

# Jingneng Clean Energy (579.HK)

Soars in Profits, Continuous High Growth to Be Expected

Hong Kong | Environmental protection | Company report

12 August 2016

## Rapid progress seen in the level of profitability

The company realized an operating income of RMB 14.346 billion in 2015, a year-on-year increase of 64.35%; the profit attributable to shareholders stood at RMB 1.91 billion, a year-on-year increase of 58.12%. The EPS was 27.81 cents, up by 51.22% YoY and close to expectation. The performance growth could mainly be attributed to the increase of electricity sales as a result of the increased in-production installed capacity in the segment of gas-fired power and heat energy generation and the segment of photovoltaic power generation in 2015.

The company continued to see performance growth in the first quarter of 2016, realizing an operating income of RMB 4.607 billion, a year-on-year increase of 18.51%; profit before tax stood at RMB 1.12 billion, a year-on-year increase of 38.4%; net profit amounted to RMB 799 million, a year-on-year increase of 43.06%; power generation reached 7.191 billion kWh, a year-on-year increase of 15.07% and far greater than the market expectation.

**Buy**

CMP: HKD 2.44

(Closing price at 10 August 2016)

TARGET: HKD 3.20 (31.1%)

### COMPANY DATA

O/S SHARES (MN) :	6,870.42
MARKET CAP (HKDMN) :	16,764
52 - WK HI/LO (HKD):	2.929 / 1.899

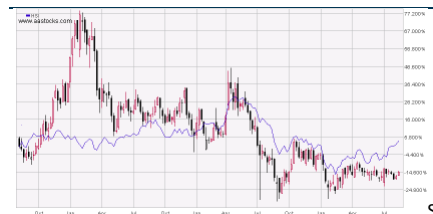
### SHARE HOLDING PATTERN • %

Beijing energy group co., LTD	62.41
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### PRICE PERFORMANCE • %

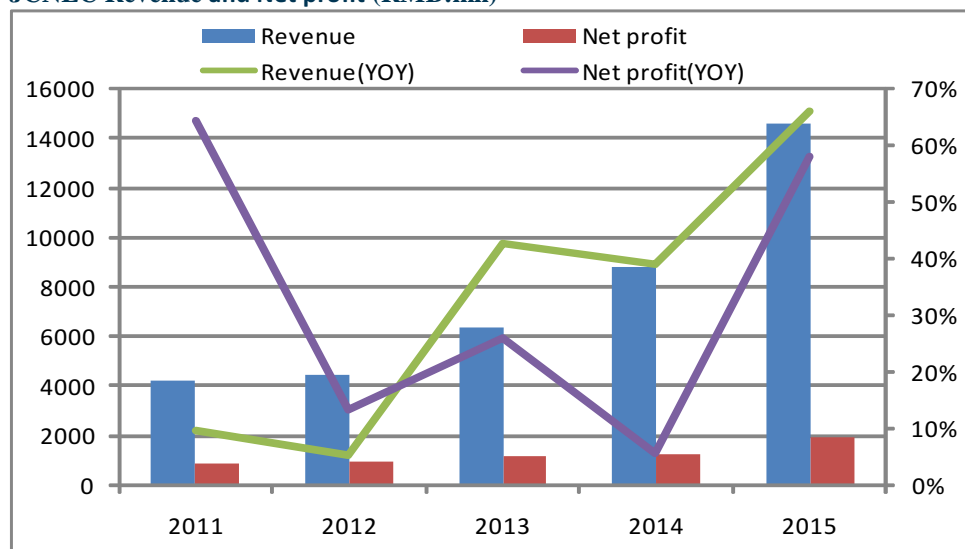
	1-Month	3-Month	1-Year
JNCEC	1.23	0.41	-10.87
HSI	-8.01	-10.57	-2.49

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

## JCNEC Revenue and Net profit (RMB:mn)



Source: Company report, Phillip Securities (HK) Research

### KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Revenue	8,729	14,346	15,709	16,840
Net Profit	1,208	1,911	2,104	2,312
P/E,x	11.6	7.5	6.8	6.2
EPS, HKD	0.18	0.28	0.31	0.34
P/B, x	1.1	1.0	0.9	0.8
BVPS, HKD	1.82	2.05	2.29	2.56
ROE, %	9.3	13.6	13.4	13.2

Source: Company reports, Phillip Securities Est.

### Research department

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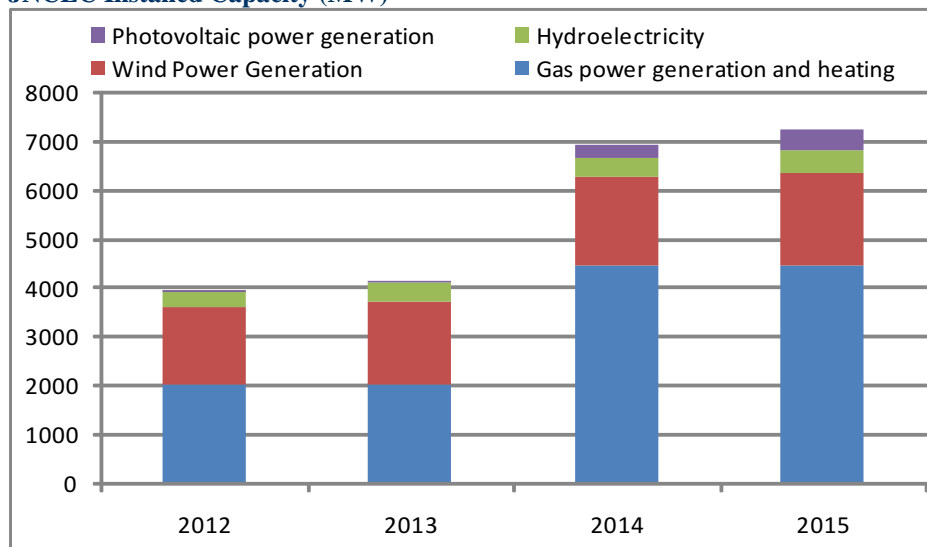
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## Significant increase in installed capacity and power generation

Thanks to the successful commissioning and safe operation of the four thermal power centers in whose construction the company was involved, rapid increase was seen in the gas-fired power and heat energy generation business in 2015, resulting in a 81.02% year-on-year increase of the power generation and up to 19.722 billion kWh, which accounted for

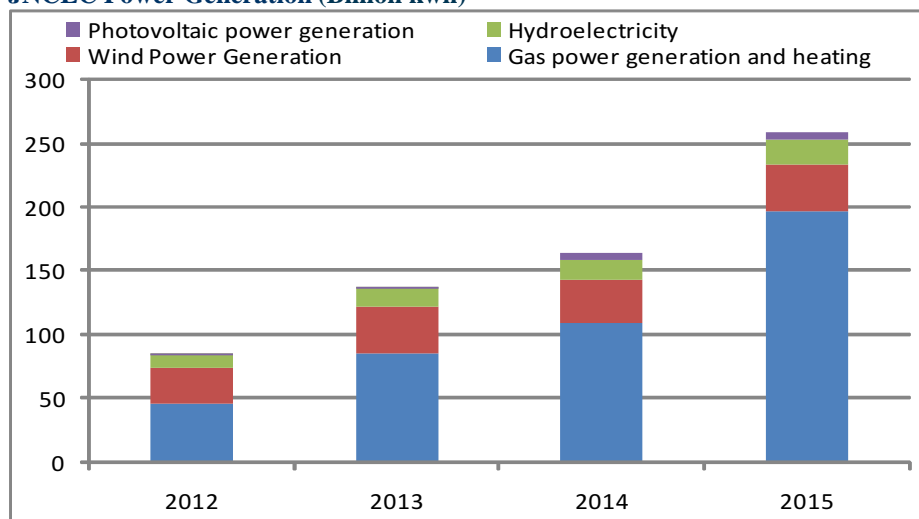
76.13% of the total power generation. The photovoltaic power generation business also witnessed rapid development, with the installed photovoltaic capacity increasing by 62.96% to 440 MW and the photovoltaic power generation increasing by 39.62% to 630 million kWh. Driven by the various businesses of the company, total power generation increased significantly to 25.905 billion kWh, a year-on-year increase of 58.43%. Its consolidated installed capacity reached 7,240 MW, a 306 MW increase as compared to the same period of last year. The company plans to increase the consolidated installed capacity to 13,350 MW by 2020, by which the annual average compound growth rate of the company's production capacity is estimated to reach 13%.

### JNCEC Installed Capacity (MW)



Source: Bloomberg, Phillip Securities (HK) Research

### JNCEC Power Generation (Billion kwh)



Source: Bloomberg, Phillip Securities (HK) Research

### Continuous reduction seen in financial costs

While continuously expanding its operations performance, the company also made efforts to further optimize its financial structure, with the net indebtedness

decreasing to 58.84% in 2015 from the 65.4% in 2014. In addition, the company also managed to reduce its financing costs by issuing short-term financing bonds at low interest rates. The average interest rate on borrowings of 2015 was thus decreased to 4.89% from the 5.71% in 2014. At the end of the first quarter of 2016, the average interest rate on borrowings was only 4.2%. The financial costs for the year are thus estimated to be able to be substantially decreased.

## Coordinated development seen in the various business segments

Upholding the development strategy of "expanding gas-fired power, strengthening wind power, optimizing hydropower and increasing photovoltaic power", the company managed to minimize the risks and fluctuations brought by power generation relying on single energy in an effective manner with its consequently diversified business structure. According to the company, it will make continuous efforts to develop gas-fired power generation business in the future and attempt to expand its business to other parts of the country with Beijing as its headquarters. It will also seize the policy opportunities to develop wind power generation and photovoltaic power generation business. However, without a good acquisition target and given the limited water resources, hydropower business is estimated to grow relatively slowly.

## Valuation and rating

On the one hand, against the backdrop of energy restructuring, the company will benefit from the trend of strongly developing the clean energy industry in China. On the other hand, the solid operations relating to the gas-fired power generation business and rapid development in the wind power generation and photovoltaic power generation in the company will support a continuous growth in its level of profitability. On this basis, we estimate that the EPS of the company in 2016 and 2017 will be RMB 0.31 and RMB 0.34, respectively. Target price will be HKD 3.2, and the rating will be maintained at Buy. (Closing price at 10 August 2016)

## Risk warnings

Increase in installed capacity fell short of expectation;

The production capacity of newly started projects fell short of expectation.

## Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
<b>Valuation Ratios</b>					
Price Earnings(P/E)	11.0	11.6	7.5	6.8	6.2
Price to Book(P/B)	1.3	1.1	1.0	0.9	0.8
<b>Per share data(RMB)</b>					
EPS, Adjusted	0.19	0.18	0.28	0.31	0.34
Book Value Per Share	1.65	1.82	2.05	2.29	2.56
Dividends Per Share	0.04	0.04	0.07	0.07	0.08
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	50.7%	39.6%	64.3%	9.5%	7.2%
Operating income	32.9%	14.5%	44.3%	10.5%	6.3%
Net profit	27.6%	4.0%	58.2%	10.1%	9.9%
<b>Margins</b>					
Gross profit margin	41.5%	38.1%	26.5%	27.6%	29.0%
Operating profit margin	32.7%	26.9%	23.6%	23.8%	23.6%
Net income margin	18.6%	13.8%	13.3%	13.4%	13.7%
<b>Key Ratios</b>					
ROE(%)	10.6%	9.3%	13.6%	13.4%	13.2%
ROA(%)	3.3%	2.8%	4.0%	4.4%	4.6%
<b>Income Statement(RMB mn)</b>					
Revenue	6,255	8,729	14,346	15,709	16,840
Gross Income	2,595	3,327	3,801	4,336	4,884
Operating Income	2,047	2,344	3,382	3,739	3,974
Pretax Income	1,450	1,572	2,561	2,756	3,015
Net profit	1,161	1,208	1,911	2,104	2,312

Source: Company, Phillip Securities (HK) Research Estimates  
 (Financial figures as at 10 August 2016)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

<b>Total Return</b>	<b>Recommendation</b>	<b>Rating</b>	<b>Remarks</b>
<b>&gt;+20%</b>	<b>Buy</b>	<b>1</b>	<b>&gt;20% upside from the current price</b>
<b>+5% to +20%</b>	<b>Accumulate</b>	<b>2</b>	<b>+5% to +20% upside from the current price</b>
<b>-5% to +5%</b>	<b>Neutral</b>	<b>3</b>	<b>Trade within <math>\pm 5%</math> from the current price</b>
<b>-5% to -20%</b>	<b>Reduce</b>	<b>4</b>	<b>-5% to -20% downside from the current price</b>
<b>&lt;-20%</b>	<b>Sell</b>	<b>5</b>	<b>&gt;20% downside from the current price</b>

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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