

China Suntein (956.HK)

Stronger than expected growth in its wind power business

Hong Kong | New Energy | Update Report

2 November 2015

Better than expected interim result

The company reported revenue of RMB2.389 billion, which was down by 7% compared with the same period in 2014. Profit before tax increased by 14.5% yoy to RMB431 million. Net profit attributable to shareholders rose by 48% yoy to RMB276 million and EPS was RMB0.0743. The result was better than our expectations.

Retail sales of natural gas plummeted

The company's sales volume of natural gas amounted to 612 million m³, representing a decrease of 21% yoy. Of which, wholesale gas volume was up 2.9% yoy to 425 million m³. Retail gas sales volume plunged by 53.8% yoy to 151 million m³, mainly due to the reason that production halted in H1 at most of the glass manufacturing companies in Shahe, which are the major clients of the company. Going forward, the selling price of natural gas will be under pressure. The company expects that a price cut of RMB0.5 or above will be positive to the sales volume in future.

Strong growth in the wind power business

The company's consolidated wind farms realized a power generation of 1,874 million kWh in H1, representing an increase of 32.5% yoy. The growth was mainly due to better wind resources in H1 and situation and the commencement of operation of the "three-station-four-lines", which alleviated the stress from power constraint. The utilization hours of the wind farms of the company was 1,127 hours, representing an increase of 80 hours yoy and were higher than the average utilization hours of the nation and Hubei. The targeted annual installation capacity for the company in recent two years is 400-500MW. Currently, all projects under construction have been progressing smoothly.

Valuation

While the outlook is grim for its natural gas business, the performance of the company's wind power business is outstanding. The commencement of operation of the "three-station-four-lines" helps ease power constraint and greatly enhances the performance of its wind power generation. We expect the company's result will be further boosted by price cuts of natural gas and more wind power projects commencing operation in future. We downgrade the target price of the company to HKD2 and maintain a "BUY" rating. (Closing price as at 29 Oct 2015)

Buy (Maintain)

CMP: HKD 1.50

(Closing price as at 29 Oct 2015)

TARGET: HKD 2.00

COMPANY DATA

O/S SHARES(MN) :	1839
MARTKET CAP (HKD BN) :	38.62
52-WK HI/LO (HKD) :	1.48 3.00

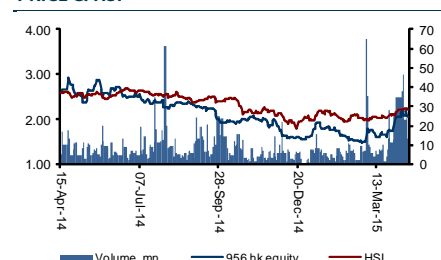
SHARE HOLDING PARTTEN , %

Hebei Construction & Investment Group Co., Ltd	50.50
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PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
956HK	29.01	16.76	-21.13
HSI	13.32	3.58	-42.7

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Operating Profit (RMB 000)	1,216,282	1,092,551	1,191,765	1,363,074
Net Profit, adj. (RMB 000)	459,516	335,053	414,861	524,950
EPS, adj. (RMB)	0.14	0.09	0.11	0.14
P/E (X)	11.8	18.3	15.0	11.8
BV/PS (RMB)	1.82	2.00	2.11	2.23
P/B (X)	0.9	0.8	0.8	0.7
DPS (RMB)	0.05	0.03	0.04	0.05
Div. Yield	3.0%	1.8%	2.4%	3.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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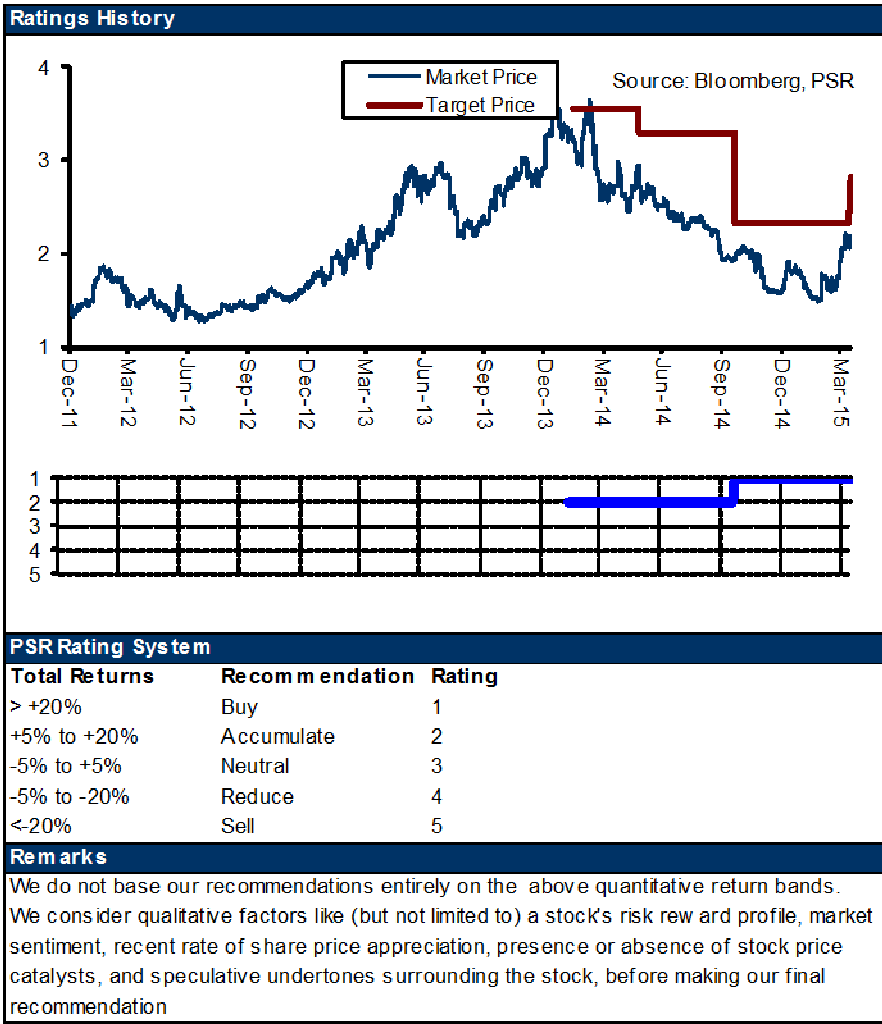
Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	9.7	11.8	18.3	15.0	11.8
P/B (X)	1.0	0.9	0.8	0.8	0.7
Dividend Payout ratio	11.76%	35.71%	33.33%	36.36%	35.71%
Dividend Yield	1.21%	3.03%	1.82%	2.42%	3.03%
Per share data (RMB)					
EPS, reported	0.17	0.14	0.09	0.11	0.14
EPS, adj.	0.17	0.14	0.09	0.11	0.14
DPS	0.02	0.05	0.03	0.04	0.05
BVPS	1.70	1.82	2.00	2.11	2.23
Growth					
Revenue	16.8%	25.9%	10.5%	15.0%	20.0%
Operating income	22.2%	14.0%	-10.2%	9.1%	14.4%
Net Income, adj.	22.5%	-16.4%	-27.1%	23.8%	26.5%
Key Ratios					
Current ratio	106.44%	113.79%	150.99%	140.21%	128.65%
Gross profit margin	33.45%	31.31%	25.17%	24.00%	23.00%
Net profit margin	14.85%	9.86%	6.51%	7.01%	7.39%
Return on average assets	3.75%	2.71%	1.72%	1.86%	2.20%
Return on average equity	10.20%	7.66%	5.03%	5.49%	6.58%
Liability/asset	56.61%	59.19%	59.45%	60.30%	61.20%
Income statement (thousand RMB)					
Operating revenue	3,702,079	4,660,919	5,149,432	5,919,847	7,105,740
Cost of good sell	(2,463,732)	(3,201,802)	(3,853,539)	(4,499,084)	(5,471,420)
Gross profit	1,238,347	1,459,117	1,295,893	1,420,763	1,634,320
Other net profit	77,942	31,079	56,118	56,118	56,118
Administrative expenses	(194,523)	(238,549)	(255,441)	(280,985)	(323,133)
Selling expenses	(505)	(1,060)	(388)	(500)	(600)
Other cost	(54,137)	(34,305)	(3,631)	(3,631)	(3,631)
Operating profit	1,067,124	1,216,282	1,092,551	1,191,765	1,363,074
Investment income	89,937	39,912	68,703	68,703	68,703
Interest expense	(353,623)	(423,890)	(486,643)	(509,639)	(560,603)
Profit before tax	803,438	832,304	674,611	750,829	871,174
Income tax	(7,415)	(157,502)	(176,281)	(172,691)	(182,947)
Effective income tax rate	0.92%	18.92%	26.13%	23.00%	21.00%
Net profit for the period	796,023	674,802	498,330	578,138	688,227
Minority interest	246,322	215,286	163,277	163,277	163,277
Net profit attributable to equity holders	549,701	459,516	335,053	414,861	524,950
Balance Sheet (thousand RMB)					
Cash or cash equivalent	757,760	1,669,590	3,167,419	2,850,677	2,565,609
Account receivable	842,796	845,684	1,401,705	1,682,046	2,018,455
Inventory	29,959	42,608	43,108	43,108	43,108
Other current assets	600,792	564,861	719,048	790,953	870,048
PPE	8,602,374	10,180,269	11,731,130	12,904,243	14,194,667
Intangible assets	2,347,909	2,247,034	2,162,757	2,162,757	2,162,757
Other non-current assets	2,081,021	1,863,941	2,385,188	2,623,707	2,886,078
Total Assets	15,262,611	17,413,987	21,610,355	23,057,491	24,740,722
Cash payable	197,248	223,689	437,247	524,696	629,636
Short term loan	971,347	1,358,970	1,729,938	1,802,932	1,993,225
Other current liability	927,693	1,161,624	1,363,716	1,500,088	1,650,096
Long term loan	6,528,624	7,544,587	9,296,055	10,056,061	10,848,227
Other non-current liability	15,011	18,552	21,007	21,007	21,007
Total Liabilities	8,639,923	10,307,422	12,847,963	13,904,784	15,142,191
Shareholders' equity	5,567,657	5,965,580	7,359,574	7,749,889	8,195,713
Minority interest	1,055,031	1,140,985	1,402,818	1,402,818	1,402,818
Total shareholders' equity	6,622,688	7,106,565	8,762,392	9,152,707	9,598,531
Total shareholders' equity and liabilities	15,262,611	17,413,987	21,610,355	23,057,491	24,740,722

Source: PSR

(Financial figures as at 29 Oct 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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