

October 28, 2013 Company Report Rating: HOLD TP: HK\$ 1.70

H-Share price (HK\$)	1.63
Est. share price return	4.29%
Est. dividend yield	1.13%
Est. total return	5.42%

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Key Data

52Wk H/L(HK\$)	2.07/0.78
Issued shares (mn)	7,273
H-Shares (mn)	2,501
Domestic (mn)	4,772
H-share Market cap	4,076
3-mth avg daily turnover (HK\$ mn)	13.99
Major shareholder(s) (%):	
Datang Corporation	65.61
% of H-share:	
Social Security Fund	9.09
JP Morgan	6.98

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Sales of electricity	98.62
Others	1.38

Source(s): Company, ABCI Securities

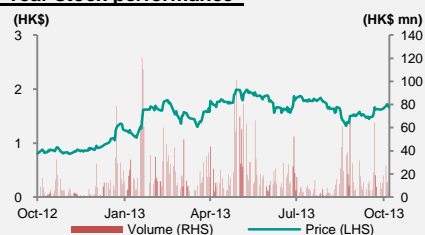
Share performance (%)

	Absolute	Relative*
1-mth	9.93	11.97
3-mth	(6.74)	(10.09)
6-mth	(5.68)	(6.67)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

Datang Renewable (1798 HK) Awaiting for higher operating efficiency

- Management guided that installation growth will accelerate in the coming years. Still, the Group's growth rate is still lower than the industry average growth of 18.0% CAGR in 2012-15E
- We are also worried that its high gearing level exceeding 300% (vs industry average of 200%) might hinder the Group's capacity expansion
- On the back of better wind resources and lower curtailment, DT Renew utilization hour increased 20.9% YoY to 1,054 in 1H13. On-grid tariff dropped 4.2%YoY due to larger electricity contribution from Inner Mongolia
- Based on our DCF model with a WACC of 6.6%, we set our TP at HK\$1.7, representing 13.6x FY14E P/E and 0.78x FY14E P/B. Recommend HOLD

Speed up capacity growth in 2013-15. Management guided installed capacity would increase by 500MW (up 8.8%YoY) in 2013, 700MW (11.3%YoY) in 2014 and 1,000MW (14.6%YoY) in 2015. The planned capacity growth is based on the expectation of better grid connections, but the growth of 14.3% CAGR in 2012-15E is still below the estimated industry average of 18.0%. We are concerned that the exceptionally high gearing (1H13 net debt-to-equity ratio was 310%, much higher than Longyuan's 143% and HN Renew's 185%) might restrict capital expansion.

Lowest utilization hour among peers. Utilization hour of the Group increased 20.9% YoY (vs. 12.4% in Longyuan and 20.0% in HN Renew) in 1H13 to 1,054. Management guided utilization hours to reach at least 2,000 in 2013. Significant improvement will be mainly contributed by lower curtailment rate in Inner Mongolia (IM) and northeast (NE) China. However, due to stronger improvement and increased proportion of electricity output in these regions (where on-grid tariffs are lower than the Group's average), on-grid tariff of the Group dropped 4.2% YoY to RMB 0.58/kwh when Longyuan and HN Renew both posted increases in on-grid tariff in 1H13. As at 1H13, installed capacity in IM and NE China still jointly accounted for 67% of the Group's total installed capacity, as compared to Longyuan's 44% and HN Renew's 51%. We expect the Group's on-grid tariff to slowly increase as the Group's new installation would be primarily situated in Shanxi, Yunnan, Shandong and Shaanxi.

Possible CDM provision. The Group booked RMB 20mn of Clean Development Mechanism (CDM) impairment loss in 1H13 due to difficulty in collection. The Group collected CDM revenue of RMB 197mn in 1H13 and CDM receivables position dropped to RMB391mn. We believe provision might occur.

Recommend HOLD with TP at HK\$ 1.70. Based on our DCF model with a WACC of 6.6%, we set our TP at HK\$ 1.70, representing 13.6x FY14E P/E and 0.78x FY14E P/B. Recommend HOLD due to lower-than-average capacity growth and lower operating efficiency.

Risk factors: 1) High gearing; 2) CDM provision; 3) Earnings dilution; 4) Policy risks.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	3,828.8	4,368.0	5,604.9	6,283.0	6,928.6
Chg (% YoY)	60.9%	14.1%	28.3%	12.1%	10.3%
Net Income (RMB mn)	729.8	112.1	424.3	718.7	819.5
EBITDA (RMB mn)	3,279.0	3,688.4	4,758.6	5,290.3	5,799.2
Chg (% YoY)	62.5%	12.5%	29.0%	11.2%	9.6%
EPS (RMB)	0.1003	0.0154	0.0583	0.0988	0.1127
Chg (% YoY)	57.2%	-84.6%	278.4%	69.4%	14.0%
BVPS (RMB)	1.57	1.56	1.61	1.72	1.83
Chg (% YoY)	6.79	-1.07	3.21	6.78	6.77
P/E (x)	-	83.41	22.05	13.02	11.41
P/B (x)	-	0.83	0.80	0.75	0.70
ROE (%)	6.56	0.97	3.55	5.88	12.94
ROA (%)	1.53	0.20	0.69	1.18	2.57
DPS(RMB)	0.039	0.023	0.015	0.025	0.028
Yield (%)	-	1.79	1.13	1.92	2.19
Net gearing* (%)	264.3	313.6	314.8	317.6	308.6

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Revenue	3,828.8	4,368.0	5,604.9	6,283.0	6,928.6
Other net income and other gains	518.4	277.4	0.0	0.0	0.0
Total income	4,347.2	4,645.4	5,604.9	6,283.0	6,928.6
D&A	(1,360.8)	(1,856.7)	(1,982.1)	(2,063.8)	(2,185.7)
Service concession construction costs	(24.2)	(8.2)	0.0	0.0	0.0
Labor costs	(187.7)	(264.9)	(336.3)	(377.0)	(415.7)
Repairs and maintenance	(69.5)	(83.1)	(100.9)	(157.1)	(207.9)
Material costs	(30.1)	(23.8)	(44.8)	(50.3)	(55.4)
Other operating expenses	(245.8)	(294.4)	(364.3)	(408.4)	(450.4)
Share of P/L of an associate	(7.4)	(6.1)	0.0	0.0	0.0
Share of profit of a jointly controlled entity	15.0	0.8	0.0	0.0	0.0
EBIT	2,436.6	2,109.1	2,776.5	3,226.5	3,613.5
Finance income	10.9	41.0			
Finance expenses	(1,442.2)	(1,973.7)	(2,200.0)	(2,250.0)	(2,500.0)
EBT	1,005.3	176.3	576.5	976.5	1,113.5
Tax	(35.0)	10.2	(46.1)	(78.1)	(89.1)
MI	(240.5)	(74.4)	(106.1)	(179.7)	(204.9)
Net profit	729.8	112.1	424.3	718.7	820.3
Adjusted EBIT	1,918.2	1,831.7	2,776.5	3,226.5	3,613.5
Adjusted EBITDA	3,279.0	3,688.4	4,758.6	5,290.3	5,799.2
Dividends	283.7	167.3	106.1	179.7	204.9
No. of issued shares at end of period (mn)	7,273.7	7,273.7	7,273.7	7,273.7	7,273.7
H-shares	2,501.1	2,501.1	2,501.1	2,501.1	2,501.1
Domestic shares	4,772.6	4,772.6	4,772.6	4,772.6	4,772.6
Per share value (RMB)					
FD EPS	0.1003	0.0154	0.0583	0.0988	0.1127
NBV	1.5744	1.5576	1.6075	1.7164	1.8326
DPS	0.039	0.023	0.015	0.025	0.028

Source(s): Company, ABCI Securities estimates

Key Ratio (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Profitability ratio (%)					
Adjusted EBITDA margin	85.64	84.44	84.90	84.20	83.70
Adjusted EBIT margin	50.10	41.93	49.54	51.35	52.15
EBT margin	26.26	4.04	10.29	15.54	16.07
Net profit margin	19.06	2.57	7.57	11.44	11.83
ROAA	1.53	0.20	0.69	1.18	2.57
ROAE	6.56	0.97	3.55	5.88	12.94
Cost ratio (%)					
Labor costs/Sales	-4.9	-6.1	-6.0	-6.0	-6.0
Repair & maintenance/Sales	-1.8	-1.9	-1.8	-2.5	-3.0
Material costs/Sales	-0.8	-0.5	-0.8	-0.8	-0.8
Effective tax rate	-3.5	-5.8	-8.0	-8.0	-8.0
Leverage (x)					
Current ratio	0.73	0.62	0.62	0.89	1.06
Quick ratio	0.72	0.62	0.62	0.89	1.06
Net debt/total equity (%)	264.31	313.64	314.76	317.61	308.55
Working capital cycle (days)					
Inventory turnover days	1.1	1.1	1.1	1.1	1.1
Receivables turnover days	199.7	239.3	120.0	120.0	120.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
PPE	41,111.1	44,854.5	46,360.7	48,273.3	51,124.5
Land use rights	301.0	334.0	388.1	441.4	494.8
Intangible assets	422.2	416.9	400.3	384.3	368.9
Investment in an associate	28.4	227.2	227.2	227.2	227.2
Investment in a jointly controlled entity	55.0	50.8	50.8	50.8	50.8
Others	441.3	364.5	364.5	364.5	364.5
Total non-current assets	44,975.1	49,010.5	50,554.1	52,504.0	55,393.3
Inventories	12.5	14.2	19.6	18.3	23.5
Trade and bills receivable	2,693.7	3,034.5	650.9	3,480.4	1,075.4
Prepayments and other receivables	2,395.4	2,168.5	3,973.9	2,911.6	4,681.4
Financial assets at FV through P&L	0.0	16.5	16.5	16.5	16.5
Current income tax prepayments	15.0	24.5	24.5	24.5	24.5
Financial assets at fair value through P&L	0.0	0.0	0.0	0.0	0.0
Restricted deposits	28.8	10.1	10.1	10.1	10.1
Cash and cash equivalents	4,162.4	2,103.8	2,863.3	4,776.6	8,239.4
Total current assets	9,307.8	7,372.1	7,558.8	11,237.9	14,070.7
Borrowings	5,667.3	5,456.6	6,000.0	6,750.0	7,500.0
Trade and bills payable	503.7	637.3	320.9	1,042.4	688.8
Current income tax liabilities	22.3	23.7	23.7	23.7	23.7
Other payables	6,636.9	5,846.2	5,752.7	4,794.4	5,000.2
Total current liabilities	12,830.1	11,963.9	12,097.3	12,610.6	13,212.7
Borrowings	29,514.0	32,705.2	34,000.0	38,250.0	42,500.0
Deferred income tax liabilities	59.9	32.7	32.7	32.7	32.7
Other non-current liabilities*	143.2	184.3	184.3	184.3	184.3
Total non-current liabilities	29,717.1	32,922.2	34,217.0	38,467.0	42,717.0
Total assets	54,282.9	56,382.7	58,112.9	63,741.9	69,464.0
Net assets	11,735.7	11,496.6	11,798.6	12,664.4	13,534.4
Capital and Reserves					
Share capital	7,273.7	7,273.7	7,273.7	7,273.7	7,273.7
Share premium	2,081.0	2,081.0	2,081.0	2,081.0	2,081.0
Other reserves	(1,607.8)	(1,668.0)	(1,668.0)	(1,668.0)	(1,668.0)
Retained earnings	1,058.1	961.8	1,218.8	1,831.4	2,471.3
Proposed final dividend	283.7	167.3	106.1	179.7	204.9
MI	2,647.0	2,680.9	2,787.0	2,966.7	3,171.6
Total equity	11,735.7	11,496.6	11,798.6	12,664.4	13,534.4
Equity to owners	9,088.6	8,815.7	9,011.6	9,697.8	10,362.8

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	1,411.7	2,386.9	3,797.4	4,759.7	4,758.6
Change in working capital	(1,245.7)	182.9	162.9	(2,002.7)	482.2
Others	2,375.8	1,595.3	983.8	553.3	1,063.5
Cash (used in)/generated from operations	2,541.8	4,165.2	4,944.1	3,310.4	6,304.3
Interests	10.3	27.9	0.0	0.0	0.0
Income tax paid	(67.1)	(49.8)	(46.1)	(78.1)	(89.1)
CF from operating activities	2,485.1	4,143.4	4,898.0	3,232.2	6,215.2
CAPEX	(10,469.1)	(6,864.3)	(3,548.2)	(4,036.5)	(5,097.9)
Others	(1,198.4)	305.8	0.0	0.0	0.0
Cash flows from investing activities	(11,667.5)	(6,558.4)	(3,548.2)	(4,036.5)	(5,097.9)
Net borrowing	7,877.2	15,439.6	2,198.2	5,000.0	5,000.0
Proceeds from issue of shares	240.2	0.0	0.0	0.0	0.0
Dividends paid	(100.3)	(283.7)	(167.3)	(106.1)	(179.7)
Interest paid	(1,666.4)	(2,356.4)	(2,200.0)	(2,250.0)	(2,500.0)
Others	2,098.4	(12,444.2)	(421.2)	73.6	25.2
Cash flows from financing activities	8,449.1	355.3	(590.4)	2,717.5	2,345.5
Net (decrease)/increase in cash and cash equivalents	(733.3)	(2,059.8)	759.5	1,913.2	3,462.9
Cash and cash equivalents at beginning of year/period	5,031.3	4,162.4	2,103.8	2,863.3	4,776.6
Effect of foreign exchange rates, net	(135.6)	1.2	0.0	0.0	0.0
Cash and cash equivalents at end of year/period	4,162.4	2,103.8	2,863.3	4,776.6	8,239.4

Source(s): Company, ABCI Securities estimates

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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 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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