

ASIA POWER – PROMISING POWER PLAY WITH A DISTINCT FOCUS

Listed in October 1999, Asia Power Corporation (APC) boasts itself as being one of the first few China plays to emerge on the Mainboard of the Singapore Exchange. Primarily involved in the ownership, management and operation of power plants in China, APC currently possesses stakes in eight power plants with a combined installed capacity exceeding 550MW.

Ever since undergoing a board and management restructuring in the middle of last year, APC has shifted its emphasis to environmentally friendly and renewable

energy power generation plants, in particular hydropower electricity generation plants, under the astute leadership of its newly appointed Chief Executive Officer, Zhang Gang Zhu, a veteran in the power industry in China. To date, four out of the eight power plants that APC owns are driven by hydropower.

A WISE MOVE

By zeroing in on hydropower, APC is able to reduce its reliance on fossil fuels, including coal and oil, to fire its power plants. This is extremely important

especially since coal and oil prices have shot up to very high levels in recent years. Moreover, hydropower plants command substantially superior gross margins over other types of power plants due to the fact that they are fairly efficient in nature and significantly less expensive in terms of operating costs.

Apart from cost advantages, the company's focus on renewable energy also alleviates the problem of pollution, which is presently one of the more pressing issues that the Chinese government is looking at

S\$'000	FY03	FY04	FY05	1H05	1H06
Revenue	80,685	85,631	98,084	49,153	61,809
Gross Profit	10,655	12,035	11,981	7,880	18,746
Profit Before Tax	5,970	8,954	11,806	2,052	26,041
Net Profit	2,430	5,451	10,135	2,107	17,005
GPM (%)	13.2	14.1	12.2	16.0	30.3
PBTM (%)	7.4	10.5	12.0	4.2	42.1
NPM (%)	3.0	6.4	10.3	4.3	27.5
ROE (%)	4.3	9.4	14.0	2.9	19.8
Yield (%)	1.4	2.0	2.6	NA	NA

Financial Highlights

resolving in view of the impending Beijing Olympics in 2008 as well as the Shanghai Expo in 2010.

ROBUST 1H06

As a matter of fact, APC is already beginning to reap the benefits of its decision to emphasise on hydropower. For the six months ended 30 June 2006, the company's bottom line swelled 707.1% year-on-year, from a mere \$2.107m in 1H05 to a massive \$17.005m, surpassing even the total net profit chalked up for the whole of FY05 (\$10.135m).

APC's record earnings in 1H06 was achieved on the back of a healthy 25.7% growth in revenue, from \$49.153m to \$61.809m, mainly due

to the consolidation of the financial results of Sichuan Anning River Energy Development, which became a subsidiary of the company since the end of the previous financial year. Notably, APC's gross margin improved a hefty 14.3 percentage points, from 16% to 30.3%, while its return on equity rose from a mere 2.9% to reach 19.8%.

According to William Li, Assistant General Manager of APC, the company's profitability in 1H06 also included an \$11.3m gain from the disposal of an associate, Shenzhen NARI Technologies, during the period. "Stripping away this one-off

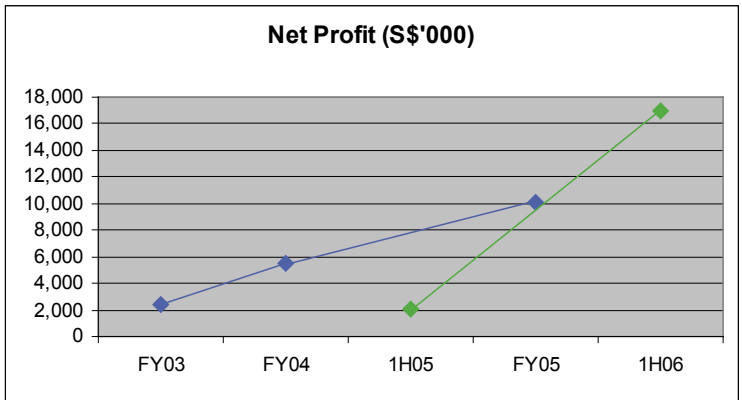
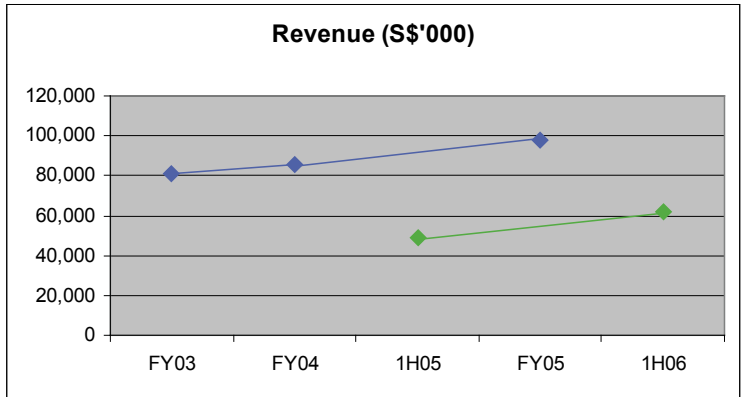
divestment gain, APC still managed to register a respectable 170.8% increase in net earnings," remarked Li during a recent interview with <<Shares Investment>>.

Although APC derives its entire turnover from China and hence is susceptible to country-specific risks, the company has no intentions of penetrating into other countries for the time being. "First of all, we are more familiar with China's power generation market as well as the laws governing it. Secondly, China has an abundant supply of water resources, of which only 20% has been fully utilised.

Therefore, our short-term goal is to consolidate our footing in China by quickening our pace and occupying these valuable resources instead of venturing overseas," commented Li.

MAINTAINING A CLEAR FOCUS

In a bid to further concentrate its efforts on hydropower plants, APC recently divested its 33.3%-stake in Shanghai Witlong Electric (SWE), a power-related technology company, for Rmb3.29m. This followed an earlier sale of a 35%-interest in Shenzhen NARI Technologies, which is engaged in a business similar to that of SWE, for Rmb146.31m.





In June this year, APC also secured the rights to develop up to 28 hydropower electricity generation plants with a total installed capacity of 202MW across the Yunnan Province. For the reason that the investment capital required for all 28 hydropower plants stands at an estimated Rmb1.2b, construction works for these plants will be spread over a period of time, so as to reduce the strain on the company's finances.



Main growth engine going forward

Not one to rest on its laurels, APC is also in the midst of scouting for more opportunities to invest in existing or new hydropower plants.

INEXPENSIVE DESPITE RECENT RUN-UP

Since the beginning of this year, the Straits Times Index has risen by a marginal 9.4%. In contrast, APC's share price has appreciated a whopping 161.5%

to \$0.34, strongly overshadowing the performance of the local bellwether index. Nonetheless, APC is still trading at valuations comparable to its industry peers.

Priced at 11.7x its FY05 net earnings, APC is relatively less expensive as compared to Huaneng Power International, Datang International Power Generation, Huadian Power International and China Power International Development – four

out of the five Hong Kong-listed Chinese power producers – which are trading at earnings multiple of 14.4x, 13.1x, 12.7x and 15.6x respectively.

Supported by its inexpensive valuations and robust fundamentals, coupled with a clearly defined focus on hydropower, APC appears poised to scale greater heights in FY06 and beyond.

— Clement Kan

	Price (as at 29 Sep-06)	Historical PER (x)
Huaneng Power Int'l	HK\$5.61	14.4
Datang Int'l Power Generation	HK\$5.85	13.1
Huadian Power Int'l	HK\$2.21	12.7
China Resources Power Holdings	HK\$8.24	11.0
China Power Int'l Development	HK\$3.19	15.6
Asia Power Corporation	S\$0.34	11.7

Peers Comparison