	8.2	Still in trial running phase for testing biogas source
Shandong - Biogas II	6.2	
Subtotal	14.4	
Sri Lanka		
Hambantota	28.1	6-month contract, on renewal basis
Horana	26.8	6-month contract, on renewal basis
2 new project	38.8	COD: Feb 2020, 6-month contract, on renewal basis
Subtotal	93.7	
Total	1688.7	
IBO project pipeline		
Indonesia		
Dumai	18.7	Commence operation in Mar 2020
Brazil		
Amazonas State	70.3	Target COD: by phases in Sep, Oct, Dec, 2019
UK		
Doncaster	20.3	Commence opeartion in 2H20
UK others	132	Depends on Brexit status, likely 2021
Subtotal	152.3	
China		
Shandong-Biogas III	12.4	Wait until Shandong - Biogas II get mature
Total	253.7	

Source: Company data, CMBIS estimates

Figure 2: Kyauk Phyu Project bird view, Myanmar

Source: CNTIC

Figure 3: Earnings revision

	Old			New			Change(%)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
IBO capacity addition (MW)	226	190	190	226	150	190	0.0%	-21.1%	0.0%
Revenue (HKD mn)	2,636	3,406	4,197	2,636	3,397	4,153	0.0%	-0.3%	-1.1%
Net Income (HKD mn)	249	412	659	249	412	651	0.0%	0.0%	-1.2%
EPS (HKD cent)	9.7	16.1	25.7	9.7	16.1	25.4	0.0%	0.0%	-1.2%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	1,746	2,421	2,636	3,397	4,153
SI	1,183	1,579	1,407	1,520	1,641
IBO	563	842	1,229	1,878	2,511
Cost of sales	(1,169)	(1,714)	(1,774)	(2,387)	(2,903)
Gross profit	577	707	862	1,011	1,250
Selling expense	(29)	(26)	(31)	(33)	(36)
Admin expense	(205)	(273)	(285)	(306)	(353)
Other income and gains	190	40	13	15	18
Other operating expenses	(99)	(32)	(34)	(44)	(54)
Share profit	-	6	11	103	191
EBIT	434	422	536	746	1,016
Finance costs	(77)	(191)	(251)	(272)	(267)
Pre-tax profit	357	231	285	473	748
Profit tax	(26)	(30)	(37)	(62)	(97)
Minority interests	(1)	(12)	1	1	1
Net profit	332	213	249	412	651

Cash flow summary

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	357	231	285	473	748
Depreciation and amortization	168	200	271	340	401
Change in working capital	(590)	(1,521)	(130)	(439)	(382)
Income tax paid	(23)	(26)	(33)	(62)	(97)
Others	3	(46)	(4)	15	17
Operating cash flow	(85)	(1,162)	390	327	686
Capex	(407)	(1,735)	(999)	120	(849)
Others	(84)	90	-	-	-
Investment cash flow	(491)	(1,645)	(999)	120	(849)
Equity raised	(29)	(9)	-	-	-
Change of debts	350	2,361	598	862	208
Dividend paid	(103)	(83)	(36)	(75)	(122)
Others	(0)	-	-	-	-
Financing cash flow	217	2,315	554	788	88
Net change in cash	(359)	(492)	(55)	1,235	(75)
Cash at the beginning	1,392	1,033	541	487	1,722
FX change	-	-	-	-	-
Cash at the end	1,033	541	487	1,722	1,647
Cash at balance sheet	1,034	541	487	1,722	1,647

Balance sheet

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	2,803	2,947	4,094	4,591	5,039
Fixed assets	2,189	1,812	2,528	3,010	3,442
Investment property	-	25	25	25	25
Deposits & receivables	609	164	593	593	593
Deferred tax assets	5	15	6	6	6
Others	-	931	942	958	973
Current assets	3,123	4,447	4,378	5,324	5,861
Cash and cash equivalents	1,034	541	487	1,722	1,647
Pledged deposits	166	48	376	435	443
Restricted cash	-	81	81	81	81
Inventories	712	1,249	923	1,189	1,454
Trade and bills receivables	781	1,071	1,183	1,525	1,864
Others	431	1,455	1,329	372	372
Current liabilities	2,290	3,288	2,226	2,452	2,630
Short-term borrowings	532	2,384	1,200	1,250	1,250
Trade payables	904	395	422	456	492
Other payables and accruals	832	493	563	696	828
Tax payable	18	6	26	30	34
Other current liabilities	4	3	9	14	19
Non-current liabilities	1,176	1,490	3,426	4,305	4,581
Long-term borrowings	857	585	3,148	3,959	4,167
Deferred tax liabilities	6	20	15	15	15
Other long term liabilities	313	105	263	331	399
Minority Interest	(1)	46	38	40	42
Shareholders' equity	2,461	2,570	2,782	3,118	3,646
Total Equity	2,461	2,616	2,820	3,158	3,688

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
SI	67.7	65.2	53.4	44.7	39.5
IBO	32.3	34.8	46.6	55.3	60.5
Total	100.0	100.0	100.0	100.0	100.0
Growth (%)					
Revenue	14.0	38.6	8.9	28.9	22.2
Gross profit	15.9	22.5	22.0	17.3	23.7
EBIT	34.9	(2.8)	27.0	39.0	36.2
Net profit	49.5	(35.7)	16.6	65.8	57.9
Profit & loss ratios (%)					
Gross margin	33.0	29.2	32.7	29.7	30.1
Pre-tax margin	20.5	9.5	10.8	13.9	18.0
Net margin	19.0	8.8	9.4	12.1	15.7
Effective tax rate	7.3	13.0	13.0	13.0	13.0
Balance sheet ratios					
Current ratio (x)	1.4	1.4	2.0	2.2	2.2
Debtors turnover days	155.6	139.6	156.1	145.5	148.9
Creditors turnover days	247.1	64.0	106.5	62.7	56.8
Inventory turnover days	196.4	208.9	223.4	161.5	166.2
Net debt / total equity ratio (%)	7.7	123.2	125.3	97.9	91.2
Returns (%)					
ROE	13.5	8.3	8.9	13.2	17.8
ROA	5.6	2.9	2.9	4.1	6.0
Per share					
EPS (HK\$, cent)	13.0	8.3	9.7	16.1	25.4
DPS (HK\$, cent)	3.2	2.0	2.3	3.9	6.1
BVPS (HK\$)	0.96	1.00	1.09	1.22	1.42

Source: Company data, CMBIS estimates

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