



Rating
Hold

Asia
China

Industrials
Manufacturing

Company
**Pinggao Electric
Alert**

Reuters 600312.SS Bloomberg 600312.CH Exchange SHH Ticker 600312

Date
10 August 2017

Results

Price at 9 Aug 2017 (CNY)	13.55
Price target - 12mth (CNY)	14.30
52-week range (CNY)	18.26 - 13.03
Shanghai Composite	3,276

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1H profit drop manifests continued margin pressure; Stay cautious

1H results disappoint; retaining Hold

Pinggao's 1H17 results came in below expectation. A 35% net profit drop despite revenue growth (+18%) manifests continued margin pressure. While the valuation multiple looks undemanding at 13x FY17E PE, we stay cautious on Pinggao since its margin is yet to bottom out and UHVAC project outlook lacks visibility. A potential UHV order contraction along with margin contraction would drag earnings CAGR down from 30% in FY15-17 to a mediocre 5% in FY17-19, on our forecasts. Hold.

Still on a margin downward trend; difficult to achieve full-year growth

In 1H17, total revenue rose 18%, primarily driven by higher UHVAC GIS shipment volume (18 vs. 14 in 1H16). However, NP dropped 35% yoy, with a worse-than-expected GPM contraction by 10ppt to 21%. This is mainly squeezed by falling ASP (by c.10% for both UHV and EHV products) and rising raw materials (primarily aluminum, steel, copper, etc.). We believe the margin contraction trend is yet to reverse, considering: 1) a further raw material price spike in 1H yet to be reflected on the books, 2) continued pricing pressure amid shrinking tender size, 3) sales mix shifting to low-margin mid-low voltage products. We recognize it could be challenging to catch up in 2H and achieve a NP growth this year (consensus/DBe: +16%/12%).

1H order update: UHV/EHV (-), distribution grid (+)

For UHVAC projects, there was only one equipment tender opened in 1H, namely Suzhou-Nantong 1000kV UHVAC GIL (Gas-insulated transmission line), from which Pinggao received orders of Rmb861m. This represents a 50% market share, with the rest going to Shandong Electrical Engineering & Equipment Co. In addition, West Beijing – Shijiazhuang 1000kV AC line was approved in July. However, since it is only a Rmb3.5bn size expansion project (vs. >Rmb20bn for others), order contribution to Pinggao, if any, would be insignificant. Mid-low voltage distribution grid equipment order is the silver line, with order intake up >40% yoy to >Rmb1bn, in line with industry trends.

UHVAC project outlook lacks visibility

As we argued in [Emerging UHV risks, shrinking upside: dg Pinggao and XJ Electric](#) (8 June), China's UHV transmission project approval outlook is turning less visible going forward, in light of large-scale power capacity delays and the government's promotion of distributed energy. It is in particular uncertain for cross-region UHVAC projects, whose safety issue remains controversial. The high-margin UHVAC GIS has already contributed as much as 40%/>50% of Pinggao's GP/NP, which is critical for its profitability. A potential high-margin UHV order contraction along with fierce competition may turn the product mix less favorable. This would likely more than offset rising distribution grid products sales as well as exports in the near term.

Stock data

Market cap (CNYm)	15,413
Market cap (USDm)	2,308
Shares outstanding (m)	1,356.9
Major shareholders	-
Free float (%)	52
Avg daily value traded (USDm)	16.7

Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	8,870	9,994	10,701
Net Profit (CNYm)	1,219.9	1,370.7	1,433.2
DB EPS (CNY)	0.90	1.01	1.06
PER (x)	17.7	13.4	12.8
Yield (net) (%)	3.8	4.1	3.9

Source: Deutsche Bank