

17 September 2014

Huaneng Renewables (958.HK)

Installed capacity continued to expand rapidly

Rating: **Buy**

HONG KONG | NEW ENERGY | COMPANY RESULTS

- The Group released its performance in the first half of the year 2014. In 2014, the Group realized a turnover of HK\$ 373 million, up by 68.68% year on year. The gross margins stood at HK\$235 million with the gross margin rate reaching 62.9%, or 0.9 percentage points higher than the same period of last year. Profits attributable to shareholders were HK\$179 million, growing by 99.8% year on year. EPS was HK\$0.13 and mid-term dividends would not be distributed. The H1 performance was a little bit higher than expected, mainly because the Group finalized two large acquisitions in the first half of the year 2014.
- In the first half of the year 2014, the Group realized HK\$177 million revenues from operations & service of sewage treatment, growing by 44.7% year on year. The scale of sewage treatment in the first half of this year reached 475,000 cubic meters, increasing by 110,000 cubic meters from the end of 2013.
- In The first half of the year 2014, the Group realized HK\$96 million of revenues from its sludge business. As a new business of the Group, the sludge business, within half a year, has become the second largest business of the Group only after the sewage treatment. At present, the Group has 693,000-ton sludge treatment capacity.
- We believe the Group has sufficient fund to carry out or purchase new projects. At present, the Group has HK\$246 million in cash. When its debt ratio reached 65% of that at the end of 2012, the Group can still obtain HK550 million of loans.

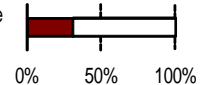
Target Price (HKD)	3.54
Forecast Dividend (HKD)	0.03
Closing Price (HKD)	2.70
Potential Upside	32.5%

Company Description

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.

Company Data

Market Cap. (HKD bn)	24,379
Enterprise Value (HKD mn)	N/A
52 week range (HKD)	2.16 - 3.87
Closing Price in 52 week range	

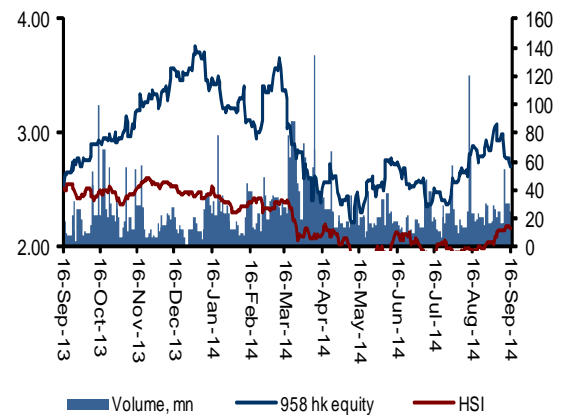


Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Operating Profit (RMB 000)	2,172,385	2,727,318	3,442,131	4,850,364
Net Profit, adj. (RMB 000)	557,940	887,603	1,289,423	1,964,814
EPS, adj. (RMB)	0.07	0.10	0.14	0.22
P/E (X)	30.9	21.6	15.4	9.8
BVPS (RMB)	1.40	1.62	1.60	1.69
P/B (X)	1.5	1.3	1.4	1.3
DPS (RMB)	0.02	0.02	0.03	0.03
Div. Yield	0.9%	0.9%	1.4%	1.4%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price



Major Shareholders

1 China Huaneng Group	61.30%
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Valuation Method

PE

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Profits increased slightly in 1H2014

The Company's revenue amounted to RMB2.996 billion, up 2.4% y-y, and net profit attributable to equity shareholders was RMB686 million, increased slightly by 2.9% y-y, with the EPS of RMB0.076, slower than our expectation. The Company's wind power generation decreased slightly compared with the same period of last year due to the poor wind condition, but still recorded good returns because of the improvement of cost control and the increase of electrovalence.

Installed capacity will increase in 2H

As at the end of 1H, the Company's total installed capacity of wind power plants reached to 6,320MW, up 99MW compared with the end of 2013, the newly added capacity was all in Yunnan Province, and the capacity of solar power plants recorded 400MW, increased by 70MW during the same period. Currently, the Company has projects of 2GW under construction, which would be put into operation in Oct, and the wind power capacity would reach to 8GW by the end of 2014, moreover, the Company is trying to expand new projects in areas where have no strict policies for abandoning wind power and power brownouts in recent years, therefore new projects will improve the Company's performance effectively.

The efficiency of power generation decreased

The utilization hours of the Company's wind power projects recorded 960 hours in 1H, declined largely compared with 1,096 hours in 1H2013, and according to areas, the largest decrease were in Shaanxi, Liaoning, Guizhou, and Shanxi, all dropped over 20%. The main reason was the poor wind condition in 1H, in fact, the situation of power grid transmission has improved obviously compared with the past, and the abandon rate of wind power decreased largely. We expect the utilization hours will increase in 2H, and maintain over 2,000 hours in the whole year.

On-grid tariff trends to go down

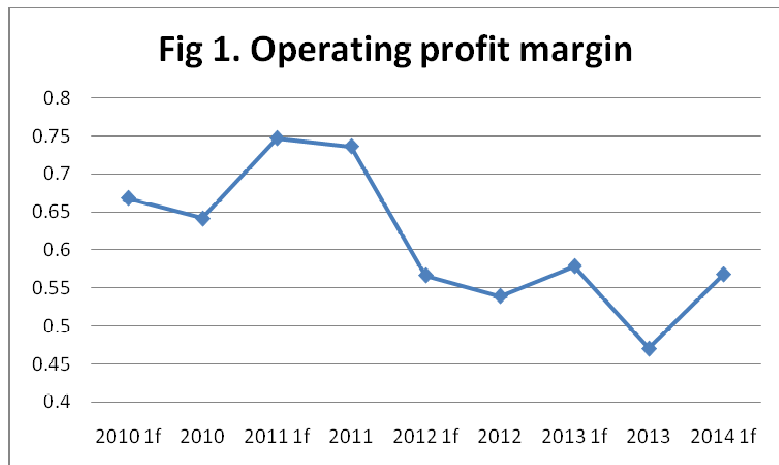
The cost of wind power projects is going down gradually due to the decrease of the price of wind turbine and the improvement of abandoning wind power and power brownouts. National Development and Reform Commission (NDRC) currently plans to decrease on-grid tariff of wind power, which would cut RMB0.02 - 0.04/kWh in different areas. The tariff trends to go down although the final plan has not been decided yet, therefore the profitability of wind power projects will decline in future.

Risks

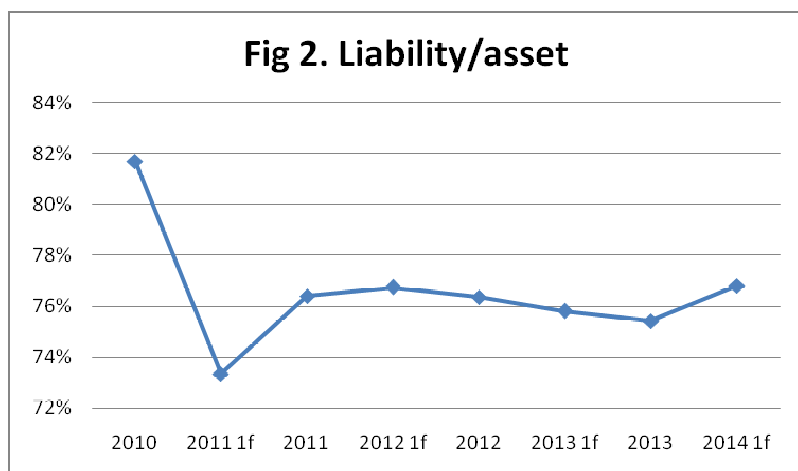
No improvement of wind condition in 2H
Delay of new projects

Valuation

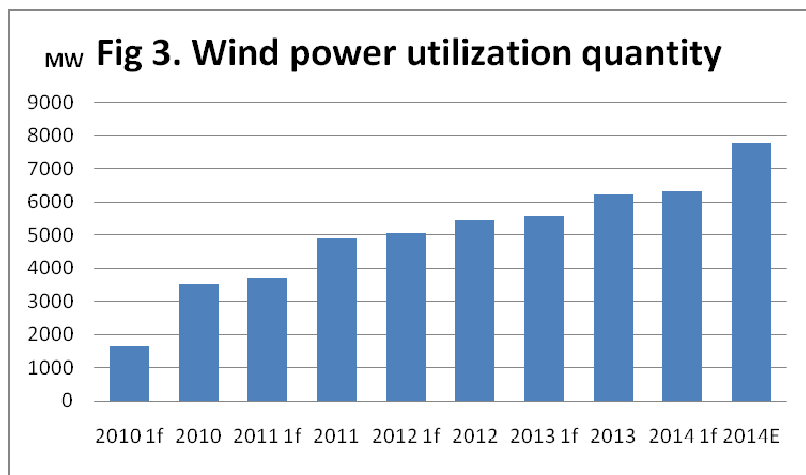
Although the Company's performance is lower than our expectation because of the issues of wind condition in 1H, it would be supported by the large scale of new projects in operation in 2H and the development of power grid environment. On-grid tariff trends to decrease, but it may be implemented after 2015, the Company's performance will not be affected in the next two years, we increase the Company's 12-month target price to HK3.54, equivalent to 13xP/E2015E, which is 'Buy' rating.



Source: PSR, Company Report



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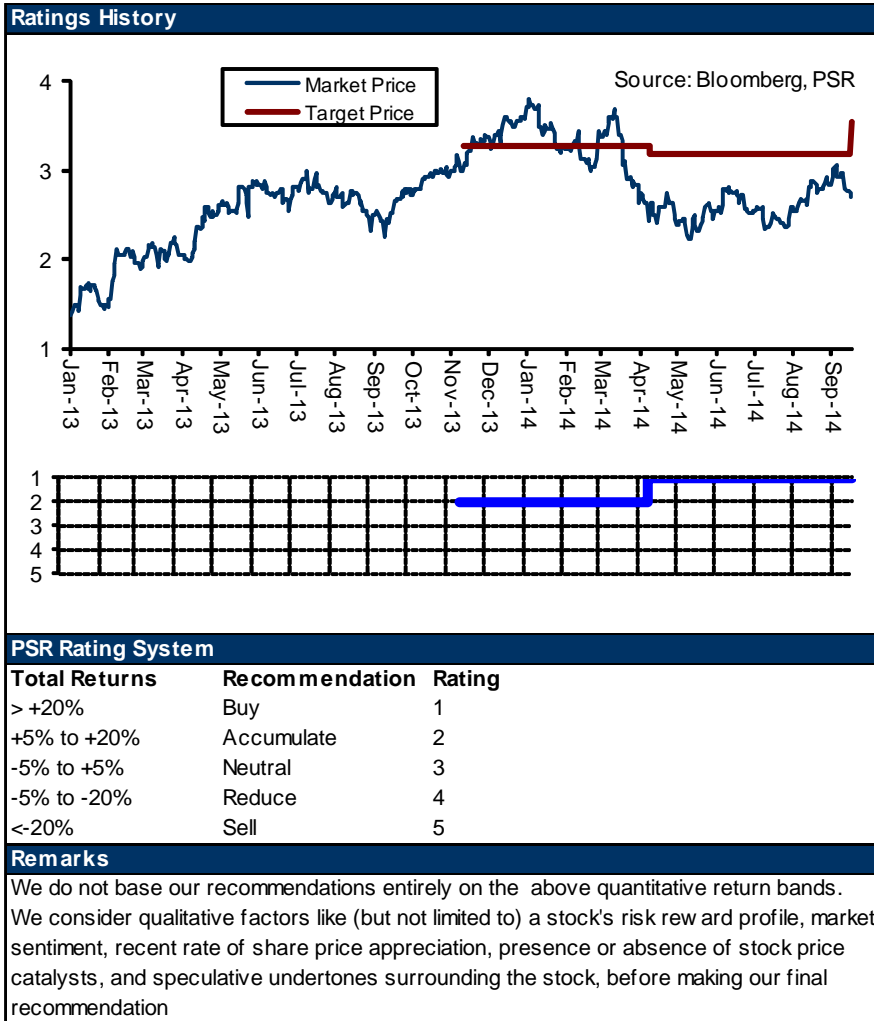


Source: PSR, Company Report

For Financial Summary at the end of report

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	15.4	30.9	21.6	15.4	9.8
P/B (X)	1.4	1.5	1.3	1.4	1.3
Dividend Payout ratio	0.00%	28.57%	20.00%	21.43%	13.64%
Dividend Yield	0.00%	0.93%	0.93%	1.39%	1.39%
Per share data (RMB)					
EPS, reported	0.14	0.07	0.10	0.14	0.22
EPS, adj.	0.14	0.07	0.10	0.14	0.22
DPS	0.00	0.02	0.02	0.03	0.03
BVPS	1.56	1.40	1.62	1.60	1.69
Growth					
Revenue	80.7%	26.0%	44.0%	18.5%	35.7%
Operating income	107.3%	-7.6%	25.5%	26.2%	40.9%
Net Income, adj.	93.7%	-45.5%	59.1%	45.3%	52.4%
Key Ratios					
Current ratio	63.99%	64.14%	50.69%	38.30%	30.42%
Gross profit margin	73.58%	53.95%	47.04%	50.08%	52.02%
Net profit margin	32.01%	13.86%	15.82%	18.76%	21.07%
Return on average assets	2.41%	1.06%	1.71%	1.95%	2.47%
Return on average equity	11.19%	4.49%	7.07%	9.12%	13.25%
Liability/asset	76.40%	76.37%	75.42%	78.94%	81.36%
Income statement (thousand RMB)					
Operating revenue	3,195,932	4,026,904	5,797,548	6,872,755	9,324,582
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)	(2,474,192)	(3,356,850)
Labor cost	(117,950)	(151,002)	(205,321)	(255,321)	(305,321)
Maintenance cost	(29,925)	(50,355)	(90,995)	(86,493)	(191,090)
Other cost	(92,076)	(103,880)	(774,864)	(540,864)	(540,864)
Operating profit	2,351,457	2,172,385	2,727,318	3,442,131	4,850,364
Interest income	47,765	98,749	211,073	108,623	108,623
Interest expense	(1,260,124)	(1,640,527)	(1,951,194)	(2,141,433)	(2,809,719)
Profit before tax	1,139,098	630,607	984,194	1,409,321	2,149,268
Income tax	(32,277)	(29,523)	(67,142)	(84,559)	(142,047)
Effective income tax rate	2.83%	4.68%	6.82%	6.00%	6.61%
Net profit for the period	1,106,821	601,084	917,052	1,324,762	2,007,221
Minority interest	83,794	43,144	29,449	35,339	42,407
Net profit attributable to equity holders	1,023,027	557,940	887,603	1,289,423	1,964,814
Dividend paid	0	126,703	171,235	270,876	270,876
Balance Sheet (thousand RMB)					
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
Total Assets	51,530,696	53,698,921	59,798,020	72,573,042	86,773,498
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
Total Liabilities	39,371,255	41,007,622	45,101,078	57,290,843	70,598,530
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
Total shareholders' equity	12,159,441	12,691,299	14,696,942	15,282,199	16,174,968
Total shareholders' equity and liabilities	51,530,696	53,698,921	59,798,020	72,573,042	86,773,498

Source: PSR



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

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

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