

# VPower (1608 HK)

## 1H20 results beat; high growth to continue in 2H

VPower delivered strong 1H20 results with earnings surged 84.6% to HK\$263mn. The Company added 138.8MW IBO capacity and realized surprising SI sales in a challenging environment caused by COVID-19. Myanmar JV with total capacity of 1.06GW also commence operation within nine months construction period. We expect VPower's effort to have good payoff in 2H20 with accelerating earnings, especially share profit from Myanmar JV. **We reiterate our BUY rating on VPower with TP unchanged at HK\$5.47.**

- **1H20 results beat our est. by 7.5%.** Revenue came with surprisingly high growth of 70.4% YoY to HK\$2,050mn, driven by unexpectedly high growth from SI sales and steady IBO increment. Other income and gains recorded HK\$88mn, comprised by consultancy income and asset disposal gain of HK\$62/14mn, respectively. As VPower hired more employees to handle LNG related business, administrative expenses expanded 42.6% YoY. Finance costs exhibited a YoY decline of 8.5% with shrinking borrowings, reflecting good control on financing cost and gearing (net gearing dropped to 74.5% incl. top-up placement in Jul). Net profit was HK\$263mn, up 84.6% YoY and was 7.5% higher than our estimates. VPower declared HK\$1.51 cents interim dividend, representing 14.6% payout ratio on 1H20 EPS.
- **Surprisingly high SI sales.** SI segment revenue surged 104.6%, which was 96.7% higher than our estimate. Mgmt. disclosed strong market demand from China and other Asia countries and some ad hoc SI orders in 1H20 was key growth driver. GPM of SI experienced a decline of 5.4ppt to 17.6% due to additional efforts made to fulfill SI orders caused by COVID-19 lockdowns. Mgmt. expects SI sales to resume normal in 2H20 and guided high single digit growth for SI sales in FY20E.
- **IBO segment expansion on track.** GPM of IBO experienced 8.7ppt rise to 37.7% as VPower added more fuel inclusion projects from Brazil. Other than that, mgmt. explained GPM of non-fuel inclusion project stay stable in Asia. Iconic Myanmar JV contributed HK\$23mn share profit in 1H20 with merely one month operating contribution, reaffirming the JV's profitability. Looking ahead in 2H20, we expect IBO project to contribute stable operating profit growth, and the Myanmar JV to contribute HK\$310mn share profit in FY20.
- **Reiterate BUY on earnings acceleration in 2H20.** We made no revision on our earnings forecast and TP. We believe VPower's earnings release in 2H20 is highly visible. Trading at only 10.8/6.7x FY20/21E PER is undervalued. We think share price correction offers perfect opportunity to accumulate.

### 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   | 711   | 1,169 | 1,286 |
| EPS (HK\$)           | 0.08   | 0.11  | 0.27  | 0.44  | 0.49  |
| YoY growth (%)       | (35.6) | 32.4  | 146.9 | 61.6  | 10.0  |
| Consensus EPS (HK\$) | N/A    | N/A   | 0.19  | 0.3   | 0.3   |
| P/E (x)              | 35.1   | 26.5  | 10.8  | 6.7   | 6.0   |
| P/B (x)              | 2.9    | 2.7   | 2.1   | 1.7   | 1.4   |
| Yield (%)            | 0.7    | 0.9   | 2.3   | 3.7   | 4.1   |
| ROE (%)              | 0.1    | 0.1   | 0.2   | 0.3   | 0.2   |
| Net gearing (%)      | 123.2  | 112.7 | 82.9  | 63.4  | 49.3  |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

|               |           |
|---------------|-----------|
| Target Price  | HK\$5.47  |
| (Previous TP  | HK\$5.47) |
| Up/Downside   | +86.1%    |
| Current Price | HK\$2.94  |

### Distributed Power

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### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 7,780     |
| Avg 3 mths t/o (HK\$ mn) | 20.43     |
| 52w High/Low (HK\$)      | 4.54/1.99 |
| Total Issued Shares (mn) | 2,646     |

Source: Bloomberg

### Shareholding Structure

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

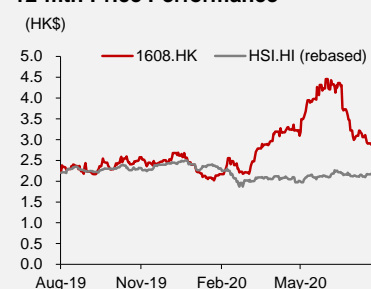
Source: HKEx

### Share Performance

|        | Absolute | Relative |
|--------|----------|----------|
| 1-mth  | -8.7%    | -11.5%   |
| 3-mth  | -8.8%    | -16.3%   |
| 6-mth  | 35.6%    | 42.0%    |
| 12-mth | 25.0%    | 25.9%    |

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

### Auditor: Ernst & Young

### Related Report

1. VPower (1608 HK) – "A closer look at Myanmar JV" – 29 Jul 2020
2. VPower (1608 HK) – "Positive profit alert beat our estimates" – 14 Jul 2020
3. VPower (1608 HK) – "Myanmar JV on track to commercial operation" – 29 May 2020

Figure 1: 1H20 earnings summary

| YE Dec 31 (HK\$ mn)              | 1H19         | 2H19         | FY19A        | 1H20A        | YoY            | 1H20E        | Diff %         | Our comments                                  |
|----------------------------------|--------------|--------------|--------------|--------------|----------------|--------------|----------------|-----------------------------------------------|
| <b>Revenue</b>                   | <b>1,203</b> | <b>1,591</b> | <b>2,794</b> | <b>2,050</b> | <b>70.4%</b>   | <b>1,298</b> | <b>58.0%</b>   |                                               |
| System integration - SI          | 689          | 1,068        | 1,757        | 1,409        | 104.6%         | 716          | 96.7%          | SI sales beat on ad hoc orders                |
| Invest, build, and operate - IBO | 515          | 523          | 1,038        | 641          | 24.6%          | 625          | 2.6%           | IBO revenue was in line                       |
| Cost of sales                    | (806)        | (1,250)      | (2,057)      | (1,561)      | 93.6%          | (914)        | 70.7%          | COGS reflects higher SI sales growth          |
| <b>Gross profit</b>              | <b>397</b>   | <b>340</b>   | <b>737</b>   | <b>489</b>   | <b>23.2%</b>   | <b>393</b>   | <b>24.5%</b>   | <b>GP surged on higher SI and IBO revenue</b> |
| <b>Gross profit margin</b>       | <b>33.0%</b> | <b>21.4%</b> | <b>26.4%</b> | <b>23.9%</b> | <b>-9.1ppt</b> | <b>30.3%</b> | <b>-6.4ppt</b> | <b>GPM declined due to mix change</b>         |
| Other income and gains           | 8            | 135          | 144          | 88           | 949.2%         | 100          | -11.8%         | Consultancy/disposal gain of HK\$62/14mm      |
| Other operating expenses         | -            | (5)          | (5)          | (1)          | N/A            | (3)          | -61.5%         |                                               |
| Selling expense                  | (11)         | (20)         | (31)         | (18)         | 65.9%          | (11)         | 62.5%          |                                               |
| Admin expense                    | (118)        | (221)        | (339)        | (168)        | 42.6%          | (117)        | 43.6%          | Hire more employee                            |
| Share profit                     | (3)          | 69           | 67           | 23           | -991.1%        | 25           | -8.3%          | Mostly from Myanmar JV                        |
| <b>EBIT</b>                      | <b>275</b>   | <b>298</b>   | <b>572</b>   | <b>414</b>   | <b>50.9%</b>   | <b>388</b>   | <b>6.8%</b>    | <b>Beat on higher SI sales</b>                |
| <b>EBIT margin</b>               | <b>22.8%</b> | <b>18.7%</b> | <b>20.5%</b> | <b>20.2%</b> | <b>-2.6ppt</b> | <b>29.9%</b> | <b>-9.7ppt</b> | <b>Declined due to mix change</b>             |
| Finance costs                    | (118)        | (132)        | (249)        | (108)        | -8.5%          | (113)        | -5.0%          | In well control                               |
| <b>Pre-tax profit</b>            | <b>157</b>   | <b>166</b>   | <b>323</b>   | <b>307</b>   | <b>95.6%</b>   | <b>275</b>   | <b>11.6%</b>   |                                               |
| Profit tax                       | (14)         | (27)         | (41)         | (41)         | 191.4%         | (30)         | 38.4%          |                                               |
| <b>Effective tax rate</b>        | <b>9.0%</b>  | <b>16.1%</b> | <b>12.7%</b> | <b>13.4%</b> | <b>49.0%</b>   | <b>10.8%</b> | <b>2.6ppt</b>  |                                               |
| <b>Profit for the period</b>     | <b>143</b>   | <b>140</b>   | <b>282</b>   | <b>266</b>   | <b>86.1%</b>   | <b>245</b>   | <b>8.4%</b>    |                                               |
| Less: Minority interests         | (0)          | (1)          | (1)          | 2            | N/A            | (0)          | N/A            |                                               |
| <b>Net profit</b>                | <b>143</b>   | <b>141</b>   | <b>284</b>   | <b>263</b>   | <b>84.6%</b>   | <b>245</b>   | <b>7.5%</b>    | <b>Beat out est. by 7.5%</b>                  |
| <b>Net profit margin</b>         | <b>11.9%</b> | <b>8.9%</b>  | <b>10.1%</b> | <b>12.8%</b> | <b>1.0ppt</b>  | <b>18.9%</b> | <b>-6.0ppt</b> |                                               |

Source: Company data, CMBIS estimates

Figure 2: Segment GP and GPM

| YE Dec 31 (HK\$ mn)              | 1H19  | 2H19  | FY19A | 1H20A | YoY     |
|----------------------------------|-------|-------|-------|-------|---------|
| <b>Gross profit</b>              |       |       |       |       |         |
| System integration - SI          | 158   | 199   | 357   | 248   | 56.5%   |
| Invest, build, and operate - IBO | 239   | 142   | 381   | 242   | 1.2%    |
| <b>Gross profit margin</b>       |       |       |       |       |         |
| System integration - SI          | 23.0% | 18.6% | 20.3% | 17.6% | -5.4ppt |
| Invest, build, and operate - IBO | 46.4% | 27.1% | 36.7% | 37.7% | -8.7ppt |

Source: Company data, CMBIS

Figure 3: Myanmar JV projects and its LNG ships and facilities supports

## LNG-to-Power Projects in Myanmar



LNG ships and facilities



LNG carrier ship to ship to LNG shuttle in deep sea outside Yangon (>13m)



LNG shuttle ship to ship to LNG storage (FSU) at receiving terminal in Yangon River (8m)



Regasification station

Capable of receiving 2 million tones of LNG annually

Power stations



Thanlyin, Yangon



Thaketa, Yangon



Kyauk Phyu

1,059.5MW total installed capacity

Source: Company data

**Figure 4: Operating IBO capacity reached 1,874.2MW (JV incl.)**

| Project                                                 | Capacity (MW) | Contract length (months) |
|---------------------------------------------------------|---------------|--------------------------|
| <b>IBO project in operation</b>                         |               |                          |
| <b>Indonesia</b>                                        |               |                          |
| Teluk Lembu I                                           | 20.3          | 12                       |
| Teluk Lembu II                                          | 65.8          | 60                       |
| Jambi                                                   | 56.4          | 60                       |
| Rengat                                                  | 20.3          | 36                       |
| Muko                                                    | 6.5           | 36                       |
| <b>Subtotal</b>                                         | <b>169.3</b>  |                          |
| <b>Myanmar</b>                                          |               |                          |
| Kyauk Phyu I                                            | 49.9          | 60                       |
| Kyauk Phyu II                                           | 49.9          | 60                       |
| Myingyan I                                              | 149.8         | 60                       |
| Myingyan II                                             | 109.7         | 60                       |
| Yangon                                                  | 4.7           | 48                       |
| Kyun Chaung                                             | 23.2          | 24                       |
| <b>Subtotal</b>                                         | <b>387.2</b>  |                          |
| <b>Latin America</b>                                    |               |                          |
| Iquitos                                                 | 79.8          | 240                      |
| Amazona State                                           | 70.3          | 60-180                   |
| <b>Subtotal</b>                                         | <b>150.1</b>  |                          |
| <b>China</b>                                            |               |                          |
| Shandong - Biogas I                                     | 8.2           | 180                      |
| Shandong - Biogas II                                    | 6.2           | 180                      |
| <b>Subtotal</b>                                         | <b>14.4</b>   |                          |
| <b>Sri Lanka</b>                                        |               |                          |
| Hambantota                                              | 28.1          | 6                        |
| Horana                                                  | 26.8          | 6                        |
| Galle and Palkelele                                     | 38.8          | 6                        |
| <b>Subtotal</b>                                         | <b>93.7</b>   |                          |
| <b>CNTIC VPower in Myanmar (JV at 50% shareholding)</b> |               |                          |
| Thaketa                                                 | 477.1         | 60                       |
| Thanlyin                                                | 410.2         | 60                       |
| Kyauk Phyu III                                          | 172.2         | 60                       |
| <b>Subtotal</b>                                         | <b>1059.5</b> |                          |
| <b>Total</b>                                            | <b>1874.2</b> |                          |

Source: Company data, CMBIS

**Figure 5: IBO project pipeline**

| Project                     | Capacity (MW) |
|-----------------------------|---------------|
| <b>IBO project pipeline</b> |               |
| <b>Indonesia</b>            |               |
| Dumai                       | 18.7          |
| <b>Sri Lanka</b>            |               |
| 2 project                   | 120.8         |
| <b>UK</b>                   |               |
| Doncaster                   | 20.3          |
| UK others                   | 132           |
| <b>Subtotal</b>             | <b>152.3</b>  |
| <b>Total</b>                | <b>291.8</b>  |

Source: Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (HK\$ mn)      | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>           | <b>2,421</b> | <b>2,794</b> | <b>3,244</b> | <b>4,041</b> | <b>4,595</b> |
| 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)      |
| <b>Gross profit</b>      | <b>707</b>   | <b>737</b>   | <b>958</b>   | <b>1,220</b> | <b>1,407</b> |
| Selling expense          | (26)         | (31)         | (30)         | (33)         | (35)         |
| Admin expense            | (273)        | (339)        | (324)        | (404)        | (459)        |
| Other income and gains   | 40           | 144          | 154          | 35           | 36           |
| Other operating expenses | (32)         | (5)          | (6)          | (8)          | (9)          |
| <b>EBIT</b>              | <b>416</b>   | <b>506</b>   | <b>751</b>   | <b>810</b>   | <b>940</b>   |
| Share profit             | 6            | 67           | 318          | 779          | 779          |
| Finance costs            | (191)        | (249)        | (252)        | (245)        | (240)        |
| <b>Pre-tax profit</b>    | <b>231</b>   | <b>323</b>   | <b>817</b>   | <b>1,344</b> | <b>1,479</b> |
| Profit tax               | (30)         | (41)         | (106)        | (175)        | (192)        |
| Minority interests       | (12)         | (1)          | 1            | 1            | 1            |
| <b>Net profit</b>        | <b>213</b>   | <b>284</b>   | <b>711</b>   | <b>1,169</b> | <b>1,286</b> |

### Cash flow summary

| YE 31 Dec (HK\$ mn)           | FY18A          | FY19A          | FY20E          | FY21E        | FY22E          |
|-------------------------------|----------------|----------------|----------------|--------------|----------------|
| <b>Profit before tax</b>      | <b>231</b>     | <b>323</b>     | <b>817</b>     | <b>1,344</b> | <b>1,479</b>   |
| Depreciation and amortization | 200            | 269            | 347            | 416          | 500            |
| Change in working capital     | (1,602)        | 957            | (573)          | (304)        | (152)          |
| Income tax paid               | (26)           | (42)           | (106)          | (175)        | (192)          |
| Others                        | 994            | (8)            | (11)           | 3            | 3              |
| <b>Operating cash flow</b>    | <b>(203)</b>   | <b>1,500</b>   | <b>474</b>     | <b>1,284</b> | <b>1,638</b>   |
| Capex                         | (1,735)        | (1,628)        | (1,222)        | (938)        | (1,167)        |
| Others                        | 141            | 0              | (122)          | -            | -              |
| <b>Investment cash flow</b>   | <b>(1,593)</b> | <b>(1,628)</b> | <b>(1,343)</b> | <b>(938)</b> | <b>(1,167)</b> |
| Equity raised                 | (9)            | -              | 299            | -            | -              |
| Change of debts               | 2,361          | 247            | 873            | 92           | 173            |
| Dividend paid                 | (83)           | (35)           | (91)           | (179)        | (242)          |
| Others                        | (983)          | 153            | -              | -            | -              |
| <b>Financing cash flow</b>    | <b>1,332</b>   | <b>359</b>     | <b>1,084</b>   | <b>(85)</b>  | <b>(67)</b>    |
| <b>Net change in cash</b>     | <b>(465)</b>   | <b>231</b>     | <b>215</b>     | <b>262</b>   | <b>405</b>     |
| Cash at the beginning         | 1,034          | 541            | 772            | 987          | 1,249          |
| FX change                     | (27)           | -              | -              | -            | -              |
| <b>Cash at the end</b>        | <b>541</b>     | <b>772</b>     | <b>987</b>     | <b>1,249</b> | <b>1,654</b>   |
| <b>Cash at balance sheet</b>  | <b>541</b>     | <b>772</b>     | <b>987</b>     | <b>1,249</b> | <b>1,654</b>   |

### Balance sheet

| YE 31 Dec (HK\$ mn)            | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Non-current assets</b>      | <b>2,947</b> | <b>4,995</b> | <b>6,142</b> | <b>6,669</b> | <b>7,345</b> |
| Fixed assets                   | 1,812        | 3,761        | 4,326        | 4,833        | 5,486        |
| Investment property            | 25           | 25           | 24           | 24           | 23           |
| Deferred tax assets            | 15           | 15           | 15           | 15           | 15           |
| JV & Asso investments          | 763          | 853          | 1,432        | 1,446        | 1,461        |
| Others                         | 193          | 219          | 218          | 218          | 218          |
| <b>Current assets</b>          | <b>4,447</b> | <b>3,956</b> | <b>4,274</b> | <b>5,074</b> | <b>5,823</b> |
| Cash and cash equivalents      | 541          | 772          | 987          | 1,249        | 1,654        |
| 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          |
| <b>Current liabilities</b>     | <b>3,288</b> | <b>3,501</b> | <b>3,244</b> | <b>3,322</b> | <b>3,389</b> |
| 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            |
| <b>Non-current liabilities</b> | <b>1,490</b> | <b>2,592</b> | <b>3,393</b> | <b>3,649</b> | <b>3,960</b> |
| 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          |
| <b>Minority Interest</b>       | <b>46</b>    | <b>37</b>    | <b>40</b>    | <b>42</b>    | <b>44</b>    |
| <b>Shareholders' equity</b>    | <b>2,570</b> | <b>2,822</b> | <b>3,740</b> | <b>4,730</b> | <b>5,775</b> |
| <b>Total Equity</b>            | <b>2,616</b> | <b>2,859</b> | <b>3,780</b> | <b>4,772</b> | <b>5,819</b> |

### Key ratios

| YE 31 Dec                           | FY18A       | FY19A        | FY20E        | FY21E        | FY22E        |
|-------------------------------------|-------------|--------------|--------------|--------------|--------------|
| <b>Sales mix (%)</b>                |             |              |              |              |              |
| SI                                  | 65.2        | 62.9         | 55.2         | 46.5         | 44.2         |
| IBO                                 | 21.0        | 37.1         | 44.8         | 53.5         | 55.8         |
| <b>Total</b>                        | <b>86.2</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| <b>Growth (%)</b>                   |             |              |              |              |              |
| 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         | 48.5         | 7.9          | 16.0         |
| Net profit                          | (35.7)      | 32.9         | 150.6        | 64.5         | 10.0         |
| <b>Profit &amp; loss ratios (%)</b> |             |              |              |              |              |
| Gross margin                        | 29.2        | 26.4         | 29.5         | 30.2         | 30.6         |
| Pre-tax margin                      | 9.5         | 11.6         | 25.2         | 33.3         | 32.2         |
| Net margin                          | 8.8         | 10.1         | 21.9         | 28.9         | 28.0         |
| Effective tax rate                  | 13.0        | 12.7         | 13.0         | 13.0         | 13.0         |
| <b>Balance sheet ratios</b>         |             |              |              |              |              |
| Current ratio (x)                   | 1.4         | 1.1          | 1.3          | 1.5          | 1.7          |
| 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        | 81.8         | 61.0         | 46.0         |
| <b>Returns (%)</b>                  |             |              |              |              |              |
| ROE                                 | 8.3         | 10.0         | 19.0         | 24.7         | 22.3         |
| ROA                                 | 2.9         | 3.2          | 6.8          | 10.0         | 9.8          |
| <b>Per share</b>                    |             |              |              |              |              |
| EPS (HK\$, cent)                    | 8.3         | 11.1         | 26.9         | 44.2         | 48.6         |
| DPS (HK\$, cent)                    | 2.0         | 2.2          | 5.4          | 8.8          | 9.7          |
| BVPS (HK\$)                         | 1.00        | 1.10         | 1.41         | 1.79         | 2.18         |

Source: Company data, CMBIS estimates

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|                       |                                                                                                     |
|-----------------------|-----------------------------------------------------------------------------------------------------|
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