



Huaneng Renewables (958 HK)

Nov wind power output soared 25%YoY; 11M17 up 15%YoY

- Huaneng Renewables (HNR) announced its Nov operation data on Dec 8. Monthly gross output of wind power hit a historical high at 2,406GWh (+25% YoY), mainly driven by 68%/34%YoY increase in northeast/Inner Mongolia regions
- Total wind power output in 11M17 reached 19,084GWh (+15%YoY), equivalent to 88% of our 2017 estimate yet slightly behind its historical run rate of 90%. We believe our full-year power output growth estimate at 18%YoY will be achieved.
- The stock is now trading at 6.7x/6.0x 2017/18E P/E and 0.9x/0.8x 2017/18E P/B based on Bloomberg consensus, which we deem attractive
- Maintain **BUY** with TP of HK\$ 3.00 implies 8x/7x 2017/18E P/E and 1.1x/0.9x 2017/18E P/B

68%YoY output growth in northeast region; Inner Mongolia region jumped 34%YoY.

Nov wind power output in northeast and Inner Mongolia regions soared 68%YoY and 34% YoY, contributing to 20% and 24% of NHR's total power output in Nov. Like Longyuan power (916 HK, BUY, TP HK\$7.50), who recorded a historical high monthly output in Nov, we believe the robust growth was helped by China's strengthened effort in tackling pollution and promoting renewable energy after the 19th NCCPC.

December should record a high single-digit YoY growth. We expected HNR to deliver high single-digit growth in Nov due to high base in 2016 (+ 32%YoY growth). Hence, the 25%YoY growth in Nov 2017 was much better than expected. Nov output marked the highest monthly output historically for the Group. For Dec, we expect HNR to deliver a high single-digit growth as the high base effect continues (+35% YoY in Dec 2016). MoM growth may decline given the strong Nov output.

Current valuation is attractive; maintain BUY with TP at HK\$3.00. The stock is now trading at 6.7x/6.0x 2017/18E P/E and 0.9x/0.8x 2017/18E P/B based on the Bloomberg consensus, and 6.1x/5.5x 2017/18E P/E and 0.9x/0.8x 2017/18E P/B based on our estimate. China has stepped up measures to enforce the shift from coal-fire energy to renewable energy, and this should spur demand for wind energy. We believe the Group would deliver a double-digit output growth and net profit would increase by 20%YoY in 2017. Our DCF-derived TP at HK\$ 3.00 implies 7.6x/6.9x 2017/18E P/E and 1.1x/0.9x 2017/18E P/B. Maintain **BUY**.

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; (7) New share issued in May will dilute EPS growth in 2017-18.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	7,357	9,239	10,580	11,489	12,842
Chg (% YoY)	19.6	25.6	14.5	8.6	11.8
Net profit (RMB mn)	1,860	2,659	3,416	3,892	4,394
Chg (% YoY)	65.9	43.0	28.5	14.0	12.9
EPS (RMB)	0.191	0.273	0.334	0.368	0.416
Chg (% YoY)	54.3	42.9	22.4	10.2	12.9
BVPS (RMB)	1.830	2.070	2.433	2.699	3.081
Chg (% YoY)	2.8	13.1	17.6	10.9	14.2
P/E (x)	10.68	7.47	6.11	5.54	4.91
P/B (x)	1.12	0.99	0.84	0.76	0.66
ROE (%)	10.45	13.20	13.74	13.65	13.50
ROA (%)	2.25	3.11	3.84	3.98	4.12
DPS (RMB)	0.030	0.041	0.050	0.055	0.062
Yield (%)	1.47	2.01	2.46	2.71	3.06
Net gearing (%)	252.1	240.0	181.2	166.6	150.4

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Dec 11, 2017

Rating: **BUY**
TP: **HK\$ 3.00**

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

Share price (HK\$)	2.40
Est. share price return	25.0%
Est. dividend yield	2.5%
Est. total return	27.5%
Previous Rating	BUY
Previous Report Date	Nov 13, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.9/2.3
Issued shares (mn)	9,728
Issued H-shares (mn)	5,031
Market cap (HK\$ mn)	25,571
H-share Market cap (HK\$ mn)	12,176
3-mth avg daily turnover(HK\$ mn)	70
Major shareholder(s) (%)	
Huaneng Group.	54.0%

Source(s): Company, ABCI Securities

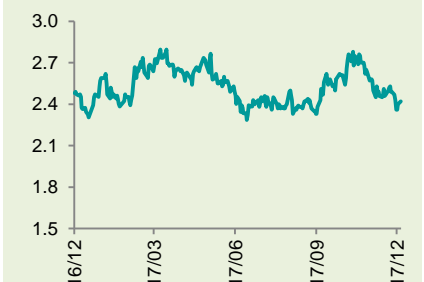
Share Performance (%)

	Absolute	Relative*
1-mth	(3.20)	0.15
3-mth	(3.59)	(4.57)
6-mth	(0.08)	(8.35)

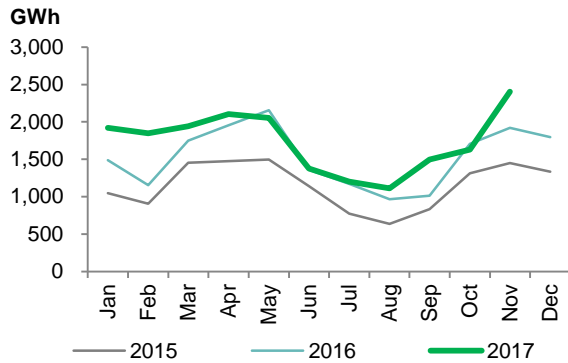
*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

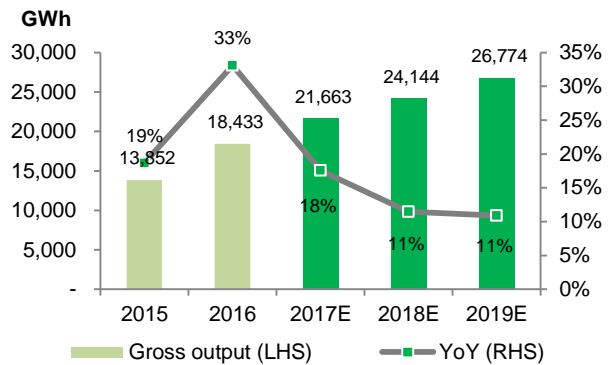
1-Year share price performance(HK\$)



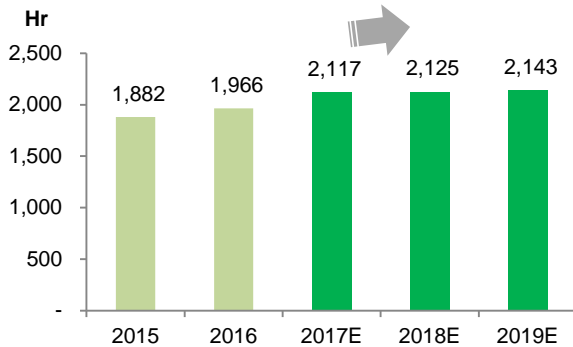
Source(s): Bloomberg, ABCI Securities

Exhibit 1: HNR's monthly output in Nov hit a historical high


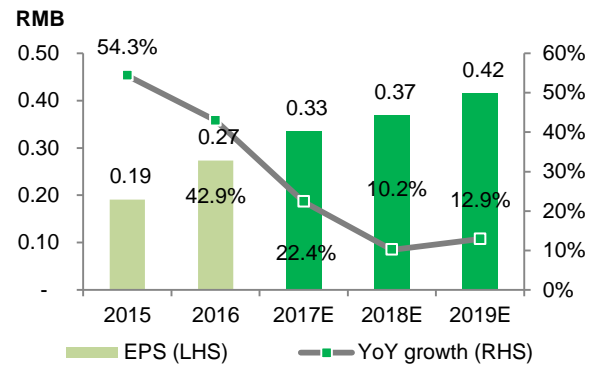
Source(s): Company, ABCI Securities estimates

Exhibit 2: HNR's wind power output would remain robust in 2017


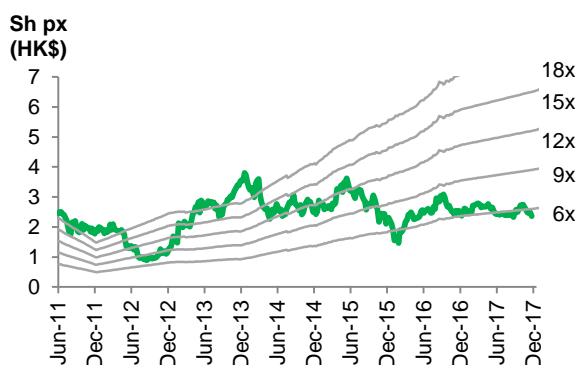
Source(s): Company, ABCI Securities estimates

Exhibit 3: HNR's utilization hour would stay above 2,000 in the next few years


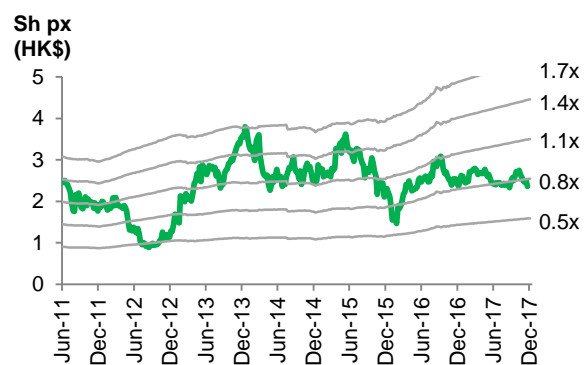
Source(s): Company, ABCI Securities estimates

Exhibit 4: HNR's EPS growth would see a double-digit growth in the future


Source(s): Company, ABCI Securities estimates

Exhibit 5: HNR's fwd P/E chart


Source(s): Company, ABCI Securities estimates

Exhibit 6: HNR's fwd P/B chart


Source(s): Company, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Revenue	7,357	9,239	10,580	11,489	12,842
Wind power	6,892	8,515	9,907	10,600	11,755
Solar power	462	718	666	883	1,081
Other	3	6	6	6	6
Cost of sales	-3,214	-4,054	-4,102	-4,525	-5,022
Gross Profit	4,143	5,184	6,477	6,963	7,820
SG&A expenses	-189	-223	-264	-287	-321
Net financial income (cost)	-2,073	-1,995	-2,240	-2,129	-2,278
Other income/ (expenses)	160	-56	-123	-160	-214
Profit before tax	2,041	2,910	3,850	4,387	5,008
Tax	-141	-202	-346	-395	-501
Net profit	1,899	2,708	3,503	3,992	4,507
Profit attributable to:					
Minority interest	40	49	88	100	113
Equity shareholders of the Company	1,860	2,659	3,416	3,892	4,394
Basic EPS (RMB)	0.191	0.273	0.334	0.368	0.416
DPS (RMB)	0.030	0.041	0.050	0.055	0.062

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Current assets	7,652	8,696	12,097	13,189	15,081
Cash	4,504	2,570	4,093	5,598	7,299
Pledged and restricted bank deposits	27	34	0	0	0
Trade and bill receivables	2,900	4,635	6,667	6,295	6,333
Other receivables and prepayments	122	1,415	1,304	1,259	1,407
Inventories	43	33	34	37	41
Other current assets	56	8	0	0	0
Non-current assets	74,901	76,749	76,905	84,711	91,474
Property, plant & equipment	68,658	72,107	73,814	80,657	87,432
Investment properties	0	0	0	0	0
Intangible assets	682	654	627	601	574
Investment in JV and associates	109	106	77	77	77
Deferred tax assets	4	3	3	3	3
Other non-current assets	5,448	3,879	2,384	3,373	3,388
Total Assets	82,553	85,445	89,003	97,900	106,555
Current Liabilities	28,533	30,517	28,106	30,214	32,089
Trade and bill payables	0	0	0	0	0
Other payables	9,311	7,520	8,450	8,972	9,584
Short term borrowings	18,727	22,563	19,656	21,242	22,504
Other current assets	496	435	0	0	0
Non-current liabilities	35,395	33,933	35,098	38,130	40,762
Deferred tax liabilities	20	20	20	20	20
Long-term borrowings	30,677	28,372	29,484	31,862	33,756
Other non-current assets	4,698	5,542	5,595	6,248	6,986
Total Liabilities	63,928	64,451	63,204	68,344	72,851
Minority interests	827	857	944	1,044	1,157
Shareholders' equities	17,798	20,137	24,854	28,512	32,547

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Profit before tax	1,899	2,708	3,503	3,992	4,507
Change in depreciation and amortization	2,720	3,447	3,512	3,920	4,341
Change in Working Capital	967	-844	-743	395	678
Net financial cost (income)	2,197	2,090	2,240	2,129	2,278
Income tax paid	-126	-179	-346	-395	-501
Net interest received	141	202	0	0	0
Others	-116	-85	0	0	0
Operating cash flow	7,682	7,338	8,166	10,042	11,303
Capex	-12,644	-7,877	-5,180	-10,724	-11,077
Increase in intangible assets	0	0	-12	-12	-13
Others	130	507	52	82	112
Investing cash flow	-12,514	-7,370	-5,140	-10,655	-10,978
Net Capital raise	0	0	2,167	0	0
Net debt financing	5,285	1,312	-1,795	3,964	3,156
Dividend payout	-214	-316	-512	-584	-659
Interest paid	-2,440	-2,205	-2,133	-2,292	-2,211
Others	-853	-650	-134	125	185
Financing cash flow	1,778	-1,858	-2,408	1,213	471
Net change in cash	-3,054	-1,889	618	600	797
Cash at the beginning	6,385	3,470	2,570	4,093	5,598
Adjustment (Time deposit & FX effect)	1,173	990	905	905	905
Cash at the end	4,504	2,570	4,093	5,598	7,299

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Wind power	93.68	92.17	93.64	92.27	91.53
Solar power	6.29	7.77	6.30	7.68	8.42
Other	0.04	0.07	0.06	0.05	0.05
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	56.31	56.12	61.23	60.61	60.89
Operating profit margin	55.95	53.13	57.56	56.72	56.73
Pre-tax margin	27.74	31.49	36.39	38.19	38.99
Net profit margin	25.82	29.31	33.11	34.75	35.10
Selling & administrative expenses/revenue	2.57	2.42	2.50	2.50	2.50
Effective tax rate	6.93	6.93	9.00	9.00	10.00
Growth (%)					
Revenue	19.60	25.58	14.52	8.59	11.78
Gross profit	18.33	25.14	24.94	7.50	12.31
Operating profit	23.03	19.24	24.08	7.01	11.80
Net profit	65.61	42.59	29.37	13.96	12.89
Balance sheet ratios					
Current ratio (x)	0.27	0.28	0.43	0.44	0.47
Quick ratio (x)	0.26	0.24	0.38	0.39	0.42
Cash ratio (x)	0.16	0.09	0.15	0.19	0.23
Trade and bill receivables days	143.88	183.14	230.00	200.00	180.00
Trade and bill payables turnover days	0.00	0.00	0.00	0.00	0.00
Inventory turnover days	4.88	2.95	3.00	3.00	3.00
Total debt / equity ratio (%)	277.59	252.94	197.71	186.25	172.86
Net debt / equity ratio (%)	252.13	240.01	181.25	166.62	150.43
Returns (%)					
ROAA	2.4	3.2	3.9	4.2	4.3
ROAE	11.0	14.0	15.2	14.6	14.4
Payout ratio	15.69	15.00	15.00	15.00	15.00

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

I, Kelvin Ng, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2017 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183