21 October 2014

China Suntien Green Energy（956.HK）

The short-term bad situation cannot stop the long-term development

PhillipCapital
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Phillip Securities (Hong Kong) Ltd

Rating: **Buy**

HONG KONG | NEW ENERGY | COMPANY RESULTS

- The Company gained the revenue of RMB2.568 billion in 1H2014, up 16.4% y-y, and net profit attributable to the shareholders of the Company amounted to RMB186 million, dropped 43.45% y-y largely, equivalent to the EPS of RMB0.05. The Company's incomes continued to increase, but profits declined largely due to the decrease of the incomes from wind power operation and the growth of expenses.
- The Company's sales volume of natural gas amounted to 772 million cubic meters, up 6.3% y-y, and the revenue achieved to RMB1.917 billion, increased by 30.5% y-y, but the operating expense grew largely 38.1% and caused the operating profit to decrease by 1.9% y-y. The gross margin was only 16.3%, down 5.6ppts y-y, besides the impact of the increase in the unit price of the gas, and the gross margin of the gas also dropped, the Company's cantango mechanism after the increase of the price of natural gas did not protect the stability of the unit gross margin effectively.
- The Company realized a power generation of 1,414 million kWh, down 12.17% y-y, and the utilization hours amounted to 1,047 hours, decreased by 265 hours compared with the same period of last year, which was because the bad situation of wind resources in 1H nationwide, and it should be better in 4Q as expected. Additionally, we expect the Company's new projects with the installed capacity of 230-250 MW would be put into operation in 4Q, the Company's wind power generation this year would close to the level of last year.
- The Company's share price declined from HK$3.5 at the beginning of this year to HK$1.9 currently, down almost 50%. This was mainly because the valuation of wind power continued to go down in the wind power industry, investors concern about the deterioration of power constraints due to the scramble of installation of wind power farms in regions, and the negative impact of the decrease of price per unit of wind power generated by the National Energy Administration, and the Company's interim results was lower than expectation. Currently all negative impacts are reflected in the share price, and the safety of purchasing is quite high.

Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Operating Profit (RMB 000)	1,067,124	1,216,282	1,290,411	1,528,034
Net Profit, adj. (RMB 000)	549,701	459,516	449,893	498,844
EPS, adj. (RMB)	0.17	0.14	0.12	0.14
P/E (X)	9.0	10.9	12.8	10.9
BVPS (RMB)	1.70	1.82	2.17	2.41
P/B (X)	0.9	0.8	0.7	0.6
DPS (RMB)	0.02	0.05	0.03	0.04
Div. Yield	1.3%	3.3%	2.0%	2.6%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

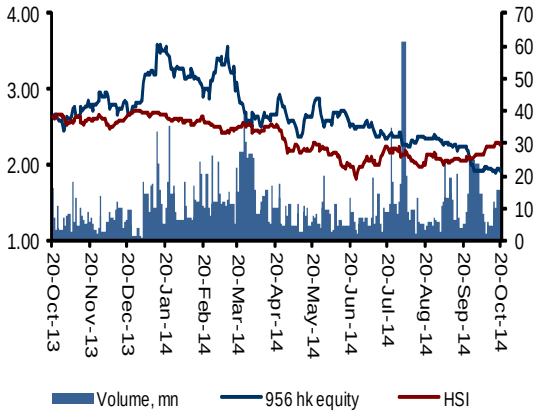
Target Price (HKD)	**2.33**
Forecast Dividend (HKD)	0.03
Closing Price (HKD)	1.93
Potential Upside	**22.7%**

Company Description

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.

Company Data

Market Cap. (HKD bn)	7,170
Enterprise Value (HKD mn)	N/A
52 week range (HKD)	1.85 - 3.86
Closing Price in 52 week range	0% 50% 100%



Major Shareholders

1 Hebei Construction & Investment Group Co., Ltd.	50.50%

Valuation Method

PE

Phillip Research
research@phillip.com.cn
+86 21 51699400-104

Profits declined sharply

The Company gained the revenue of RMB2.568 billion in 1H2014, up 16.4% y-y, and net profit attributable to the shareholders of the Company amounted to RMB186 million, dropped 43.45% y-y largely, equivalent to the EPS of RMB0.05. The Company's incomes continued to increase, but profits declined largely due to the decrease of the incomes from wind power operation and the growth of expenses.

Cantango mechanism did not protect gains effectively

The Company's sales volume of natural gas amounted to 772 million cubic meters, up 6.3% y-y, and the revenue achieved to RMB1.917 billion, increased by 30.5% y-y, but the operating expense grew largely 38.1% and caused the operating profit to decrease by 1.9% y-y. The gross margin was only 16.3%, down 5.6ppts y-y, besides the impact of the increase in the unit price of the gas, and the gross margin of the gas also dropped, the Company's cantango mechanism after the increase of the price of natural gas did not protect the stability of the unit gross margin effectively. The Company expects the sales volume of natural gas would increase by 10% this year.

The continued expansion of the demand and supply

The Company started to import other gas resources, such as coal-based gas of Datang, and coalbed methane (CMB) in Shanxi to solve the problem of shortage of supply of natural gas in future. According to the demand, the Company continued to construct natural gas pipelines. The construction of the project in Shanxin Licheng has started besides Hebei Province, and the Company will acquire Linxi Xinneng Natural Gas Engineering Co., Ltd, and its pipeline will be spread out to Shandong Province, the Company will spread out the pipelines in surrounding areas from Hebei Province in order to increase the sales volume of natural gas in future.

The generation of winder power decreased

The Company realized a power generation of 1,414 million kWh, down 12.17% y-y, and the utilization hours amounted to 1,047 hours, decreased by 265 hours compared with the same period of last year, which was because the bad situation of wind resources in 1H nationwide, and it should be better in 4Q as expected. Additionally, we expect the Company's new projects with the installed capacity of 230-250 MW would be put into operation in 4Q, the Company's wind power generation this year would close to the level of last year, and the generation should increase by over 20% under the good situation of wind in 2015.

Share price dropped almost in half

The Company's share price declined from HK$3.5 at the beginning of this year to HK$1.9 currently, down almost 50%. This was mainly because the valuation of wind power continued to go down in the wind power industry, investors concern about the deterioration of power constraints due to the scramble of installation of wind power farms in regions, and the negative impact of the decrease of price per unit of wind power generated by the National Energy Administration, and the Company's interim results was lower than expectation. Currently all negative impacts are reflected in the share price, and the safety of purchasing is quite high.

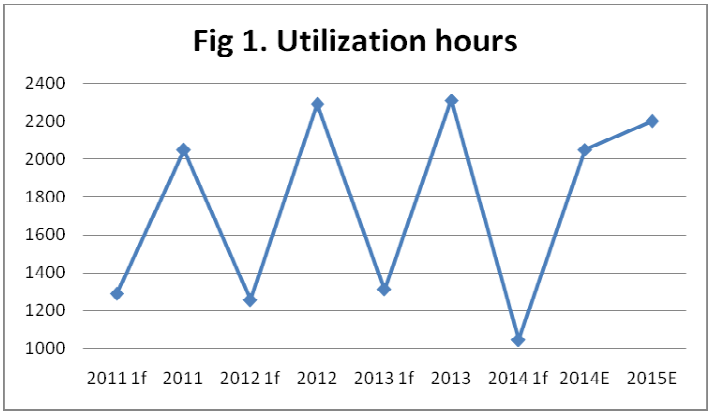
Risk

The serious problems of wind curtailments and power constraints;
Cantango mechanism does not achieve the desired result.

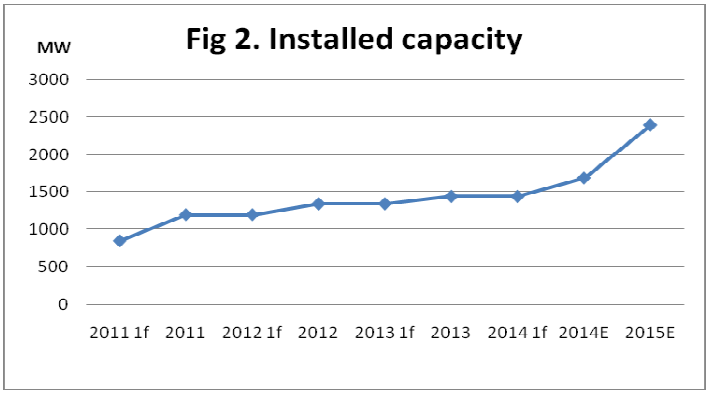
Valuation

The Company's operation conditions has not deteriorated although its interim results dropped largely, the price adjustment of natural gas and wind resources will not affect the Company's performance continually. There are

lots of wind power projects under construction this year, and the installed capacity is expected to double in the next three years and the price of natural gas will also not be adjusted after it locates at a reasonable price range. We cut the Company's target price to HK$2.33, equivalent to 17xP/E2015E, recommend Buy rating.



Source: PSR, Company Report



Source: PSR, Company Report

For Financial Summary at the end of report

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	10.9	9.0	10.9	12.8	10.9
P/B (X)	1.0	0.9	0.8	0.7	0.6
Dividend Payout ratio	42.86%	11.76%	35.71%	25.00%	28.57%
Dividend Yield	3.92%	1.31%	3.26%	1.96%	2.61%
Per share data (RMB)					
EPS, reported	0.14	0.17	0.14	0.12	0.14
EPS, adj.	0.14	0.17	0.14	0.12	0.14
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%	21.0%	24.5%
Operating income	43.7%	22.2%	14.0%	6.1%	18.4%
Net Income, adj.	60.5%	22.5%	-16.4%	-2.1%	10.9%
Key Ratios					
Current ratio	107.61%	106.44%	113.79%	87.22%	89.18%
Gross profit margin	28.80%	33.45%	31.31%	28.05%	26.50%
Net profit margin	14.16%	14.85%	9.86%	7.98%	7.10%
Return on average assets	3.48%	3.75%	2.71%	2.38%	2.34%
Return on average equity	8.96%	10.20%	7.66%	6.41%	5.86%
Liability/asset	56.65%	56.61%	59.19%	53.88%	53.17%
Income statement (thousand RMB)	**FY11**	**FY12**	**FY13**	**FY14F**	**FY15F**
Operating revenue	**3,169,831**	**3,702,079**	**4,660,919**	**5,640,337**	**7,024,688**
Cost of good sell	(2,256,982)	(2,463,732)	(3,201,802)	(4,058,418)	(5,163,146)
Gross profit	**912,849**	**1,238,347**	**1,459,117**	**1,581,919**	**1,861,542**
Other net profit	135,009	77,942	31,079	37,295	44,754
Adiministrative 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**	**1,290,411**	**1,528,034**
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**	**876,018**	**1,090,327**
Income tax	(81,797)	(7,415)	(157,502)	(245,285)	(294,388)
Effective income tax rate	11.67%	0.92%	18.92%	28.00%	27.00%
Net profit for the period	**618,988**	**796,023**	**674,802**	**630,733**	**795,939**
Minority interest	170,080	246,322	215,286	180,840	297,095
Net profit attributable to equity holders	**448,908**	**549,701**	**459,516**	**449,893**	**498,844**
Dividend paid	187,829	64,769	170,897	126,121	168,161
Balance Sheet (thousand RMB)	**FY11**	**FY12**	**FY13**	**FY14F**	**FY15F**
Cash or cash eqivalent	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

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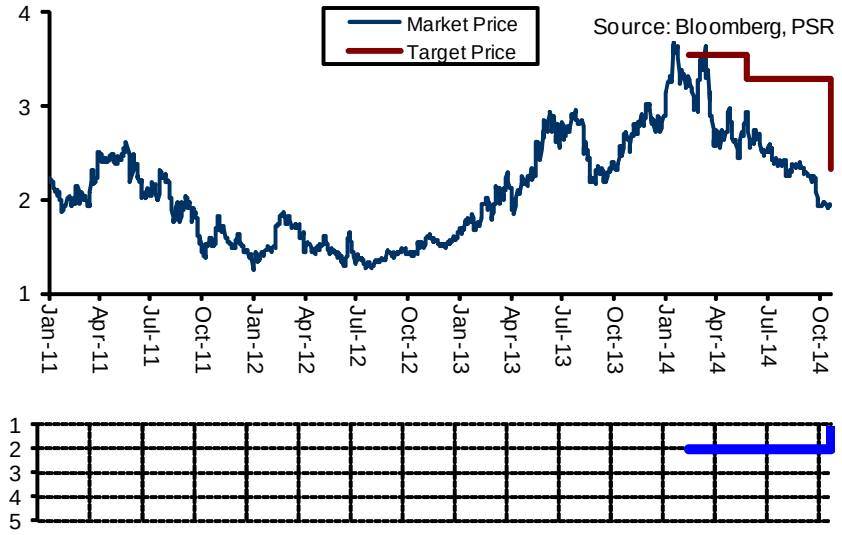
Ratings History



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

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 ± 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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PhillipCapital
Your Partner In Finance
Phillip Securities (Hong Kong) Ltd

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN
PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website:www.phillip.co.jp

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005