

**Xinchen China Power [1148.HK]**
**Neutral**

Issue Particulars	
Industry sector	Engine
Listing category	Mainboard
Major Shareholders	Huachen (31.908%)
Total shares outstanding (mn)	1,253.6
Issue price (HK\$)	2.2-2.8
Total share offer size (HK\$mn)	689-877
Shares offered for placement (mn)	282.06
Shares offered for IPO (mn)	31.34
Market cap. (HK\$mn)	2,757.9-3,510.1
Profit estimates for the year ended 31 Dec 2012 (Rmb mn)	Not less than 290.1
2012 Prospective P/E (Times)	7.71-9.81
Adjusted NAV per share (HK\$)	1.67-1.82
Nominal Value (HK\$)	0.01
Board Lot (shares)	1,000
Sponsor	BofA Merrill Lynch

Time Table	
IPO open	28 Feb 2013
IPO close	5 Mar 2013
Results announcement date	12 Mar 2013
Cheques refunded	12 Mar 2013
Dealing of shares	13 Mar 2013

Financial Data			
FYE 31 Dec (Rmb'000)	FY10	FY11	First nine months 2012
<b>Revenue</b>	<b>1,945,114</b>	<b>2,307,748</b>	<b>1,946,268</b>
Cost of sales	(1,643,824)	(1,831,140)	(1,556,276)
<b>Gross profit</b>	<b>301,290</b>	<b>476,608</b>	<b>389,992</b>
Other income	11,144	10,012	6,361
Selling exp.	(65,845)	(48,611)	(40,214)
Administrative exp.	(55,419)	(62,638)	(49,891)
Finance costs	(17,753)	(37,520)	(21,555)
Other expenses	(23,595)	(33,212)	(24,577)
Share of result	-	-	281
<b>Profit before tax</b>	<b>149,822</b>	<b>304,639</b>	<b>260,397</b>
Income tax expenses	(365)	(44,250)	(36,628)
<b>Net profits</b>	<b>149,457</b>	<b>260,389</b>	<b>223,769</b>

**Business**

Xinchen China Power develops, manufactures and sells light-duty gasoline and diesel engines used by various local and foreign-invested passenger vehicle, or PV, and light commercial vehicle, or LCV manufacturers in the PRC. The Group was the largest independent branded engine manufacturer of small bus engines in China in 2011 in terms of sales volume according to the Frost and Sullivan Report, accounted for 9.4% of the independent branded segment of the PV and LCV engine market in China, and independent brands accounted for 13.8% of the PV and LCV engine market in China. The total sales volume of PV and LCV engines in China had grown from 7.9 million units in 2007 to 17.1 million units in 2011.

Main products were light-dry gasoline and diesel engines which have displacement ranging from 1.0L to 2.7L, and engine power ranging from 38.5kW to 120.0kW. The Group manufactures and sells 36 models of automotive engines, installed in a wide range of PVs and LCVs, including sedans, SUVs, MPVs, small buses and minibuses, small and light-duty trucks. It focus on producing high quality and high performance/price ratio automotive engines with low fuel consumption, emissions and noise that target the mid to low end automotive markets. In addition to engine sales, it also generates a small portion of revenue from the manufacture and sales of engine components and providing testing services to external customers.

Top customers include well-known automotive manufacturers in China, such as Brilliance China Group, Huachen Group, Zhengzhou Nissan, Xiamen Golden Dragon and GAC Changfeng, top five customers accounted for 75.3% of total revenue as of Sep 2012. Xinchen carries out all manufacturing activities at its production facilities currently located in Mianyang, Sichuan Province and has 15 production lines.

Xinchen relies on a limited number of customers with which has no long-term contracts for a significant portion of revenue. Besides, profitability could be negatively affected by the downward pricing trends of its products. The reduction in average unit prices was attributable to changes in product mix, lowered product prices of certain engine models to expand market and attract new customers and production costs reduction by certain customers. Given the above reason, we rate neutral.

**Clawback Structure**

Over subscription for IPO (x)	% of IPO for the total share offer
15-50 times	30%
50-100 times	40%
Over 100 times	50%

**Use Of Proceeds**

Expand production capacity	65%
New product development	24%
Construction of R&D centre	11%

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