

Wasion

Jingle on the way

to summarize...

- Bidding results for SGCC's second-round procurement of smart power metres support our assumptions.
- Wasion won ~16% of the total tender. Gross margins associated are ~35% for single-phase and 41-42% for three-phase.
- We lift our target price from HK\$5.75 to HK\$6.73. Upgraded to BUY.

Wasion performed well in the second round bidding. In SGCC's second round centralized procurement for smart electricity power metre (bidding results available on 7th Apr), Wasion won ~16% of the total tenders (~7% for single-phase and ~20% for three-phase), versus 11.4% in the first round (12.5% for single-phase and nil for three-phase). Prices are a bit lower than which in the first round due to: 1) demand for lower-end products; 2) adjustment in pricing to regain market share (our view). Embedded gross margins, according to the management, are ~35% for single-phase and 41-42% for three-phase.

Table 1. Bidding results (second round)

Single-phase			Three-phase		
Company	Package won	% of total	Company	Package won	% of total
上海金陵	2	2.1	北京博纳	2	4.4
北京富根	9	9.4	宁波三星	6	13.3
北京电研华源	2	2.1	宁夏隆基宁光	1	2.2
四川启明星蜀达	1	1.0	江苏西欧	1	2.2
宁波三星	14	14.6	杭州百富	3	6.7
安徽中天	2	2.1	杭州西力	1	2.2
江苏西欧	3	3.1	杭州炬华	10	22.2
江苏爱迪	1	1.0	威胜集团	11	24.4
江阴长仪	2	2.1	深圳科陆	7	15.6
怀化建南	1	1.0	慈溪一得电子	1	2.2
杭州百富	5	5.2	华立仪表	1	2.2
杭州西力	1	1.0	无锡恒通	1	2.2
杭州海兴	1	1.0			
武汉阿迪克	3	3.1			
武汉盛帆	1	1.0			
河南许继	5	5.2			
青岛乾程	1	1.0			
南京能瑞	2	2.1			
哈尔滨电表仪器厂	1	1.0			
威胜集团	5	5.2			
浙江正泰	3	3.1			
浙江华仪	1	1.0			
浙江顺舟	1	1.0			
常州金源永利达	1	1.0			
深圳科陆	12	12.5			
深圳浩宁达	1	1.0			
长城开发	2	2.1			
黑龙江龙电	1	1.0			
福建科能	1	1.0			
无锡恒通	4	4.2			
潍坊五洲浩特	5	5.2			
东方威思顿	1	1.0			

Source: SGCC

Ticker	3393 HK
Rating	BUY
Price (HK\$)	5.68
Target Price (HK\$)	6.73 (+18%)
12m Price Range (HK\$)	2.99-8.65
Market cap. (US\$m)	677.1
Daily t/o (US\$m)	4.4
Free float (%)	45.0

Financial summary

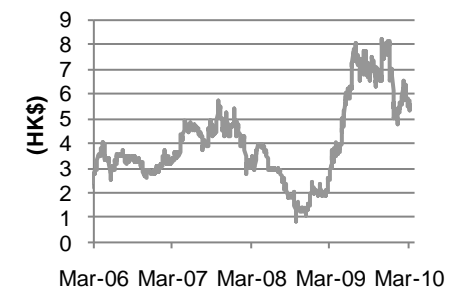
Year to Dec	08A	09F	10F	11F	12F
Turnover (RMBm)	1,059.4	1,078.2	1,754.3	2,331.0	2,810.9
Net Profit (RMBm)	261.5	262.0	343.7	411.1	456.3
EPS (RMB)	0.320	0.310	0.369	0.439	0.485
P/E (x)	15.1	15.5	13.1	11.0	9.9
P/B (x)	2.83	2.09	1.86	1.64	1.46
EV/EBITDA (x)	11.2	11.7	8.5	7.1	6.3
Yield (%)	2.0	2.0	2.3	2.7	3.0
ROE (%)	14.8	11.5	13.3	14.0	13.7
ROCE (%)	13.7	10.3	12.7	13.4	12.9
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2-Capital

	10F	11F	12F
Consensus EPS (RMB)	0.372	0.443	0.520
Previous earnings (RMBm)	343.7	411.1	456.3
Previous EPS (RMB)	0.369	0.439	0.485

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	-16.4	-12.8	+19.1
Actual price changes (%)	-12.5	-13.1	+77.5



Source: Bloomberg

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Competition is increasing. It is satisfied to observe Wasion's comeback in three-phase area, which partly proved the company's technical strength. Meanwhile, however, the overall competition seems intensifying, signaled by:

- Increased number of vendors (single-phase: 32 versus 16 in the first round; three-phase: 12 versus 11 in the first round)
- Dramatic change in vendors' ranking

Table 1. Comparison of bidding results

Single-phase			Three-phase		
Ranking	First round	Second round	Ranking	First round	Second round
1	江苏林洋	宁波三星	1	烟台东方威思顿	威胜集团
2	杭州百富	深圳科陆	2	杭州百富	杭州炬华
3	威胜集团	北京富根	3	宁波三星	深圳科陆
4	杭州西力	杭州百富	4	深圳浩宁达	宁波三星
		威胜集团	5	杭州炬华	杭州百富
		河南许继		浙江万胜	
		潍坊五洲浩特			
5	深圳科陆	无锡恒通			

Source: SGCC, compiled by SBI E2-Capital

Target price was revised up to HK\$6.73. We re-iterate our view that the centralized procurement will:

- pressure on power metre manufacturers' profitability and shift more value to grids.
- change competition landscape. Generally, leading players, with their strength in both technique and resources, have better to benefit in long run.

The second-round bidding results support our assumptions on Wasion's gross margin (single-phase: 35.0%; three-phase: 42.5%) and market share (single-phase: 6.7%; three-phase: 13.2%) in FY12/10F. This encourages us to raise our target price from HK\$5.75 to HK\$6.73 based on 16.0x FY12/10F P/E, which is still considerably lower than its a-share peers, and upgrade our recommendation from HOLD to BUY. We like the company for the industry's foreseeable potential from China's construction of smart grid as well as Wasion's solid market position.

Table 1. Valuation comparison

Company	Ticker	Market cap		Historical P/E			ROE (%)	P/B (x)
		(US\$m)	Fiscal Yr-end	(x)	1-Yr P/E (x)	2-Yr P/E (x)		
Wasion	3393 HK	677.1	12/2009	16.3	13.4	11.3	20.1	2.8
Star Power	000676 CH	335.4	12/2008	n.a.	n.a.	n.a.	(6.1)	5.7
Shenzhen Clou	002121 CH	926.0	12/2009	79.7	43.4	31.1	17.3	13.0
Wuzhou Minovo	600873 CH	364.1	12/2009	226.8	24.5	21.9	4.8	10.5

Source: Bloomberg

Table 2. P&L

Year end Dec (RMBm)	08A	09A	10F	11F	12F
Turnover	1,059.4	1,078.2	1,754.3	2,331.0	2,810.9
Cost of sales	(561.8)	(592.9)	(1,053.1)	(1,454.8)	(1,799.9)
Gross profit	497.6	485.3	701.2	876.3	1,011.0
Other revenue	23.1	13.8	18.9	27.6	33.7
Administrative expenses	(93.5)	(91.8)	(127.2)	(153.0)	(166.0)
Selling expenses	(92.0)	(90.4)	(149.1)	(198.1)	(238.9)
Research and development expenses	(29.7)	(30.9)	(43.0)	(69.2)	(97.0)
Operating profit	305.5	286.0	400.8	483.5	542.9
Loss on disposal of available-for-sale investment	(3.1)	0.0	0.0	0.0	0.0
Finance costs	(19.6)	(14.3)	(16.8)	(24.2)	(33.0)
Profit before taxation	282.9	271.7	384.0	459.3	509.9
Income tax expenses	(21.3)	(9.7)	(40.3)	(48.2)	(53.5)
Profit for the period	261.5	262.0	343.7	411.1	456.3
Attributable to:					
Equity holders of the Company	261.5	262.0	343.7	411.1	456.3
Minority interests	-	-	-	-	-
EPS - Basic (RMB)	0.320	0.310	0.369	0.439	0.485
EPS - Diluted (RMB)	0.310	0.300	0.363	0.432	0.478
Proposed DPS (RMB)	0.097	0.097	0.110	0.131	0.145
Proposed dividend	81.9	81.9	103.1	123.3	136.9

Source: Company data, SBI E2-Capital

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