

China Alternative Energy Industry

Sep power consumption up 7%YoY; focus on alternative energy players

- China National Energy Administration (NEA) and China Electricity Council (CEC) released data on power consumption and generation
- Overall power consumption grew 7.2%YoY in Sep; 9M17 growth was 6.9%YoY. Strong tertiary industrial consumption and recovery in secondary industrial consumption were drivers
- Overall power generation grew 5.3%YoY in Sep; 9M17 growth was 6.4%YoY. Strong growth in wind / nuclear power is the bright spot
- We remain **POSITIVE** on China Alternative Energy sector. Recommend **BUY** for Longyuan Power (916 HK, BUY, TP HK\$7.50) and CGN Power (1816 HK, BUY, TP HK\$3.00).

On Oct 13, China's National Energy Administration (NEA) released data on electricity consumption in Sep. Overall power consumption reached 532 bn kWh, up 7.2% YoY, vs. the 6.4% YoY increase in Aug. 9M17 growth was 6.9% YoY vs. 4.5% YoY in 9M16.

Secondary industrial consumption growth remained modest. This segment accounted for 64% of total power consumption in Sep. Secondary industrial consumption was up 5.1% YoY in Sep, compared to 2.6% YoY in Aug. 9M17 consumption was up 6.0% YoY - a modest growth rate in our view.

Tertiary industrial consumption was robust. This segment accounted for 16% of total power consumption in Sep. Tertiary industrial consumption was up 11.9% YoY in Sep, similar to 12.7% YoY in Aug. 9M17 consumption extended its robust trend and was up 10.5% YoY.

Residential consumption serves as another bright spot. This segment accounted for 18% of total power consumption in Sep. Residential consumption was up 11.7% YoY in Sep, lower than the 16.4% YoY growth in Aug. 9M17 consumption was up 7.5% YoY, providing a solid support to the national power demand.

China Electricity Council (CEC) released Sep data on electricity generation on Oct 23. Overall power generation reached 522 bn kWh (+5.3%YoY), up from the 4.8%YoY increase in Aug. 9M17 generation was up 6.4% YoY vs. 4.1% YoY in 9M16.

Wind power jumped 47% YoY in Sep – a bright spot. The segment accounted for 4% of total power generation in Sep. Wind power generation jumped 47%YoY in Sep and 9M17 growth reached 26% YoY. Wind power showed the strongest growth in power generation among the energy segments.

Nuclear power generation growth stayed strong in Sep. The segment accounted for 4% of total power generation in Sep. Nuclear power was up 22%YoY in Sep, up from 14%YoY in Aug. 9M17 power generation extended its robust trend to grow by 19%YoY.

Coal-fired power generation declined in Sep. The segment accounted for 69% of total power generation in Sep. Coal-fired generation declined 0.5% YoY in Sep; 9M17 power generation was up 6.3%YoY growth,

Sector Report

Oct 23, 2017

OVERWEIGHT

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Wind power sector key data

Avg.17E P/E (x)	8.7
Avg.17E P/B (x)	0.8
Avg.17E Dividend Yield (%)	3.0

Source(s): Bloomberg, ABCI Securities

Nuclear power sector key data

Avg.17E P/E (x)	10.1
Avg.17E P/B (x)	1.4
Avg.17E Dividend Yield (%)	3.0

Source(s): Bloomberg, ABCI Securities

Wind sector performance

	Absolute	Relative*
1-mth	7.70%	4.16%
3-mth	14.84%	8.16%
6-mth	19.26%	5.46%

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

Nuclear sector performance

	Absolute	Relative*
1-mth	5.05%	1.52%
3-mth	1.33%	(5.33%)
6-mth	2.14%	(11.64%)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities



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running behind the overall run rate of 6.4%YoY. We believe measures to discourage coal-fire use nationwide will continue to exert pressure on the segment.

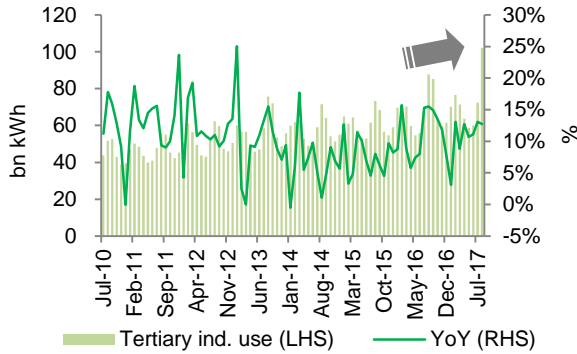
Power consumption will continue to recover in the remainder of 2017; alternative energy will extend its robust growth. As industrial activities continue to recover, we expect China's power consumption to increase by 7% YoY over the next few months. More specifically, independent power producers (IPP) would benefit. For power generation, alternative energy (e.g. nuclear, wind etc.) operators would continue to thrive on the government's efforts in developing alternative energy and reducing reliance on coal-fire power.

Focus on alternative energy players. We advise investors to focus on wind power energy players such as Longyuan Power (916 HK; BUY; TP HK\$7.50) and Huaneng Renewables (958 HK; BUY, TP HK\$3.00); For nuclear power players, we like CGN Power (1816 HK, BUY, TP HK\$3.00)

Risks: (1) Power curtailment risk; (2) Wind resources risk; (3) Tariff risk; (4) Construction risks; (5) Fundraising risk (6) Government policy to deleverage may constrain future growth.

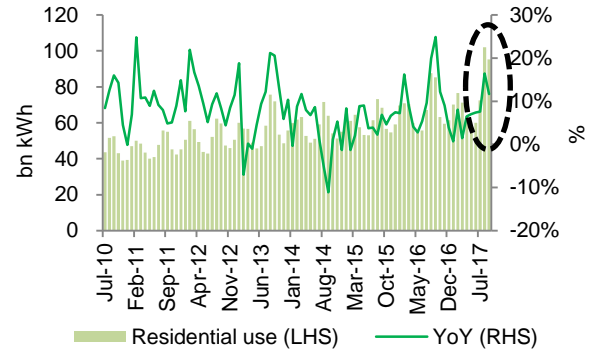


Exhibit 1: China's tertiary industry power demand is trending up



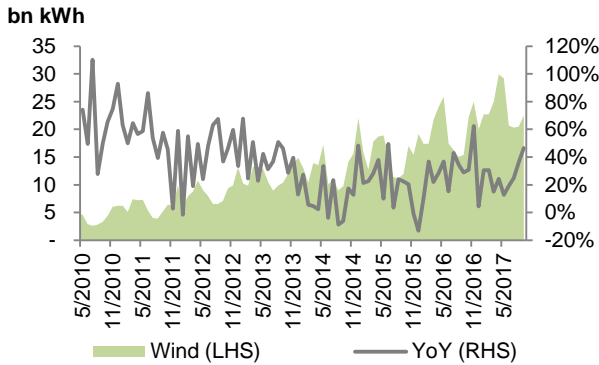
Source(s): NEA

Exhibit 2: China's residential power demand surged in Aug



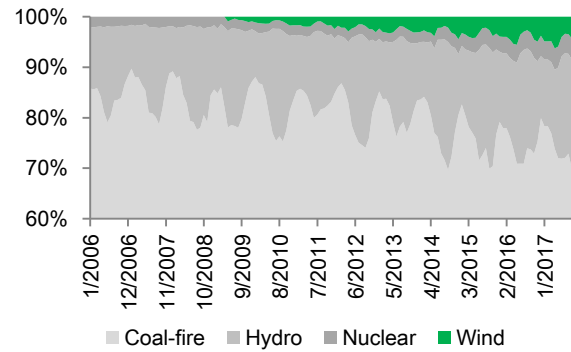
Source(s): NEA

Exhibit 3: China's monthly wind power generation stays robust



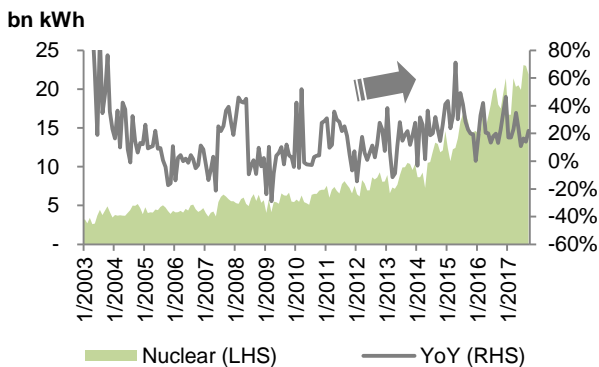
Source(s): CEC

Exhibit 4: The portion of wind power generation in China's overall power output maintains an uptrend



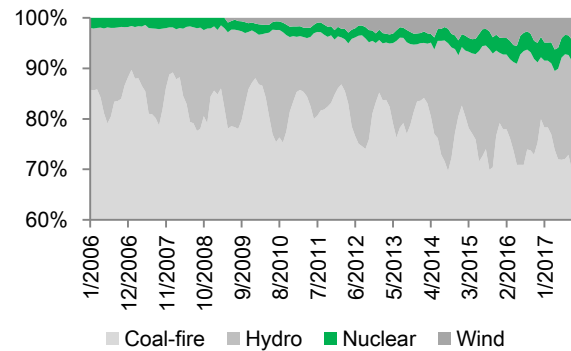
Source(s): CEC

Exhibit 5: China's monthly nuclear power generation has been increasing



Source(s): CEC

Exhibit 6: The mix of nuclear power generation in China's overall power output is increasing



Source(s): CEC



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Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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