

## COMPANY NEWS

**Coslight Technology International [1043.HK; HK\$4.97; NOT-RATED]**

**Key takeaways from discussion with management: Back to the fast track. Further re-rating expected.**

Market Cap: US\$256m; Free Float: 33.8%; 3-month Average Daily Turnover: US\$0.7m

Analyst: Mark Po

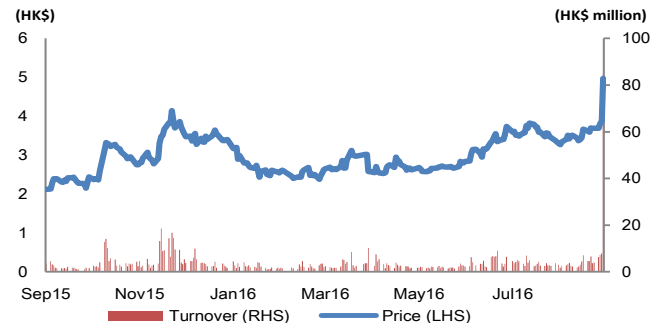
**The Company.** Coslight Technology International Group Limited (Coslight) is a leading cell and battery maker in China. Its product portfolio comprises Li-ion polymer cells for smart devices, SLA batteries for base stations, and lithium ferrite batteries (LFP batteries) for base stations and electric vehicles (EV). Its major growth driver is lithium-based products.

**Management explained 1H 2016 results and growth drivers.** We had a post-results discussion with Coslight management yesterday. Management further explained the 1H 2016 results, and the Company's growth drivers and strategy. We share the view that the market holds a cautious view of Coslight, given its volatile earnings history. The Company's 1H 2016 results should partly clear up market concerns. We maintain that the market has underestimated the growth potential of Coslight and that the post-results share price rally hasn't fully reflected the positives of the Company.

Coslight's turnover grew 46% YoY from RMB1,658m in 1H 2015 to RMB2,419m in 1H 2016. The Company's net profit was up 525% YoY from RMB20.2m in 1H 2015 to RMB126.0m in 1H 2016. Unit shipment growth in the Company's Li-polymer batteries, in volume terms, was up 2% YoY to 40m pieces in 1H 2016, despite a decline in global consumer electronics shipments. Turnover in the Li-polymer battery segment rose 6% YoY to RMB845.3m in 1H 2016, and the average selling price improved slightly from RMB20.2 in 1H 2015 to RMB21.0 in 1H 2016. Profit contribution from the Li-polymer battery segment rose 57.4% YoY to RMB32.9m in 1H 2016, which is attributable to a 1.7ppt YoY improvement in gross margin. Management expects a 15% YoY increase in shipment volume for 2016, with strong growth in 2H 2016. Management explained that the growth in shipment volume in 2H 2016 will be due mainly to new products launched by some of its key customers. Coslight supplies batteries to HP and Dell, and management reiterated that the Company is benefitting from the shift from liquid-based Li-ion to Li-polymer batteries by HP and Dell. Over the past several years, Coslight proactively developed new products and expanded its market share. Now the Company is one of the world's leading lithium polymer cell manufacturers.

The Company delivered 11,127 sets of EV batteries (up 263% YoY) to BAIC and others in 1H 2016. Sales of all types of lithium batteries were up 67% YoY from RMB1,090.6m in 1H 2015 to RMB1,826.3m in 1H 2016. Recall that sales of lithium batteries in 1H 2015 also included sales to an Indian telecom operator. EV battery products accounted for a major portion of sales of lithium batteries in 1H 2016. Despite concerns about slower industry growth of EV in 2016 due to investigations into possible cheating related to government subsidies, management reiterated that EV battery production was fully booked, given strong downstream demand. Coslight's major customers for EV batteries in 1H 2016 were BAIC and XINDAYANG. Due to strong downstream demand, Coslight has successfully raised the ASP of its EV batteries by 10% in Q2 2016, which more than offset the impact of higher raw material prices. Management guided that shipment volume of EV batteries would surge (both YoY and HoH) in 2H 2016. Given the current run rate, the output value of the Company's EV battery capacity should exceed previous guidance of RMB2bn in 2016. Management targets doubling EV battery capacity to 3GWH by 2018 with a total investment of RMB700m. Apart from LFP batteries, Coslight has completed R&D of NMC- and NCA-based batteries. Coslight is also a qualified EV battery

### [Coslight Technology International]



Key Financials (in RMB m)	2012	2013	2014	2015
Revenue	2,675.1	3,034.3	3,530.7	4,101.7
Gross Profit	346.5	527.0	368.8	586.0
Gross Margin %	13.0	17.4	10.4	14.3
Net Profit	(20.6)	173.0	32.2	5.2
Net Margin %	(0.8)	5.7	0.9	0.1
EPS (Basic)	(0.06)	0.46	0.08	0.01
ROE (%)	(1.4)	10.7	1.8	0.3
Dividend Yield (%)	-	-	-	-
PER (x)	n.a.	9.24	51.63	328.44
PBR (x)	1.05	0.94	0.95	0.94

Source: Bloomberg, Company Data.

manufacturer as per the MIIT shortlist.

The lead-acid battery product segment reported an 8.3% YoY increase in top-line contribution in 1H 2016 after the factory relocation. The lead-acid battery product segment reported a loss of RMB24.6m in 1H 2016, down from RMB56.1m in 1H 2015. In the near term, the Company has successfully contained the loss incurred in the lead-acid battery product segment. Management aims to achieve a turnaround in the lead-acid battery product segment in the medium term through improvement in the utilization rate and turnover growth. The 51%-owned online gaming division remains a cash cow for the Company. The group is leveraging the resources from the online gaming division to develop the battery business. Contribution from the online game business was up 28% YoY in 1H 2016. The Company's target is to launch 4-8 games, including PC games, web games and mobile games, in 2H 2016 to support growth.

**Our view.** We feel Coslight is an under-covered battery maker with exposure to the EV and drone segments. We maintain the view that the 1H 2016 results should partly clear up market concerns about the Company's operating performance, especially since all businesses segments are showing improvement. Despite the post-results share price rally, all positives haven't yet been reflected. Any share price correction offers a good re-visit opportunity.

**Catalyst.** Breakthrough in EV battery products and news flow on government policy.

Figure 1: Peer comparison

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE			ROA		Div yield	
				2016F x	2017F x	2018F x	2016F x	2017F x	2018F x	2015 x	2016F x	2015 %	2016F %	2015 %	2016F %	2015 %	2016F %	2015 %
951 HK	Chaowei Power Holdings Ltd	5.67	749	8.4	7.0	6.0	6.3	5.6	5.0	1.9	1.4	n.a.	22.9	3.3	6.6	2.0	3.4	
819 HK	Tianneng Power Intl Ltd	6.13	892	7.1	5.7	4.7	4.7	4.0	3.3	1.8	1.4	20.2	22.3	6.3	8.3	5.1	4.2	
842 HK	Leoch International Tech	0.97	169	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	1.9	n.a.	2.6	n.a.	
1043 HK	Coslight Technology Intl Gp	4.97	256	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	0.1	n.a.	0.0	n.a.	
476 HK	China Dynamics Holdings Ltd	0.33	155	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	-1.5	n.a.	-3.3	n.a.	0.0	n.a.	
378 HK	Fdg Kinetic Ltd	1.21	801	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.4	n.a.	-120.7	n.a.	-94.6	n.a.	0.0	n.a.	
729 HK	Fdg Electric Vehicles Ltd	0.49	1,415	n.a.	n.a.	16.3	n.a.	n.a.	n.a.	3.2	n.a.	-21.5	-39.7	-3.1	-12.8	0.0	n.a.	
1211 HK	Byd Co Ltd-H	53.70	22,202	26.3	22.5	19.3	14.5	12.9	11.9	3.7	2.6	9.8	11.0	4.3	4.0	n.a.	0.7	
<b>Average</b>				<b>16.7</b>	<b>14.1</b>	<b>13.5</b>	<b>9.6</b>	<b>8.5</b>	<b>7.6</b>	<b>2.0</b>	<b>2.0</b>	<b>-22.8</b>	<b>-2.2</b>	<b>-12.6</b>	<b>-0.2</b>	<b>1.3</b>	<b>2.5</b>	
601311 CH	Camel Group Co Ltd-A	16.61	2,110	19.3	14.4	11.2	15.0	11.4	9.5	3.0	2.9	n.a.	14.7	9.0	10.7	n.a.	1.5	
002733 CH	Shenzhen Center Power Tech-A	24.04	1,260	41.4	33.6	27.6	35.7	28.7	n.a.	6.1	5.4	11.5	13.6	6.4	7.4	0.6	0.6	
002580 CH	Shandong Sacred Sun Power-A	16.90	559	54.5	37.1	25.5	28.7	24.5	21.5	3.3	3.1	n.a.	5.8	2.0	3.5	n.a.	0.5	
300068 CH	Zhejiang Narada Power Sour-A	21.85	2,565	41.7	30.4	22.8	24.8	19.7	17.7	3.0	3.4	7.0	7.9	3.6	5.1	n.a.	0.2	
JCI US	Johnson Controls Inc	43.88	27,984	11.1	10.6	9.3	8.6	7.9	7.2	2.9	2.7	14.4	21.9	2.0	8.0	2.6	2.6	
<b>Average</b>				<b>33.6</b>	<b>25.2</b>	<b>19.3</b>	<b>22.6</b>	<b>18.4</b>	<b>14.0</b>	<b>3.7</b>	<b>3.5</b>	<b>10.9</b>	<b>12.8</b>	<b>4.6</b>	<b>7.0</b>	<b>1.6</b>	<b>1.1</b>	

Sources: Bloomberg , CGIS Research

**Disclaimer**

This research report is not directed at, or intended for distribution to or used by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject China Galaxy International Securities (Hong Kong) Co., Limited (“Galaxy International Securities”) and/or its group companies to any registration or licensing requirement within such jurisdiction.

This report (including any information attached) is issued by Galaxy International Securities, one of the subsidiaries of the China Galaxy International Financial Holdings Limited, to the institutional clients from the information sources believed to be reliable, but no representation or warranty (expressly or implied) is made as to their accuracy, correctness and/or completeness.

This report shall not be construed as an offer, invitation or solicitation to buy or sell any securities of the company(ies) referred to herein. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. The recipient of this report should understand and comprehend the investment objectives and its related risks, and where necessary consult their own independent financial advisers prior to any investment decision.

Where any part of the information, opinions or estimates contained herein reflects the personal views and opinions of the analyst who prepared this report, such views and opinions may not correspond to the published views or investment decisions of China Galaxy International Financial Holdings Limited and any of its subsidiaries (“China Galaxy International”), directors, officers, agents and employees (“the Relevant Parties”).

All opinions and estimates reflect the judgment of the analyst on the date of this report and are subject to change without notice. China Galaxy International and/or the Relevant Parties hereby disclaim any of their liabilities arising from the inaccuracy, incorrectness and incompleteness of this report and its attachment/s and/or any action or omission made in reliance thereof. Accordingly, this report must be read in conjunction with this disclaimer.

**Disclosure of Interests**

China Galaxy International may have financial interests in relation to the subjected company(ies) the securities in respect of which are reviewed in this report, and such interests aggregate to an amount may equal to or more than 1 % of the subjected company(ies)’ market capitalization.

One or more directors, officers and/or employees of China Galaxy International may be a director or officer of the securities of the company(ies) mentioned in this report.

China Galaxy International and the Relevant Parties may, to the extent permitted by law, from time to time participate or invest in financing transactions with the securities of the company(ies) mentioned in this report, perform services for or solicit business from such company(ies), and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto.

China Galaxy International may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the last 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking services to the company(ies) mentioned in this report.

Furthermore, China Galaxy International may have received compensation for investment banking services from the company(ies) mentioned in this report within the preceding 12 months and may currently seeking investment banking mandate from the subject company(ies).

**Analyst Certification**

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the securities covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the securities covered in this research report three business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong-listed companies covered in this report; and (4) have any financial interests in the Hong Kong-listed companies covered in this report.

**Explanation on Equity Ratings**

- BUY : share price will increase by >20% within 12 months in absolute terms
- SELL : share price will decrease by >20% within 12 months in absolute terms
- HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

**Copyright Reserved**

No part of this material may be reproduced or redistributed without the prior written consent of China Galaxy International Securities (Hong Kong) Co., Limited.

China Galaxy International Securities (Hong Kong) Co. Limited, CE No.AXM459

Room 3501-3507, 35/F, Cosco Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.