

Hong Kong

ADD (no change)

Consensus ratings*:	Buy 2	Hold 0	Sell 0
Current price:	HK\$2.84		
Target price:	HK\$4.23 ▲		
Previous target:	HK\$3.81		
Up/downside:	48.9%		
CGI / Consensus:	20.9%		
Reuters:	3393.HK		
Bloomberg:	3393 HK		
Market cap:	US\$361.2m	HK\$2,828m	
Average daily turnover:	US\$0.88m	HK\$6.87m	
Current shares o/s:	995.9m		
Free float:	46.7%		
*Source: Bloomberg			

Key changes in this note

- 2022F and 2023F net profit decreased by 2.4% and 1.6%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6	-15.2	19.8
Relative (%)	-1.5	-8.3	43.3

Major shareholders	% held
Chairman, Mr Ji Wei	53.4

Analyst

Mark Po
T (852) 3698 6318
E markpo@chinastock.com.hk

Wasion Holdings

Strong 2H21 results; faster growth expected

- Wasion reported its 2021 results, which we believe show it has returned to the growth path.
- The Company has identified several growth drivers: a) overseas sales, b) ADO, and c) opportunities from co-operation with China Power.
- We fine-tuned our net profit forecasts for Wasion in 2022F–2023F after the 2021 results announcement.
- We maintain our ADD rating with a higher target price of HK\$4.23, based on 11x 2022F P/E (target P/E lowered from 12x to 11x).
- We maintain our ADD rating because of Wasion's dividend yield, the value of its stake in Willfar Info [688100.CH], and its recovery in fundamentals.
- Wasion is one of the beneficiaries of recent policies on the Internet of Energy, energy storage, carbon emissions reduction goals and new infrastructure.

2021 results highlights

Wasion's 2021 turnover increased 16% yoy, from Rmb3,948.8m in 2020 to Rmb4,590.8m in 2021. Revenue from Power AMI increased 5% yoy, from Rmb1,633.6m in 2020 to Rmb1,714.5m in 2021. The yoy growth of Power AMI revenue picked up from 3% yoy in 1H21, which in our view, shows that procurement by the power grids remained stable. Revenue from communications fluid AMI rose 26% yoy, from Rmb1,366.1m in 2020 to Rmb1,719.4 in 2021. ADO revenue increased 22% yoy from Rmb949.1m in 2020 to Rmb1,156.9m in 2021. Wasion reported net profit of Rmb268.1m in 2021, up 16% yoy, in line with our expectation. In our view, net profit growth vs. turnover growth shows that Wasion's non-Willfar business delivered decent growth in 2021 and that the impact of the spin-off of Willfar on P&L has been full digested, as Wasion has identified growth drivers such as: a) overseas sales, especially in Mexico, and b) ADO. Generally, we think Wasion's 2021 results were in line with expectations and show that the Company has returned to the growth path (26.1% yoy net profit growth in 2H21 vs. 5.9% yoy in 1H21, 0.6% in 2H20 and -31.7% yoy in 1H20). The Company's gross margin improved from 31.6% in 2020 to 32.6% in 2021. Power AMI and communications fluid AMI reported a yoy increase in gross profit margin, but ADO reported a yoy decline in gross profit margin in 2021. SG&A expenses as a percentage of revenue remained flat yoy at 13.4% in 2021, and R&D expenses as a percentage of revenue rose 0.7ppt to 9.2% in 2021, up from 8.5% in 2020. The higher R&D expenses were due to new product development. Revenue from international markets increased 86.6% yoy.

New growth opportunities

We maintain that Wasion will be one of the beneficiaries of recent policies on the Internet of Energy, energy storage, carbon emissions reduction goals and new infrastructure. We also expect FAI, especially new infrastructure-related CAPEX (IoT regarding power grid investment), to continue to grow. Despite soft net profit growth in 2H21, we still believe that the Company will report faster yoy growth in 2022, supported by its current order book, which is estimated at Rmb4.2bn at the end of 2021.

Adjustment to net profit forecasts and target price

We lowered our net profit forecasts for 2022F and 2023F by 2.4% and 1.6%, respectively, after minor adjustments after the 2021 results announcement. The 2021 results reaffirmed our view that the weak performance in 2H19 and 2020 is behind Wasion and that the growth momentum should continue in the coming years. We raised our target price from HK\$3.81 to HK\$4.24, mainly because of our higher net profit forecasts, with a target P/E multiple of 11x (lowered from 12x to 11x). We maintain our ADD rating, given Wasion's dividend yield, the value of its stake in Willfar, and its decent growth outlook.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	3,949	4,591	5,350	6,256	7,343
Operating EBITDA (Rmbm)	455.2	544.0	674.2	790.6	928.2
Net Profit (Rmbm)	231.2	268.1	319.1	363.2	424.0
Core EPS (Rmb)	0.28	0.33	0.37	0.42	0.48
Core EPS Growth	(8.6%)	18.3%	10.1%	14.2%	14.8%
FD Core P/E (x)	8.22	6.95	6.31	5.53	4.82
DPS (Rmb)	0.17	0.16	0.18	0.20	0.22
Dividend Yield	7.36%	7.05%	7.76%	8.54%	9.39%
EV/EBITDA (x)	7.61	7.34	6.92	6.69	6.44
P/FCFE (x)	NA	3.16	20.85	7.48	5.82
Net Gearing	0.6%	4.2%	11.8%	17.3%	22.8%
P/BV (x)	0.51	0.50	0.50	0.50	0.49
ROE	6.4%	7.2%	7.9%	9.0%	10.3%
% Change In Core EPS Estimates			2.09%	1.51%	
CGI/consensus EPS (x)			0.94	0.90	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Change in assumptions

	2022F			2023F		
	Old	New	(%)	Old	New	(%)
Turnover (RMBm)						
Single-phase electronic power meters	1,044.3	1,044.3	0%	1,044.3	1,107.9	6%
Three-phase electronic power meters	796.3	745.0	-6%	796.3	821.4	3%
Sale of data collection terminals	75.9	57.1	-25%	75.9	59.9	-21%
Others	2,066.8	2,114.8	2%	2,066.8	2,601.2	26%
ADO	1,366.6	1,388.3	2%	1,366.6	1,666.0	22%
YoY Change (%)						
Single-phase electronic power meters	6.1	6.1		6.1	6.1	
Three-phase electronic power meters	10.3	10.3		10.3	10.3	
Sales of data-collection terminals	5.0	5.0		5.0	5.0	
Communication and Fluid AMI	23.0	23.0		23.0	23.0	
ADO	20.0	20.0		20.0	20.0	
Gross margin (%)			(ppt)			(ppt)
Single-phase electronic power meters	32.3	32.8	0.4	32.3	32.9	0.6
Three-phase electronic power meters	20.0	21.0	1.0	20.0	21.0	1.0
Sales of data-collection terminals	44.1	45.1	1.0	44.1	45.1	1.0
Sales of data-collection terminals	43.6	44.6	1.0	43.6	44.6	1.0
Communication and Fluid AMI	34.5	35.1	0.6	34.5	35.1	0.6
ADO	31.0	31.0	0.0	31.0	31.0	0.0
Net margin (%)	5.8	6.0	0.1	5.8	5.8	(0.0)
Cost (RMBm)			(%)			(%)
S,G&A	(664.5)	(690.0)	4%	(664.5)	(807.0)	21%
Financial Expenses	(137.5)	(146.7)	7%	(137.5)	(171.6)	25%
YoY Change (%)						
S,G&A	11.8	12.2		11.8	17.0	
Financial Expenses	16.4	47.8		16.4	17.0	

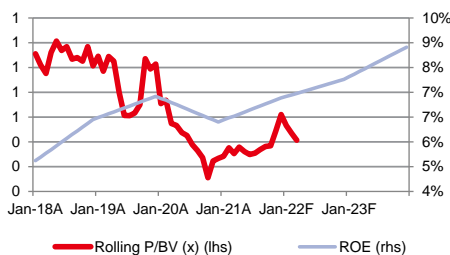
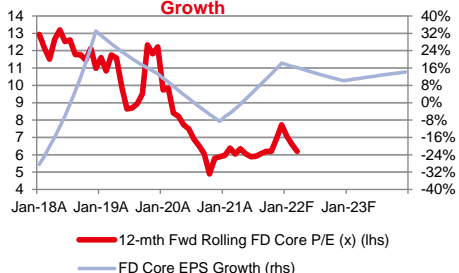
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 2: Assumptions

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2,021.0	2022F	2023F	2024F
Turnover (RMBm)														
Single-phase electronic power meters	762.1	1,239.2	1,067.2	1,152.6	1,043.8	835.0	876.8	920.6	948.2	927.8	984.3	1,044.3	1,107.9	1,175.4
Three-phase electronic power meters	795.2	697.9	705.8	678.7	712.6	570.1	513.1	564.4	670.5	636.9	675.7	745.0	821.4	905.6
Sales of data-collection terminals	338.0	409.2	518.2	590.5	649.5	186.9	201.3	249.9	95.2	68.8	54.4	57.1	59.9	62.9
Communication and Fluid AMI	73.4	106.0	121.1	79.8	136.6	500.5	755.8	929.9	1,167.6	1,366.1	1,719.4	2,114.8	2,601.2	3,199.5
ADO	0	0	0	310.4	426.6	515.0	581.1	675.5	774.2	949.1	1,156.9	1,388.3	1,666.0	1,999.2
YoY Change (%)														
Single-phase electronic power meters	61.7	62.6	(13.9)	8.0	(9.4)	(20.0)	5.0	5.0	3.0	(2.2)	6.1	6.1	6.1	6.1
Three-phase electronic power meters	63.5	(12.2)	1.1	(3.8)	5.0	(20.0)	(10.0)	10.0	18.8	(5.0)	6.1	10.3	10.3	10.3
Sales of data-collection terminals	29.9	21.1	26.6	13.9	10.0	(71.2)	7.7	24.2	(61.9)	(27.7)	(21.0)	5.0	5.0	5.0
Communication and Fluid AMI	(35.0)	44.3	14.3	(34.1)	71.0	266.5	51.0	23.0	25.6	17.0	25.9	23.0	23.0	23.0
ADO	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.8	16.2	14.6	22.6	21.9	20.0	20.0	20.0
Gross margin (%)														
Single-phase electronic power meters	30.3	32.8	35.1	34.2	30.2	31.3	28.5	29.7	31.4	31.6	32.6	32.8	32.9	33.1
Three-phase electronic power meters	18.0	21.5	22.5	22.1	15.7	18.3	15.5	17.0	19.0	19.5	21.0	21.0	21.0	21.0
Sales of data-collection terminals	35.0	45.5	47.5	47.5	40.5	42.4	39.6	41.1	43.1	43.6	45.1	45.1	45.1	45.1
Sales of data-collection terminals	44.0	44.5	43.9	43.9	40.9	42.9	39.5	41.1	43.1	43.1	44.6	44.6	44.6	44.6
Communication and Fluid AMI	42.0	36.3	36.3	36.3	33.3	34.8	32.3	32.3	34.0	34.0	35.1	35.1	35.1	35.1
ADO	0	0	0	31.5	31.0	32.5	29.5	29.5	31.0	31.0	31.0	31.0	31.0	31.0
Net margin (%)	12.6	13.2	16.6	17.2	14.3	11.8	10.3	8.1	7.8	5.9	5.8	6.0	5.8	5.8
Cost (RMBm)														
S,G&A	(291.4)	(355.7)	(356.1)	(373.5)	(381.5)	(396.1)	(466.8)	(467.4)	(508.9)	(529.9)	(615.1)	(690.0)	(807.0)	(947.1)
Financial Expenses	(53.8)	(54.3)	(32.7)	(28.9)	(25.4)	(52.6)	(43.3)	(59.6)	(86.5)	(96.3)	(99.3)	(146.7)	(171.6)	(201.4)
YoY Change (%)														
S,G&A	41.9	22.1	0.1	4.9	2.2	3.8	17.8	0.1	8.9	4.1	16.1	12.2	17.0	17.4
Financial Expenses	92.8	0.9	(39.7)	(11.8)	(12.1)	107.0	(17.6)	37.7	45.2	11.3	3.1	47.8	17.0	17.4

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth


Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	3,949	4,591	5,350	6,256	7,343
Gross Profit	1,320	1,584	1,859	2,176	2,554
Operating EBITDA	455	544	674	791	928
Depreciation And Amortisation	(73)	(85)	(105)	(116)	(127)
Operating EBIT	382	459	569	675	801
Financial Income/(Expense)	(60)	(63)	(106)	(128)	(154)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	130	146	156	167	179
Profit Before Tax (pre-EI)	452	542	620	714	826
Exceptional Items	(56)	(70)	(50)	(59)	(59)
Pre-tax Profit	396	473	570	655	767
Taxation	(52)	(45)	(54)	(62)	(73)
Exceptional Income - post-tax					
Profit After Tax	344	428	516	593	694
Minority Interests	(113)	(160)	(197)	(230)	(270)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	231	268	319	363	424
Recurring Net Profit	280	331	365	416	478
Fully Diluted Recurring Net Profit	280	331	365	416	478

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	455.2	544.0	674.2	790.6	928.2
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(550.2)	(460.3)	(488.1)	(583.4)	(698.8)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	344.1	146.0	156.2	167.2	178.9
Net Interest (Paid)/Received	(96.3)	(99.3)	(146.7)	(171.6)	(201.4)
Tax Paid	(61.2)	(52.9)	(63.8)	(73.3)	(85.8)
Cashflow From Operations	91.6	77.5	131.8	129.5	121.2
Capex	(98.2)	(170.0)	(300.0)	(170.0)	(170.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(520.1)	266.9	(193.1)	(215.4)	(231.3)
Cash Flow From Investing	(618.3)	96.9	(493.1)	(385.4)	(401.3)
Debt Raised/(repaid)	208.6	553.9	471.7	563.7	675.2
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(182.0)	(169.3)	(162.3)	(178.6)	(196.4)
Preferred Dividends					
Other Financing Cashflow	726.2	36.4	41.0	43.7	47.7
Cash Flow From Financing	752.8	421.0	350.3	428.9	526.4
Total Cash Generated	226.1	595.5	(11.0)	173.0	246.3
Free Cashflow To Equity	(318.0)	728.4	110.4	307.8	395.1
Free Cashflow To Firm	(430.4)	273.7	(214.6)	(84.4)	(78.8)

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	2,255	2,579	2,568	2,741	2,987
Total Debtors	5,222	5,600	6,526	7,632	8,957
Inventories	498	991	1,155	1,350	1,585
Total Other Current Assets	582	419	419	419	419
Total Current Assets	8,558	9,588	10,667	12,142	13,947
Fixed Assets	1,314	1,399	1,594	1,648	1,691
Total Investments	23	15	15	15	15
Intangible Assets	824	907	907	907	907
Total Other Non-Current Assets	551	763	763	763	763
Total Non-current Assets	2,712	3,084	3,279	3,333	3,375
Short-term Debt	1,788	2,047	2,385	2,789	3,273
Current Portion of Long-Term Debt					
Total Creditors	3,222	3,630	4,229	4,947	5,805
Other Current Liabilities	58	82	91	101	112
Total Current Liabilities	5,068	5,759	6,706	7,837	9,190
Total Long-term Debt	502	790	921	1,077	1,264
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	502	790	921	1,077	1,264
Total Provisions	19	34	38	42	46
Total Liabilities	5,589	6,583	7,664	8,955	10,500
Shareholders' Equity	4,523	4,632	4,626	4,633	4,664
Minority Interests	1,153	1,448	1,645	1,875	2,145
Total Equity	5,676	6,080	6,271	6,507	6,808

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	8.0%	16.3%	16.5%	17.0%	17.4%
Operating EBITDA Growth	0.4%	19.5%	23.9%	17.3%	17.4%
Operating EBITDA Margin	11.5%	11.8%	12.6%	12.6%	12.6%
Net Cash Per Share (Rmb)	(0.03)	(0.26)	(0.74)	(1.13)	(1.56)
BVPS (Rmb)	4.54	4.65	4.65	4.65	4.68
Gross Interest Cover	3.97	4.63	3.88	3.93	3.98
Effective Tax Rate	13.1%	9.5%	9.5%	9.5%	9.5%
Net Dividend Payout Ratio	59.0%	48.1%	48.3%	46.6%	44.7%
Accounts Receivables Days	457.2	430.2	413.7	413.0	413.4
Inventory Days	72.3	90.3	112.2	112.0	112.2
Accounts Payables Days	433.3	415.8	410.9	410.4	410.9
ROIC (%)	7.4%	8.0%	8.9%	9.6%	10.4%
ROCE (%)	5.60%	5.85%	6.58%	7.17%	7.78%
Return On Average Assets	4.31%	4.68%	5.05%	5.30%	5.53%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Single-phase electronic power meters YoY Change (%)	-2.2%	6.1%	6.1%	6.1%	6.1%
Three-phase electronic power meters YoY Change (%)	-5.0%	6.1%	10.3%	10.3%	10.3%
Sales of data-collection terminals YoY Change (%)	-27.7%	-21.0%	5.0%	5.0%	5.0%
Communication and Fluid AMI YoY Change (%)	17.0%	25.9%	23.0%	23.0%	23.0%
ADO YoY Change (%)	22.6%	21.9%	20.0%	20.0%	20.0%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

Wasion Holdings (3393 HK)

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