

Prospect unchanged

BUY (unchanged)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (RMBm)	804.0	1,059.4	1,604.2	2,085.9	1,635.5
Net Profit (RMBm)	214.5	261.6	337.9	441.2	327.5
EPS (RMB)	0.290	0.320	0.408	0.522	0.388
EPS Δ%	31.8	10.3	27.4	28.1	(25.8)
P/E (x)	8.9	8.1	6.4	5.0	6.7
P/B (x)	1.73	1.52	1.24	1.03	0.94
EV/EBITDA (x)	6.7	5.8	4.3	3.1	3.1
Yield (%)	2.9	3.3	4.3	5.6	26.5
ROE (%)	23.7	20.1	21.4	22.7	14.7
ROCE (%)	21.9	18.0	20.6	23.3	16.4
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

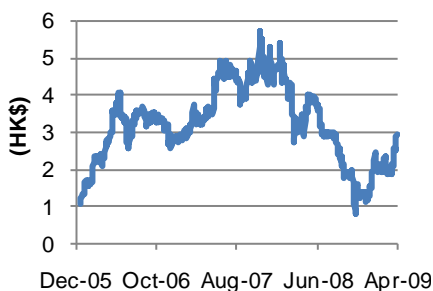
Source: SBI E2-Capital

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+19.4	+51.5	+43.2
Actual price changes (%)	+50.3	+46.5	-11.5

	09F	10F	11F
Consensus EPS (RMB)	0.395	0.482	0.420
Previous forecasts (RMBm)	291.5	379.0	269.5
Previous EPS (RMB)	0.352	0.449	0.319

Price Chart


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 Ticker: 3393.HK
 Price: HK\$2.93
 Target: HK\$3.75 (+28%)

 12 mth range: HK\$0.70-4.25
 Market cap: US\$305.4m
 Daily t/o, 3 mth: US\$0.5m
 Free float %: 33.9%

Key points:

- * Results beat our estimates with profit up 22.8% to RMB261.5m.
- * Export up 186.0% to RMB115.0m
- * Cash conversion cycle shortened to 124 days.
- * Grid companies' large-scale procurement to start in 3Q 2009.
- * Earnings forecasts revised up 15.9%, 16.4%, respectively, for FY12/09F and FY12/10F.
- * Target price from HK\$2.95 to HK\$3.75.

Improved working capital management. Surprise came from overseas market, which generated RMB115.0m revenue for FY12/08A, up from RMB40.2m last year. Hunan Weimin, acquired in May 2008, contributed another RMB58.3m, bringing the total top line to RMB1,059.4m, up 31.8% YoY and 12.0% higher than our estimate (RMB946.0m at "Powered by the stimulus package", 18 Mar 09). A major improvement during the period, in our view, was that the company managed to shorten its cash conversion cycle by 18 days to 124 days thanks to: 1) strengthening payment collection from main customers (i.e. grid companies); 2) development of non-power grid clients (FY12/08A: 23% of total sales, FY12/07A: 16%) such as Petro China and overseas customers, who usually pay certain deposits for the procurement. We highly credit this improvement given it will largely reduce working capital requirement and release more free cash flow.

Market update. According to the company, State Grid Corporation of China (SGCC), in the coming 3-5 years, will invest near RMB70b on power consumption data collection systems, of which ~30% are data collection terminals, ~48% are single-phase power metres and ~12% are three-phase power metres. Meanwhile, China Southern Power Grid (CSG) is believed to have some similar plan with budget of ~RMB15b. China Electric Power Research Institute (CEPRI) of SGCC initiated a jointly development project of digital electronic power metres. Wasion has won the bid and become CEPRI's partner in this project, which will largely strengthening the prior's industry position. Accordingly, the management expects it to capture ~30% share of the entire ~RMB85b power data collection market. This can translate into average annual sales of ~RMB5b for the coming five years, which is much higher than our forecasted RMB1.6b (three-year period).

Nevertheless, we stick to our forecast (base case scenario) at the moment with consideration:

- Market size – The ~RMB85b investment amount is close to the ~RMB93b adopted in our previous report. Rather than a strict budget, it is more like a preliminary guidance. Both SGCC and CSG revise their plans from time to time to better fit in then situation (e.g. market, policy, etc).
- Market share – Wasion has 20-25% market share for three-phase power metres and ~5% for electric single-phase ones. These historical data suggests a potential ~8% market share based on the estimated market structure (~30% data collection terminals, ~48% single-phase power metres and ~12% are three-phase power metres).

Forecast and target price adjustment. After factoring better-than-expected contribution from both overseas market and sales of water/gas/heat metres (Hunan Weiming) into our model as well as lower finance expenses due to improved working capital management, we lift our earnings forecasts by 15.9% for FY12/09F to RMB291.5m and 16.4% for FY12/10F to RMB379.0m. The new DCF fair value comes out to be HK\$3.75, which we use as our new target price for the counter (previous: HK\$2.95). According to the company, SGCC will initiate bidding process for the construction of power data collection system in 3Q this year, which could be a potential catalyst for the share price.

Table 1: FY12/08A results review

Company	08A	08F	Difference	Note
Turnover	1,059.4	946.0	12.0%	
Domestic	944.4	882.0	7.1%	Better-than-expected performance from Hunan Weiming
Export	115.0	64.0	79.7 %	
Gross margin	47.0	47.1	-0.1pcp	
Operating margin	28.8	27.9	0.9 pcp	
Net margin	24.7	22.7	2.0 pcp	Less-than-expected finance expenses due to better working capital management

Source: Company data, SBI E2-Capital

Table 2: P & L

Year to Dec (RMBm)	07A	08A	09F	10F	11F
Turnover	804.0	1,059.4	1,604.2	2,085.9	1,635.5
Domestic market	763.8	944.4	1,477.7	1,946.7	1,482.5
Export	40.2	115.0	126.5	139.2	153.1
Cost of sales	(425.1)	(561.8)	(875.7)	(1,158.2)	(918.6)
Gross profit	378.9	497.6	728.5	927.7	716.9
Other revenue	28.6	23.1	4.8	4.5	6.5
Administrative expenses	(70.5)	(93.5)	(130.5)	(154.0)	(133.6)
Selling expenses	(68.5)	(92.0)	(139.3)	(181.1)	(142.0)
Research and development expenses	(17.8)	(29.7)	(44.9)	(58.4)	(45.8)
Operating profit	250.6	305.5	418.6	538.7	402.1
Loss on disposal of available-for-sale investment		(3.1)			
Finance costs	(17.2)	(19.6)	(39.0)	(31.5)	(16.8)
Profit before taxation	233.4	282.9	379.6	507.2	385.3
Income tax expenses	(20.5)	(21.3)	(41.8)	(65.9)	(57.8)
Net profit	212.9	261.5	337.9	441.2	327.5

Source: Company data, SBI E2-Capital

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