

Wasion Group (3393 HK)

China / Smart grids/ Company updates

Target price: HK\$10.20
Previous TP: HK\$9.80
Last price: HK\$8.45
Potential Return: 20.7%

Growth story remains intact

- Traditional metering business maintains solid stable growth
- Longer collection days acceptable on higher guarantee deposit
- Expect AMI to grow at 17% by FY17F on water metering ramp-up
- Strong pipeline for robust ADO growth

Maintain Buy

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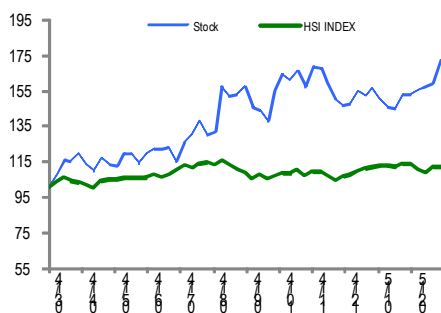
Forecast revision (%)

Year to 31 Dec	15F	16F	17F
Revenue change	3.1	4.8	6.0
Net profit change	8.1	9.0	7.7
EPS change	8.2	8.2	7.2

Key Share Data

52-week High / Low	HK\$ 8.63 / 4.77
30D avg volume	1.36 Mn
Issued share	951.85 Mn
Market cap	8,043.15 Mn
Major Shareholder	Director Ji Wei (54.62%)

Share Price Performance



Key Financials

Year to 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Turnover (RMB m)	2,412	2,812	3,490	4,190	4,967
Growth (%)	(1.6)	16.6	24.1	20.1	18.5
Net Profit (RMB m)	401	482	616	760	896
Growth (%)	24.1	20.3	27.7	23.4	17.8
EPS (RMB)	0.43	0.51	0.65	0.80	0.94
Growth (%)	23.2	19.0	27.7	23.4	17.8
PER (x)	13.29	13.31	10.42	8.44	7.16
PBR (x)	0.14	0.17	0.21	0.26	0.31
Yield (%)	2.50	2.46	3.17	3.91	4.61

Source: Core Pacific- Yamaichi estimates

What's New

- ✎ We attended Wasion Group's FY14 annual results briefing.

Catalyst

- ✎ **Traditional metering business maintains solid stable growth.** Management explains the 6% yoy decline in metering sales was attributable to delivery period adjustment, which left RMB5mn orders to be recognized in FY15. We think the smart metering segment could maintain its growth at 6%-8% in FY15F-FY17F, given: 1) totally 60mn units tenders to be invited by state grids in 2015, same as 2014; 2) metering replacement cycle to be started from 2015.
- ✎ **Longer collection days acceptable on higher guarantee deposit.** Most investors are concerned about the rising receivable, as the receivable turnover days were 52 days longer than that of FY13. We think the changes are reasonable, given AMI and ADO customer charges higher guarantee deposit.
- ✎ **Expect AMI to grow at 17% by FY17F on water metering ramp-up.** AMI water smart metering ramped up 80% to RMB140mn in FY14 as water escalating pricing (階梯水價) unlock metering demand. We revised up our AMI 3 years CAGR growth to 16.7% by FY17F, from 12% previously, to reflect the robust AMI water metering growth and non-grids customer expansion.
- ✎ **Strong pipeline for robust ADO growth.** ADO registered growth at 225% to RMB310.3mn in FY14, with its revenue contribution up 7 pts and GPM improving 3 pts as well. We assume a doubling growth in FY15F given its RMB300mn ADO order backlog. The company might further speed up ADO expansion through acquisition and guides RMB100-200mn capital expenditure for M&A.

Our View

We lift the company's FY15F/FY16F net profit by 8.2% /8.2% to factor in: 1) more optimistic growth outlook for AMI and ADO business; 2) expansion into overseas markets including South Africa, Brazil, Mexico and Malaysia through its cooperation with Siemens; 3) lower-than-expected distribution costs and administrative expenses thanks to resources sharing. Our revised model points to 23% 3 years CAGR growth in bottom line. We raise our target price to HK\$10.20, implying 12.6x/10.2x FY15F/FY16F PER.

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Profit & loss (Consolidated)

Year to 31 Dec (RMB mn)	2013	2014	2015F	2016F	2017F
Revenue	2,412	2,812	3,490	4,190	4,967
Smart meter	882	824	890	944	1,000
AMI	1,435	1,677	1,979	2,315	2,663
ADO	95	310	621	931	1,304
Gross profit	847	963	1,197	1,445	1,692
Selling & distribution expense	(207)	(206)	(248)	(293)	(343)
Administration expenses	(149)	(168)	(206)	(243)	(283)
Research expense	(134)	(112)	(157)	(189)	(223)
Other income	83	96	119	142	169
Operating profit	440	573	705	863	1,012
Other gains and losses	35	(7)	17	21	25
Finance income (net)	(27)	(20)	(34)	(35)	(36)
Shares of results associate	(7)	(4)	(3)	(4)	(5)
Profit before taxation	440	542	685	845	996
Income tax	(39)	(55)	(68)	(84)	(100)
Profit for the year	401	486	616	760	896
Minority Interests	-	4	-	1	-
Net profit	401	490	616	761	896
EPS	0.43	0.51	0.65	0.80	0.94
DPS	0.14	0.17	0.21	0.26	0.31

Cash flow (Consolidated)

Year to 31 Dec (RMB mn)	2013	2014	2015F	2016F	2017F
Operating cash flow	293	525	536	782	293
Profit before taxation	542	685	845	996	542
Depreciation & Amortization	87	110	115	115	87
Changes in working capital	(305)	(239)	(378)	(270)	(305)
Net finance income	20	34	35	36	20
Tax paid	(55)	(68)	(84)	(100)	(55)
Others	4	3	4	5	4
Investing Cash flow	(332)	(505)	(300)	(316)	(332)
Capex	(125)	(150)	(130)	(120)	(125)
Changes in other assets	(186)	(321)	(135)	(160)	(186)
Interest received	(20)	(34)	(35)	(36)	(20)
Free cash flow	168	375	406	662	168
Financing cash flow	39	(224)	(387)	(599)	39
Equity raised	48	(67)	(184)	(348)	48
Changes in debt	124	0	-	-	124
Dividend paid	(133)	(158)	(203)	(251)	(133)

Balance sheet (Consolidated)

Year to 31 Dec (RMB mn)	2013	2014	2015F	2016F	2017F
Total Assets	4,741	5,619	6,277	6,995	7,772
Non-current assets	1,620	2,104	2,196	2,318	2,448
Net PPE	976	1,340	1,380	1,395	1,400
Intangible assets	175	242	279	335	397
Goodwill	238	298	298	298	298
Available-for-sale equity	136	30	30	30	30
Other non-current	95	194	209	260	323
Current assets	3,122	3,515	4,080	4,678	5,324
Inventories	307	335	415	499	591
Account Receivables	1,718	2,405	2,792	3,352	3,973
Other current assets	543	448	524	629	695
Cash and cash equivalents	553	327	349	198	65
Total Liabilities	1,868	2,312	2,622	2,997	3,512
Current liabilities	1,681	2,045	2,349	2,720	3,230
Short-term loans	453	503	503	503	503
Account payable	1,182	1,486	1,780	2,137	2,632
Tax payable	46	56	66	80	94
Non-current liabilities	187	268	272	277	283
Long-term loans	173	248	248	248	248
Deferred tax liabilities	14	20	24	29	35
Total Equities	2,873	3,306	3,655	3,998	4,260
Share holders equity	2,873	3,246	3,592	3,917	4,169
share capital	9	10	9	9	9
Reserves	2,863	3,236	3,583	3,908	4,160

Key ratios

Year to 31 Dec	2013	2014	2015F	2016F	2017F
Growth (%)					
Turnover	(1.6)	16.6	24.1	20.1	18.5
Operating profit	10.3	30.4	23.0	22.4	17.2
Net profit	24.1	20.3	27.7	23.4	17.8
EPS	23.2	19.0	27.7	23.4	17.8
Margins (%)					
Operating profit	18.2	20.4	20.2	20.6	20.4
Net profit	16.6	17.4	17.7	18.2	18.0
Others (%)					
Effective tax rate	8.8	10.2	10.0	10.0	10.0
Effective interest rate	4.4	5.0	5.0	5.0	5.0
Payout ratio	33.2	32.7	33.0	33.0	33.0
ROE	16.0	15.9	17.7	19.9	21.7
ROA	7.5	9.5	10.4	11.5	12.1
Net gearing	31.0	37.3	38.1	40.9	44.5

Definitions of Recommendations:

For stock recommendations:

Buy: +15% or above of expected return over the next 12 months.

Hold: Between +15% and -5% of expected return over the next 12 months.

Sell: Potential downside of more than 5% of Definitions of Recommendations:

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I, Kevin Tam, a member of the research team of CPY and a license holder of Type 4 Regulated Activity registered with the Hong Kong Securities and Futures Commission ("SFC"), hereby declare that I currently hold shares of Wasion Group(3393 HK).