

# Huaneng Renewables (958.HK)

## The layout in the southwest in future



Phillip Securities (Hong Kong) Ltd

Bloomberg | Reuters | POEMS

Phillip Securities Research

958.HK | 958.HK | 958.HK

Industry: New energy

2014-04-10

Rating: Buy, CP: HK\$2.64, TP:HK\$3.19

### Introduction of the company

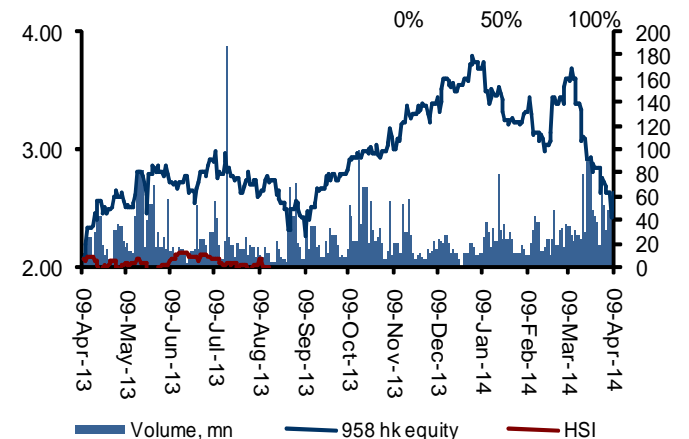
By capacity, the company as wind power operator ranks the third domestically and the seventh globally. In June 10th, 2011, the company went public in Hong Kong Stock Exchange. The dominant shareholder, China Huaneng Group, as an electricity generating company, ranks the first domestically and the second globally.

### Summary

- The Company's revenue achieved to RMB5.8 billion in 2013, up 44.0% y-y, operating profit was RMB2.73 billion, increased by 25.5% y-y, and net profit attributable to the equity holders of the company grew 56.9% y-y to RMB0.89 billion, with the EPS of RMB10.37 cents, and the DPS of RMB0.02 cents, lower than our expectation.
- The total power generation increased by 32.6% y-y to 11,143 GWh, with over 99% of wind power generation, and solar power generation also achieved to 1,198.4 MWh. The growths all exceeded 50% in Inner Mongolia, Shanxi, Guizhou and Shaanxi mainly due to the mitigated grid congestion in Inner Mongolia and the increase of installed capacity in the other three provinces.
- The annual average utilization hours of the Company's wind farms reached 2,029 hours, large increase compared with 1,774 hours in 2012, but lower than the national average of 2,074 hours, the Company's efficiency was close to the national average in recent years.
- The Company's installed capacity grew by 1,093.5 MW, including wind power projects of 763.5 MW, solar projects of 330 MW and a total of 6,220.9 MW wind power installed capacity. Newly added wind power installment mainly located at Shanxi, Guizhou and Xinjiang with high generation efficiency, and newly added solar power installment mainly located at Gansu and Qinghai with rich solar resource.
- The Company gained the most wind power projects in the Twelfth Five-year Plan announced by National Energy Administration (NEA) in the third and fourth round, exceeded Longyuan and Datang. Total installed capacity of the approved projects in the third round was 1,631 MW and 97% of the capacity located at no-power brownouts areas. The capacity achieved to 1,915 MW in the fourth round, 92% of the capacity located at no-power brownouts areas. The utilization hours of wind power will again exceed the national average benefited from the operations of these high effective projects.

### SATS Ltd

<b>Rating</b>	<b>1.00</b>	<b>Buy</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (HKD)</b>	<b>3.19</b>	
- Previous Target Price (HKD)	3.27	
Closing Price (HKD)	2.64	
Expected Capital Gains (%)	20.8%	
Expected Dividend Yield (%)	1.4%	
<b>Expected Total Return (%)</b>	<b>22.3%</b>	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	23,837	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	2.05 - 3.87	
Closing Price in 52 week range		



### Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Operating Profit (RMB 000)	2,172,385	2,727,318	3,655,382	4,326,875
Net Profit, adj. (RMB 000)	557,940	887,603	1,287,653	1,453,310
EPS, adj. (RMB)	0.07	0.10	0.15	0.17
P/E (X)	30.2	21.1	14.1	12.4
BVPS (RMB)	1.40	1.62	1.68	1.78
P/B (X)	1.5	1.3	1.3	1.2
DPS (RMB)	0.02	0.02	0.03	0.03
Div. Yield	1.0%	1.0%	1.4%	1.4%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Valuation Method

PE

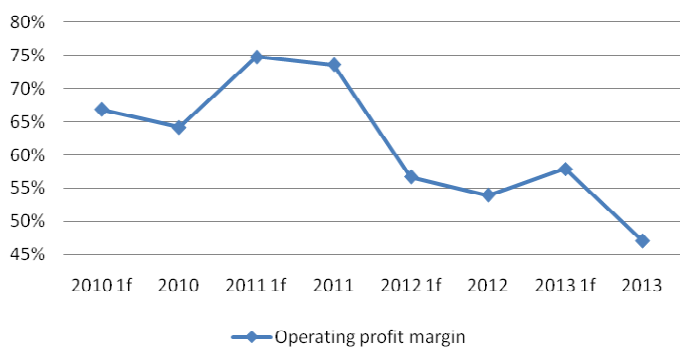
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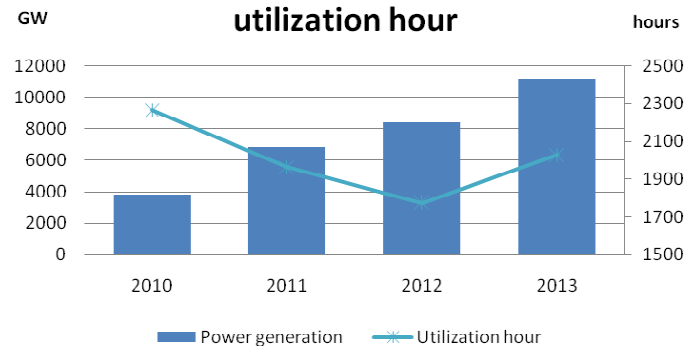
- A Under the combined influence from nonrecurring items, the company's real profitability is slightly underestimated. The company's liabilities were not serious compared with the peers, total liabilities to total assets ratio decreased continually after 2012, and currently, it recorded net cash with the amount of RMB6.265 billion, which has full capability to develop and construct the large-scale projects.
- The Company gained large-scale projects in 2013, much more than that of Longyuan and Datang, therefore the installed capacity will increase sharply in the next two years, and we estimate the average capacity would achieve to 2 GW, some of them are photovoltaic projects, and newly added projects mostly situated in regions with favorable on-grid access, the Company's generating efficiency will be further increased. Considering the valuations of Longyuan Power (916.HK) and Datang Renewable Power (1798.HK), there is an accelerated growth of the Company's development in future with stronger profitability, and the Company will hold the leading position among the largest three wind power operators. We estimate the Company's target price would be HK\$3.19, equivalent to 17/15xP/E2014/2015E, and recommend 'Buy' rating.

**Fig 1. Operating profit margin**



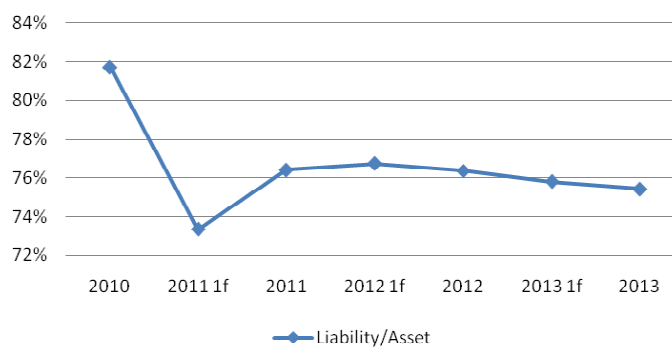
Source: PSR, Company Report

**Fig 2. Power generation and utilization hour**



Source: PSR, Company Report

**Fig 3. Liability/Asset**



Source: PSR, Company Report

**Chart 1. Utilization capacity growth rate in 2013**

	2012	2013	Growth rate
Liaoning	1098	1197	9.02%
Shandong	793.7	892.7	12.47%
Yunnan	424.5	472.5	11.31%
Shanxi	396	594	50.00%
Hebei	249	271.5	9.04%
Guizhou	282	480	70.21%
Xinjiang	99	198	100.00%

Source: PSR, Company Report

**Chart 2. New projects in the third and fourth round of Twelfth Five-year Plan**

	New projects(MW)	Utilization hours	Brownout rate
Hebei	295	2021	16.59%
Liaoning	213	1934	5%
Shanghai	95.5	2282	0
Shandong	144.5	2008	0
Hubei	49.5	2167	0
Guangdong	99.3	1900	0
Sichuan	390.5	2415	0
Guizhou	386.5	2060	0
Yunnan	348.5	2388	3.68%
Shaanxi	400	2090	2.96%
Xinjiang	144.5	2582	5.23%
Shanxi	449.5	2220	0
Chongqing	290	2185	0
Guangxi	148.5	2100	0

Source: PSR, Company Report

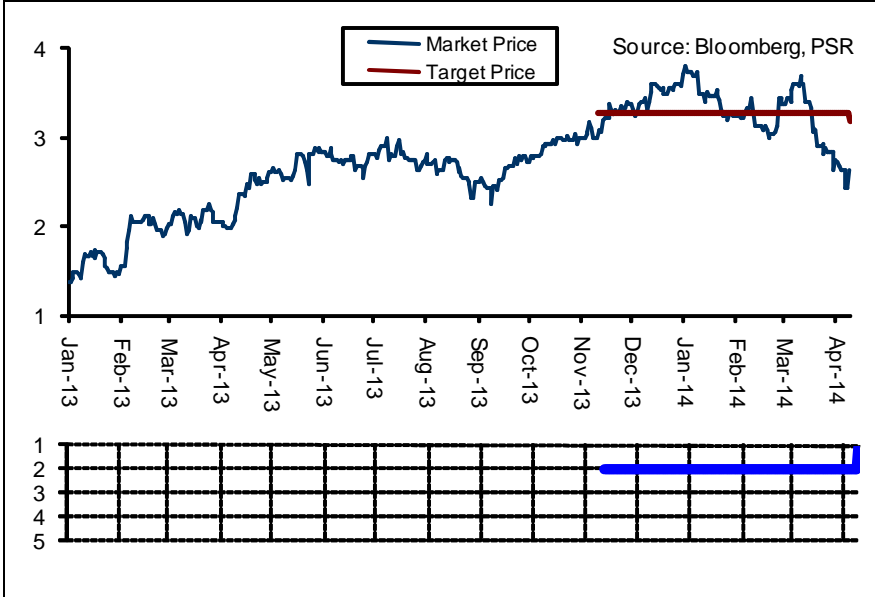
## Financial Status

For Financial Summary at the end of report

FYE	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X)	15.1	30.2	21.1	14.1	12.4
P/B (X)	1.4	1.5	1.3	1.3	1.2
Dividend Payout ratio	0.00%	28.57%	20.00%	20.00%	17.65%
Dividend Yield	0.00%	0.95%	0.95%	1.42%	1.42%
<b>Per share data (RMB)</b>					
EPS, reported	0.14	0.07	0.10	0.15	0.17
EPS, adj.	0.14	0.07	0.10	0.15	0.17
DPS	0.00	0.02	0.02	0.03	0.03
BVPS	1.56	1.40	1.62	1.68	1.78
<b>Growth</b>					
Revenue	80.7%	26.0%	44.0%	23.7%	19.7%
Operating income	107.3%	-7.6%	25.5%	34.0%	18.4%
Net Income, adj.	93.7%	-45.5%	59.1%	45.1%	12.9%
<b>Key Ratios</b>					
Current ratio	63.99%	64.14%	50.69%	38.30%	30.42%
Gross profit margin	73.58%	53.95%	47.04%	50.96%	50.41%
Net profit margin	32.01%	13.86%	15.82%	18.44%	17.43%
Return on average assets	2.41%	1.06%	1.71%	1.34%	1.62%
Return on average equity	11.19%	4.49%	7.07%	6.10%	8.43%
Liability/asset	76.40%	76.37%	75.42%	78.94%	81.36%
<b>Income statement (thousand RMB)</b>					
Operating revenue	3,195,932	4,026,904	5,797,548	7,172,755	8,582,919
Other income	682,522	189,542	78,735	94,482	113,378
Administrative expenses	(117,765)	(126,793)	(146,292)	(168,236)	(193,471)
Depreciation and amortization	(1,169,281)	(1,612,031)	(1,931,493)	(2,510,941)	(3,138,676)
Labor cost	(117,950)	(151,002)	(205,321)	(255,321)	(305,321)
Maintenance cost	(29,925)	(50,355)	(90,995)	(136,493)	(191,090)
Other cost	(92,076)	(103,880)	(774,864)	(540,864)	(540,864)
<b>Operating profit</b>	<b>2,351,457</b>	<b>2,172,385</b>	<b>2,727,318</b>	<b>3,655,382</b>	<b>4,326,875</b>
Interest income	47,765	98,749	211,073	108,623	108,623
Interest expense	(1,260,124)	(1,640,527)	(1,951,194)	(2,341,433)	(2,809,719)
<b>Profit before tax</b>	<b>1,139,098</b>	<b>630,607</b>	<b>984,194</b>	<b>1,422,572</b>	<b>1,625,779</b>
Income tax	(32,277)	(29,523)	(67,142)	(99,580)	(130,062)
Effective income tax rate	2.83%	4.68%	6.82%	7.00%	8.00%
<b>Net profit for the period</b>	<b>1,106,821</b>	<b>601,084</b>	<b>917,052</b>	<b>1,322,992</b>	<b>1,495,717</b>
Minority interest	83,794	43,144	29,449	35,339	42,407
<b>Net profit attributable to equity holders</b>	<b>1,023,027</b>	<b>557,940</b>	<b>887,603</b>	<b>1,287,653</b>	<b>1,453,310</b>
Dividend paid	0	126,703	171,235	214,044	214,044
<b>Balance Sheet (thousand RMB)</b>					
Cash or cash equivalent	7,517,988	5,468,725	6,265,421	5,012,337	4,009,870
Account receivable	2,010,495	3,302,640	2,908,091	3,198,900	3,518,790
Inventory	2,086	4,070	4,254	4,254	4,254
Other current assets	643,752	770,511	576,353	633,988	697,387
PPE	36,956,402	39,859,069	45,598,874	59,278,536	74,098,170
Intangible assets	381,390	363,511	702,992	702,992	702,992
Other non-current assets	4,018,583	3,930,395	3,742,035	3,742,035	3,742,035
<b>Total Assets</b>	<b>51,530,696</b>	<b>53,698,921</b>	<b>59,798,020</b>	<b>72,573,042</b>	<b>86,773,498</b>
Cash payable	8,838,884	6,213,566	8,435,223	9,278,756	10,206,632
Short term loan	6,758,833	8,276,387	10,388,910	13,388,910	16,388,910
Other current liability	301,060	391,991	417,941	438,838	460,780
Long term loan	19,257,069	22,004,758	22,605,652	30,605,652	39,605,652
Other non-current liability	4,215,409	4,120,920	3,253,352	3,578,687	3,936,556
<b>Total Liabilities</b>	<b>39,371,255</b>	<b>41,007,622</b>	<b>45,101,078</b>	<b>57,290,843</b>	<b>70,598,530</b>
Shareholders' equity	11,331,519	11,820,042	13,860,809	14,404,259	15,253,132
Minority interest	827,922	871,257	836,133	877,940	921,836
<b>Total shareholders' equity</b>	<b>12,159,441</b>	<b>12,691,299</b>	<b>14,696,942</b>	<b>15,282,199</b>	<b>16,174,968</b>
Total shareholders' equity and liabilities	51,530,696	53,698,921	59,798,020	72,573,042	86,773,498

Source: PSR

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Source: PSR, Bloomberg

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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