

A-Power Energy Generation Systems Ltd APWR

Last Close	Industry	Sector
10.85 USD	Electric Utilities	Utilities

Profile

Pricing data through 05 Nov 2009

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A-Power Energy Generation Systems, Ltd. is a Hong Kong company that owns a controlling interest in operating companies in the People's Republic of China known as GaoKe. The company designs, constructs and tests distributed power generation systems to factories and users in the People's Republic of China. It incorporates standard power generating equipment into an integrated system that includes refined control systems to balance power generation with demand. A-Power also offers automatic control system, which monitors the performance of equipment in the system, including the boiler, turbine, generator, grid supply, demand and distribution, as well as space and water heating functions. Its target customers include companies operating in various industries, including steel, chemical, cement, food processing and ethanol and municipal governments, as well as state-owned Chinese power companies.

A-Power Energy Generation Systems Ltd APWR

Sales USD Mil 256 Mkt Cap USD Mil 366 Industry Electric Utilities Sector Utilities

Based in Shenyang, China, A-Power Energy Generation Systems designs and manufactures power generation systems for use in China. The company's systems utilize a "distributed generation approach", where power is generated relatively close to where it will be used. A-Power's customer base ranges from steel, cement, and ethanol businesses to chemical and food processing companies. In addition, A-Power provides services for state-owned power companies in China

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Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	—	—	—	—	—
Operating Income %	—	—	—	—	—
Earnings/Share %	866.5	260.9	—	—	—
Dividends %	—	—	—	—	—
Book Value/Share %	13.3	2.4	—	—	—
Stock Total Return %	81.1	21.8	—	—	—
+/- Industry	69.2	-3.0	—	—	—
+/- Market	69.2	29.7	—	—	—

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	18.4	—	2.0
Return on Assets %	11.4	—	0.6	6.0
Fixed Asset Turns	9.6	—	0.7	6.8
Inventory Turns	39.6	—	12.5	12.0
Revenue/Employee USD K	774.3	—*	—	918.1
Gross Margin %	14.4	—	34.8	39.2
Operating Margin %	10.0	—	10.7	15.4
Net Margin %	10.7	—	1.3	6.9
Free Cash Flow/Rev %	1.7	—	—	0.0
R&D/Rev %	—	—	—	10.7

Financial Position	12-08 USD Mil	06-09 USD Mil
	Cash	45
Inventories	9	11
Receivables	9	10
Current Assets	146	233
Fixed Assets	32	35
Intangibles	23	27
Total Assets	206	302
Payables	15	25
Short-Term Debt	0	14
Current Liabilities	50	134
Long-Term Debt	—	—
Total Liabilities	50	139
Total Equity	155	163

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	13.7	—	26.0
Forward P/E	8.9	—	—	16.0
Price/Cash Flow	17.1	—	6.3	6.7
Price/Free Cash Flow	84.0	—	-94.3	17.5
Dividend Yield %	—	—	4.1	2.1
Price/Book	2.2	—	1.2	2.1
Price/Sales	1.5	—	0.9	1.2
PEG Ratio	0.4	—	—	1.8

Morningstar Rating Last Price 10.85 Fair Value Uncertainty Economic Moat™ Stewardship Grade



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	Stock Performance
—	—	—	—	—	—	—	9.0	120.7	-67.8	152.3	Total Return %
—	—	—	—	—	—	—	-4.6	117.2	-29.3	134.2	+/- Market
—	—	—	—	—	—	—	-24.5	-33.6	-33.2	143.1	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
—	—	—	—	—	—	39	42	93	145	366	Market Cap USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
—	—	—	—	—	—	—	—	—	265	256	Revenue USD Mil
—	—	—	—	—	—	—	—	—	13.9	14.4	Gross Margin %
—	—	—	—	—	—	0	-1	—	28	25	Oper Income USD Mil
—	—	—	—	—	—	—	—	—	10.6	10.0	Operating Margin %
—	—	—	—	—	—	0	0	—	29	27	Net Income USD Mil
—	—	—	—	—	—	0.02	0.01	—	0.94	0.79	Earnings Per Share USD
—	—	—	—	—	—	0.00	0.00	—	0.00	0.00	Dividends USD
—	—	—	—	—	—	4	7	20	30	34	Shares Mil
—	—	—	—	—	—	3.58	3.59	4.47	4.61	4.85	Book Value Per Share USD
—	—	—	—	—	—	0	-1	—	-22	22	Oper Cash Flow USD Mil
—	—	—	—	—	—	—	—	—	-24	-17	Cap Spending USD Mil
—	—	—	—	—	—	—	—	—	-46	4	Free Cash Flow USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
—	—	—	—	—	—	—	—	—	—	11.4	Return on Assets %
—	—	—	—	—	—	—	—	—	—	18.4	Return on Equity %
—	—	—	—	—	—	—	—	—	10.8	10.7	Net Margin %
—	—	—	—	—	—	—	—	—	—	1.07	Asset Turnover
—	—	—	—	—	—	—	—	—	—	—	Financial Leverage

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	06-09	Financial Health
—	—	—	—	—	—	31	31	—	97	99	Working Capital USD Mil
—	—	—	—	—	—	—	—	—	—	—	Long-Term Debt USD Mil
—	—	—	—	—	—	25	25	—	155	163	Total Equity USD Mil
—	—	—	—	—	—	—	—	—	—	—	Debt/Equity

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
—	—	—	—	—	—	—	—	—	4.6	13.7	Price/Earnings
—	—	—	—	—	—	—	—	—	0.4	0.7	P/E vs. Market
—	—	—	—	—	—	—	—	—	0.5	1.5	Price/Sales
—	—	—	—	—	—	1.6	1.7	3.0	0.9	2.2	Price/Book
—	—	—	—	—	—	—	—	—	—	17.1	Price/Cash Flow

Quarterly Results	Revenue USD Mil			
	Sep 08	Dec 08	Mar 09	Jun 09
Most Recent Period	85.4	81.4	31.2	57.5
Prior Year Period	—	—	32.3	65.7
Rev Growth %	Sep 08	Dec 08	Mar 09	Jun 09
	—	—	-3.5	-12.5
Most Recent Period	—	—	—	—
Prior Year Period	—	—	—	—
Earnings Per Share USD	Sep 08	Dec 08	Mar 09	Jun 09
	—	—	0.04	0.14
Most Recent Period	—	—	—	—
Prior Year Period	-0.01	—	—	—

Industry Peers by Market Cap	Mkt Cap USD Mil			
	Rev USD Mil	P/E	ROE%	
A-Power Energy Gener	366	256	13.7	18.4
Enersis SA	—	—	—	—
China Yangtze Power	—	—	—	—

Major Fund Holders	% of shares	
Satuit Capital Micro Cap	—	0.22
DWS Small Cap Growth A	—	0.19
Principal SmallCap Growth II Inst	—	0.07

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
PROPPER KERRY	Secretary,Chief Executive Officer, Director	222,000	02 Aug 2005	-
ZHANG LI	Executive Vice President,Director	151,013	02 Aug 2005	-
HUANG JIANGNAN	Chairman Of Board,Director	151,013	02 Aug 2005	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Satuit Capital Micro Cap	QQQQQ	0.22	1.11	74	31 Jul 2009
DWS Small Cap Growth A	Q	0.19	0.70	63	30 Jun 2009
Principal SmallCap Growth II Inst	QQ	0.07	0.05	-68	31 Aug 2009
MassMutual Select Emerging Growth S	QQ	0.07	0.78	-2	31 May 2009
TFS Market Neutral	QQQQQ	0.05	0.03	13	31 May 2009
Concentrated Holders					
Gabelli SRI Green A		0.03	2.35	10	30 Jun 2009
Satuit Capital Micro Cap	QQQQQ	0.22	1.11	74	31 Jul 2009

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Satuit Capital Micro Cap	QQQQQ	0.22	1.11	74	31 Jul 2009
DWS Small Cap Growth A	Q	0.19	0.70	63	30 Jun 2009
TFS Market Neutral	QQQQQ	0.05	0.03	13	31 May 2009
Gabelli SRI Green A		0.03	2.35	10	30 Jun 2009
Allegiant Multi-Factor Small Cap Gr A	QQ	0.01	0.34	2	30 Jun 2009
Top 5 Sellers					
Principal SmallCap Growth II Inst	QQ	0.07	0.05	-68	31 Aug 2009
MassMutual Select Emerging Growth S	QQ	0.07	0.78	-2	31 May 2009

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Sector Utilities

Industry Focus: Utilities

Ryan McLean
 Stock Analyst

Recession-battered customers have drastically cut power consumption.

A Ticking Time Bomb in Utility Earnings?

23 July 2009

With the economy in a tailspin, utility customers have flipped the "off" switch. While lower power consumption bodes ill for all utilities, some will fare worse than others. We think those that depend heavily on industrial users--the most economically sensitive customer class--could see precipitous declines in usage and, consequently, in earnings.

In this piece we'll highlight some of the utilities we think are most at risk in today's economy. We'll also identify those that, thanks to an attractive customer makeup, look better-positioned to weather the storm this quarter and beyond.

Customer Contrasts

Utilities sell power to three customer groups, in order of increasing price sensitivity: residential, commercial, and industrial. Residential customers are the least price-sensitive for three reasons. First, they are highly fragmented and, as such, tend to be less organized. They may exert pressure through consumer advocacy and regulatory bodies, but the vast majority of residential customers are not

involved in setting rates. Second, electricity represents both an essential and proportionally small household expenditure, making it a low-profile target for budget cutbacks (in contrast to, say, a family vacation). Third, most homes still lack any mechanism for monitoring power prices, leaving consumers oblivious to the actual cost of power at a given moment. For these reasons, residential accounts are generally a resilient and profitable source of utility income. For every kilowatt-hour of power sold to a residential customer, the average utility collects 12 cents in revenue.

Industrial customers, on the other hand, are organized and vocal when it comes to setting rates. Power consumption is typically a major expense item in their operating budgets. They are more attuned, and hence reactive, to changing power prices. For every kilowatt-hour of power sold to an industrial customer, the average utility collects just 7 cents in revenue. Commercial customers--comprising nonindustrial firms, hospitals, and the like--fall somewhere in the middle, providing 10 cents in revenue for every unit of power sold.

All else equal, we view utilities that rely heavily on industrial sales as less attractive even in a favorable economic environment. This reliance becomes a still-greater liability during a cyclical downturn; manufacturers tend to cut the lights first and keep them off longest. Concentration of demand adds further risk. In some cases, the closure of a single factory can meaningfully impact a utility's bottom line.

Industrial Demand Off a Cliff

As demand for power marched ever-upward over the years, regulated utilities became known for their steady, if not racy, earnings growth. But in recent months they have experienced an abrupt reversal of fortunes. Total volume sales among the utilities we cover plunged an average of 4.3% in the first quarter. Industrial customers led the pack, slashing usage by a staggering 12%. Only on a handful of occasions over the past six decades have we witnessed such a steep drop in demand. Residential customers, conversely, displayed predictable price inelasticity:

Regulated Utilities with the Greatest Exposure to Industrial Customers	
Company	% of Volume Sales to Industrial Customers*
NiSource NI	53
Alliant LNT	47
Vectren Corporation VVC	45
Entergy ETR	38
American Electric Power AEP	37
Hawaiian Electric HE	37
Exelon EXC	34
CMS Energy CMS	33
Southern Company SO	33
Cleco CNL	32

*Based on 2008 MWh sales.

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Industry Focus: Utilities

consumption in this group declined a mere 0.3%. Sales volumes matter greatly to utilities because of their largely fixed cost structure; any decline in revenues is amplified on the bottom line.

Given preliminary data and the absence thus far of an economic turnaround, we suspect that second-quarter numbers, when they are released in the coming weeks, will look every bit as ugly. We also suspect they will vary widely by utility. To sift out those utilities in possible danger, we ranked our coverage universe by customer breakdown. Following are the 10 regulated utilities with the greatest exposure to industrial customers:

By comparison, the average regulated utility in our coverage universe relies on industrial customers for just one quarter of its sales. Assuming industrial sales fall at a similar pace in the second quarter as in the first, total revenues could decline by over 5% among the most industry-reliant utilities. And because of operating leverage, this could translate into a 20% or greater collapse in profit.

We think NiSource NI and Vectren VVC are among the most vulnerable. While both companies' gas utilities

constitute a greater share of operating income than the electric utilities, the recession has hit their Indiana service territories more than almost anywhere else in the nation, with overall usage down over 12% in the first quarter of this year.

A Few Bright Spots

There's good news for the discerning utility investor: A handful of firms are relatively well-positioned from a customer-quality standpoint. Here are the 10 utilities with the greatest residential exposure. For perspective, the average regulated utility sells only 36% of its power to residential customers.

While residential demand may hold up well in slow economic times, it is susceptible to other sources of volatility, such as regional weather. Hot summers and cold winters tend to lift demand, while mild conditions do the opposite. And as we have seen recently with Florida utilities FPL Group FPL, TECO Energy TE, and Progress Energy PGN, housing booms and busts can strongly impact residential demand.

Customer Makeup: One Factor of Many

We emphasize that customer composition is but one piece of the investment puzzle. Other variables, including regulatory structure, management, and growth opportunities, also shape a utility's investment merit. For certain companies, such as Southern Company SO and American Electric Power AEP, we believe such variables compensate for their less-desirable customer profiles. Similarly, we think demand headwinds are more than discounted in the current share prices of some firms, notably Exelon EXC and Entergy ETR.

Just as some utilities with high industrial exposure possess offsetting strengths, some of those with high residential exposure are lacking in other respects. Pinnacle West PNW, for example, has lost millions on ill-conceived real

Regulated Utilities with the Greatest Exposure to Residential Customers	
Company	% of Volume Sales to Residential Customers*
FPL Group FPL	51
Allegheny Energy AYE	47
Pinnacle West PNW	46
Consolidated Edison ED	48
TECO Energy TE	45
Portland General Electric Company POR	45
Progress Energy PGN	44
Northeast Utilities NU	42
Avista Corporation AVA	42
NV Energy NVE	42

*Based on 2008 MWh sales.

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estate ventures, while Portland General Electric (POR) is allowed a lower regulated return on equity than most of its peers.

The Bottom Line

Over time, demand for power should resume its upward trend. And regulators should eventually recompense utilities for their current struggles through higher future rates. Given the momentous severity of today's falloff in demand, however, we think some may be in for a rougher ride than others.

Morningstar analysts Travis Miller and Mark Barnett also contributed to this article.