

Huaneng Renewables (958.HK)

Remarkable Earnings Recovery

Hong Kong | New Energy | Update Report

28 August 2015

Strong Earnings Growth

The reported revenue of the company increased by 30.9% yoy to RMB3.923 billion. Profit before tax rose by 66.2% yoy to RMB1.257 billion. Net profit attributable to shareholders jumped by 65.3% yoy to RMB1.134 billion and EPS was RMB0.12. The increase in installed capacity and utilization rate of power plants were the main growth drivers.

Significant Increase in Installed Capacity

As of 30 June 2015, the Company had a total installed capacity of 9,008MW, representing an increase of 34.1% yoy. The installed capacity of wind power was 8423MW, representing an increase of 33.3% yoy; the installed capacity of solar power was 585MW, representing an increase of 46.3%. Newly installed capacity of wind power, which was mainly located in Inner Mongolia, Sichuan and Liaoning, amounted to 197MW. In the fifth batch of the "12th Five Year" wind power project pre-approval list issued by the National Energy Administration, the company secured approval for wind power projects with an aggregate installed capacity of 1,648.5MW. Most of the projects were located in regions without grid curtailment and in Tier IV Resources Regions. The company obtained approvals for eight wind power projects in 2015H1 with an aggregate installed capacity of 664.5MW, all of which were located in Tier IV Resources Regions. The company's broad-based expansion in Tier IV Resources Regions can effectively ease the pressure of downward adjustments of wind power tariffs on its earnings in future.

Effective Increase in Utilization Rate

In H1, the utilization hours of the Company's wind power projects increased by 109 hours to 1,069 hours. Of which, the utilization hours for solar power were 755 hours, representing an increase of 2 hours. Benefiting from the improvement in wind conditions, the utilization rate of wind power plants was effectively raised. The utilization rates rose by 26.3% and 17% respectively in Inner Mongolia and Liaoning, where the company has built the largest installed capacity. At the same time, the company recently expanded into the Sichuan region. The utilization hours already reached 1,495 hours in H1, which were higher than the company's average.

Valuation

Benefiting from the advantage of the broad geographical coverage of the company's projects and an improvement in wind conditions, there was a discernible turnaround of the company's earnings. However, the slowdown in macro economy and the possible increase in grid curtailment resulting from the capacity boom in wind power are likely to continue to cloud market sentiment on the company's valuation. We maintain our "Accumulate" rating and target price of HKD2.9, which is equivalent to a prospective 2016 P/E of 8x.. (Closing price as at 26 Aug 2015)

Accumulate (Maintain)

CMP: HKD 2.50

(Closing price as at 26 Aug 2015)

TARGET: HKD 2.90

COMPANY DATA

O/S SHARES(MN) :	4193
MARTKET CAP (HKD BN) :	104.8
52-WK HI/LO (HKD) :	2.33/ 3.80

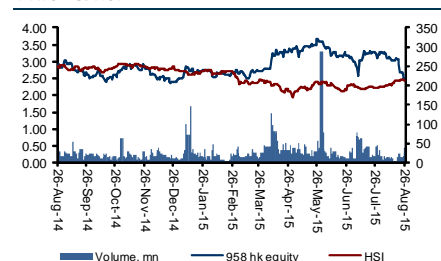
SHARE HOLDING PARTTEN , %

China Huaneng Group	61.30
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PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
958HK	-23.08	-32.43	-14.97
HSI	-9.64	-7.5	0.44

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary	12/13	12/14	12/15F	12/16F
FYE				
Operating Profit (RMB 000)	2,727	3,346	5,352	6,947
Net Profit, adj. (RMB 000)	888	1,147	2,294	2,978
EPS, adj. (RMB)	0.10	0.12	0.23	0.30
P/E (X)	20.0	16.7	8.7	6.7
BVPS (RMB)	1.62	1.78	2.01	2.31
P/B (X)	1.2	1.1	1.0	0.9
DPS (RMB)	0.02	0.02	0.03	0.04
Div. Yield	1.0%	1.0%	1.5%	2.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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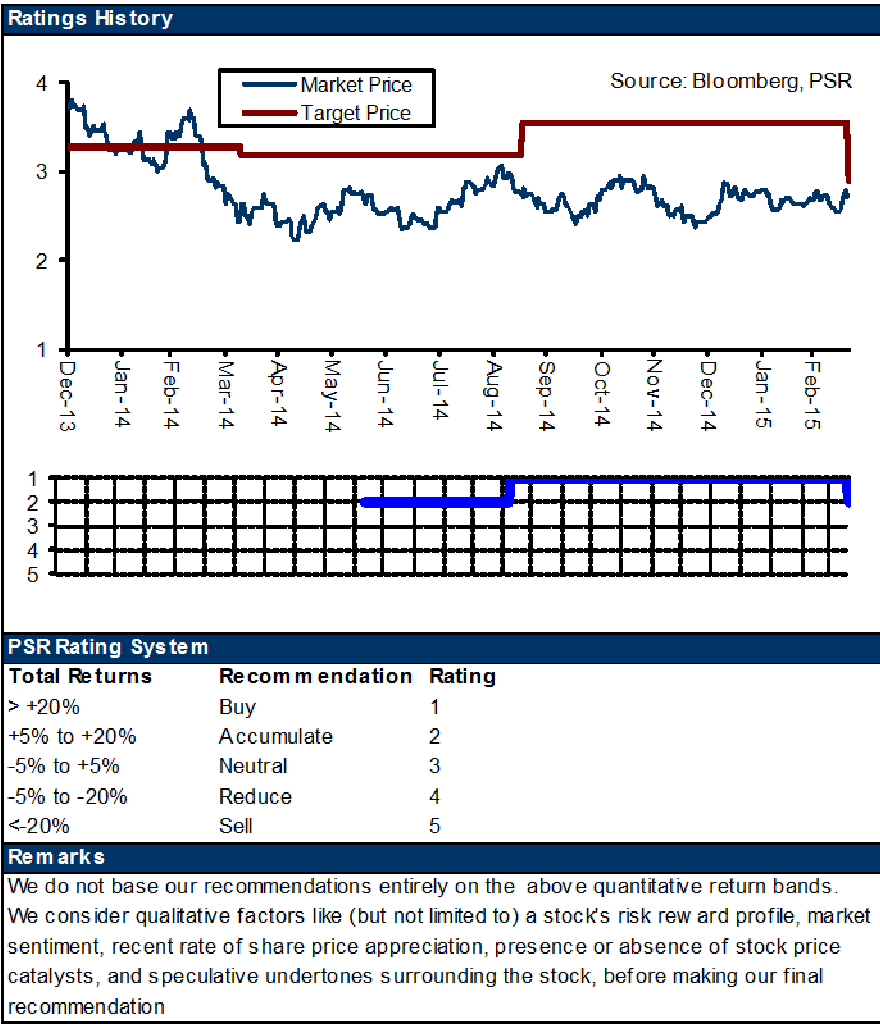
Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	28.6	20.0	16.7	8.7	6.7
P/B (X)	1.4	1.2	1.1	1.0	0.9
Dividend Payout ratio	28.57%	20.00%	16.67%	13.04%	13.33%
Dividend Yield	1.00%	1.00%	1.00%	1.50%	2.00%
Per share data (RMB)					
EPS, reported	0.07	0.10	0.12	0.23	0.30
EPS, adj.	0.07	0.10	0.12	0.23	0.30
DPS	0.02	0.02	0.02	0.03	0.04
BV/PS	1.40	1.62	1.78	2.01	2.31
Growth					
Revenue	26.0%	44.0%	6.1%	33.3%	29.8%
Operating income	-7.6%	25.5%	22.7%	60.0%	29.8%
Net Income, adj.	-45.5%	59.1%	29.2%	100.0%	29.8%
Key Ratios					
Gross profit margin	53.95%	47.04%	54.39%	65.28%	65.28%
Net profit margin	13.86%	15.82%	18.22%	27.98%	27.98%
Return on average equity	4.49%	7.07%	7.48%	8.57%	8.01%
Liability/asset	76.37%	75.42%	77.22%	78.13%	79.21%
Income statement (thousand RMB)					
	FY12	FY13	FY14	FY15F	FY16F
Operating revenue	4,027	5,798	6,151	8,199	10,642
Operating profit	2,172	2,727	3,346	5,352	6,947
Net profit attributable to equity holders	558	888	1,147	2,294	2,978

Source: PSR

(Financial figures as at 26 Aug 2015)



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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