

China Suntien Green Energy (956.HK)

Stable growth with moderate expansion



Phillip Securities (Hong Kong) Ltd

Bloomberg | Reuters | POEMS

Phillip Securities Research

956.HK | 956.HK | 956.HK

Industry: New energy

2014-05-27

Rating: Accumulate, CP: HK\$2.85, TP: HK\$3.30

Introduction of the company

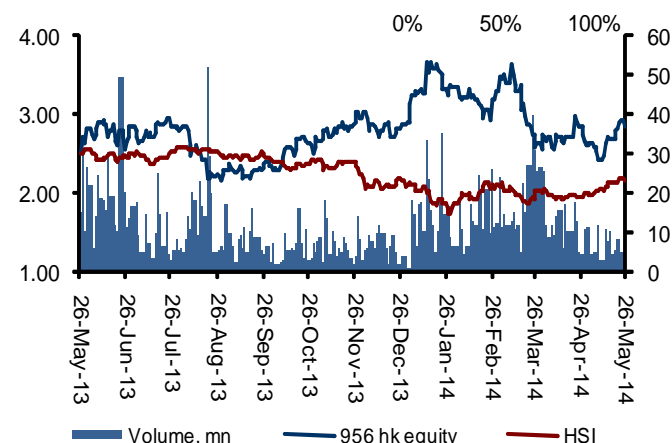
The Company was jointly established in February 2010 with contribution by HECIC, and it focuses on the sales of natural gas and the development and utilization of wind power in Hebei Province, meanwhile, it is also specialized in the development of other new energy technology. The Company was listed in the Hong Kong Stock Exchange in October 2010.

Summary

- The Company's annual revenue amounted to RMB4.66 billion, up 25.9% y-y, benefited from the sales growth of natural gas and the increase of wind power generating capacity. Net profit reached to RMB460 million, down 16.4% y-y, which was mainly because of the large decrease of net CERs income and the increase of income tax, the profit was lower than our expectation.
- The Company's sales volume of natural gas increased by 19% y-y to 1,484 million cubic meters, and newly added industrial and residential users increased by 21% and 33% y-y respectively, the retail business increased faster while the wholesale business grew stably.
- The power generation of the Company's wind farms reached to 2,927 million KWh in 2013, up 15.8% y-y. Abandoning rate trended to go down nationwide except Hebei Province, representing the effects of the growth of power constraints due to the accelerated construction of new wind power projects. We believe the utilization hours of the Company in 2014 will be lower than that of 2013.
- The construction of the Company's natural gas projects goes smoothly, besides the pipeline construction, there are 2 CNG primary filling stations, 2 CNG refilling stations and 1 LNG refilling station have commenced. The Company has 7 projects in the fourth approved list of the Twelfth Five-year Plan with the amount of 485MW, and Sichuan, Guangxi, and Xinjiang each have one project besides Hebei, and the Company will do the preparations for the preliminary stage of wind power projects in Shandong, Yunnan, and Henan, which means the Company starts to expand the wind power business not only in Hebei but also in the whole country.

SATS Ltd

Rating	2.00	Accumulate
- Previous Rating	2.00	Accumulate
Target Price (HKD)	3.30	
- Previous Target Price (HKD)	3.56	
Closing Price (HKD)	2.85	
Expected Capital Gains (%)	15.8%	
Expected Dividend Yield (%)	1.3%	
Expected Total Return (%)	17.1%	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD bn)	10,588	
Enterprise Value (HKD mn)	N/A	
52 week range (HKD)	2.12 - 3.86	
Closing Price in 52 week range		



Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Operating Profit (RMB 000)	1,067,124	1,216,282	1,390,411	1,633,405
Net Profit, adj. (RMB 000)	549,701	459,516	522,471	659,463
EPS, adj. (RMB)	0.17	0.14	0.14	0.18
P/E (X)	13.5	16.4	16.4	12.8
BVPS (RMB)	1.70	1.82	2.17	2.41
P/B (X)	1.4	1.3	1.1	1.0
DPS (RMB)	0.02	0.05	0.03	0.04
Div. Yield	0.9%	2.2%	1.3%	1.7%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

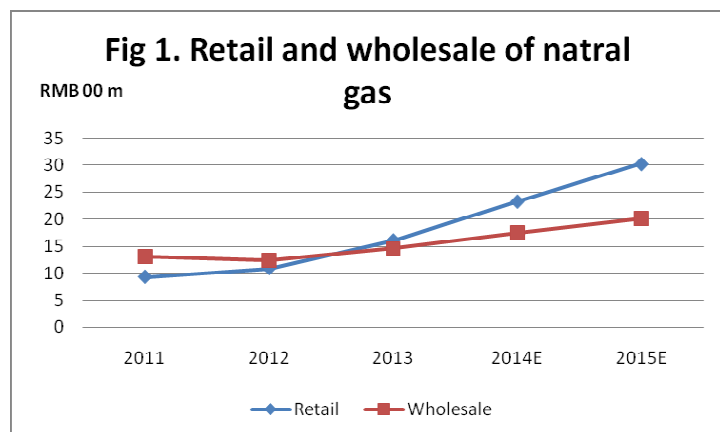
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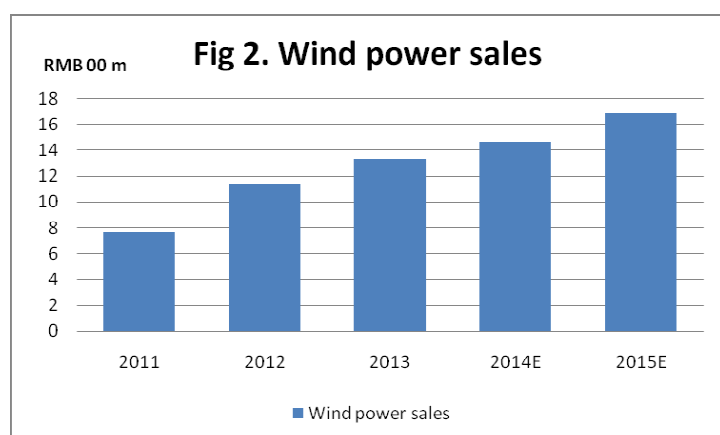
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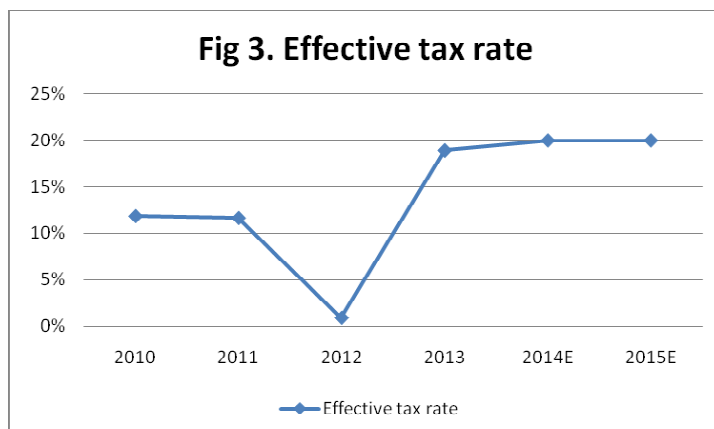
- The Company's income tax amounted to RMB158 million in 2013 with the effective tax rate of 18.9%, compared with RMB7 million with the tax rate of 0.92% in 2012, which was mainly because of the expiration of the preferential policies of the Company's natural gas projects, the tax rate will increase to 25%, and there are no duty free treatment for 3 wind farms any more. The income tax rate may continue to go up considering the expiration of the preferential policies of the Company's projects in future.
- Overall, the Company's businesses developed stably, both the sales of natural gas and the wind power operation business maintained the growth between 15% to 20%, and there is stronger consumption demand of natural gas in future due to the industrial structural adjustment in Hebei Province, but the Company also faces the risks in the decrease of wind power utilization hours and the income tax growth. We combine the valuation of the companies in both wind power operation and natural gas sales, give the Company's 12-month target price to HK\$3.30, equivalent to 19/15xP/E in 2014E/2015E respectively, and recommend Accumulate rating.



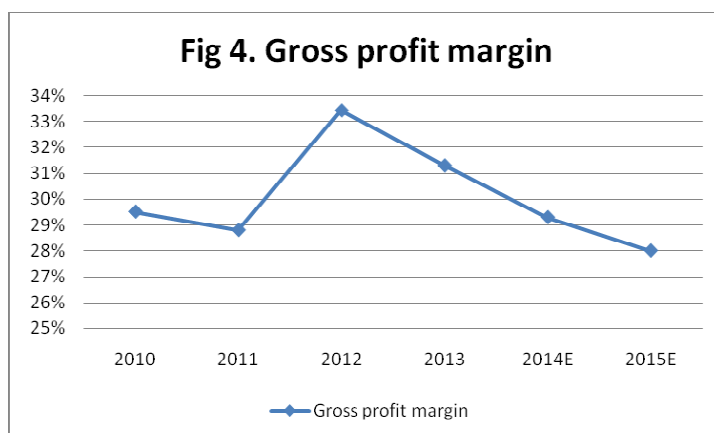
Source: PSR, Company Report



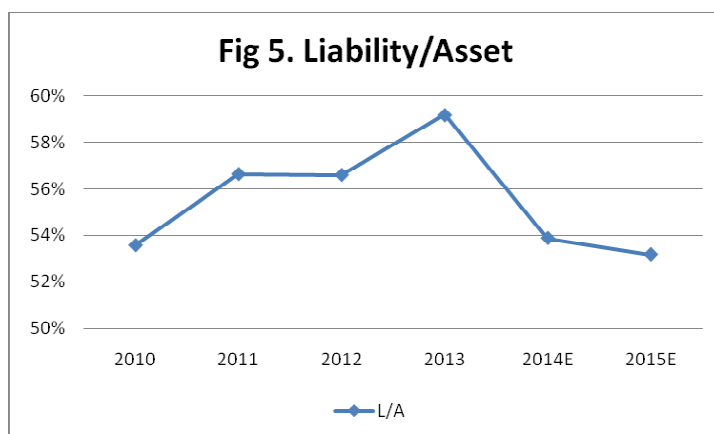
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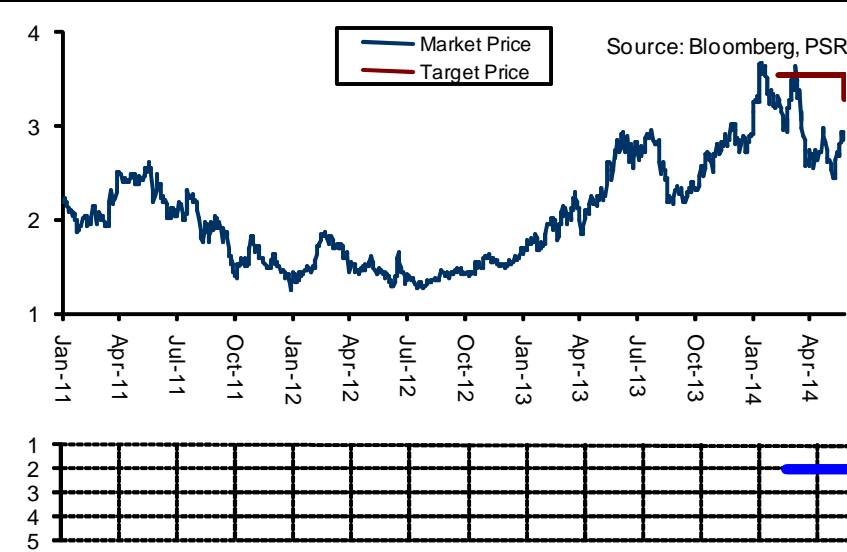
Financial Status

For Financial Summary at the end of report

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	16.4	13.5	16.4	16.4	12.8
P/B (X)	1.4	1.4	1.3	1.1	1.0
Dividend Payout ratio	42.86%	11.76%	35.71%	21.43%	22.22%
Dividend Yield	2.61%	0.87%	2.18%	1.31%	1.74%
Per share data (RMB)					
EPS, reported	0.14	0.17	0.14	0.14	0.18
EPS, adj.	0.14	0.17	0.14	0.14	0.18
DPS	0.06	0.02	0.05	0.03	0.04
BVPS	1.59	1.70	1.82	2.17	2.41
Growth					
Revenue	41.3%	16.8%	25.9%	23.2%	22.4%
Operating income	43.7%	22.2%	14.0%	14.3%	17.5%
Net Income, adj.	60.5%	22.5%	-16.4%	13.7%	26.2%
Key Ratios					
Current ratio	107.61%	106.44%	113.79%	87.22%	89.18%
Gross profit margin	28.80%	33.45%	31.31%	29.30%	28.00%
Net profit margin	14.16%	14.85%	9.86%	9.10%	9.39%
Return on average assets	3.48%	3.75%	2.71%	2.77%	3.10%
Return on average equity	8.96%	10.20%	7.66%	7.44%	7.74%
Liability/asset	56.65%	56.61%	59.19%	53.88%	53.17%
Income statement (thousand RMB)					
Operating revenue	3,169,831	3,702,079	4,660,919	5,740,337	7,024,688
Cost of good sell	(2,256,982)	(2,463,732)	(3,201,802)	(4,058,418)	(5,057,775)
Gross profit	912,849	1,238,347	1,459,117	1,681,919	1,966,913
Other net profit	135,009	77,942	31,079	37,295	44,754
Administrative expenses	(151,956)	(194,523)	(238,549)	(286,259)	(329,198)
Selling expenses	(664)	(505)	(1,060)	(1,378)	(1,723)
Other cost	(22,068)	(54,137)	(34,305)	(41,166)	(47,341)
Operating profit	873,170	1,067,124	1,216,282	1,390,411	1,633,405
Investment income	72,539	89,937	39,912	51,886	51,886
Interest expense	(244,924)	(353,623)	(423,890)	(466,279)	(489,593)
Profit before tax	700,785	803,438	832,304	976,018	1,195,698
Income tax	(81,797)	(7,415)	(157,502)	(195,204)	(239,140)
Effective income tax rate	11.67%	0.92%	18.92%	20.00%	20.00%
Net profit for the period	618,988	796,023	674,802	780,814	956,558
Minority interest	170,080	246,322	215,286	258,343	297,095
Net profit attributable to equity holders	448,908	549,701	459,516	522,471	659,463
Dividend paid	187,829	64,769	170,897	126,121	168,161
Balance Sheet (thousand RMB)					
Cash or cash equivalent	919,502	757,760	1,669,590	667,820	801,384
Account receivable	396,445	842,796	845,684	972,537	1,069,790
Inventory	24,685	29,959	42,608	42,608	42,608
Other current assets	621,858	600,792	564,861	621,347	683,482
PPE	7,713,222	8,602,374	10,180,269	13,743,363	15,117,699
Intangible assets	2,449,122	2,347,909	2,247,034	2,247,034	2,247,034
Other non-current assets	1,934,302	2,081,021	1,863,941	2,050,335	2,255,369
Total Assets	14,059,136	15,262,611	17,413,987	20,345,044	22,217,366
Cash payable	125,325	197,248	223,689	257,242	282,967
Short term loan	636,075	971,347	1,358,970	1,223,073	1,467,686
Other current liability	1,062,292	927,693	1,161,624	1,161,624	1,161,624
Long term loan	6,114,499	6,528,624	7,544,587	8,299,046	8,879,979
Other non-current liability	25,970	15,011	18,552	20,407	21,428
Total Liabilities	7,964,161	8,639,923	10,307,422	10,961,392	11,813,684
Shareholders' equity	5,205,785	5,567,657	5,965,580	8,071,519	8,960,336
Minority interest	889,190	1,055,031	1,140,985	1,312,133	1,443,346
Total shareholders' equity	6,094,975	6,622,688	7,106,565	9,383,652	10,403,682
Total shareholders' equity and liabilities	14,059,136	15,262,611	17,413,987	20,345,044	22,217,366

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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