SBI China Capital

Company Flash

China Print Power Group HKEx:6828 SGX-ST:B3C

Diversifying into the gas business in China

- *The group will change its name to "Blue Sky Power Holdings Ltd."*
- *It is diversifying into the fast expanding natural gas sector in China.*
- *The group has signed three S&Ps for gas projects in Shandong Province, Jiangsu Province, and Liaoning Province, and two MOUs for gas project acquisitions in Hubei Province and Guizhou and Jiangsu Provinces.*
- *Taking the valuation of industry average as a reference, we believe the company would be worth HKD5.84 per share.*

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Stock Data (6828 HK)

Rating	Not Rated
Price (HKD)	3.24
Target Price (HKD)	n.a.
12m Price Range (HKD)	1.97-3.24
Market cap. (HKDm)	807.0
Daily t/o (HKDm)	10.1
Free float (%)	65.1

Source: Bloomberg

Background: Established in 2000, China Print Power Group is engaged in the provision of printing services, such as printing books, and manufacturing of specialized printed products, such as pop-up children books and stationery. The group was listed on SGX-ST in May 2007 and dual-listed on the HKEx in July 2011.

What's New: On May 19, China Print Power Group announced a proposed change of the company's name from "China Print Power Group Ltd." to "*Blue Sky Power Holdings Ltd.*" We have been convinced that it will provide the company with a new corporate image and reflect the company's strategy and future development of its business.

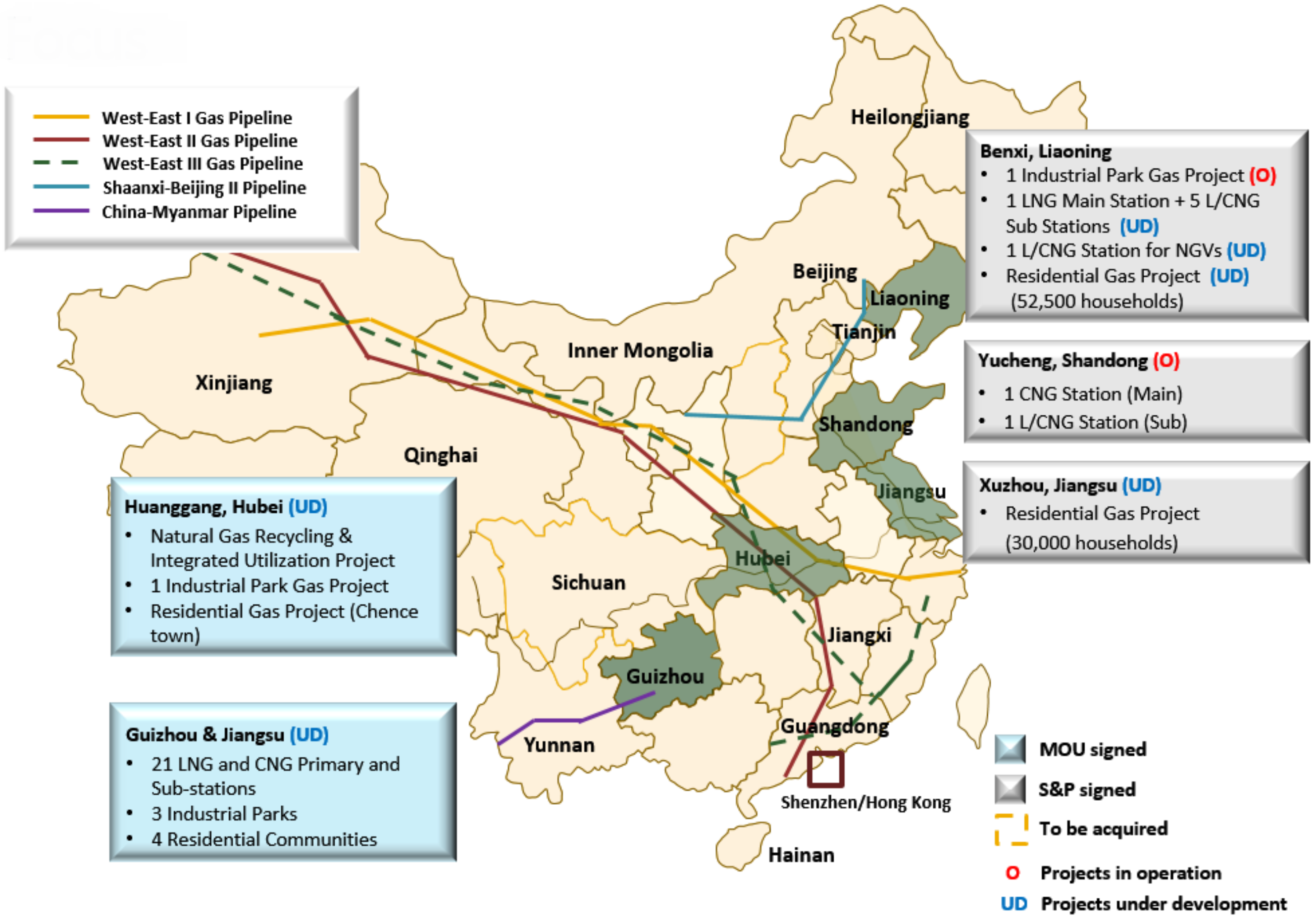
Since the beginning of 2014, the company has diversified its business into the fast growing natural gas provision industry in the PRC with an aim to capture opportunities resulting from favorable government measures that encourage the reduction of CO_2 emissions that help to curb pollution. As an initial step in said diversification, the group has signed three S&P agreements for gas projects in Shandong Province, Jiangsu Province, and Liaoning Province, and two MOUs for gas project acquisitions in Hubei Province and Guizhou and Jiangsu Provinces.

Figure 1: Description of the four projects

Project	Description	Stage	Status
Shandong	Acquisition of 36% effective control stake of 德州華鑫天然氣有限公司 ("Dezhou Huaxin"), which holds one CNG main station and one CNG satellite station in Shandong.	Acquisition completed	Operational
Jiangsu	Acquisition of 100% of interest in a project, which provides natural gas to residential households in Zhengji Town of Xuzhou (徐州鄭集鎮) in Jiangsu Province.	Acquisition completed	To be operational in Sep-2014
Liaoning	The Group will acquire of approximately 79% interest in 本溪遼油新時代燃氣有限公司 ("Benxi Co"), which holds a project with an exclusive natural gas provision right in Xihu District in Benxi City (本溪市溪湖區), with Benxi Steel Group Corporation (本鋼集團), one of the largest steel manufacturers in China, as the major customer.	S&P signed on 05-May-2014	Partially operational
Hubei	The Group will acquire effective control stake of 30.25% of equity interest in 黃岡市環孚天然氣有限公司 ("Huanggang Company"), which is principally engaging in natural gas projects in Huanggang Shi (黃岡市), Hubei Province, PRC. The project facilities are immediately opposite to Kunlun Energy's largest LNG processing facilities in Asia.	MOU signed on 10-Mar-2014	To be operational in Jan-2015
Guizhou and Jiangsu	The Group will acquire up to 100% of the issued share capital of Shine Great Investments Limited, whose projects are located in Guizhou and Jiangsu Provinces. The project consists of natural gas provision to: i) 21 LNG and CNG primary and sub-stations, ii) 3 industrial parks, and iii) 4 residential communities	MOU signed on 08-Feb-2013	Partially operational

Source: The company

Figure 2: Illustrations of the company's current projects (after S&P agreement in Hubei is signed)



Source: The company

Project details

Project in Shandong

Acquisition of Focus On Group Limited. On November 25, 2013, Goldlink Capital Limited, an indirect wholly owned subsidiary of the company, entered into an S&P agreement with Mr. Xiao Gangming. Under the agreement, the company agreed to purchase from Mr. Xiao's 60.0% controlling interest in Focus On Group Limited ("Focus On"), for a total consideration of HKD55.0m, payable in cash.

Focus On is an investment holding company which holds a 60.0% controlling interest in Dezhou Huaxin (德州華鑫天然氣有限公司) through Joy Trade Limited, which is also an investment holding company. Hence the company will effectively hold a controlling stake of 36.0% in Dezhou Huaxin upon the completion of the acquisition.

Dezhou is a prefecture-level city located at the Northwest of Shandong province that is a major logistics and transportation hub in Northern China. Besides being a major intersection of several national and provincial highways, Dezhou lies on the main route of the Jinghu Railway and is one of 23 stations on the Jinghu High-Speed Railway.

Dezhou Huaxin's scope of business will include processing, storage, and sales of compressed natural gas (CNG) and liquefied natural gas (LNG) in Yucheng City of Shandong province.

Figure 3: Gas stations in Shandong project

Source: The company

Figure 4: Construction site for expansion of Shandong project

Source: The company

Currently, the assets held by Dezhou Huaxin include one CNG main station and one CNG satellite station, through which Dezhou Huaxin will operate its gas business after the relevant approval is obtained. These stations are now supplying approximately 110,000 cubic meter of CNG per day, with key customers from logistics and industrial vehicle companies, the public transport sector, and retail gas station operators. Going forward, Dezhou Huaxin will expand its business activities in Shandong Province with particular emphasis on the public transportation sector.

As of 6 November 2013, the net asset value of Dezhou Huaxin was approximately RMB28.0 million (equivalent to approximately HKD35.6 million).

Project in Jiangsu

In January 2014, the Group entered into an agreement to acquire a project that provides natural gas to approximately 40,000 residential households with hospitals and schools in Zhengji Town of Xuzhou City.

Zhengji Town was selected as one of the major development towns by the Jiangsu Province government in 2006. Since then, Zhengji Town has been expanding and the government has been improving the public infrastructure and utilities.

The pipeline network of this project is under construction and it is expected to commence operations by September 2014. It is expected the total gas provision to Zhengji Town would be approximately 1.26 million cubic meters in 2015.

Figure 5: Zhengji project map

Source: The company

Project in Liaoning

In May 2014, China Print Power and New Topic Ltd., entered into an S&P agreement in relation to an acquisition of an 100.0% interest in Cloud Decade Limited, which holds approximately an 89.2% interest in Benxi Company, which is granted by the local government the exclusive operation rights to supply natural gas, including LNG and CNG, in Xihu District in Benxi City (本溪市溪湖區) for 30 years starting from March 30, 2012.

Total consideration of the acquisition will be HKD515.4m, HKD17.0m of which will be settled in cash with the remainder being settled by the issuance of CBs, which have the potential to be converted into 211.2m new shares at the initial conversion price of HKD2.36 per share.

Benxi Co., has planned and commenced the construction of some natural gas facilities in Xihu District since the second quarter of 2013 (See Figure 6).

Figure 6: The construction of natural gas facilities in Xihu District in Benxi City

1) Natural gas pipeline network in the commercial and industrial area of Dongfenghu Steel Deep Processing Industrial Park, and related facilities, including a natural gas station at the industrial park with annual gas supply capacity of 150m cubic meters per annum.
2) One LNG main station or CNG main station and five LNG or CNG satellite stations within Xihu District
3) A LNG or CNG station for the truck and public transportation of Huolianzha in Xihu District
4) Facilities for the supply of LNG or CNG to a market of 52,500 households of residents in Xihu District

Source: The company

Benxi is a provincial-level city located in the eastern part of Liaoning province and in the Southeast of Shenyang City. According to “Benxi’s National Economic and Social Development Statistics in 2012”, the total population of Benxi was about 1.5 million at the end of 2012. Benxi Steel Group Corporation, one of the largest steel manufacturers in China, is also located in Benxi city.

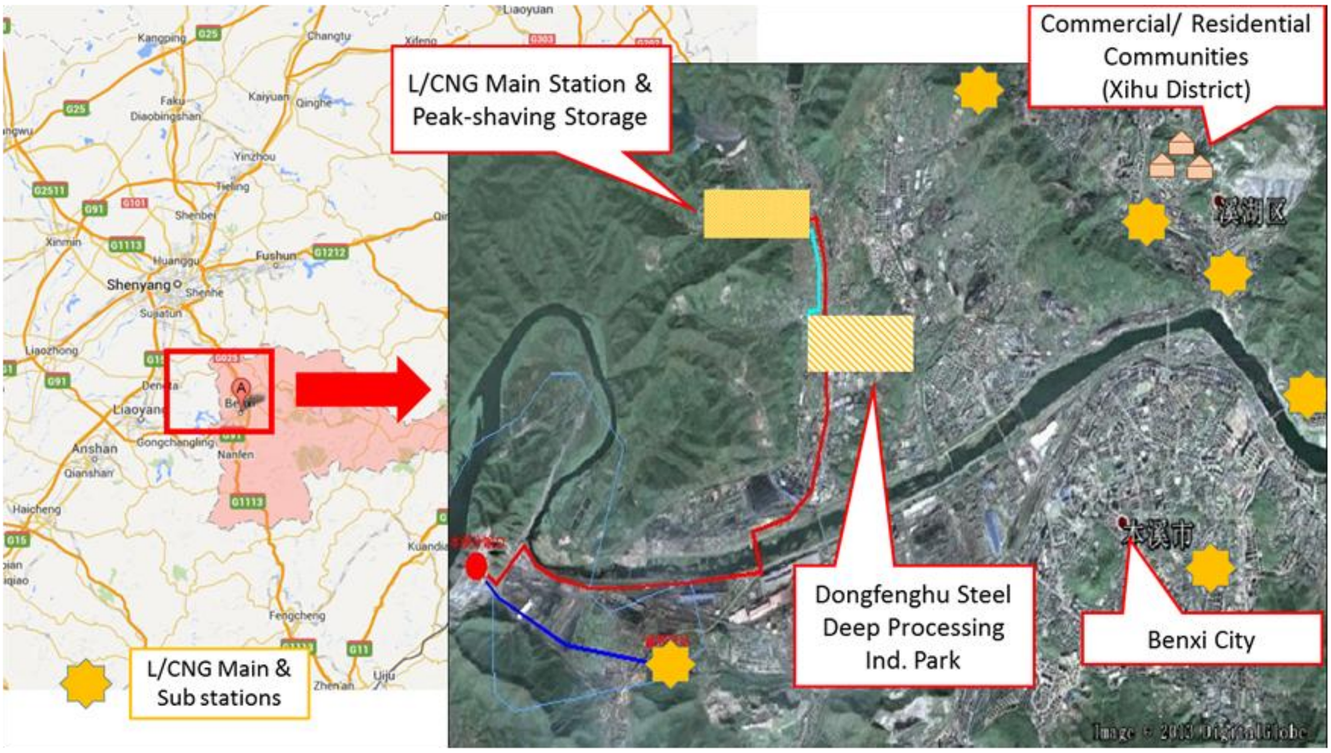
As for Xihu District, it is located in the northwest of Benxi City and has a total area of 138.0 kilometers and a population of approximately 250,000 in 2010. The district consists of heavy industries such as steel production, the coal industry, and construction material production. Other economic activities in the district include the electronics industry, the chemical industry, and other light industries.

The construction work of natural gas pipelines within the commercial and industrial area of Dongfenghu Steel Deep Processing Industrial Park has been completed. The Group has also entered into upstream natural gas supply agreements with Panjin Liaohe Youtian Jindong Youqi Gongcheng Company Ltd. (盤錦遼河油田金東油氣工程有限公司) and Kunlun Energy (Dalian) Company Ltd. and intends to commence natural gas supply operations to its industrial customers in the Industrial Park on May 15, 2014.

Other construction projects for residential and commercial natural gas supply facilities are in progress. It is expected that natural gas supply operations for the residential and commercial sectors within the Xihu District would have begun and will begin by the end of 2014 and 2015, respectively.

Upon completion of the construction by 2015, the facilities would support a gas provision of over 140.0 million cubic meters per year for industrial park, residential, and commercial customers, and for the transportation sector in Xihu District.

Figure 7: Natural Gas Facilities in Xihu District in Benxi City



Source: The company

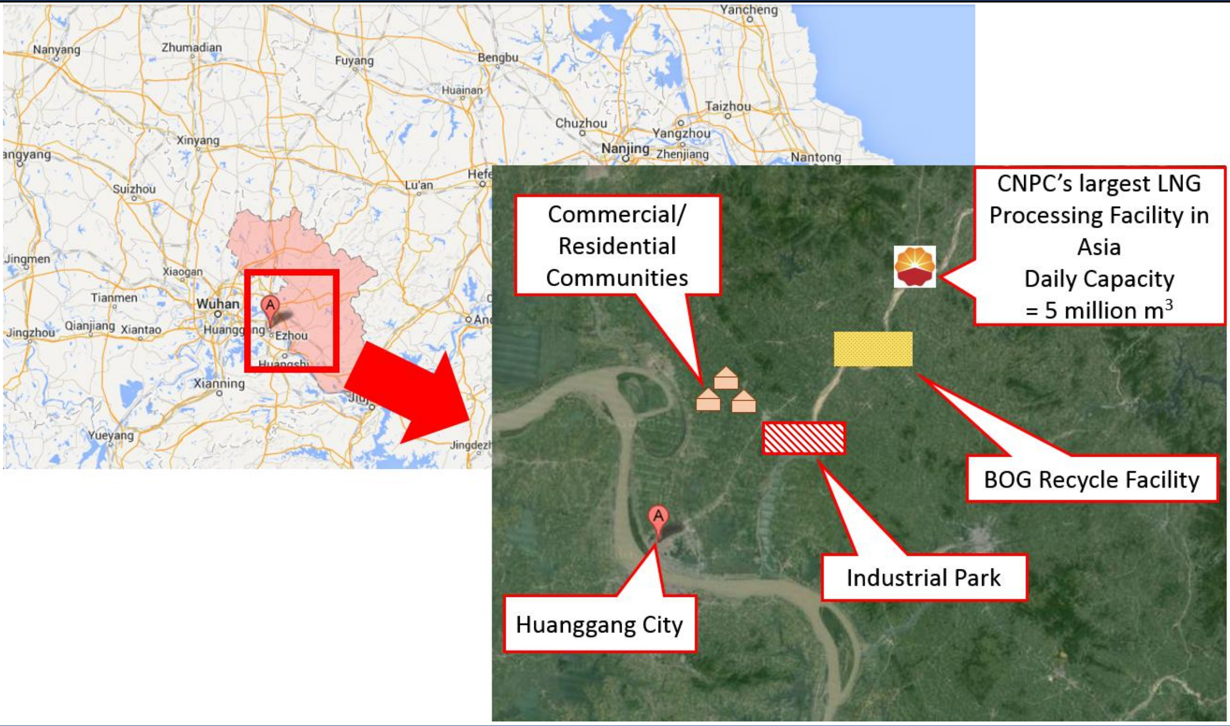
Project in Hubei

In March 2014, Goldlink, one of the company's wholly owned subsidiaries, entered into a MOU with Gui Juming, an independent third party, in relation to a possible acquisition of Huanggang Company (黃崗市環孚天然氣有限公司), which is a company engaged in the implementation and utilization of natural gas projects in Huanggang City, Hubei Province of China.

To complete the acquisition, Goldlink will form a JV with Huang Dianqing, who is also an independent third party. The purpose of forming the JV is to utilize it as a JV vehicle and holding company of the HK subsidiary and wholly foreign-owned enterprise (WOFE), which will later acquire a 55.0% equity interest in Hunaggang Company. Therefore, the company will essentially hold 30.3% of Huanggang Company upon the completion of the acquisition.

Given the Huanggang city's proximity to the largest LNG processing plant in Asia. The Group's Boil-off Gas (BOG) Recycling unit will utilize the residual gas from the Kunlun's LNG plant as a gas source. With the development of the national-level chemical industrial park at Huanggang, the Group expects a huge demand of approximately 104.0 million cubic meters per year for natural gas from the nearby industrial, commercial and residential communities.

Figure 8: Gas recycling & integration utilization project in Hubei



Source: The company

Figure 9: Kunlun Energy west-east gas pipeline Huanggang Station

Source: The company

Projects in Guizhou & Jiangsu Provinces

In February 2013, the company and New Times Co. Ltd. (0166 HK), entered into an MOU in relation to the proposed acquisition of up to 100.0% of the issued share capital of Shine Great Investments Limited, a wholly owned subsidiary of New Times. Shine Great, through its subsidiaries in the PRC, is mainly engaged in the natural gas business in Guizhou Province and Jiangsu Province.

The Group is now conducting due diligence work and negotiating the terms for the transaction documents for the acquisition.

Figure 10: Kunlun Energy west-east gas pipeline Huanggang Station

Province	City	Summary
Guizhou	Liupanshui (六盤水)	● 11 LNG/CNG stations ● 3 natural gas provision projects for industrial parks ● 1 residential natural gas provision network
	Zunyi (遵義)	● 3 LNG/CNG stations
	Xingren (興仁)	● 2 LNG/CNG stations ● 1 residential natural gas provision network
	Guiyang (貴陽) Xingyi (興義)	● 1 LNG/CNG station ● 1 LNG/CNG station
Jiangsu	Xuzhou (徐州)	● 2 LNG/CNG stations ● 1 residential natural gas provision network
	Huai'an (淮安)	● 1 LNG/CNG station ● 1 residential natural gas provision network

Source: The company

Investment thesis

Clear corporate growth strategies

All of the Group's projects share the same attributes:

1. Solid ties with gas sources;
2. Strong local government mandates to utilize natural gas as a clean energy source; and
3. Huge market potential from converting traditional energy users to natural gas users.

Strong strategic alliances

The company has established long-term strategic partnerships with Chinese energy majors (e.g., PetroChina and Kunlun Energy) to secure gas sources and potential opportunities.

Favorable government policies that aid the Group's development:

We believe the company's development strategy will focus on providing natural gas to 1) cities that shift from relying on coal to natural gas, and 2) natural gas vehicles and public transportation that go along with government policies, because:

1. The Twelfth 5-Year-Plan launched by the Central Government put the focus on urbanization, energy-saving and emission-reduction, as well as the development and utilization of non-conventional oil and gas resources.

2. The National Development & Reform Commission (NDRC) has prioritized the following in its Natural Gas Utilization Policy:
   - City-gas use in residential, public services, and commercial venues
   - Use of NGVs
   - Centralized urban heating
   - Air-conditioning
   - Integrated energy projects
   - Natural gas vessels
   - Coal-bed-methane power generation
   - Combined-heat-power (CHP) generation

3. Anti-pollution measures by the NDRC to raise emission standards for gasoline and diesel vehicles, which would lead to higher gasoline and diesel prices.
   - Given that natural gas is a cheaper alternative to gasoline and diesel and is readily available in the market, such measures would favor the growth of NGVs for logistics, mining, and public transportation sectors, which in turn drive up the demand for natural gas.

Future strategies

Apart from the M&A projects mentioned above, the company is actively looking for other M&A opportunities. The company intends to 1) seek projects to move upstream and midstream to ensure stable and sustainable profit margin, including LNG and CNG storage, micro LNG facilities, LNG trading, usage of coal-bed methane and other gas sources, etc.; 2) tap geographical areas with low gas penetration and heavy air pollution; 3) tap geographical areas with heavy logistics and mining transportation; and 4) facilitate the conversion of traditional diesel-powered trucks and public transportation vehicles to NGVs.

Fund raising history on the HKEx

China Print Power Group was listed on HKEx by issuing 30.0m new shares at HK$1.48 and raising HKD39.5m in July 2011. In May 2012, the group raised HKD20.2m by issuing 22.0m shares at HKD0.95 per share. In March 2013, the group placed 34.84m new shares at HKD0.98 per share and raised net proceeds of about HKD33.3m; In December 2013, the group placed 41.8m new shares at HKD2.60 per share and raised net proceeds of about HKD106.4m. Net proceeds raised from the three placements were used for potential acquisition activities and general working capital.

Valuation & peer comparison

According to the company's project pipeline and schedule, we forecast the net profit from the above mentioned projects to be HKD66.0m, HKD186.0m, and HKD233.3m for FY12/14E, FY12/15E, and FY12/16E, respectively (See Figure 11), and the corresponding fully diluted EPS to be HKD0.1, HKD0.4, and HKD0.5 for the respective three years.

Currently, the company's peers are on average trading at a prospective P/E of 14.6x for 2015E (See Figure 12). At a trading price of HKD2.74 per share, however, the company is only trading at a prospective P/E of 6.9x for 2015E. We believe the company deserves a much higher valuation given that i) its projects are mostly operational with rapid growth and positive cash flow; and ii) management has a clear roadmap to a dividend pay-out in the next two years.

Taking the valuation of the industry average as a reference, we believe the company has an intrinsic value of HKD5.84 per share, which represents a 113.1% upside potential to the current market price.

Figure 11: Profit forecast

	FY12/14E	FY12/15E	FY12/16E	FY12/17E
Xuzhou	1.7	4.1	4.2	4.3
Shandong	7.5	8.1	8.8	10.3
Liaoning	43.5	104.9	93.5	113.4
Hubei	0.0	31.6	80.1	97.5
Total	52.8	148.8	186.6	225.5
Total (HKD)	66.0	186.0	233.3	281.8
EPS (HKD)	0.1	0.4	0.5	0.6

Source: SBI China Capital

Figure 12: Valuation Comparison

Company	Ticker	Mkt Cap (HK$ m)	3M avg turnover (HK$ m)	2014E P/E (x)	2015E P/E (x)	P/book (x)	ROIC (%)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
China Gas Holdings Limited	384 HK	62,940.6	73.8	24.5	21.0	4.6	8.5	18.9	**5.9**	0.7	90.7
NewOcean Energy Holdings	342 HK	7,580.2	48.3	8.1	6.4	1.9	7.0	23.5	**6.1**	1.1	128.0
China Resources Gas Group	1193 HK	51,041.1	52.9	19.0	15.9	3.6	7.7	16.7	**4.9**	1.0	24.4
ENN Energy Holdings	2688 HK	58,691.0	134.7	21.6	18.3	5.0	7.5	13.8	**3.7**	0.9	47.3
China Oil & Gas Group	603 HK	6,400.9	10.4	12.7	10.1	1.8	10.4	11.9	**3.8**	0.6	0.3
China Tian Lun Gas Holdings	1600 HK	5,927.9	10.1	18.3	14.8	5.8	9.1	19.9	**7.8**	0.0	6.8
Towngas China	1083 HK	23,112.8	36.9	18.2	15.6	1.8	3.6	9.6	**4.7**	0.9	31.9
Zhongyu Gas Holdings	3633 HK	5,300.4	1.1	16.8	14.5	3.5	10.9	17.8	**6.5**	0.0	53.6
	Average	**27,624.4**	**46.0**	**17.4**	**14.6**	**3.5**	**8.1**	**16.5**	**5.4**	**0.6**	**47.9**

Source: Bloomberg

Figure 13: Business Comparison

Company	Ticker	Major Business	LPG			CNG & LNG						
						Piped Gas		Gas Station				
			no. of LPG station	network coverage	FY12 Sales volume (tons)	Network coverage	FY12 Sales volume (m3)	no. of CNG & LNG station	Network coverage	FY12 Sales volume (m^3)	FY12 total Sales volume (m^3)
China Gas	384 HK	Construction and operation of city gas pipelines, and transmission of natural gas and sale of LPG in China.	N.A.	11 provinces	0.9m	22 provinces and 3 autonomous	5.1b	170	36 cities	0.5b	5.6b
NewOcean Energy	342 HK	Sales and distribution of LPG, oil products and electonic products	17	Guangdong	1.7m	N.A.	N.A.	N.A.	N.A.	N.A.	N.A
China Resources Gas	1193 HK	Gas connection and sales and distribution of gas fuel	N.A.	N.A.	N.A.	20 provinces	8.2b	176	11 provinces, 1 municipal and 1 autonomous	1.1b	9.3b
ENN Energy	2688 HK	Gas connection, sales of piped gas, construction and operation of vehicle gas refuelling stations, wholesale of gas, distribution of bottledLPG and sales of gas appliances and materials.	N.A.	N.A.	17,785	14 provinces	5.3b	376	71 cities	0.9b	6.2b
China Oil & Gas	603 HK	Investments in natural gas and energy related businesses	N.A.	N.A	N.A	10 provinces	1.6m	36	7 provinces	0.3m	1.9b
Tian Lun Gas	1600 HK	Gas pipeline connections, distribution and sales of gases including natural gas and CNG, and production and sales of LNG	N.A.	N.A.	N.A.	6 provinces	9.7m	18	5 provinces	5.7m	15.5m

Source: Bloomberg

Financials

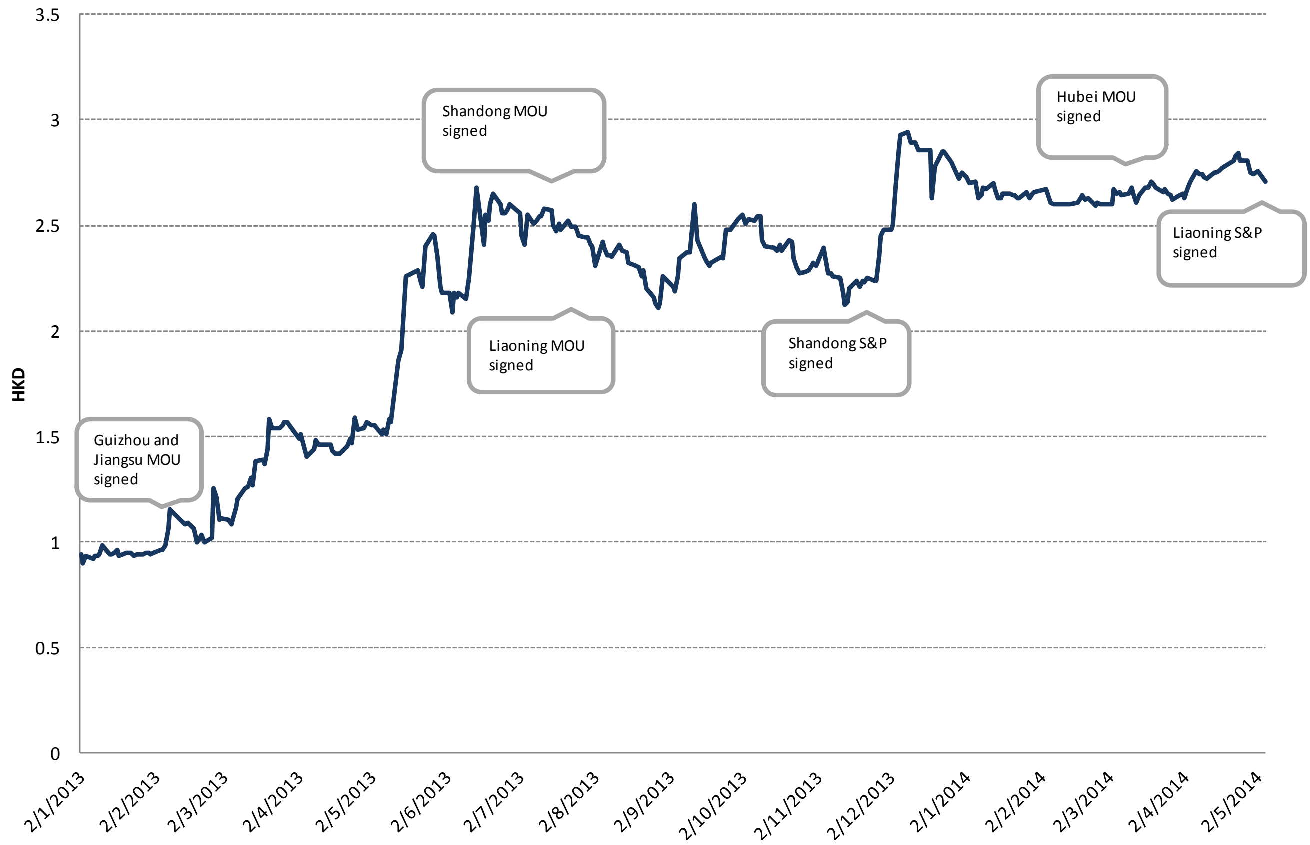
Figure 14: Profit and loss items

HK$'000	FY12/10	FY12/11	FY12/12	FY12/13
Revenue	**201,677**	**257,859**	**191,874**	**154,475**
Cost of Sales	-142,233	-201,707	-162,413	-134,989
Gross profit	59,444	56,152	29,461	19,486
SG&A	-33,762	-39,877	-36,378	-35428
Other operating expenses	-1,801	-2,947	-6,919	-4,734
Operating profit	**23,881**	**13,328**	**-13,836**	**-20,676**
Other income	2,912	1,781	1,485	1,994
Finance costs	-2,051	-1,617	-1,443	-961
Listing expenses	0	-8,890	0	0
Impairment loss on non-financial assets	0	0	0	-40,846
Income tax expneses	-2,730	-3,460	-940	1,920
Profit attributable to shareholders	**22,012**	**1,142**	**-14,734**	**-58,569**
Basic EPS (HK cents)	18.0	0.8	-8.8	-29.1

Source: The company

Share price performance

Figure 15: Share price performance of China Print Power Group



Source: Bloomberg

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