

Wasion Group Holdings Ltd

Lifting PT to HK\$11 - Operating leverage seen with high end products

Wasion Group Holdings Ltd (Wasion) is one of the leading energy measurement instrument, system and service suppliers in China. It has three main segments, including Advanced Metering Infrastructure (AMI), Advanced Distribution Operations (ADO) and Smart Meters. We see Wasion as a key beneficiary of higher spending on the electricity grid and other utilities (water, gas, etc) over the next 5 years. The move to higher margin data processing and control equipment is a natural progression for a company with a strong brand for high end smart meters in China and a track record of quality and service.

- Move to high tech products bearing fruit.** Wasion is demonstrating the benefits of moving to higher technology products with its new AMI and ADO offerings (70% of 2014 sales) which offer much higher margin than its stand alone smart meter products. The heavy investment in researching and marketing the new products was done in 2013 and early 2014 resulting in operating leverage in the form of lower marketing and R&D costs in 2014 compared to 2013. We see this operating leverage to lift EBIT margins in the next few years.
- Lifting Earnings by 2.6% for 2015 and 5% for 2016.** We are maintaining our sales estimate relatively unchanged as we see strong growth in AMI and ADO products fueling a 25% sale CAGR from 2014 to 2016. The key improvement is in our downward revision in selling expenses. We did not cut R/D expenses as proportion of sales in 2015 compared to 2014. We lifted tax rates in future years as 2014 tax rate was slightly higher than expected. Our DEC based Dec 15 PT is lifted to HK\$11.0 (prev. HK\$10.5) as a result of the earnings revisions.
- Price, valuation and risks.** Our new DCF-based price target (Dec-15) of HK\$11.0 implies a CY16E P/E of 10.3x. The key risk to our rating and PT is lower-than-expected sales growth in smart meters, under performance in ADO, delay of smart meters rolling-out due to economic conditions as well as rising cost given Rmb appreciation.

Overweight

3393.HK, 3393 HK

Price: HK\$7.63

▲ **Price Target: HK\$11.00**
Previous: HK\$10.50

Hong Kong

SMID-Caps

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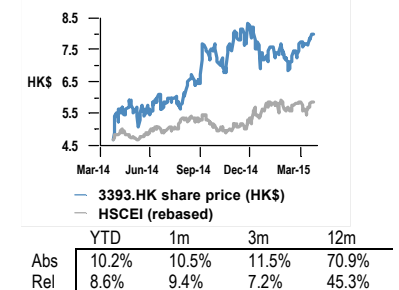
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Price Performance



Wasion Group Holdings Ltd (Reuters: 3393.HK, Bloomberg: 3393 HK)

Rmb in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (Rmb mn)	2,452	2,412	2,811	3,514	4,389
Net Profit (Rmb mn)	323	401	482	619	784
EPS (Rmb)	0.35	0.43	0.52	0.66	0.84
DPS (Rmb)	0.14	0.17	0.20	0.25	0.31
Revenue growth (%)	24.6%	(1.6%)	16.5%	25.0%	24.9%
EPS growth (%)	34.5%	22.9%	20.4%	28.3%	26.7%
ROCE	11.1%	12.1%	14.0%	15.9%	18.5%
ROE	13.0%	14.7%	16.0%	18.4%	20.8%
P/E (x)	17.5	14.2	11.8	9.2	7.3
P/BV (x)	2.2	2.0	1.8	1.6	1.4
EV/EBITDA (x)	14.7	14.4	11.5	9.1	7.3
Dividend Yield	2.4%	2.7%	3.3%	4.1%	5.1%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	952
Market Cap (Rmb mn)	5,819
Market Cap (\$ mn)	936
Price (HK\$)	7.63
Date Of Price	24 Mar 15
Free Float(%)	-
3M - Avg daily vol (mn)	1.15
3M - Avg daily val (HK\$ mn)	8.61
3M - Avg daily val (\$ mn)	1.1
HSCEI	12,177.82
Exchange Rate	7.76
Price Target End Date	1-Dec-15

See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

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<p>Key catalysts for the stock price:</p> <ul style="list-style-type: none"> • China government's policy on installment of advanced digital smart meters nationwide for its electricity • Using smart meter leadership to migrate to new ADO business • Rolling-out of generation 2 meters • Expansion into water and other utility meters 	<p>Upside risks to our view:</p> <ul style="list-style-type: none"> • The gross margins for ADO and AMI are higher-than-expected • The new business of ADO performance is better-than-expected and there is a big sales increase coming from industrial and city level customers 	<p>Downside risks to our view:</p> <ul style="list-style-type: none"> • Lower-than-expected sales growth in smart meters • Under performance and execution risk in ADO • Delay of smart meters rolling-out due to unfavorable economic conditions • Rising cost associated with RMB appreciation
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Key financial metrics	FY13	FY14	FY15E	FY16E
Revenues (LC)	2,412	2,811	3,514	4,389
Revenue growth (%)	-1.6%	16.5%	25.0%	24.9%
EBITDA (LC)	547	680	852	1,063
EBITDA margin (%)	22.7%	24.2%	24.2%	24.2%
Tax rate (%)	9%	10%	11%	12%
Net profit (LC)	401	482	619	784
EPS (LC)	0.430	0.517	0.663	0.841

EPS growth (%)	24%	20%	28%	27%
DPS (LC)	0.166	0.194	0.249	0.316
BVPS (LC)	3.08	3.48	3.90	4.42
Operating cash flow (LC mn)	268	101	401	527
Free cash flow (LC mn)	100	(30)	256	366
Interest cover (x)	14	20	23	26
Net margin (%)	16.9%	17.3%	17.7%	18.0%
Sales/assets (X)	0.51	0.50	0.54	0.58
Debt/equity (%)	65.0%	69.9%	75.9%	81.0%
Net debt/equity (%)	3%	13%	11%	9%
ROE (%)	15%	16%	18%	20%

Key model assumptions	FY14E	FY15E
Smart meters (% of sales)	34.3%	30.1%
AMI (% of sales)	56.6%	55.1%
ADO (% of sales)	9.1%	14.8%

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY15E	FY16E	FY15E	FY16E
1% chg in ADO sales	2.7%	2.9%	3.7%	3.9%
1% inc in wage costs	0.4%	0.7%	0.6%	0.9%
1% chg in ASP	2.2%	2.2%	3.1%	3.0%

Source: J.P. Morgan estimates.

Peer comparison – Industrial companies

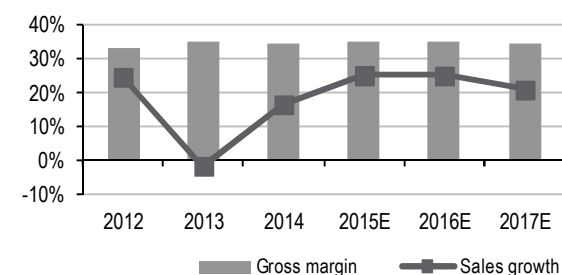
Companies	Ticker	Price (PT), HK\$	MCAP US\$MM	Vol US\$ MM	1 W chg	3M chg	14 P/E (x)	15E P/E(x)	EV / EBITDA	ROE (%)	P/B (x)	yld (%)
XINYI GLASS HOLD (OW)*	868 HK	4.88 (6.1)	2,468	9.1	6.6	26.4	14.1	8.7	6.6	11.1	1.4	3.1
KINGBOARD CHEM (OW)*	148 HK	12.36 (19)	1,635	2.7	1.1	(5.2)	5.0	7.0	4.8	7.3	0.4	4.0
SHENZHOU (OW)*	2313 HK	31.2 (38)	5,629	5.9	0.8	22.6	18.2	14.8	12.2	17.9	2.8	3.1
LM PAPER (OW)*	2314 HK	3.63 (6)	2,186	1.9	(2.7)	(17.9)	8.9	7.6	8.6	12.6	1.1	3.9
TECHTRONIC INDS (OW)*	669 HK	26.6 (36)	6,282	12.2	0.9	3.3	21.2	16.7	12.1	16.2	3.2	1.2
ND PAPER (OW)*	2689 HK	4.91 (8.2)	2,955	6.9	(1.2)	(26.8)	6.6	6.7	7.9	7.5	0.9	2.0
HAITIAN (OW)*	1882 HK	16.66 (22)	3,429	2.8	6.4	7.2	16.7	14.1	13.4	19.2	3.4	1.2
VTECH (UW)*	303 HK	114.1 (80)	3,674	5.3	1.3	(1.4)	17.3	17.1	14.3	35.4	5.5	5.5
WASION GROUP (OW)*	3393 HK	7.63 (11)	937	1.1	(3.0)	6.4	14.7	12.2	6.8	15.8	2.0	3.2
Average					(0.6)	1.5	12.2	10.9	9.3	15.9	2.1	3.4

Source: Bloomberg, J.P. Morgan estimates. Share prices are as of close Mar 24, 2015

Valuation and price target basis

Our price target is based upon DCF methodology. The nature of the industry leads us to apply a terminal growth of 3.0% (at the low end of the 3 to 6 percent growth rate used for SMID Caps).

Sales growth and GPM trends



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS (LC)	FY15E	FY16E
JPM new	0.647	0.801
% chg	0.517	0.663
Consensus	-20.1%	-17.2%

Source: Bloomberg, J.P. Morgan estimates.

Highlights from analysts briefing

- Move to high tech products bearing fruit.** Wasion is demonstrating the benefits of moving to higher technology products with its new AMI and ADO offerings (70% of 2014 sales) which offer much higher margin (GPM: 32% for ADO, 41% for AMI and 22% for SM) than its stand alone smart meter products. The heavy investment in researching and marketing the new products was done in 2013 and early 2014 resulting in operating leverage in the form of lower marketing and R&D costs in 2014 compared to 2013. We see this operating leverage to lift EBIT margins in the next few years.
- Benefiting from government’s acceleration of coverage of AMI water, gas and heat.** According to “Guidance for Accelerating the Establishment of a Sound Urban Residential Water Escalating Pricing System”, all provincial cities should implement water escalating pricing. The implementation of this policy would lift up the installation of water metering systems Wasion has benefitted from government’s policy regarding water escalating price and actively expanded AMI water segment business, which reported 80% y/y growth to Rmb 140mn.
- State grid's plan will encourage Wasion's growth.** According to State Grid’s 2015 plan, government will spend total of Rmb 420bn in smart grid, including ADO, ATO and AAM. Especially for ADO market, it plans to accelerate the upgrade of grid automation, including the completion of construction reform for 30 core cities and 30 non-core cities centers, achieving 50% of power distribution automation coverage in core cities as well as the completion the integrated governance of low-voltage issue in rural villages. ADO accounts for 11% of Wasion’s FY14 revenue (4% in FY13) and it reported 225% y/y growth in FY14. This plan will encourage Wasion’s revenue growth. Wasion’s strong AMI business can provides valuation and extensive end-user information. We expect ADO can contribute to around 30% of total revenue by 2016.
- Smart meter tender in 2014.** Wasion ranks top in both State Grid tender and southern Grid tender. In 2014, four tenders are invited by the State Grid and Wasion has won contracts for approximately 1,340,000 units of smart meters with a contract value of approximately RMB292.92 million (approximately HK\$369.52 million). It also won contracts on data collection terminals and concentrators for approximately 120,000 units with a contract value of approximately RMB62.63 million (approximately HK\$79.01 million). Thus the aggregated value of contracts they have won reached Rmb 1201.94mn. As to Southern Grid tender, one tender is invited and the aggregated value of contracts they have won reached Rmb 141mn

FY14 results overview

Table 1: Wasion FY14 results review

FY results (Rmb\$m)	FY13	FY14A	Y/Y	FY14E	Var	FY14 Consensus
Turnover*	2,412	2,812	16.6%	2,895	-2.9%	2,968
Gross profit	847	963	13.7%	1,016	-5.2%	1,020
GPM*	35.1%	34.2%		35.1%		34.4%
EBIT	473	570	20.7%	535	6.6%	508
EBITM	19.6%	20.3%		18.5%		17.1%
Net profit	401	482	20.3%	482	0.1%	468
NP Margin	16.6%	17.2%		16.6%		15.8%
EPS	0.43	0.51	18.6%	0.517	-1.4%	0.493

Source: Company, Bloomberg, J.P. Morgan estimates

- 2014 sales of Rmb2.81bn was 3% below our expectations and 6% lower than expectations but NP of Rmb482m was exactly the same as our estimates and 3% higher than consensus.
- The mild negative was the GPM of 34.2% versus our estimate of 35.0% but the company offset that with a cut in SGA (incl R&D) as a proportion of sales to 17.2% (FY13 was 20.2% and our estimate was 20.0%). This was mainly done with more effective controls on selling expenses (down 1% absolute dollars) and also a great deal of R&D was done in 2013 prior to the launch of the advanced distribution organization (ADO) product and didn't require as much R&D in 2014.
- We expect the company to continue to benefit from higher spending on grid infrastructure in China as well as the migration to higher margin and higher tech product such as ADO and AMI (advanced metering instruments) products

Net profits revised up2.6% for FY15E and 5.0% for FY16E

Table 2: Earnings Revisions

Year to Dec (Rmb m)	----- New -----		----- Old -----		----- Chg -----	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Turnover	3,514	4,389	3,566	4,283	-1.5%	2.5%
Gross profit	1,224	1,530	1,276	1,551	-4.1%	-1.3%
EBIT	749	956	676	837	10.8%	14.3%
Net profit	619	784	603	747	2.6%	5.0%
EPS	0.663	0.841	0.647	0.801	2.6%	5.0%
Assumptions						
Gross margin	32.1%	132.1%	32.1%	132.1%	0.0%	0.0%

Source: J.P. Morgan estimates

We are maintaining our sales estimate relatively unchanged as we see strong growth in AMI and ADO products fueling a 25% sales CAGR from 2014 to 2016. The key improvement is in our downward revision in selling expenses (it was much lower than expected in 2014) as we believe that the new AMI and ADO products are selling well with much marketing costs due to Wasion's existing strong brand on smart meters. Clients for advanced products (AMI, ADO) are often clients of smart meters and already know that Wasion is adept at gathering information and producing reliable equipment so its not that difficult to up sell them for the new products. This is one of the key reasons for the absolute reduction in selling expenses in 2014 Y/Y. We did not cut R/D expenses as proportion of sales in 2015 compared to 2014 even though that ratio fell YY from 5.5% in 2013 to 3.9% in 2014 (we est. 3.9% in 2015), leaving room for a positive surprise. We lifted tax rates in future years as 2014 tax rate was slightly higher than expected. Our DEC based Dec 15 PT is lifted to HK\$11.0 (prev. HK\$10.5) as a result of the earnings revisions.

Valuation and share price analysis

DCF valuation

Our Dec-15 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.2. Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for Wasion until 2020 and assume a terminal growth rate of 3%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 2.5% and a maximum of 5.5% depending on the nature of the industry and the level of maturity in China.

We also analyzed the DCF price sensitivity to WACC, and the terminal multiple.

Table 1: Wasion – base-case DCF analysis

HK\$ in millions, year-end Dec	2013	2014E	2015E	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	2,412	2,811	3,514	4,389	5,304	6,125	6,784	7,506
EBIT	445	581	749	956	1,127	1,329	1,500	1,696
NOPAT	445	526	667	841	977	1,136	1,271	1,431
Capex, net	(30)	(127)	(139)	(153)	(169)	(186)	(204)	(225)
Depreciation	102	99	102	107	112	118	125	134
Change in working capital	(214)	(512)	(363)	(420)	(507)	(404)	(366)	(416)
Free operating CF (FoCF)	303	(13)	268	375	416	668	830	930
DCF Parameters			Assumptions					
Liabilities as a % of EV	0%					Terminal growth	3.0%	
WACC	11.4%					Risk-free rate	4.2%	
						Market risk	6.0%	
Enterprise NPV (10-16E)	8,584					Beta	1.20	
+ Net cash (debt), 14E	(413)					Cost of debt	4.0%	
- Minorities (Market value)	(0)							
+/- Other items	0					Implied exit P/E multiple (x)	8x	
= Equity value	8,171							
/ Number of shares	932							
= Equity value per share (HK\$)	11.0							

Source: Company data, J.P. Morgan estimates.

Table 2: Wasion – Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate						
		1.5%	2%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	9.9%	11.8	12.4	13.1	13.9	14.9	16.0	17.3
	10.4%	11.0	11.6	12.2	12.9	13.7	14.6	15.7
	10.9%	10.4	10.8	11.4	12.0	12.6	13.4	14.3
	11.4%	9.7	10.2	10.6	11.0	11.7	12.4	13.2
	11.9%	9.2	9.6	10.0	10.4	10.9	11.5	12.2
	12.4%	8.7	9.0	9.4	9.8	10.2	10.7	11.3
	12.9%	8.2	8.5	8.8	9.2	9.6	10.0	10.5

Source: J.P. Morgan estimates.

Table 4: Wasion – Revenue mix

Rmb \$ MM, year-end 31Dec	2013	2014	2015E	2016E	2017E
Smart meters	889	824	824	824	824
YoY	-55.9%	-7.3%	0.0%	0.0%	0.0%
% of total	37%	29%	23%	19%	16%
AMI	1,424	1,677	1,945	2,194	2,419
YoY	248.1%	17.7%	16.0%	12.8%	10.2%
% of total	59%	60%	55%	50%	46%
ADO	99	310	745	1,371	2,061
YoY	250%	213%	140%	84%	50%
% of total	4%	11%	21%	31%	39%

Source: Company data, J.P. Morgan estimates

Table 5: Wasion – P&L statement

Year-end 31Dec (Rmb \$MM)	2012	2013	2014	2015E	2016E	2017E
Total Revenues	2,452	2,412	2,811	3,514	4,389	5,304
YoY change (%)	24.6%	-1.6%	16.5%	25.0%	24.9%	20.9%
Cost of Goods Sold	(1,648)	(1,566)	(1,849)	(2,290)	(2,858)	(3,483)
YoY change (%)	20.0%	-5.0%	18.1%	23.9%	24.8%	21.9%
Gross Profit	805	847	962	1,224	1,530	1,821
YoY change (%)	35.0%	5.3%	13.6%	27.2%	25.1%	19.0%
Gross Margin	32.8%	35.1%	34.2%	34.8%	34.9%	34.3%
SGA	(473)	(490)	(486)	(592)	(724)	(875)
YoY change (%)	32.6%	3.6%	-0.9%	21.9%	22.3%	20.9%
Other Income/(Expenses)	77	88	105	118	150	181
Operating profit	408	445	581	749	956	1,127
EBITDA	512	547	680	852	1,063	1,239
EBITDA margin	20.9%	22.7%	24.2%	24.2%	24.2%	23.4%
Depreciation & Amortization	(103)	(102)	(99)	(102)	(107)	(112)
YoY change (%)	-3.4%	-1.5%	-2.2%	3.0%	4.1%	4.9%
EBIT	408	445	581	749	956	1,127
EBIT margin	16.7%	18.4%	16.9%	18.0%	18.4%	17.8%
Net Interest Expense	(54)	(33)	(29)	(33)	(37)	(40)
Exceptional item	0	0	0	0	0	0
Associates	0	(7)	(4)	(5)	(6)	(8)
Gains/losses	1	35	(7)	(8)	(9)	(9)
Net Income Before Taxes	355	440	541	704	905	1,069
YoY change (%)	31.3%	23.8%	23.0%	30.1%	28.6%	18.2%
Tax	(32)	(39)	(55)	(79)	(111)	(142)
Effective Tax rate	9.1%	8.8%	10.2%	11.2%	12.2%	13.2%
Minority Interests	0	0	(4)	(6)	(10)	(15)
Net Income	323	401	482	619	784	913
YoY change (%)	30.6%	24.1%	20.1%	28.4%	26.8%	16.4%
Net margin	13.2%	16.9%	17.3%	17.7%	18.0%	17.3%

Source: Company data, J.P. Morgan estimates

Table 6: Wasion – Balance sheet

Year-end 31Dec (Rmb \$MM)	2012	2013	2014	2015E	2016E	2017E
Cash and Cash Equivalents	586	553	327	438	596	731
Inventories	323	307	335	418	523	632
Accounts receivable	1,014	1,271	1,904	2,499	3,277	4,159
Other Current Assets	880	990	949	1,010	1,016	1,035
Total Current Assets	2,803	3,122	3,515	4,365	5,412	6,556
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	1,026	976	1,001	1,038	1,085	1,141
Other Assets	437	644	1,103	1,103	1,103	1,103
Non-Current assets	1,463	1,620	2,104	2,141	2,187	2,244
Total Assets	4,266	4,741	5,618	6,506	7,600	8,800
Accounts Payable	800	890	1,486	1,857	2,320	2,803
Other Accrued Expenses	251	338	0	0	0	0
Taxes Payable	0	0	56	79	111	142
ST and current LT debts	548	453	503	570	637	704
Total Current Liabilities	1,599	1,681	2,044	2,507	3,068	3,649
Long-term Debt	57	173	248	281	314	347
Other Noncurrent Liability	12	14	20	20	20	20
Noncurrent liabilities	70	187	268	301	334	367
Total Liabilities	1,669	1,868	2,312	2,807	3,401	4,016
Share capital	1,241	9	9	9	9	9
Reserves and Surplus	1,356	2,863	3,236	3,623	4,113	4,683
Total Shareholders' Equity	2,596	2,873	3,245	3,632	4,122	4,692
Minority Interest	0	0	61	67	76	92
Total Shareholders' Equity	2,597	2,873	3,306	3,699	4,198	4,784
Total Liabilities and Equity	4,266	4,741	5,618	6,506	7,600	8,800

Source: Company data, J.P. Morgan estimates

Table 7: Wasion – Cash flow statement

Year-end 31Dec (Rmb\$ MM)	2012	2013	2014	2015E	2016E	2017E
EBIT	408	445	581	749	956	1,127
Depreciation and Amortization	103	102	99	102	107	112
Working Capital Changes	149	(214)	(512)	(363)	(420)	(507)
Net Interest	(54)	(33)	(29)	(33)	(37)	(40)
Tax Paid	(23)	(32)	(39)	(55)	(79)	(111)
Cash Flow From Operations	584	268	101	401	527	581
Capital expenditures	(180)	(30)	(127)	(139)	(153)	(169)
Investments and others	(209)	(138)	0	0	0	0
Cash Flow from Investing	(389)	(168)	(131)	(145)	(161)	(180)
Free Cash Flow	195	100	(30)	256	366	401
Dividends	(113)	(133)	(168)	(206)	(263)	(318)
Common issue	0	5	0	0	0	0
Other Financing	(483)	29	6	100	100	100
Contribution from owner	0	(33)	(35)	(39)	(44)	(48)
Cash Flow from financing	(596)	(132)	(196)	(146)	(207)	(266)
Change in cash	(401)	(32)	(226)	110	159	134
Cash beginning	987	586	553	327	438	596
Foreign exchange changes	0	(1)	0	0	0	0
Cash at end	586	553	327	438	596	731

Source: Company data, J.P. Morgan estimates

Investment Thesis, Valuation and Risks

Wasion Group Holdings Ltd (*Overweight; Price Target: HK\$11.00*)

Investment Thesis

Wasion Group Holdings Ltd (Wasion) is one of the leading energy measurement instrument, system and service suppliers in China. It has three main segments, which are Advanced Metering Infrastructure (AMI), Advanced Distribution Operations (ADO) and Smart Meters. Positive drivers include: (1) Aggressive number 1 smart meter maker moving to more advanced equipment. (2) Smart meters and related equipment is important for China's efficiency goals. (3) New ADO business is a new high margin growth area. (4) Generation 2 smart meter rollout speeds up replacement cycle. (5) New expansion meters for water, gas and other utilities at an infancy stage.

Valuation

Our Dec-15 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.2. Accordingly, WACC is assumed at 11.4%. We have estimated free cash flow for Wasion until 2020 and assume a terminal growth rate of 3%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 1.5% and a maximum of 4.5% depending on the nature of the industry and the level of maturity in China.

Risks to Rating and Price Target

The key risk to our rating and PT is lower-than-expected sales growth in smart meters, under performance in ADO, delay of smart meters rolling-out due to economic conditions as well as rising cost given Rmb appreciation.

Wasion Group Holdings Ltd: Summary of Financials

Income Statement						Cash flow statement					
Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	2,412	2,811	3,514	4,389	5,304	EBIT	445	581	749	956	1,127
% change Y/Y	(1.6%)	16.5%	25.0%	24.9%	20.9%	Depr. & amortization	102	99	103	107	112
Gross Profit	-	-	-	-	-	Change in working capital	(214)	(172)	(222)	(232)	(196)
% change Y/Y	-	-	-	-	-	Taxes	-	-	-	-	-
EBITDA	547	680	852	1,063	1,239	Cash flow from operations	268	101	401	527	581
% change Y/Y	6.8%	24.5%	25.2%	24.8%	16.5%	Capex	(30)	(127)	(139)	(153)	(169)
EBIT	445	581	749	956	1,127	Net Interest	(33)	(39)	(48)	(47)	(46)
% change Y/Y	9.0%	30.5%	29.0%	27.6%	17.8%	Other	(138)	(3)	(4)	(4)	(5)
EBIT Margin	18.4%	20.7%	21.3%	21.8%	21.2%	Free cash flow	268	9	305	417	454
Net Interest	(33)	(39)	(48)	(47)	(46)	Equity raised/(repaid)	5	0	0	0	0
Earnings before tax	440	530	687	892	1,064	Debt raised/(repaid)	21	0	0	0	0
% change Y/Y	23.8%	20.4%	29.7%	29.9%	19.3%	Other	(24)	(26)	63	53	42
Tax	(39)	(47)	(62)	(81)	(98)	Dividends paid	(133)	(170)	(209)	(260)	(309)
as % of EBT	8.8%	8.8%	9.0%	9.1%	9.2%	Beginning cash	586	553	593	649	779
Net income (reported)	401	482	619	784	912	Ending cash	553	328	705	811	920
% change Y/Y	24.1%	20.2%	28.3%	26.7%	16.4%	DPS	0.17	0.20	0.25	0.31	0.35
Shares outstanding	932	932	932	932	932						
EPS (reported)	0.43	0.52	0.66	0.84	0.98						
% change Y/Y	22.9%	20.4%	28.3%	26.7%	16.4%						
Balance sheet						Ratio Analysis					
Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	553	593	649	779	989	Gross margin	-	-	-	-	-
Accounts receivable	1,271	1,526	1,880	2,257	2,620	EBITDA margin	22.7%	24.2%	24.2%	24.2%	23.4%
Inventories	307	369	454	545	633	Operating margin	18.4%	20.7%	21.3%	21.8%	21.2%
Others	990	1,356	1,427	1,497	1,576	Net margin	16.6%	17.2%	17.6%	17.9%	17.2%
Current assets	3,122	3,843	4,410	5,079	5,818	Sales per share growth	(2.6%)	16.7%	25.0%	24.9%	20.9%
LT investments	644	644	644	644	644	Sales growth	(1.6%)	16.5%	25.0%	24.9%	20.9%
Net fixed assets	976	1,003	1,040	1,086	1,143	Net profit growth	24.1%	20.2%	28.3%	26.7%	16.4%
Total Assets	4,741	5,490	6,093	6,809	7,605	EPS growth	22.9%	20.4%	28.3%	26.7%	16.4%
Liabilities						Interest coverage (x)	16.7	17.7	17.9	22.6	26.8
Short-term loans	453	670	670	670	670	Net debt to equity	2.6%	10.5%	7.8%	3.7%	(1.4%)
Payables	890	1,068	1,316	1,580	1,834	Working Capital to Sales	0.6	0.6	0.6	0.6	0.6
Others	338	312	297	289	306	Sales/assets	0.5	0.5	0.6	0.7	0.7
Total current liabilities	1,681	2,050	2,283	2,539	2,810	Assets/equity	1.6	1.7	1.7	1.7	1.7
Long-term debt	173	256	256	256	256	ROE	14.7%	16.0%	18.4%	20.8%	21.4%
Other liabilities	14	14	14	14	14	ROCE	12.1%	14.0%	15.9%	18.5%	19.7%
Total Liabilities	1,868	2,321	2,553	2,809	3,080						
Shareholders' equity	2,873	3,169	3,540	3,999	4,524						
BVPS	3.08	3.40	3.80	4.29	4.86						

Source: Company reports and J.P. Morgan estimates.

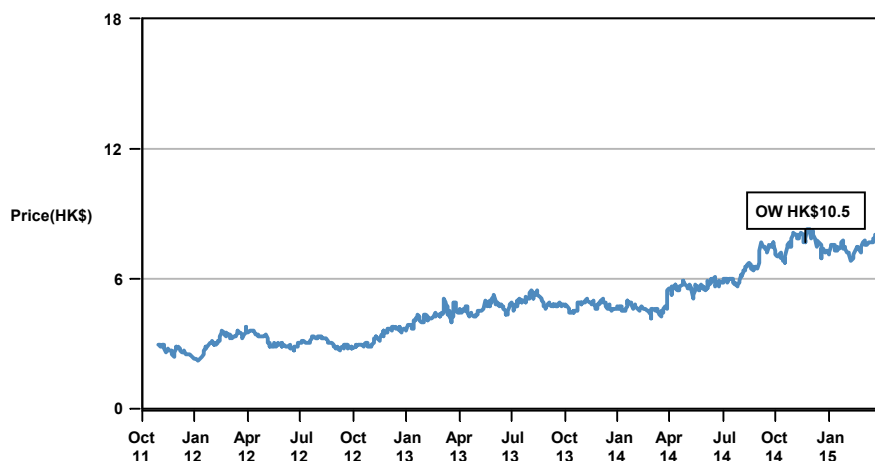
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Wasion Group Holdings Ltd (3393.HK, 3393 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
21-Nov-14	OW	7.70	10.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 21, 2014.

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