

China Resource Power (00836.HK)

Review on Recent Price Correction in the Power Industry:
Hong Kong | Power and Renewables | Update Research Report

20 Oct 2021

Buy (Update)

CMP HKD 18.42

(Closing price as of 18 Oct)

Target HKD 33.4 (+81.32%)

COMPANY DATA

O/S SHARES (MN) :	4,810
MARKET CAP (HKD MN) :	88,600
52 - WK HI/LO (HKD):	24.8/7.5

SHARE HOLDING PATTERN, %

China Resource (power) ltd.	62.93%
Vanguard Group Inc	1.57%
Blackrock Fund Advisors	0.73%

Analysis on Recent Price Correction in the Power Industry:

On the evening of October 7, a letter was circulated on the Internet regarding the approval of additional coal mine production capacity in 72 sites in Inner Mongolia. On October 8, the power and coal industries record an approximately 5% - 15% share price correction on a single-day. We view the market correction is due to the concerns with potential increase on coal supply driving coal prices to fall that ultimately affect the pace of electricity price increase. Our take on the news is increase supply of coal is positive for CRP, the increase on thermal coal prices since August has reached about 67%, much higher than the upper adjustment limit on electricity price of 10%/15% (even at the latest revision of 20%). We view increase on coal-supply is positive for CRP. On October 8th, the State Council states the adjustment allowed for electricity prices was raised from about 10%/15% to 20%.

Looking at the longer-term, we maintain the price target of \$33.4 HKD for CRP with positive prospects; 1). Accelerated transition to new energy power generation during the 14th-Five Year Plan period and 2). Possibility of A-share fund-raising.

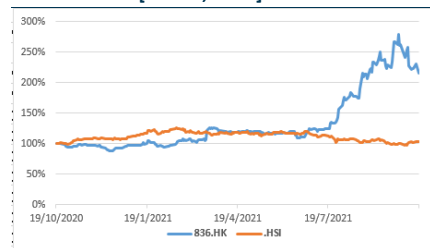
Risk factors:

1. Slowdown on power generation growth.

Recent Government Policies:

Announcement Date:	Policy Statement:	Policy Highlight:
Oct 8, 2021	Widening Allowed adjustment range on electricity price from 10%, 15% to 20%.	Widening the Allowed adjustment range on electricity price from no more than 10% and 15%, respectively for different regions, to no more than 20% in principle. For high energy-consuming industries, electricity price shall be formed by market transactions, and do not subject to the 20% adjustment limit on electricity price.
Oct 7, 2021	Paper circulated on the Internet <<Inner Mongolia Autonomous Region Energy Bureau's emergency notice on accelerating the release of coal mine production capacity>>	Approved 72 coal mine production capacity to begin production that would potentially release 98.35 million tons of production capacity.
Sept 16, 2021	<<Improve the dual control scheme of energy consumption intensity and total amount>>	By 2025, the dual control system of energy consumption will be more complete, the allocation of energy resources will be more reasonable, and the utilization rate will be greatly improved.

PRICE VS. HIS [Oct 18, 2021]



Source: Wind, PSHK

KEY FINANCIALS

HKD mn	FY19	FY20	FY21E	FY22E
Net Sales	67,758	69,551	81,455	86,614
Net Profit	6,590	7,583	6,551	11,144
EPS, HKD	\$ 1.37	\$ 1.58	\$ 1.36	\$ 2.32
P/E, x	24.9	18.5	24.5	14.4
BVPS, HKD	15.2	17.8	18.7	20.0
P/BV, x	2.20	1.87	1.79	1.67
DPS (HKD)	0.55	0.63	0.55	0.93
Div. Yield (%)	1.64%	1.89%	1.63%	2.78%

Source: Company reports, Phillip Securities Est.

Phillip (HK) Research Team:
(852) 2277-6514
research@phillip.com.hk

Increase supply of coal would relieve pressure on coal-fired power generation.

On the evening of October 7, a paper circulated on the Internet named "emergency notice from the Energy Administration of Inner Mongolia Autonomous Region on Accelerating the Release of Part of Coal Mine Production Capacity". The primary takeaway from this paper is 72 coal mines have been approved for additional production that will release about 98.35 million tons of production capacity, accounted for approximately 2.5% of the 3.9 billion tons of raw coal output in China in 2020. Thermal power generation from January to August 2021 increased by 13.7%, however the growth on coal supply is limited. We view thermal power companies are expected to a). Reduce coal prices and operating losses for coal-fired capacity, b). Provide sufficient coal supply to ensure utilization hours.

We view the reason for shortage on coal is due to a). Strong demand for electricity consumption. From January to August in 2021, total electricity consumption in China increased by 14.7%/15.4% compared with the same period in 2020/2019. The increase on electricity consumption is at 13.7% that outpace the production increase on coal in China at 4.4%.

Figure 1: China Coal Statistics.

	2017	2018	2019	2020	Jan - Aug		
					2019	2020	2021
China Coal production ('000 million ton)	35.2	36.8	38.5	39	24.93	24.88	25.97
Growth (yoy%)	3.3%	4.5%	4.6%	1.3%	4.5%	-0.19%	4.4%
China imported Coal ('000 million ton)	2.71	2.82	3	3.04	2.20	2.20	1.98
Growth (yoy%)	6.3%	4.1%	6.4%	1.3%	8.1%	0.02%	-10.3%
Total energy consumption ('000 million kwh)	63,077	68,449	72,255	75,110	47,422	47,676	54,704
Growth (yoy%)	6.6%	8.5%	4.5%	3.1%	4.4%	0.54%	14.7%
Total Coal-fired Electricity Generation ('000 million kwh)	46,627	49,795	51,654	52,799	34,206	34,069	38,723
Growth (yoy%)	5.1%	6.8%	3.7%	2.2%	3.3%	-0.4%	13.7%

Source: NBS, NEA

Source: company, PSHK

Allowed Price Adjustment on Electricity Price widen to 20%, while Energy-Intensive Industries are not subject to the Limit.

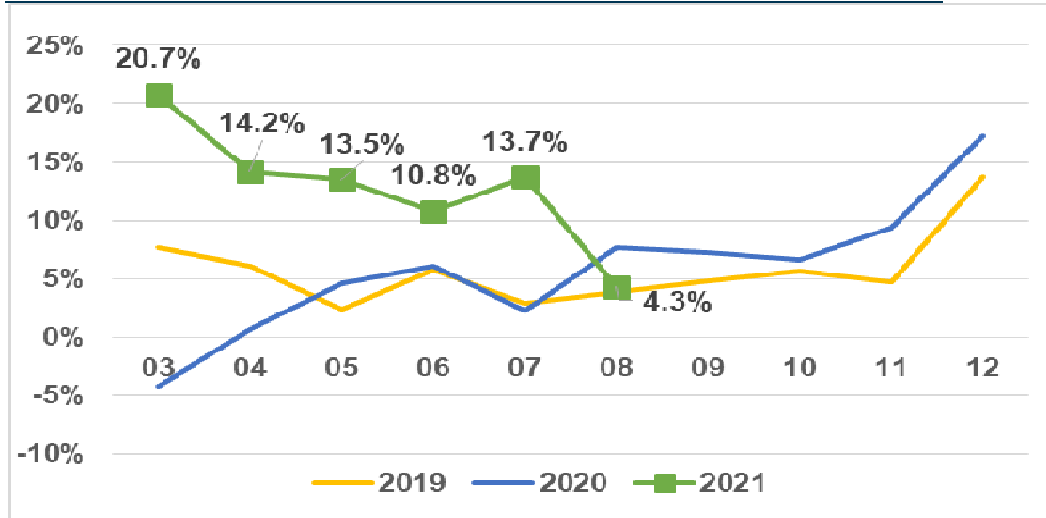
On October 8, the executive meeting of the State Council made it clear that "on the premise of maintaining stable electricity prices for residents, agriculture, and public welfare undertakings, the allowed price adjustment on electricity prices shall not exceed 10% and 15%, respectively. In principle, they shall not exceed 20%. For high energy-consuming industries, electricity price are not subject to the 20% adjustment limit." I view that would relieve the pressure of rising coal-price into the input cost.

Power Consumption Growth Expected to Slow Down in the Coming Months.

According to the Barometer of Completion of Energy Consumption Dual Control Targets in Various Regions in the first Half of 2021 published by the National Development and Reform Commission on August 17 2021, the energy intensity in 9 provinces in the first half of the year did not fall but increased and being issued a first-level warning. Compared with the barometer of the completion of the dual control targets for energy consumption in the first three quarters of 2020, we view the pressure on power curtailment and emission reduction is heavy. It will lead to a

reduction on demand for coal-fired generation. We view electricity consumption growth deceleration would relieve pressure on rising coal price and thus improving the operation of CPR.

Figure 2: China Electricity Consumption Growth (yoy %)



Source: company, PSHK

Risk factors

- 1) The illness is not controlled as expected
- 2) Coal prices continue to rise sharply.
- 3) The scale of new energy installed capacity is less than expected.
- 4) The price of photovoltaic/wind power equipment has risen more than expected.
- 5) The subsidy collection rate is slower than expected.

Financial Forecast:

Consolidated Statement of Profit or Loss					
Dec Y/E, HKD mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	67,758	69,551	81,455	86,614	90,724
COGS (fuel cost)	(33,318)	(32,494)	(45,018)	(40,679)	(39,594)
Gross Profit	34,440	37,057	36,437	45,935	51,130
Depreciation & amortization	(10,631)	(11,713)	(12,984)	(14,747)	(16,510)
Employee salary expenses	(5,190)	(6,001)	(6,282)	(6,631)	(6,971)
Repair and maintenance	(1,954)	(2,119)	(2,224)	(2,351)	(2,473)
Material costs	(1,036)	(1,043)	(1,133)	(1,216)	(1,288)
Rental and other costs	(765)	(701)	(761)	(817)	(865)
Other expenses	(2,684)	(2,157)	(2,342)	(2,514)	(2,664)
Operating Profit	12,179	13,323	10,711	17,659	20,358
Impairment losses	(2,284)	(600)	(651)	(699)	(741)
Other income	2,851	2,460	2,881	3,064	3,209
Other gains and losses	143	(1,090)	-	-	-
Financing costs	(3,787)	(3,422)	(3,922)	(4,324)	(4,608)
JV and associates	551	799	936	996	1,043
Earning before tax	9,653	11,471	9,956	16,696	19,262
Income tax expense	(2,312)	(2,794)	(2,425)	(4,067)	(4,692)
Net earning	7,341	8,677	7,531	12,629	14,570
Attrib. to NCI	(751)	(858)	(745)	(1,249)	(1,441)
Attrib. to Perpetual Equity	-	(235)	(235)	(235)	(235)
Profit attributable to owner	6,590	7,583	6,551	11,144	12,893
Key Financial Data					
Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	24.92	18.52	24.53	14.42	12.46
P/B ratio, x	2.20	1.87	1.79	1.67	1.54
Dividend Yield, %	1.64%	1.89%	1.63%	2.78%	3.21%
Per share data (HKD)					
EPS	1.37	1.58	1.36	2.32	2.68
BVPS	15.16	17.84	18.65	20.04	21.65
DPS (HKD)	0.55	0.63	0.55	0.93	1.07
Growth & Margin					
Growth					
Revenue Growth	-11.9%	2.6%	17.1%	6.3%	4.7%
Gross Profit Growth	-8.2%	7.6%	-1.7%	26.1%	11.3%
Operating Profit Growth	3.9%	9.4%	-19.6%	64.9%	15.3%
Net Profit Growth	66.8%	15.1%	-13.6%	70.1%	15.7%
Margin					
Gross Profit Margin	50.8%	53.3%	44.7%	53.0%	56.4%
Operating Profit Margin	18.0%	19.2%	13.2%	20.4%	22.4%
Net Profit Margin	9.7%	10.9%	8.0%	12.9%	14.2%
Key Ratios					
ROE	9.2%	9.6%	7.5%	12.0%	12.9%
ROA	3.1%	3.2%	2.4%	3.8%	4.1%

Source: Wind, PSHK, as of Oct 18, 2021

Consolidated Statement of Financial Position					
Dec Y/E, HKD mn	FY19	FY20	FY21E	FY22E	FY23E
Asset					
PPE	150,581	180,817	197,833	213,086	226,576
Accounts receivable, net of allo	20,395	31,428	36,808	39,139	40,996
Other receivables	12,076	9,850	11,536	12,267	12,849
Associates and JV loans & inves	14,440	14,503	15,108	15,750	16,424
Inventories	3,172	2,912	3,410	3,626	3,798
Mining & natural resources righ	472	4,626	4,626	4,626	4,626
Operating lease right of use ass	5,378	5,704	6,680	7,103	7,440
Cash and cash equivalents	4,907	5,036	5,595	6,648	8,476
Others	4,315	4,756	4,903	4,967	5,018
Total Assets	215,736	259,632	286,498	307,211	326,202
Liabilities					
Accounts Payable and Accrued	28,720	33,587	39,335	41,827	43,812
Borrowings	87,904	102,267	115,660	124,627	131,406
Payables to associate & JVs	7,357	8,257	9,670	10,283	10,770
Others	5,039	9,571	11,209	11,919	12,484
Total Liabilities	129,020	153,682	175,875	188,655	198,472
Equity					
Perpetual equity	5,582	10,827	10,827	10,827	10,827
NCI	8,210	9,320	10,065	11,315	12,756
Shareholders' Equity	72,924	85,803	89,731	96,415	104,147
Total Equity	86,716	105,950	110,624	118,556	127,730
Total Liabilities and Equity	215,736	259,632	286,498	307,211	326,202
Net gearing (%)	95.7%	91.8%	99.5%	99.5%	96.2%
Total liabilities/total Assets (%)	59.8%	59.2%	61.4%	61.4%	60.8%
Consolidated Statement of Cash Flow					
Dec Y/E, HKD mn	FY19	FY20	FY21E	FY22E	FY23E
CFO					
Profit before tax	9,653	11,470	9,956	16,696	19,262
D&A	10,631	11,713	12,984	14,747	16,510
Chg in working cap	(2,336)	(3,496)	260	113	90
Income tax paid	(2,044)	(2,793)	(2,573)	(4,131)	(4,743)
Others	4,603	3,808	2,986	3,329	3,565
CFI	(21,395)	(28,624)	(29,668)	(29,647)	(29,630)
Capex	(22,542)	(30,529)	(30,000)	(30,000)	(30,000)
Others	1,146	1,905	332	353	370
CFF	(2,085)	7,495	6,614	(54)	(3,225)
Interest paid	(4,230)	(3,975)	(4,157)	(4,560)	(4,843)
Dividend paid	(2,573)	(3,581)	(2,622)	(4,461)	(5,161)
Total bond issuance	(1,483)	14,286	13,393	8,967	6,779
Others	6,202	765	-	-	-
Net Change in Cash	(2,972)	(427)	559	1,053	1,828
Foreign exchange	(97)	556	-	-	-
Cash and CE at Y/E	4,907	5,036	5,595	6,648	8,476

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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Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

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 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

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

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 (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

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