

VPower (1608 HK)

Positive profit alert beat our estimates

VPower released positive profit alert, expecting 1H20 net profit to surge more than 70% YoY. The Company's 1H20 earnings performance would be significantly stronger than our previous estimates of HK\$178mn (+24.8% YoY), due to 1) business growth from SI and IBO businesses; 2) an increase in other income and gains; and 3) an increase in share of profits of JVs. Despite some non-recurring items likely to boost earnings growth, we still see VPower's 1H20 earnings performance a solid sign of delivery of mgmt. guidance. Our DCF TP is lifted to HK\$5.50, reflecting FY20/21E PER of 19.7x/12.1x, respectively. Maintain BUY.

- **1H20 net profit to surge more than 70% YoY.** VPower's positive profit alert was 36.4% higher than our previous estimate. As per our communication with the Company, we think the upside surprise would mainly come from 1) one-off income generated from consultancy contract arose with the Myanmar mega size JV projects; 2) stably performed IBO projects with increasing capacity contribution; 3) better-than-expected SI product sales and 4) the Myanmar JV started to contribute earnings though with limited operating days during 1H20.
- **Effective capacity to increase 17.3% YoY.** The Company added ~58MW consolidated capacity mostly in 2Q20 in Myanmar and Brazil, and has another 112.8MW new capacity in the pipeline. In 1H20, we think contribution from new capacity would be mild, and we expect revenue growth from IBO projects will accelerate in 2H20. We estimate effective capacity in FY20 will increase by 104.7MW, representing 17.3% growth YoY.
- **Myanmar JV projects to commence fully operation in 2H20.** By 30 Jun, 582.4MW out of 1,059.5MW of the Myanmar JV projects had entered operating phase. We expect the remaining capacity will be put into operation soon within 3Q20. Same as newly added IBO projects, we think key earnings contribution will mostly fall into 2H20. Given the projects' scale and profitability of the JV, we think the increment of share profit from JV in 2H20 will be more significant.
- **Raise TP to HK\$5.50, maintain BUY.** We revise FY20E EPS up by 6.8% to HK\$27.9 cents to reflect stronger-than-expected 1H20 earnings. Our revised 1H20E net profit is lifted to HK\$245mn, up 71.7% YoY. We think VPower's earnings growth is still on track with our projections. Our DCF TP is raised by 14.6% to HK\$5.50 based on slightly adjustment on IBO project profitability. **Maintain BUY rating on VPower.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	2,421	2,794	3,244	4,041	4,595
YoY growth (%)	38.6%	15.4%	16.1%	24.5%	13.7%
Net income (HK\$ mn)	213	284	714	1,160	1,278
EPS (HK\$)	0.08	0.11	0.28	0.45	0.50
YoY growth (%)	(35.6)	32.4	151.9	62.5	10.1
Consensus EPS (HK\$)	N/A	N/A	0.23	0.40	0.46
P/E (x)	51.3	38.7	15.4	9.5	8.6
P/B (x)	4.3	3.9	3.2	2.5	2.0
Yield (%)	0.5	0.5	1.3	2.1	2.3
ROE (%)	0.1	0.1	0.2	0.3	0.2
Net gearing (%)	123.2	112.7	97.3	72.0	54.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.50
(Previous TP	HK\$4.80)
Up/Downside	+28.2%
Current Price	HK\$4.29

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Stock Data

Mkt Cap (HK\$ mn)	10,996
Avg 3 mths t/o (HK\$ mn)	9.70
52w High/Low (HK\$)	4.56/2.00
Total Issued Shares (mn)	2,563

Source: Bloomberg

Shareholding Structure

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

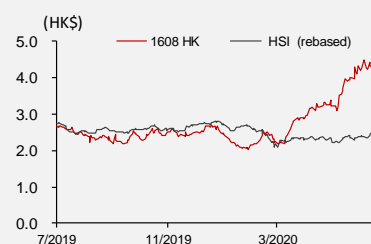
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.0%	3.0%
3-mth	55.7%	47.1%
6-mth	65.8%	84.5%
12-mth	58.0%	74.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Report

VPower (1608 HK) – "Myanmar JV on track to commercial operation" – 29 May 2020

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Figure 1: Our revised earnings projection for 1H/2H20E

YE Dec 31 (HK\$ mn)	1H19	2H19	FY19A	1H19/ FY19%	1H20E	2H20E	FY20E	1H20E/ FY20E%
Revenue	1,203	1,591	2,794	43.1%	1,298	1,947	3,244	40.0%
System integration - SI	689	1,068	1,757	39.2%	716	1,075	1,791	40.0%
Invest, build, and operate - IBO	515	523	1,038	49.6%	625	828	1,453	43.0%
Cost of sales	(806)	(1,250)	(2,057)	39.2%	(914)	(1,372)	(2,286)	40.0%
Gross profit	397	340	737	53.9%	393	565	958	41.0%
Gross profit margin	33.0%	21.4%	26.4%	N/A	30.3%	29.0%	29.5%	N/A
Selling expense	(11)	(20)	(31)	34.6%	(11)	(19)	(30)	36.0%
Admin expense	(118)	(221)	(339)	34.7%	(117)	(208)	(324)	36.0%
Other income and gains	8	135	144	5.9%	100	54	153	65.0%
Other operating expenses	-	(5)	(5)	0.0%	(3)	(4)	(6)	40.0%
Share profit	(3)	69	67	-3.9%	26	297	323	8.0%
EBIT	275	298	572	48.0%	388	685	1,073	36.2%
EBIT margin	22.8%	18.7%	20.5%	N/A	29.9%	35.2%	33.1%	N/A
Finance costs	(118)	(132)	(249)	47.2%	(113)	(138)	(252)	45.0%
Pre-tax profit	157	166	323	48.5%	275	547	821.474	33.5%
Profit tax	(14)	(27)	(41)	34.5%	(30)	(77)	(107)	28.0%
Effective tax rate	9.0%	16.1%	12.7%	N/A	10.9%	14.1%	13.0%	N/A
Less: Minority interests	(0)	(1)	(1)	0.4%	(0)	1	1	40.0%
Net profit	143	141	284	50.3%	245	469	714	34.3%

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
IBO capacity addition (MW)	150	190	190	150	190	190	0.0%	0.0%	0.0%
Revenue (HKD mn)	3,301	4,041	4,595	3,244	4,041	4,595	-1.7%	0.0%	0.0%
Net Income (HKD mn)	669	1,162	1,279	714	1,160	1,278	6.8%	-0.1%	-0.1%
EPS (HKD cent)	26.1	45.4	50.0	27.9	45.3	49.9	6.8%	-0.1%	-0.1%
Consensus estimates							Our est. vs. consensus		
Net Income (HKD mn)				594	1,020	1,172	20.3%	13.7%	9.0%
EPS (HKD cent)				23.01	39.76	45.62	21.3%	14.0%	9.4%

Source: CMBIS estimates

Figure 3: Our DCF valuation

DCF Valuation (HK\$ mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turnover	4,041	4,595	5,062	5,581	6,021	6,426	6,858	7,319	7,810	8,334
Turnover growth (%)	24.5%	13.7%	10.2%	10.3%	7.9%	6.7%	6.7%	6.7%	6.7%	6.7%
EBIT	809	939	1,049	1,140	1,212	1,274	1,339	1,407	1,478	1,552
EBIT margin (%)	20.0%	20.4%	20.7%	20.4%	20.1%	19.8%	19.5%	19.2%	18.9%	18.6%
Tax rate (%)	13.0%	13.0%	13.0%	13%	13%	13%	13%	13%	13%	13%
Income tax	(105)	(122)	(136)	(148)	(158)	(166)	(174)	(183)	(192)	(202)
Depreciation & amortisation	416	500	583	678	590	648	713	785	863	949
Invest in working capital	(304)	(152)	(98)	(217)	(184)	(172)	(189)	(208)	(229)	(252)
CAPEX	(923)	(1,152)	(924)	(872)	(759)	(709)	(779)	(857)	(942)	(1,036)
Free cash flow	(107)	13	474	581	700	876	910	944	978	1,012
Share profit from Myanmar JV*	756	756	756	756	756	756	756	756	756	756
Years	1	2	3	4	5	6	7	8	9	10
Discount factor	0.92	0.85	0.79	0.73	0.67	0.62	0.58	0.53	0.49	0.45
Discounted free cash flow & share profit	600	657	970	975	981	1,016	958	904	852	802
Terminal value**										16,596
Terminal perpetual growth										2.0%
Terminal EV/EBITDA										6.6

WACC Calculations

Cost of debt	6.5%
Tax rate	13.0%
After tax cost of debt	5.7%
Cost of equity	10.3%
Adjusted beta	0.80
Market risk premium	11.9%
Risk free rate	0.8%
% of debt financing	45.0%
WACC	8.2%

Valuations (HK\$ mn)

Terminal value	16,596
Terminal perpetual growth	2.0%
Terminal EV/EBITDA	6.63
Total discount FCF & share profit	8,715
Discount terminal value	8,821
Enterprise value	17,536
Discount FCF(% of total)	49.7%
Terminal value (% of total)	50.3%
Add: Cash & cash equivalent	693
Less: Debt	4,105
Non-controlling interest	40
Equity Value - (HK\$,mn)	14,084
Share fair value (HK\$/share)	5.50

Source: Company data, CMBIS estimate

Note: *We incorporated share profit from the JV in our DCF valuation for discount cash flow in 2021-30.

**We consider no further extension of the JV's contract for terminal value estimates.

Financial Summary

Income statement

YE 31Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,421	2,794	3,244	4,041	4,595
SI	1,579	1,757	1,791	1,881	2,031
IBO	508	1,038	1,453	2,160	2,564
Cost of sales	(1,714)	(2,057)	(2,286)	(2,821)	(3,187)
Gross profit	707	737	958	1,220	1,407
Selling expense	(26)	(31)	(30)	(33)	(35)
Admin expense	(273)	(339)	(324)	(404)	(459)
Other income and gains	40	144	153	34	35
Other operating expenses	(32)	(5)	(6)	(8)	(9)
EBIT	416	506	750	809	939
Share profit	6	67	323	770	770
Finance costs	(191)	(249)	(252)	(245)	(240)
Pre-tax profit	231	323	821	1,334	1,469
Profit tax	(30)	(41)	(107)	(173)	(191)
Minority interests	(12)	(1)	1	1	1
Net profit	213	284	714	1,160	1,278

Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	231	323	821	1,334	1,469
Depreciation and amortization	200	269	347	416	500
Change in working capital	(1,602)	957	(573)	(304)	(152)
Income tax paid	(26)	(42)	(106)	(174)	(191)
Others	994	(8)	(11)	3	3
Operating cash flow	(203)	1,500	478	1,275	1,629
Capex	(1,735)	(1,628)	(1,222)	(938)	(1,167)
Others	141	0	(122)	-	-
Investment cash flow	(1,593)	(1,628)	(1,343)	(938)	(1,167)
Equity raised	(9)	-	(0)	-	(0)
Change of debts	2,361	247	873	92	173
Dividend paid	(83)	(35)	(91)	(177)	(240)
Others	(983)	153	-	-	-
Financing cash flow	1,332	359	786	(83)	(65)
Net change in cash	(465)	231	(79)	254	397
Cash at the beginning	1,034	541	772	693	947
FX change	(27)	-	-	-	-
Cash at the end	541	772	693	947	1,344
Cash at balance sheet	541	772	693	947	1,344

Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,947	4,995	6,142	6,669	7,345
Fixed assets	1,812	3,761	4,326	4,833	5,486
Investment property	25	25	24	24	23
Deposits & receivables	164	147	150	155	164
Deferred tax assets	15	15	15	15	15
Others	931	1,029	1,608	1,622	1,637
Current assets	4,447	3,956	3,980	4,772	5,514
Cash and cash equivalents	541	772	693	947	1,344
Pledged deposits	48	62	60	62	63
Restricted cash	81	82	82	82	82
Inventories	1,249	886	973	1,212	1,378
Trade and bills receivables	1,071	1,226	1,390	1,693	1,879
Others	1,455	928	781	777	768
Current liabilities	3,288	3,501	3,244	3,322	3,389
Short-term borrowings	2,384	1,783	1,850	1,758	1,670
Trade payables	395	739	716	752	812
Other payables and accruals	493	805	621	751	841
Tax payable	6	18	22	26	30
Other current liabilities	3	127	5	6	6
Non-current liabilities	1,490	2,592	3,393	3,649	3,960
Long-term borrowings	585	1,450	2,255	2,440	2,701
Deferred tax liabilities	20	19	19	19	19
Other long term liabilities	105	352	346	417	468
Minority Interest	46	37	40	42	44
Shareholders' equity	2,570	2,822	3,445	4,428	5,466
Total Equity	2,616	2,859	3,486	4,470	5,510

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
SI	65.2	62.9	55.2	46.5	44.2
IBO	21.0	37.1	44.8	53.5	55.8
Total	86.2	100.0	100.0	100.0	100.0
Growth (%)					
Revenue	38.6	15.4	16.1	24.5	13.7
Gross profit	22.5	4.3	30.0	27.3	15.3
EBIT	(4.2)	21.5	48.4	7.8	16.0
Net profit	(35.7)	32.9	151.9	62.5	10.1
Profit & loss ratios (%)					
Gross margin	29.2	26.4	29.5	30.2	30.6
Pre-tax margin	9.5	11.6	25.3	33.0	32.0
Net margin	8.8	10.1	22.0	28.7	27.8
Effective tax rate	13.0	12.7	13.0	13.0	13.0
Balance sheet ratios					
Current ratio (x)	1.4	1.1	1.2	1.4	1.6
Debtors turnover days	139.6	150.0	147.2	139.3	141.9
Creditors turnover days	64.0	159.3	110.2	89.7	88.4
Inventory turnover days	208.9	189.5	148.4	141.4	148.3
Net debt / total equity ratio (%)	123.2	112.7	97.3	72.0	54.2
Returns (%)					
ROE	8.3	10.0	20.7	26.2	23.4
ROA	2.9	3.2	7.1	10.1	9.9
Per share					
EPS (HK\$, cent)	8.3	11.1	27.9	45.3	49.9
DPS (HK\$, cent)	2.0	2.2	5.5	9.0	9.9
BVPS (HK\$)	1.00	1.10	1.34	1.73	2.13

Source: Company data, CMBIS estimates

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