

CONCORD NE (182. HK)

Expansion of Power Generation Business to the South China, Substantial Profit Contribution

Hong Kong | New energy | Company report

24 October 2016

Buy

CMP: HKD 0.39
(Closing price as at 19 October 2016)
TARGET: HKD 0.60 (53.8%)

EPC Business Contributed to 50% Drop in Total Revenues

In the first half of 2016, the revenues of Concord New Energy dropped by 51.5% year-on-year to RMB1.052 billion, whereas the profit attributable to shareholders increased by 10.1% to HK\$279 million. During the period, the company adjusted its business models, significantly reduced the size of EPC business and increased the proportion of BT business. As a result, revenue from EPC business plummeted by 68.7% year-on-year to RMB584 million, representing 55.5% of the total revenue from last year's 85.8%. Although the plunge in revenue and profit of the EPC segment contributed to poor overall performance, the performance of wind power segment was impressive and the significant increase in profitability drove up the overall profit. Meanwhile, the company also took a wide range of measures to control costs, that is, lowering equipment costs while improving the efficiency of equipment operation. Therefore, net profit margin saw a substantial increase of nearly 15 percentage points to 26.5%.

COMPANY DATA

O/S SHARES (MN) :	8,733
MARKET CAP (HKDMN) :	3406
52 - WK HI/LO (HKD):	0.57 / 0.295

SHARE HOLDING PATTERN , %

China Wind Power Investment Limited	27.04
-------------------------------------	-------

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Concord NE	-14.74	-6.9	-28.95
HSI	-14.07	-14.84	-30.33

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKDmn	FY14	FY15	FY16E	FY17E
Revenue	3,557	4,330	3,250	4,075
Net Profit	317	508	625	745
P/E, x	10.8	6.8	5.5	4.6
EPS, HKD	0.036	0.057	0.072	0.085
P/B, x	0.6	0.6	0.6	0.5
BVPS, HKD	0.63	0.64	0.71	0.78
ROE, %	5.6	9.0	10.0	10.9

Source: Company reports, Phillip Securities Est.

Expansion of Power Generation Business to South China, Substantial Increase in Profit Contribution

Installed capacity and power generation of the company grew steadily, resulting to significant increase in proceeds from power generation. The revenue derived from power generation business soared by 71.1% over the previous year to RMB428 million, and the net profit surged by 80.8% over last year to RMB207 million, so power generation business was the core profit source of the company. During the period, new grid-connected attributable installed capacity amounted to 122MW, representing a year-on-year increase of 106.8%. The newly installed power capacity throughout the year is expected to be 300-400MW. The attributable installed capacity of continued projects and new construction projects stood at

Research Analyst
Wang Yannan
(+ 86 21 51699400-107)
wangyannan@phillip.com.cn

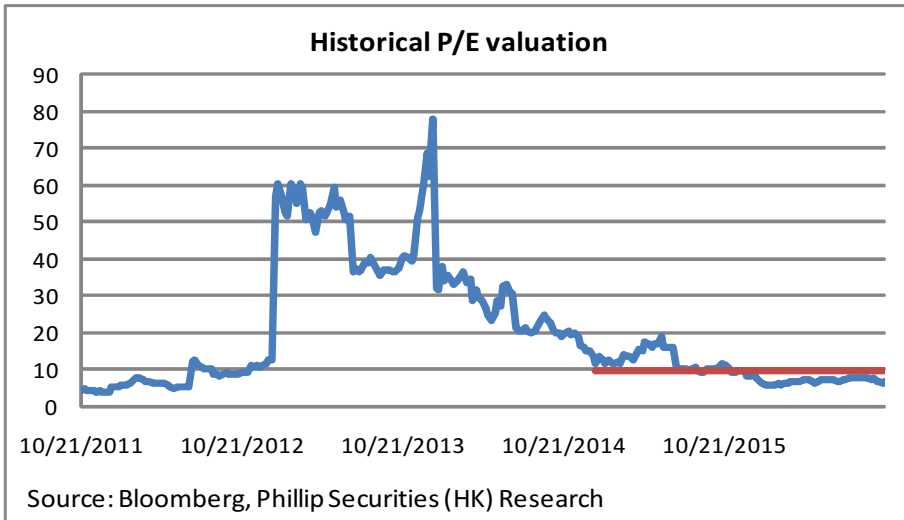
788MW, up by 40% year-on-year. Besides, attributable power generation reached 1,096.85GWh, a year-on-year increase of 38.4%. By the end of the period, the company owned 52 grid-connected power plants with attributable installed capacity of 1,401MW, around 2/3 of which was situated in areas without curtailment. The attributable installed capacity is projected to reach 2,500MW by 2018. Presently, the company primarily wholly owns or controls new power generation projects in the central and south areas without curtailment, and gradually reduces the assets in areas with curtailment by sales and replacement. With the improvements in overall asset quality, the operating income from the power generation segment will witness a continued surge.

Enhanced Financing Capacity and Independent Power Generation Capacity

Through exploring a vast variety of financing channels, the company's financing capacity was significantly enhanced. To be specific, in the first half of the year, it issued the first domestic green bond worth RMB500 million and short-term commercial paper worth RMB600 million, and signed long-term loans worth RMB1.8 billion. The financing fund will be used to independently develop new power plants. We expect that the company will have sufficient capital guarantee. Also, with rich reserves of resources, its power plant development business will experience a rapid development and the attributable installed capacity of independent power generation will see a substantial increase.

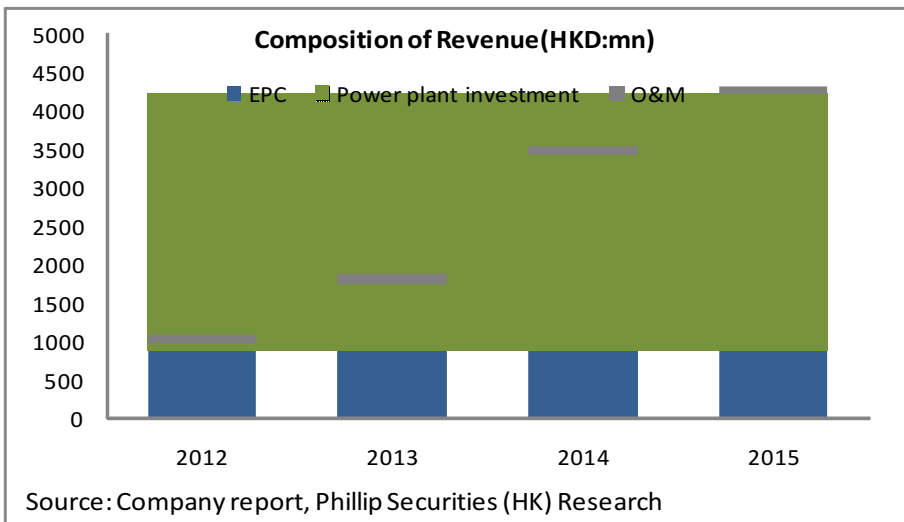
Valuation and Rating

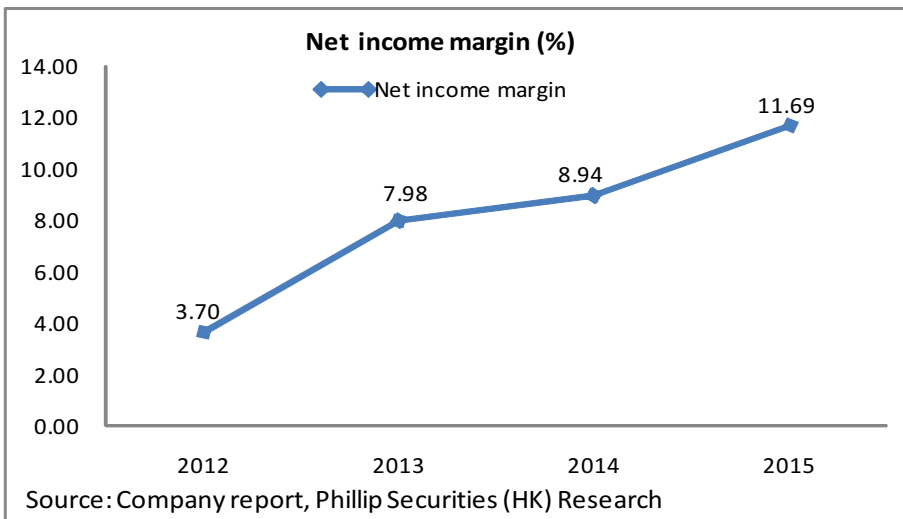
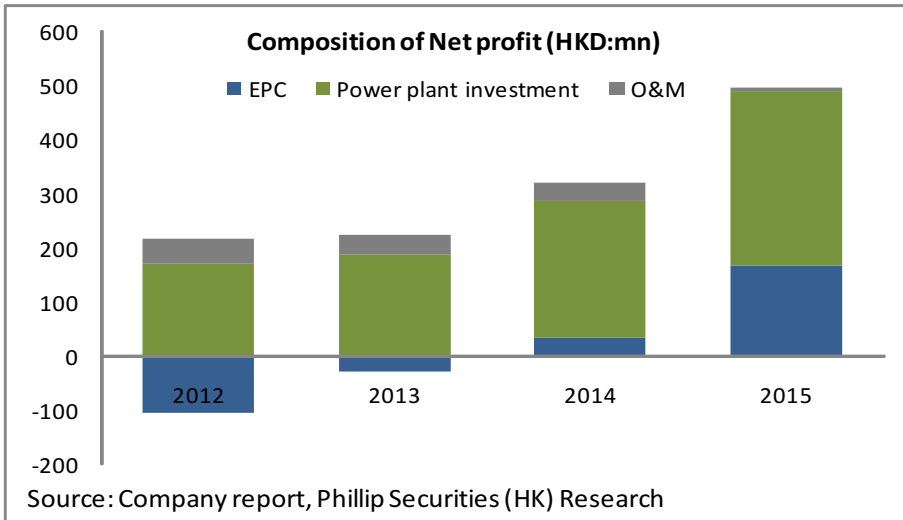
As a number of ultra-high voltage (UHV) transmission lines will be put into operation in 2017, the grid curtailment in the industry will be gradually improved, and the power generation utilization hours are projected to gradually increase due to the implementation of government-subsidized purchase policies. Under the continuous optimization and adjustment of asset structure, the company's revenue from and profit contribution of power generation business are constantly increasing, leading to further growth in overall profits. Furthermore, since the end of last year the company has repurchased a total of 212 million shares and the continuous share repurchase also helps to boost investor confidence. But the policy of cutting on-grid price imposes pressure on the company's valuation. Given the PV projects held by the company are basically located in the areas without curtailment, we believe that the company's net profit in 2016 and 2017 will be basically unaffected. Therefore, we give the company the target price of HK\$0.60 and the "Buying" rating. (Closing price as at 19 October 2016)



Risk Warnings

- The implementation of policy falls short of expectations;
- Operating of power plants under construction fails to meet expectations;
- Changes in curtailment policy;





Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
Price Earnings(P/E)	19.5	10.8	6.8	5.5	4.6
Price to Book(P/B)	0.6	0.6	0.6	0.6	0.5
Per share data(HKD)					
EPS, Adjusted	0.020	0.036	0.057	0.072	0.085
Book Value Per Share	0.62	0.63	0.64	0.71	0.78
Dividends Per Share	0.00	0.00	0.01	0.01	0.01
Growth & Margins(%)					
Growth					
Revenue	71.3%	87.9%	21.7%	-24.9%	25.4%
Operating income	207.1%	201.2%	104.2%	32.9%	26.8%
Net profit	277.5%	109.9%	60.3%	23.0%	19.3%
Margins					
Operating profit margin	4.5%	7.3%	12.2%	21.6%	21.9%
Net income margin	8.0%	8.9%	11.7%	19.2%	18.3%
Key Ratios					
ROE(%)	3.0%	5.6%	9.0%	10.1%	10.9%
ROA(%)	1.7%	3.1%	4.0%	4.1%	4.5%
Income Statement(HKD million)					
Revenue	1,893	3,557	4,330	3,250	4,075
- Operating Expenses	1,807	3,297	3,801	2,547	3,184
Operating Income	86	259	529	703	892
- Net Non-Operating Loss	-212	-239	-136	-111	-89
Pretax Income	193	392	549	684	821
- Income Tax Expense	42	74	43	57	73
Net profit	151	317	508	625	745

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 19 October 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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2016 Phillip Securities (Hong Kong) Limited

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