

# Huaneng Renewables (958.HK)

## Installed Capacity Reached a Record High

17 JUNE 2016

### Hong Kong | Public Utility | Company report

#### Increased Electricity Sales Promoted Revenue

In 2015, Huaneng Renewables achieved revenue of RMB7.36 billion, representing an increase of 19.6% as compared with 2014. Also, the electricity sales increased by 20.3% to 14.01 billion kWh over last year. These increases are mainly attributable to i) increase in installed capacity, ii) continued optimization of structure and layout and decrease in grid curtailment ratio and iii) increase in average utilization hours resulting from improved wind conditions.

The company achieved operating profit of RMB4.12 billion, representing an increase of 23% as compared with 2014. Net profit attributable to parent company stood at RMB1.86 billion, soaring by 65.9% over 2014, which primarily results from the drop in average financing cost rate and the rise in foreign exchange gains. Besides, its EPS was RMB0.19.

#### The Scale of the Newly Installed Capacity Reached a Record High in 2015

In 2015, the company achieved a total power generation of 14,669 GWh, representing an increase of 20.5% year-on-year. Of which, wind power generation amounted to 13,852 GWh, representing a year-on-year increase of 18.6% and solar power generation amounted to 818 GWh, representing a year-on-year increase of 62.6%. The weighted average utilization hours of the company's wind farms in 2015 were 1,882 hours, representing an increase of 0.4% as compared to 2014. Besides, the weighted average utilization hours of the company's solar power projects in 2015 were 1,591 hours, representing an increase of 12.0% as compared to 2014. The company's newly installed capacity in 2015 was 2,334 MW, of which the newly installed wind power projects were 2,194 MW, and the newly installed solar power projects were 140 MW. The scale of the newly installed capacity reached a record high. Of the newly installed projects, 1,252MW were located in Tier I to III Wind Resources Regions, and 942 MW in Tier IV Wind Resources Regions, which effectively avoided the risk of tariff cut, and assured project return in advance. As of the end of 2015, the total installed capacity of the company reached 10,345.4 MW, representing an increase of 34.1% year-on-year. Of which, the wind power installed capacity amounted to 9420.4 MW, up 29.1% year-on-year, while the solar power installed capacity stood at 625 MW, increasing by 28.9% over the same period last year.

#### Buy (Maintain)

CMP: HKD 2.49

(Closing price as at 15 June 2016)

TARGET: 3.00 (+20%)

#### COMPANY DATA

|                      |           |
|----------------------|-----------|
| O/S SHARES (MN) :    | 9728      |
| MARKET CAP (HKDMN) : | 24222.7   |
| 52 - WK HI/LO (HKD): | 3.46/1.39 |

#### SHARE HOLDING PATTERN, %

|                        |       |
|------------------------|-------|
| China Huaneng Group. : | 54.06 |
|------------------------|-------|

#### PRICE PERFORMANCE, %

|            | 1M   | 3M    | 1Y |
|------------|------|-------|----|
| Huaneng    | 6.87 | 27.69 | -  |
| Renewables |      |       |    |
| HSI        | 3.79 | 1.04  | -  |

#### KEY FINANCIALS

| CNY mn         | FY14  | FY15  | FY16F | FY17F |
|----------------|-------|-------|-------|-------|
| Net Sales      | 6151  | 7357  | 9564  | 10999 |
| Net Profit     | 1121  | 1860  | 2426  | 2890  |
| EPS, CNY       | 0.12  | 0.19  | 0.25  | 0.30  |
| PER, x         | 16.7  | 10.9  | 8.3   | 7.0   |
| BVPS, CNY      | 1.66  | 1.83  | 2.13  | 2.39  |
| P/BV, x        | 1.3   | 1.1   | 1.0   | 0.9   |
| ROE, %         | 7.4   | 11.0  | 12.3  | 13.1  |
| Debt/Equity, % | 339.1 | 343.2 | 344.4 | 354.5 |

Source: Company reports, Phillip Securities Est.

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## Power Generation Surged in May 2016

In May 2016, the company achieved a total power generation of 2,247 GWh, representing an increase of 43.4% year-on-year. Of which, wind power generation amounted to 2,157 GWh, representing a year-on-year increase of 44.2% and solar power generation amounted to 90 GWh, representing a year-on-year increase of 26.7%. The increase in power generation is mainly attributable to the improvement in wind resources (a YoY increase of 6%) and decrease in grid curtailment ratio in some regions. In the five months ended on 31 May 2016, the company achieved a total power generation of 8,894 GWh, an increase of 33.0% as compared to last year. Of which, wind power generation amounted to 8,501 GWh, representing a year-on-year increase of 33.4% and solar power generation amounted to 393 GWh, representing a year-on-year increase of 23.9%.

## Abundant Project Reserve Underpins Future Growth of The Company

In 2015, the company undertook regular wind power projects with an aggregate installed capacity of 1,648.5 MW which were included in the fifth batch of the wind power project pre-approval list issued by the National Energy Administration. The projects are mostly located in Tier IV Resources Regions with high tariff and limited grid curtailment. The capacity of wind power included in the key wind farm development base plan and the distributed plan were 433.5 MW and 30 MW, respectively. The capacity of wind power included in wind power generation for heat supply plan was 50 MW. The total capacity included in the annual plan amounted to 2,162 MW. The Company obtained a total approved capacity of 1,782 MW in wind power projects in 2015. The project agreements for wind power development were signed to develop capacity of more than 1 million kilowatt. Additionally, the company obtained the filed photovoltaic projects with capacity of 300 MW for the year, and entered into agreements in relation to the development of photovoltaic capacity of 691 MW. The current wind power industry is facing a relatively high grid curtailment ratio in some regions, but it is worth noting that the company's new installed capacity will decline significantly after the installation rush. The management expects that only 1.4 GW of new installed capacity (1.2-1.3 GW of wind power and 0.1-0.2 GW of PV) and 1.0-1.5 GW of new installed capacity will commence in 2016 and 2017, respectively, lower than the 2.4 GW in 2015.

## Evaluation

The company's advantageous geographical layout ensures an annual grid curtailment ratio of approximately 9%. It avoids the regions of severe grid curtailment such as Gansu and Heilongjiang. Also, the installed capacity of Jilin and Xinjiang accounts for 4% only, contributing to low average grid curtailment ratio. We give the company the target price of HK\$3.0, equivalent to 10 P/E in 2016. (Closing price as at 15 June 2016)

## Risk warnings

The new installed capacity falls short of expectations

Wind resources reduce

Grid curtailment ratio increases

## Financials

| FYE                                 | 2013         | 2014         | 2015         | 2016F        | 2017F         |
|-------------------------------------|--------------|--------------|--------------|--------------|---------------|
| <b>Valuation Ratios</b>             |              |              |              |              |               |
| Price Earnings                      | 20.0x        | 16.7x        | 10.9x        | 8.3x         | 7.0x          |
| Price to Book                       | 1.3x         | 1.3x         | 1.1x         | 1.0x         | 0.9x          |
| Dividend Yield                      | 1.0%         | 1.0%         | 1.4%         | 1.9%         | 2.9%          |
| <b>Per share data(RMB)</b>          |              |              |              |              |               |
| EPS Adjusted                        | 0.10         | 0.12         | 0.19         | 0.25         | 0.30          |
| Book Value Per Share                | 1.55         | 1.66         | 1.83         | 2.13         | 2.39          |
| Dividends Per Share                 | 0.02         | 0.02         | 0.03         | 0.04         | 0.06          |
| <b>Growth &amp; Margin</b>          |              |              |              |              |               |
| Revenue growth                      | 46.7%        | 4.1%         | 19.6%        | 30.0%        | 15.0%         |
| Operating income growth             | 28.6%        | 19.8%        | 23.0%        | 20.8%        | 15.0%         |
| Net Profit growth                   | 63.6%        | 22.8%        | 65.9%        | 30.4%        | 19.2%         |
| <b>Profitability Ratios</b>         |              |              |              |              |               |
| Operating Margin                    | 47.3%        | 54.4%        | 56.0%        | 52.0%        | 52.0%         |
| Net Profit Margin                   | 15.4%        | 18.2%        | 25.3%        | 25.4%        | 26.3%         |
| Dividend Payout Ratio %             | 19.8%        | 17.4%        | 15.7%        | 16.0%        | 20.2%         |
| <b>Key Ratios</b>                   |              |              |              |              |               |
| Return on Assets                    | 1.6%         | 1.7%         | 2.4%         | 2.8%         | 2.9%          |
| Return on Equity                    | 7.1%         | 7.4%         | 11.0%        | 12.3%        | 13.1%         |
| Effective Tax Rate                  | 6.7%         | 6.9%         | 6.9%         | 7.0%         | 7.0%          |
| Liability ratio                     | 75.5%        | 77.2%        | 77.4%        | 77.5%        | 78.0%         |
| <b>Income Statement(RMB: mn)</b>    |              |              |              |              |               |
| <b>Revenue</b>                      | <b>5,909</b> | <b>6,151</b> | <b>7,357</b> | <b>9,564</b> | <b>10,999</b> |
| - Selling, General & Admin Expenses | 3,195        | 2,973        | 3,676        | 4,782        | 5,499         |
| <b>Operating Income</b>             | <b>2,793</b> | <b>3,346</b> | <b>4,116</b> | <b>4,973</b> | <b>5,719</b>  |
| - Interest Expense                  | 1,911        | 2,143        | 2,238        | 2,462        | 2,708         |
| - Net Non-Operating Losses (Gains)  | -205         | -50          | -45          | -50          | -60           |
| <b>Pretax Income</b>                | <b>1,009</b> | <b>1,232</b> | <b>2,041</b> | <b>2,661</b> | <b>3,171</b>  |
| - Income Tax Expense                | 67           | 86           | 141          | 186          | 222           |
| <b>Income Before XO Items</b>       | <b>942</b>   | <b>1,147</b> | <b>1,899</b> | <b>2,475</b> | <b>2,949</b>  |
| - Minority Interests                | 29           | 26           | 40           | 50           | 59            |
| <b>Net Profit</b>                   | <b>913</b>   | <b>1,121</b> | <b>1,860</b> | <b>2,426</b> | <b>2,890</b>  |

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 15 June 2016)

**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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