



October 13, 2015  
 Company Report  
 Rating: BUY  
 TP: HK\$ 3.70

H-Share price (HK\$)	3.07
Est. share price return	20.52%
Est. dividend yield	1.48%
Est. total return	22.00%

Analyst: Kelvin Ng  
 Tel: (852) 2147 8869  
 Email: kelvinng@abci.com.hk

**Key Data**

Market share (HK\$m)	29,865
3-mth avg. daily turnover (HK\$ mn)	75
52-week high/low (HK\$)	3.80/2.33
Issued shares (mn)	9,728
Major shareholder(s) (%):	
Huaneng Group	54.0

Source(s): Company, Bloomberg, ABCI Securities

**FY14 Revenue breakdown (%)**

Sales of electricity	99.4
Others	0.6

Source(s): Company, ABCI Securities

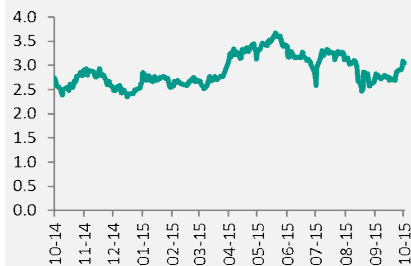
**Share performance (%)**

	Absolute	Relative*
1-mth	9.64%	3.94%
3-mth	-4.06%	5.22%
6-mth	-4.78%	12.75%

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance**



Source(s): Bloomberg, ABCI Securities

## Huaneng Renewables (958 HK)

### A fast-growing play and a future giant

- Huaneng's capacity would grow by 18%/20% YoY in 2015E/16E due to its low base
- Huaneng's parent company, Huaneng Group, is the largest IPP in China and will provide strong support to its renewable arm
- Huaneng is currently trading at 13x 2015E P/E, representing a 13%/24% discount to Longyuan and Datang Renewable. With Huaneng's quality ROE and capacity growth, we believe its current valuation is attractive
- We recommend **BUY** with a DCF-derived TP at HK\$3.70, which represents 16x/14x 2015E/16E P/E and 1.7x/1.5x 2015E/16E P/B

**Strong 2015/16E capacity growth at 18%/20% YoY.** In the analyst meeting for 1H15 results, the Group's management said 2GW/1.5GW of new capacity will be added in 2015 and 2016. We expect Huaneng's capacity to grow by 18%/20% YoY in 2015E/16E. Huaneng's capacity expanded by 37% CAGR in 2009-14, and we believe the Group is very likely to maintain its solid growth in 2015E/16E. Huaneng's installed wind power capacity by end-2014 was equivalent to 56% to that of the Longyuan, which is the market leader in China's wind power generation. The Group is likely to ramp up its capacity in the future.

**Backed by its strong parent company.** On Sep 30, 2013, the parent company of Huaneng Renewables, Huaneng Group, agreed to transfer 100GWh of generation rights to Huaneng Renewables. Although this only added 1% to gross generation of Huaneng Renewables in 2013, this action illustrates the willingness of its parent company (the largest IPP in China) to support its renewable energy arm.

**Attractive valuation.** The Group is currently trading at 13x 2015E P/E based on Bloomberg estimate, which represents a 24% discount to its close peer, Datang Renewable (1798 HK), at 17x and 13% lower than market leader, Longyuan (916 HK), at 15x. We believe Huaneng's current valuation is attractive as the Group's higher ROE (6.6% in 2014 vs. Datang's -1.4%) and better future capacity growth outlook than Datang Renewable (18% in 2015E vs. Datang's 14%). Its current valuation is unjustified and re-rating may take place in near term.

**BUY with TP at HK\$ 3.70.** Our DCF-derived TP was HK\$3.70 based on a WACC of 8%, representing 16x/14x FY15E/16E P/E and 1.7x/1.5x FY15E/16E P/B. Recommend **BUY** on robust wind capacity growth, a relatively low unit all-in capacity cost, and firm support by a strong parent company.

**Risk factors:** (1) Slower-than-expected capacity growth; (2) Earnings dilution; (3) Policy risks.

**Results and Valuation**

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	5,909	6,151	8,498	10,598	12,548
Chg (% YoY)	46.7	4.1	38.2	24.7	18.4
Net Income (RMB mn)	913	1,066	1,813	2,122	2,684
Chg (% YoY)	63.6	16.8	70.0	17.0	26.5
EBITDA (RMB mn)	4,752	5,614	7,758	9,690	11,439
Chg (% YoY)	25.6	18.2	38.2	24.9	18.0
EPS (RMB)	0.107	0.124	0.186	0.218	0.276
Chg (% YoY)	61.3	16.2	50.5	17.0	26.5
BVPS (RMB)	1.638	1.871	1.845	2.070	2.291
Chg (% YoY)	17.1	14.2	-1.4	12.3	10.7
P/E (x)	23.71	20.40	13.55	11.58	9.16
P/B (x)	1.54	1.35	1.37	1.22	1.10
ROE (%)	6.51	6.62	10.11	10.54	12.05
ROA (%)	1.50	1.44	1.94	1.98	2.27
DPS (RMB)	0.021	0.023	0.037	0.044	0.055
Yield (%)	0.83	0.89	1.48	1.73	2.18
Net gearing* (%)	194.1	225.8	289.1	300.5	298.7

\*Net gearing=Net debt/Total equity

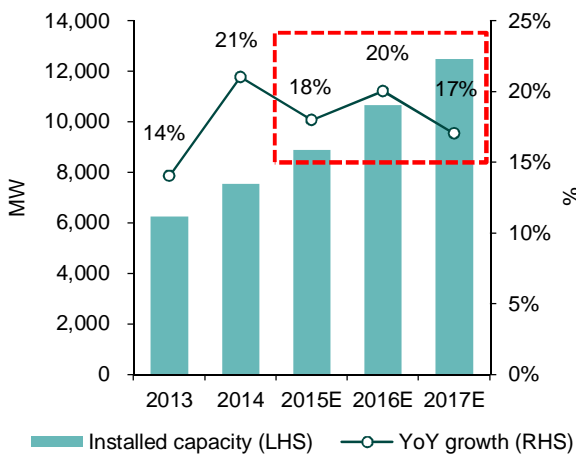
Source(s): Bloomberg, ABCI Securities estimates

## Key positives

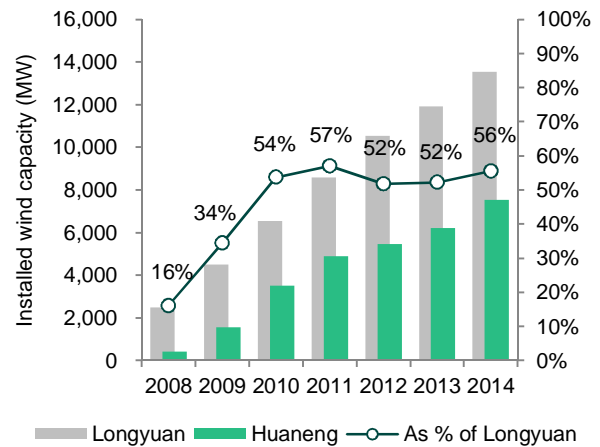
### Strong 2015/16E capacity growth at 18%/20% YoY

In the analyst meeting for 1H15 results, the Group's management said growth is 2GW/1.5GW of new capacity will be added in 2015 and 2016. We expect Huaneng's capacity to grow by 18%/20% YoY in 2015E/16E. Huaneng's capacity expanded by 37% CAGR in 2009-14, and we believe the Group is very likely to maintain its solid growth in 2015E/16E. Huaneng's installed wind power capacity by end-2014 was equivalent to 56% to that of the Longyuan, which is the market leader in China's wind power generation. The Group is likely to ramp up its capacity in the future.

**Exhibit 1: Huaneng's wind capacity growth should remain robust**



**Exhibit 2: Huaneng accounts for 56% of Longyuan's installed wind power capacity**



Source(s): Company data, ABCI Securities estimates

Source(s): Company data, ABCI Securities

### Backed by a strong parent company

Backed by its strong parent company. On Sep 30, 2013, the parent company of Huaneng Renewables, Huaneng Group, agreed to transfer 100GWh of generation rights to Huaneng Renewables. Although this only added 1% to gross generation of Huaneng Renewables in 2013, this action illustrates the willingness of its parent company (the largest IPP in China) to support its renewable energy arm.

### Attractive valuation

The Group is currently trading at 13x 2015E P/E based on Bloomberg estimate, which represents a 24% discount to its close peer, Datang Renewable (1798 HK), at 17x and 13% lower than market leader, Longyuan (916 HK), at 15x. We believe Huaneng's current valuation is attractive as the Group has a higher ROE (6.6% in 2014 vs. Datang's -1.4%) and better future capacity growth outlook than Datang Renewable (18% in 2015E vs. Datang's 14%). In addition, although Huaneng's wind farms are located in less ideal locations than those of Longyuan and this may have resulted in a lower utilization hour (caused by power curtailment), the counter is currently trading at 13% discount to Longyuan, and we believe the negatives have already been priced in. Hence, we believe Huaneng's current valuation is attractive.

### Relatively low all-in capacity cost and net gearing are advantages

As wind power operation is increasingly capital-intensive, a lower unit all-in capacity cost become crucial for wind power operators to expand business nationwide. Huaneng's unit all-in capacity cost is at around RMB11/W, 8% lower than the industry average of RMB12/W. This should provide the Group a key advantage to expand its capacity with less capital.

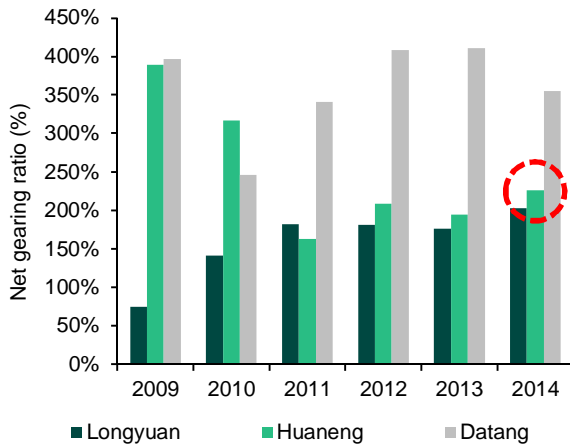
Driven by a relative low all-in capacity cost and better operational management, Huaneng's net gearing ratio (2014: 226%) is relatively low compared to 354% in

Datang Renewable (1798 HK) and 319% in Huadian Fuxin (816 HK). A lower net gearing ratio should enable the Group to expand capacity and acquire assets at greater speed and lower cost.

**Increasing exposure in southern China should help improve utilization hour**

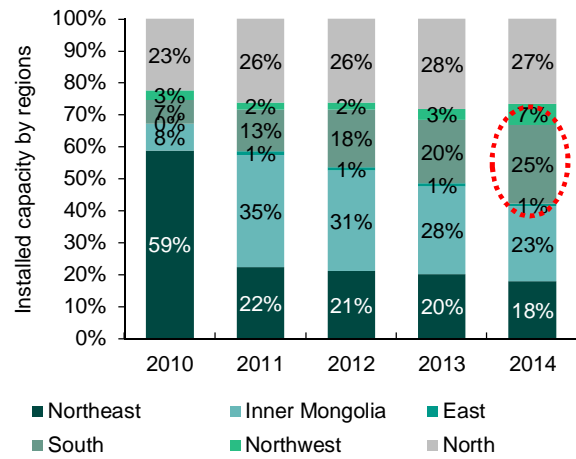
Given wind power operation in north China is severely disrupted by power curtailment caused by bottleneck of power transmission system. Huaneng used to have a high exposure in northern China (Northeast and Inner Mongolia regions accounted for 67% of its total capacity in 2010), which negatively impacted its utilization hours. However, the Group has been increasing its exposure in south China in recent years and the region accounted 25% of total capacity in 2014, compared to 7% in 2010. Huaneng's determination to expand in south China should boost utilization hour in the future.

**Exhibit 3: Huaneng's net gearing ratio is relatively low when compared to peers**



Source(s): Company data, ABCI Securities

**Exhibit 4: Huaneng's capacity in East and South regions have been increasing**



Source(s): Company data, ABCI Securities

## Major concerns

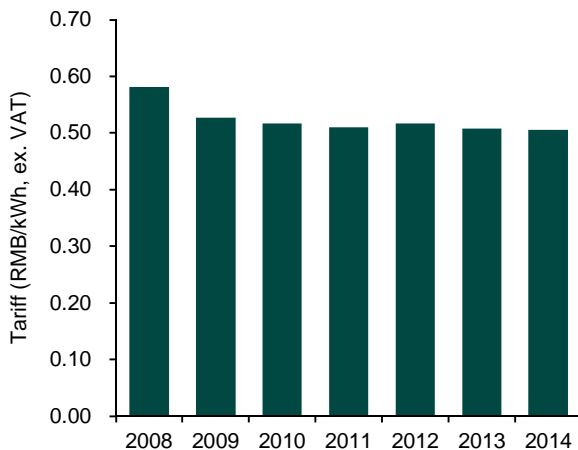
### Long-term wind power tariffs to maintain a downtrend

Like most wind power operators, Huaneng's future wind power tariff is likely to maintain a downtrend because 1) China is likely to encourage the switch from traditional coal-fire power to wind energy by lowering wind power tariff; 2) China may lower the financial burden of industrial power users to boost the weakening industrial activities. Hence, we believe China's wind power tariff would trend down over the long term. Based on our estimates, for every 1% decline in wind power tariff, Huaneng's 2015E/16E earnings will fall by 3.7%/4.0%.

### Highest interest costs among peers

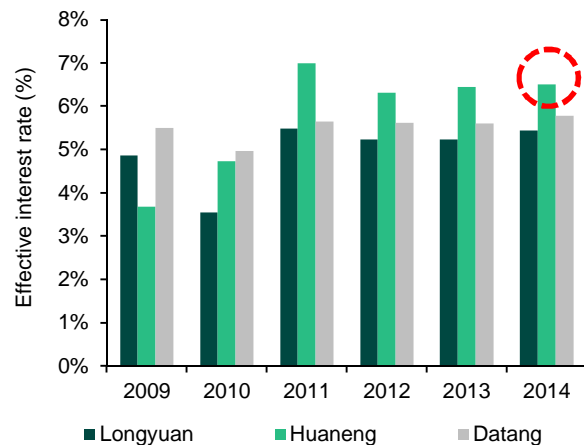
Huaneng has the highest interest cost rate among the three operators in our coverage universe. Its effective interest rate was 6.5% in 2014, higher than Longyuan's 5.4% and Datang's 5.8%. Its declining interest coverage ratio of 1.5x in 2014 suggests any increase in the interest rate could negatively impact its net income. We estimate that for every 1% rise in interest rate, Huaneng's 2015E/16E net income will fall by 18%/22%.

**Exhibit 5: Huaneng's wind power tariff has been trending down**



Source(s): Company data, ABCI Securities

**Exhibit 6: Huaneng has the highest effective interest rate among peers**



Source(s): Company data, ABCI Securities

## Future earnings outlook

Huaneng's low capacity base at present and low gearing ratio means aggressive expansion is likely in the future. We anticipate its 2015E net income to grow by 70% YoY to RMB 1.8 bn, driven by the 18% YoY wind power capacity expansion and a 7% YoY increase in utilization hours from 1,875 hours in 2014 to 2,004 hours in 2015E.

### Earnings growth

Huaneng's net income would reach RMB 1.8bn/RMB2.1bn in 2015E/16E, thanks to the robust wind capacity growth at 18%/20%YoY in the same period. Going forward, Huaneng is likely to maintain a double-digit growth in earnings based on its rapid capacity expansion. We believe the major overhangs to Huaneng's future earnings would include 1) decline in utilization hour on poor wind resources and potential power curtailment; 2) Increase in maintenance cost; 3) Increase in financing cost; 4).Reduced wind power tariff.

### Capacity growth

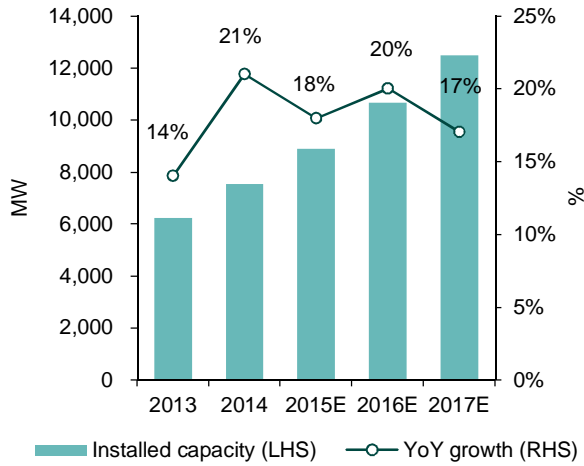
Huaneng is likely to be the fastest -growing wind power operator in the next few years as it is determined to become a wind energy giant in China. Management has revealed aggressive expansion plan of adding 2GW/1.5GW of new capacity in wind power in 2015E/16E. We estimate Huaneng's capacity would grow by 18%/20%YoY in 2015/16E. Looking forward, we believe the Group would maintain a double-digit capacity growth that would elevate its earnings.

### Net gearing ratio

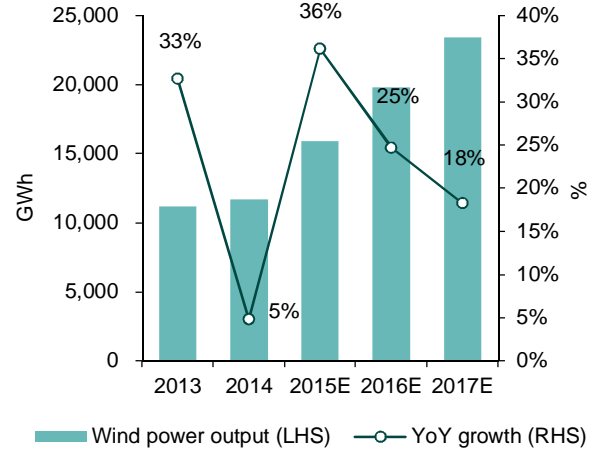
We believe Huaneng's future capex growth should remain high due to the Group's expansion in south China. Its gearing ratio is unlikely to fall significantly in the near term. Its long-term net gearing ratio should stay at the 200%-300% level.

### Dividend payout ratio

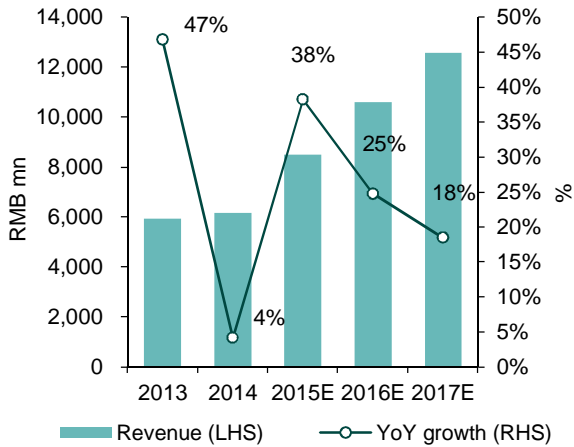
The Group's first dividend was issued in 2012 with a payout ratio of 23%. No guidance on its long-term payout ratio has been given. Considering the capital-intensive nature of the business and its high capex in the future; we anticipate a long-term payout ratio at ~20%.

**Exhibit 7: Huaneng's wind capacity outlook**


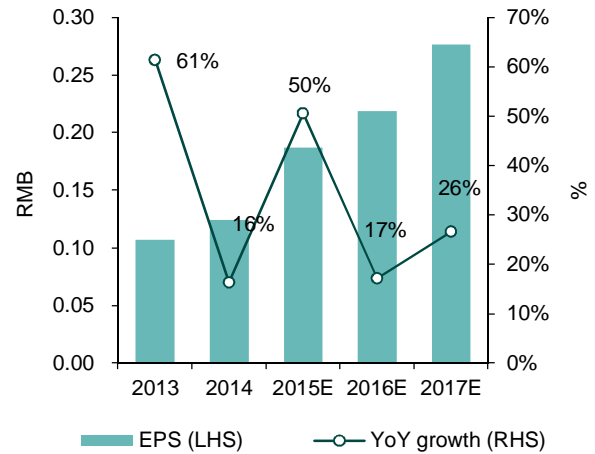
Source(s): ABCI Securities estimates

**Exhibit 8: Huaneng's gross wind power output**


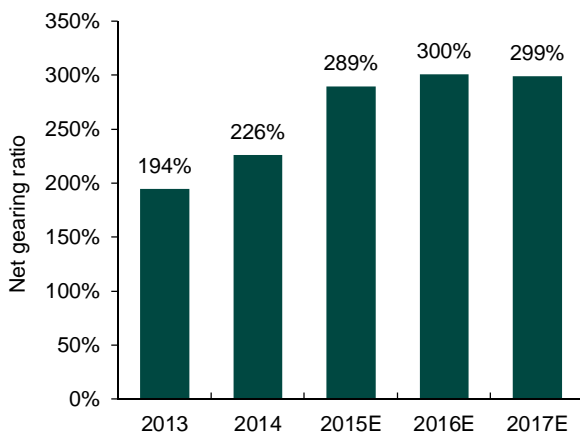
Source(s): ABCI Securities estimates

**Exhibit 9: Huaneng's revenue outlook**


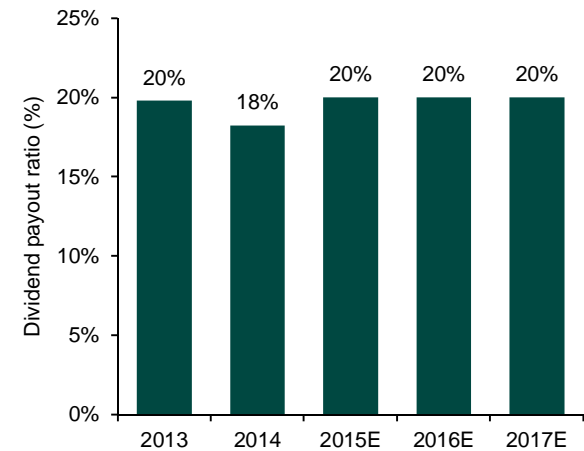
Source(s): ABCI Securities estimates

**Exhibit 10: Huaneng's EPS outlook**


Source(s): ABCI Securities estimates

**Exhibit 11: Huaneng's net gearing ratio**


Source(s): ABCI Securities estimates

**Exhibit 12: Huaneng's dividend payout ratio**


Source(s): ABCI Securities estimates

## Valuation

### Initiate with BUY, TP at HK\$3.70

We apply the DCF method in our valuation as future cash inflow is crucial to wind power operators. Initial investment by operators is high and asset value should emerge in future.

We initiate coverage on Huaneng with a **BUY** rating with a DCF-derived TP at HK\$3.70 based on an 8% WACC. Our TP is equivalent to 16x/14x 2015E/16E P/E and 1.7x/1.5x 2015E/16E P/B. Given Huaneng's asset quality is lower than Longyuan's, our lower valuation (Longyuan's TP equates to 19x/16x 2015/16E P/E) is justified. Based on Huaneng's robust wind capacity growth, relatively low unit all-in capacity cost and strong support from its parent company, we believe a **BUY** rating is justified.

### Share price catalysts

Given Huaneng is a fast-growing operator, any news on 1) progress of capacity growth in south China; 2) Power grid capacity improvement; 3) China's announcing new supportive policies should serve as strong share price catalysts.

**Exhibit 13: Huaneng's DCF calculation (2015E-2024E)**

Huaneng's DCF calculation	
Perpetual growth rate	1%
WACC	8%
Terminal value	175,863
PV of terminal value	79,703
Cum PV of CF stream	2,622
Enterprise Value	82,325
Less debt	(61,497)
Add cash on hand	9,634
Less: MI	(840)
Equity Value	29,622
Shares o/s	9,725
<b>Value per share(HK\$)</b>	<b>3.70</b>

Source(s): The Company, ABCI Securities estimates

**Exhibit 14: Huaneng's WACC calculation (2015E-2024E)**

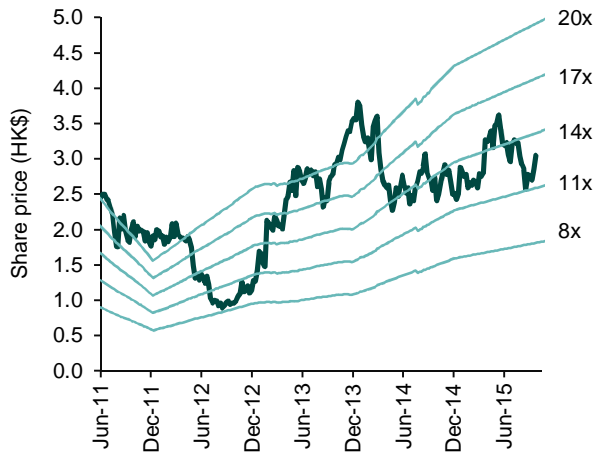
Assumptions	
Risk Free Rate of Return	3.4%
Long Term Cost of Debt	6.0%
Equity Risk Premium	12.7%
Beta	1.07
Tax Rate	25.0%
Target Debt to Total Capital	70.0%
Target Equity to Total Capital	30.0%
Cost of Equity	17.0%
<b>WACC</b>	<b>8.2%</b>

Source(s): The Company, ABCI Securities estimates

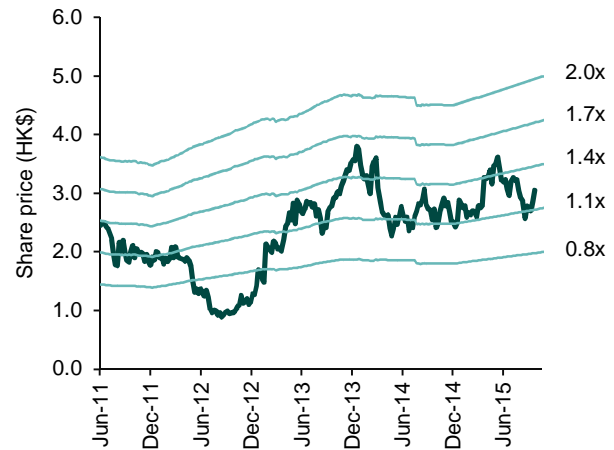
**Exhibit 15: Peer comparison**

Name	Stock code	Price	Mkt Cap (USDmn)	PER (x)		PBR (x)		Dvd Yield		ROE	
				FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
<b>HK &amp; China</b>											
China Longyuan	916 HK	8.75	9,073	14.9	12.7	1.6	1.4	1%	2%	11%	12%
Huaneng Renewables	958 HK	3.07	3,853	13.0	10.3	1.4	1.2	1%	2%	11%	12%
Datang Renewable	1798 HK	1.07	1,004	17.1	11.6	0.6	0.6	1%	1%	3%	5%
Huadian Fuxin Energy	816 HK	3.13	3,396	9.0	7.2	1.2	1.1	2%	3%	14%	15%
Beijing Jingneng Clean	579 HK	2.65	2,349	7.7	6.7	1.0	0.9	3%	4%	13%	15%
China Suntien Green Energy	956 HK	1.55	743	11.1	8.8	0.6	0.6	3%	4%	5%	7%
<b>Avg.</b>				<b>12.1</b>	<b>9.6</b>	<b>1.1</b>	<b>1.0</b>	<b>2%</b>	<b>2%</b>	<b>10%</b>	<b>11%</b>
<b>International</b>											
Acciona Sa	ANA SM	70.55	4,597	22.5	19.8	1.2	1.2	3%	3%	6%	6%
Theolia Sa - Regr	TEO FP	0.60	127	n.a.	n.a.	0.0	0.0	n.a.	n.a.	-4%	-1%
Edp Renovaveis Sa	EDPR PL	6.02	5,972	36.5	28.1	0.9	0.9	1%	1%	3%	3%
Greentech Energy Systems	GES DC	7.50	122	13.4	13.4	0.5	0.5	1%	1%	4%	4%
<b>Avg.</b>				<b>24.1</b>	<b>20.4</b>	<b>0.7</b>	<b>0.6</b>	<b>1%</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>

Source(s): Bloomberg, prices are as of Oct 12, 2015

**Exhibit 16: Huaneng's fwd PE chart**


Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 17: Huaneng's fwd PB chart**


Source(s): Bloomberg, ABCI Securities estimates



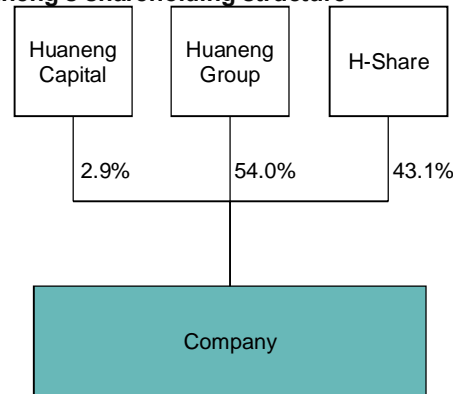
## Company overview

### Background

Huaneng is the sole renewable energy platform and subsidiary of Huaneng Group, the largest power generation company in China in terms of total installed capacity. Huaneng Group is the major shareholder of Huaneng and controls a 54% stake.

Huaneng Renewables has concentrated on wind power generation business since 1999, and its wind power farms are located in most regions in China. Huaneng was first listed on the Main Board of the Hong Kong Stock Exchange by way of a global offering in June 2011.

**Exhibit 18: Huaneng's shareholding structure**



Source(s): The Company, ABCI Securities

### Major assets and business

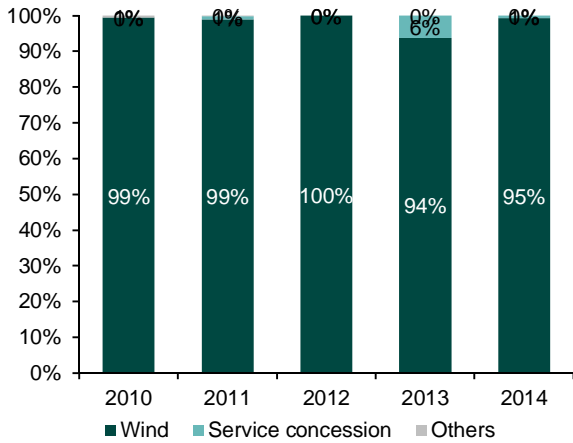
Huaneng currently controls 7,527 MW of wind capacity in China mainly located in Inner Mongolia and northern China, accounting for 8% of national existing wind capacity in 2014. About 23%/18% of the Group's capacity was located in Inner Mongolia/northern China in 2014.

Aside from wind power assets, Huaneng also commenced a solar power operation in recent years. The Group controlled 485MW of installed solar capacity in 2014, a 47% YoY increment from 330MW in 2013. Despite solar power contributed to only a tiny portion to Huaneng's overall power output, the segment could become another major revenue driver to Huaneng in the future.

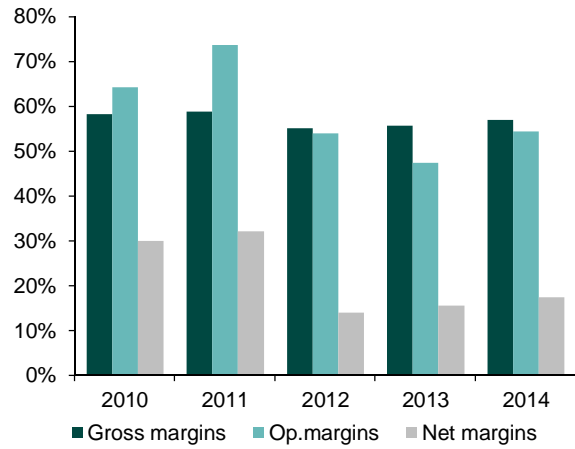
### Revenue breakdown

Huaneng reported revenue of RMB 6.2 bn for 2014, up 4% YoY, much lower than the 47% YoY growth in 2013. The reduced growth was mainly caused by an 8% decrease in wind power utilization hour that fell to 1,875 hours in 2014 from 2,029 hours in 2013.

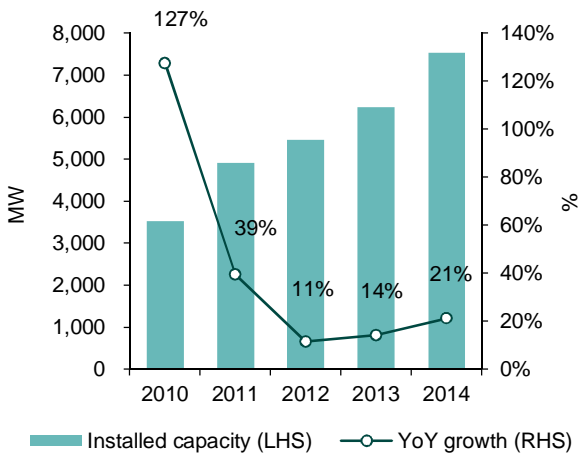
Overall operating margin remained high at the 50% level, driven by the high-margin wind power operation business. In 2014, overall operating margin was 54%, 7ppt higher than that in 2013 on lower operating expense.

**Exhibit 19: Historical revenue breakdown**


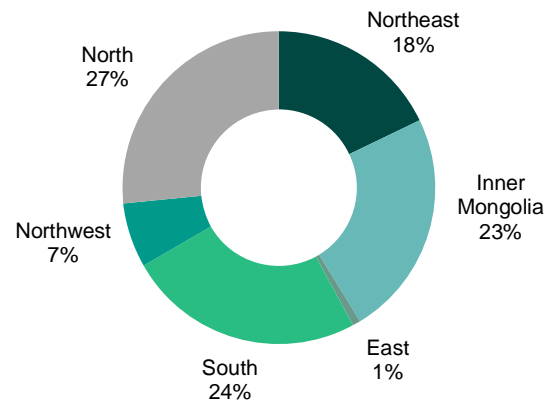
Source(s): Company data, ABCI Securities

**Exhibit 20: Huaneng's historical margins**


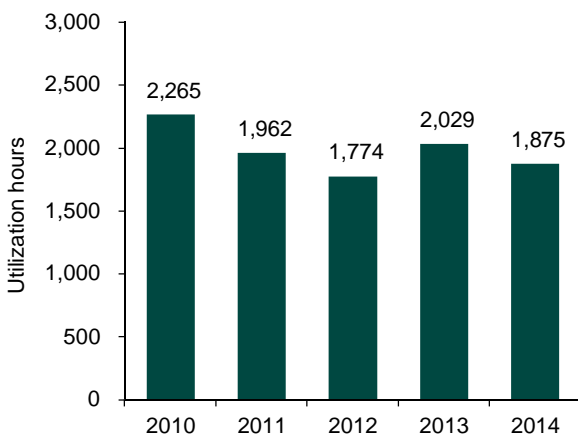
Source(s): Company data, ABCI Securities

**Exhibit 21: Huaneng's installed wind power capacity**


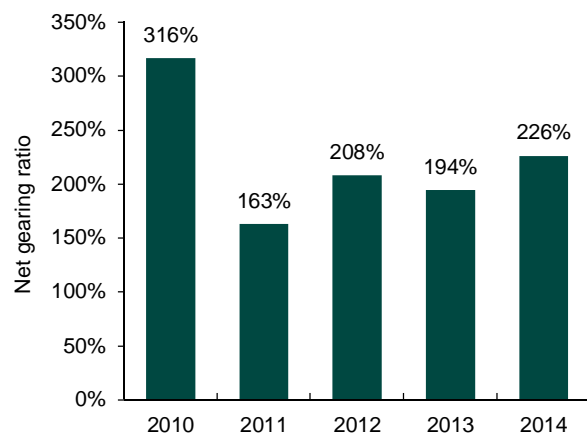
Source(s): Company data, ABCI Securities

**Exhibit 22: Huaneng's wind power capacity geographically distribution**


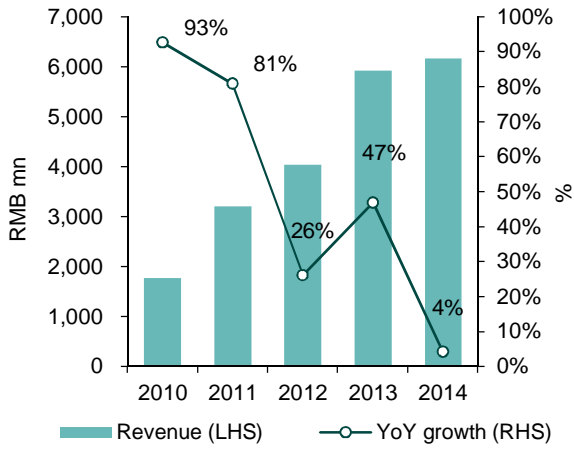
Source(s): Company data, ABCI Securities

**Exhibit 1: Huaneng's utilization hour trend**


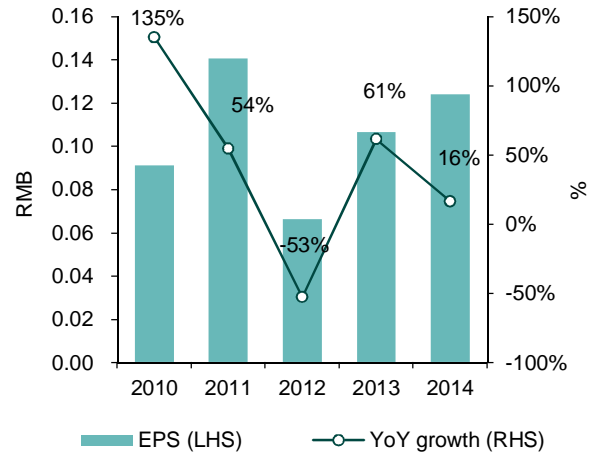
Source(s): Company data, ABCI Securities

**Exhibit 2: Huaneng's net gearing ratio**


Source(s): Company data, ABCI Securities

**Exhibit 23: Huaneng's overall revenue growth trend**


Source(s): Company data, ABCI Securities

**Exhibit 24: Huaneng's overall EPS growth trend**


Source(s): Company data, ABCI Securities



**Consolidated income statement (2013A-2017E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Revenue</b>	<b>5,909</b>	<b>6,151</b>	<b>8,498</b>	<b>10,598</b>	<b>12,548</b>
Wind power	5,440	5,728	7,918	9,818	11,547
Solar power	111	386	577	776	998
Other	358	37	4	4	4
<b>COGS</b>	<b>-2,621</b>	<b>-2,650</b>	<b>-3,668</b>	<b>-4,366</b>	<b>-5,038</b>
<b>Gross profit</b>	<b>3,287</b>	<b>3,501</b>	<b>4,830</b>	<b>6,232</b>	<b>7,511</b>
SG&A	-151	-187	-170	-212	-251
Net financial income (cost)	-1,780	-2,112	-2,493	-3,497	-4,058
Other income and gains	-346	30	-135	-145	-194
<b>Pre-tax profit</b>	<b>1,009</b>	<b>1,232</b>	<b>2,032</b>	<b>2,378</b>	<b>3,008</b>
Income tax	-67	-86	-163	-190	-241
<b>Net profit</b>	<b>942</b>	<b>1,147</b>	<b>1,869</b>	<b>2,188</b>	<b>2,767</b>
Profit attributable to:					
Minority interests	-29	-80	-56	-66	-83
<b>Equity shareholders of the Company</b>	<b>913</b>	<b>1,066</b>	<b>1,813</b>	<b>2,122</b>	<b>2,684</b>
<b>Basic EPS (RMB)</b>	<b>0.107</b>	<b>0.124</b>	<b>0.186</b>	<b>0.218</b>	<b>0.276</b>
<b>DPS (RMB)</b>	<b>0.021</b>	<b>0.023</b>	<b>0.037</b>	<b>0.044</b>	<b>0.055</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2013A-2017E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Current assets</b>	<b>9,860</b>	<b>11,141</b>	<b>13,374</b>	<b>15,364</b>	<b>16,149</b>
Cash and equivalent	6,270	7,786	9,634	10,700	10,628
Pledged and restricted bank deposits	170	2	0	0	0
Trade and bill receivables	3,009	3,160	3,492	4,355	5,157
Other receivables and prepayments	404	176	233	290	344
Inventories	4	13	15	18	21
Other current assets	3	4	0	0	0
<b>Non-current assets</b>	<b>50,811</b>	<b>62,997</b>	<b>80,025</b>	<b>91,773</b>	<b>102,294</b>
Property, plant and equipment	46,300	57,873	73,841	85,342	95,646
Investment properties	0	0	0	0	0
Intangible assets	703	696	719	742	767
Investment in JV and associates	82	112	81	81	81
Deferred tax assets	6	5	5	5	5
Other non-current assets	3,720	4,310	5,379	5,604	5,796
<b>Total assets</b>	<b>60,671</b>	<b>74,138</b>	<b>93,399</b>	<b>107,137</b>	<b>118,443</b>
<b>Current liabilities</b>	<b>19,344</b>	<b>25,741</b>	<b>32,921</b>	<b>37,424</b>	<b>41,872</b>
Trade and bill payables	0	0	0	0	0
Other payables	8,512	8,001	8,814	9,511	11,615
Short term borrowings	10,446	17,306	24,107	27,913	30,256
Other current liabilities	386	434	0	0	0
<b>Non-current liabilities</b>	<b>26,466</b>	<b>31,512</b>	<b>41,700</b>	<b>48,672</b>	<b>53,300</b>
Deferred tax liabilities	19	19	19	19	19
Long-term borrowings	23,213	26,842	37,390	43,294	46,928
Other non-current liabilities	3,235	4,651	4,291	5,359	6,353
<b>Total liabilities</b>	<b>45,810</b>	<b>57,253</b>	<b>74,621</b>	<b>86,096</b>	<b>95,171</b>
<b>Minority interests</b>	<b>836</b>	<b>784</b>	<b>840</b>	<b>906</b>	<b>989</b>
<b>Shareholders' equities</b>	<b>14,025</b>	<b>16,101</b>	<b>17,938</b>	<b>20,136</b>	<b>22,283</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2013A-2017E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Profit before tax</b>	<b>942</b>	<b>1,147</b>	<b>1,869</b>	<b>2,188</b>	<b>2,767</b>
Change in depreciation and amortization	1,945	2,254	3,263	3,847	4,407
Change in working capital	1,116	689	-1,108	-366	1,118
Net financial cost (income)	1,860	2,088	2,493	3,497	4,058
Income tax paid	-68	-77	-163	-190	-241
Net interest received	67	86	0	0	0
Others	151	-62	0	0	0
<b>CF Operating</b>	<b>6,014</b>	<b>6,125</b>	<b>6,355</b>	<b>8,976</b>	<b>12,110</b>
Capex	-7,327	-13,394	-19,200	-15,316	-14,677
Increase in intangible assets	0	0	-53	-56	-58
Others	524	433	156	193	214
<b>CF Investing</b>	<b>-6,803</b>	<b>-12,961</b>	<b>-19,097</b>	<b>-15,179</b>	<b>-14,521</b>
Net Capital raise	1,246	1,358	0	0	0
Net debt financing	2,835	10,489	17,349	9,710	5,977
Dividend payout	-266	-213	-363	-424	-537
Interest paid	-1,890	-2,228	-2,189	-2,649	-3,690
Others	-504	-517	-208	633	588
<b>CF Financing</b>	<b>1,422</b>	<b>8,889</b>	<b>14,589</b>	<b>7,269</b>	<b>2,338</b>
<b>Net change in cash</b>	<b>632</b>	<b>2,053</b>	<b>1,848</b>	<b>1,066</b>	<b>-73</b>
Cash at the beginning	3,769	4,322	7,786	9,634	10,700
Adjustment (Time deposit & FX effect)	1,868	1,412	0	0	0
<b>Cash at the end</b>	<b>6,270</b>	<b>7,786</b>	<b>9,634</b>	<b>10,700</b>	<b>10,628</b>

Source(s): Company, ABCI Securities estimates

**Key Ratio (2013A-2017E)**

<b>FY ended Dec 31 (RMB mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Sales mixed (%)</b>					
Wind power	92.06	93.12	93.17	92.64	92.02
Solar power	1.88	6.28	6.79	7.33	7.95
Other	6.05	0.60	0.04	0.03	0.03
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	55.64	56.92	56.84	58.81	59.86
Operating profit margin	47.27	54.39	53.25	55.44	56.31
Pre-tax margin	17.08	20.04	23.91	22.44	23.97
Net profit margin	15.95	18.64	22.00	20.64	22.05
Selling & administrative expenses/revenue	2.56	3.04	2.00	2.00	2.00
Effective tax rate	6.65	6.95	8.00	8.00	8.00
<b>Growth (%)</b>					
Revenue	46.73	4.10	38.16	24.70	18.41
Gross profit	48.52	6.50	37.96	29.03	20.52
Operating profit	28.56	19.80	35.25	29.84	20.27
Net profit	56.77	21.69	63.02	17.03	26.48
<b>Balance sheet ratios</b>					
Current ratio (x)	0.51	0.43	0.41	0.41	0.39
Quick ratio (x)	0.49	0.43	0.40	0.40	0.38
Cash ratio (x)	0.33	0.30	0.29	0.29	0.25
Trade and bill receivables days	179.64	187.53	150.00	150.00	150.00
Trade and bill payables turnover days	0.00	0.00	0.00	0.00	0.00
Inventory turnover days	0.59	1.81	1.50	1.50	1.50
Total debt / equity ratio (%)	239.99	274.19	342.84	353.64	346.38
Net debt / equity ratio (%)	194.08	225.82	289.13	300.50	298.69
<b>Returns (%)</b>					
ROAA	1.6	1.6	2.2	2.1	2.4
ROAE	7.1	7.1	10.7	11.1	12.7
Payout ratio	92.06	93.12	93.17	92.64	92.02

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $\pm$ 6% $\leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $\pm$ 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 from 2007-2011

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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