



Sector Report

Wind Power Operators - Underweight Independent Power Producers

Key Data

| | |
|----------------------|------|
| Average FY12E PE (x) | 7.96 |
| Average FY12E PB (x) | 0.85 |

Source: Bloomberg, ABCI Securities

Results in 1HFY2012

| | ROAA(%) | ROAE(%) | D/E(%) |
|---------------|---------|---------|--------|
| Longyuan | 3.0 | 11.2 | 168 |
| Datang Re | 0.4 | 1.8 | 298 |
| Huaneng Re | 1.0 | 4.4 | 192 |
| JNCEC | 3.6 | 10.3 | 139 |
| Huadian Fuxin | 3.0 | 14.9 | 242 |

Source: Company

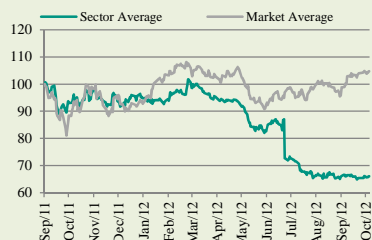
Average share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (0.5) | (6.2) |
| 3-mth | (9.3) | (17.5) |
| 6-mth | (20.5) | (24.8) |

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

Report Date: 12 October 2012

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Diversified-play will outperform

We have identified 3 major negative factors that are affecting the wind power industry as a whole but two of which are either moving into favour to or having a less negative impact on the players. The major problem remained is the wind curtailment problem which we believe will not be solved in the short term. We therefore favour diversified player who is set to benefit from its diversified business structure.

The uncontrollable factor is moving into favour to wind power operators:

The small wind phenomenon which has started since 2H2011, was one of the major reasons that caused the low utilization hours in the wind power industry even during the peak season. But wind resources have improved since Jun 2012. According to NBSC, electricity generated from wind power increased 62.5% YoY in Jul and 67.6% YoY in Aug. As it has now entered the low base period, we expect utilization hours of the wind power industry will continue to improve.

Less sensitive to CERs prices: The significant drop in CERs revenue due to a substantial drop in CERs prices were already reflected the in the 1H2012 results in some of the wind operators. On average, CERs/EBIT dropped from an average of 17% to 9% in 1H2012. The smaller proportion of CERs to EBIT means the profitability of the wind power operators are now less sensitive to the change in CERs prices.

Takes time to solve wind curtailment problem: Wind curtailment rate increased in 1H2012 especially in Inner Mongolia and the Northeastern part of China. We believe the problem will not be solved until a comprehensive grid network is built. Therefore, industry players with a diversified play or those who can successfully implement their 'moving-south' strategy will outperform.

Our top picks: We give a HOLD rating on the pure wind power operator, Huaneng Renewable. Our Sell is Datang Renewables. Also we have a BUY rating on Huadian Fuxin, who is set to benefit from its diversified business structure, especially the hydro power business.

Risk factors: Change in government subsidy policy, under-performances risks of wind turbines, high gearing

Results and valuation

| Company | Code | Rating | Price (HK\$) | Upside | 2012F PER | 2012F PB | 2012F Divi yld |
|--------------|---------|--------|--------------|--------|-----------|----------|----------------|
| Datang Re | 1798 HK | SELL | 0.76 | -27.6 | 7.0x | 0.37x | 0.0% |
| Huaneng Re | 958 HK | HOLD | 0.96 | 6.2% | 8.8x | 0.56x | 1.7% |
| JNCEC | 579 HK | HOLD | 1.68 | 3.6% | 8.3x | 0.92x | 2.5% |
| Hudian Fuxin | 816 HK | BUY | 1.43 | 18.9% | 8.6x | 0.87x | 2.3% |
| Longyuan | 916 HK | - | 5.29 | - | - | - | - |

*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates

**We are restricted to give forecast or rating on Longyuan



Industry Overview

In Jul 2012, the national energy bureau announced the 12th Five year plan for wind power. The plan targets to increase wind power connected installed capacity to 100GW in 2015 and 200GW in 2020. By the end of 2012, connected installed wind capacity reached 52GW, the 100GW target in 2015 indicates newly installed capacity will reach ~15-18GW each year from 2013-2015 and 20GW each year from 2015-2020.

Capacity is a clear growth driver to wind operators but external factors including grid constraint, unstable wind resources and CER incomes pose challenges to the wind power industry in China. And the question to ask is whether these external factors affecting the sector will turnaround.

Challenge 1: Grid constraint

The major reason caused the grid connection problem is that wind resources in China are concentrated and are far away from high electricity consumption regions. Taking advantage of abundant wind resources, most large-scale wind farms in China are mainly built in north eastern part of China. But while less-developed local areas are not able to consume all the electricity produced by the newly built capacity, the grid infrastructure is not comprehensive enough to allow electricity transmission from the northern eastern part of China to more developed southern cities. The unconsumed electricity generated by the wind farm lead to wind curtailment, which becomes the major concerned issue for the wind power sector in China. Wind curtailment problem gets more severe in winter when heat co-generation plants have the priority to connect to the grid.

According to China Electricity Council, wind curtailment rate in China was 16% in 2011, unconsumed electricity generated by wind power reached 12.3bn kwh and amounted to revenue loss of Rmb6.6bn. The problem is getting more severe in 1H2012 as capacity installation growth still outpaces grid construction growth.

Exhibit 1: Installed capacity of different energy sources in China (GW)

| | 2010 | 2011 | 2015 | 2020 | 11-15 CAGR |
|---------|------|------|------|------|---------------|
| Thermal | 707 | 739 | 928 | 1170 | 5.9% |
| Hydro | 213 | 230 | 301 | 360 | 7.0% |
| Wind | 31 | 45 | 100 | 200 | 22.1% |
| Solar | 1 | 2 | 15 | 20 | 62.7% |
| Nuclear | 11 | 13 | 43 | 80 | 36.0% |

Source: Garrad Hassan

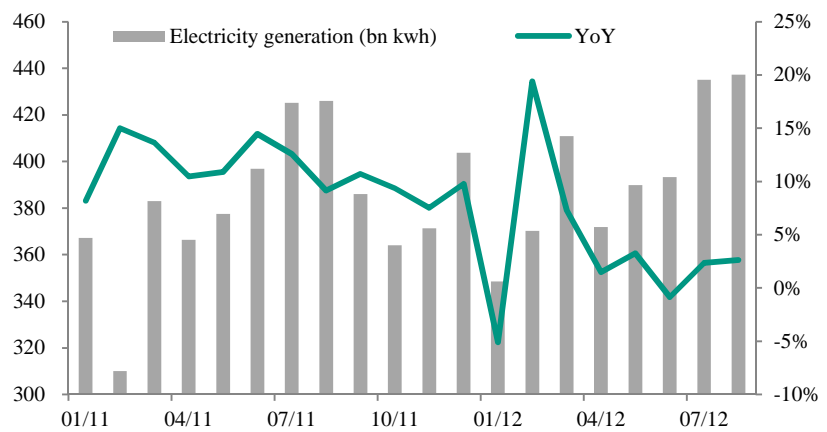


Challenge 2: Slowing electricity growth

In addition, as some cities in the north eastern part of China might already have an over-supply in coal-fired power, it is not difficult for grid companies to choose between the more stable and cheaper coal-fired power and the less stable and more expensive wind power supply. Even though renewable energy has a dispatch priority over coal-fired power in China, this is not always the case given that a comprehensive monitoring and punishment system do not exist. It is more so when electricity consumption growth is slowing down due to economy slowdown.

In 1Q2012/2Q2012, China GDP YoY growth dropped to 8.1%/7.6%, lowest since Jun 2009. And electricity output growth in China dropped amid slowing economy growth. Electricity generation growth in China increased slightly by 3.8% YoY in 1H2012 and further slow down to 2.3% YoY/2.7% YoY in Jul/Aug 2012 respectively. It is forecasted that China will post 7.6% YoY/8.0% YoY GDP growth in 2H2012 /2013. Therefore, we expect electricity output growth in China will continue be constrained by the weak economy growth.

Exhibit 2: Electricity generation in China



Source: Bloomberg

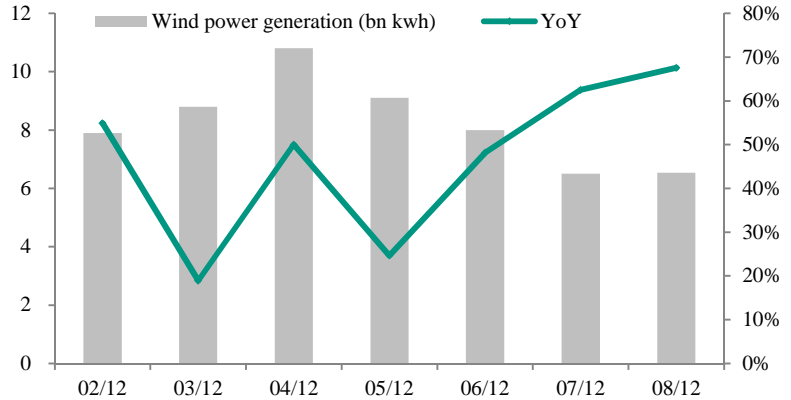
Challenge 3: Instability of wind resources

Apart from geographical factors, utilization hours are affected by the availability of wind resources. China experienced small wind phenomenon during the end of 2011 till 1Q2012, leading to exceptionally low utilization hours last year and 1H2012. Industry average of utilization hours was 1,903 hours in 2011 (vs 2,077 hours in 2009 and 2,097 hours in 2010). The availability of wind resources are affecting the sector as a whole and is part of a reason for the poor sector results in 2H2011 and 1H2012.

Apr to Oct is a traditional low season for wind power generation due to lower wind resources in summer. But on a YoY basis, we saw that wind power generation has picked up steadily since Jun this year. Electricity generated by wind power increased 48.1%/62.5% /67.6% YoY respectively in Jun/Jul/Aug. Given the relatively low base in 2H2011 due to the small wind phenomenon, we expect wind power generation in China will continue to go up in 4Q2012 till 1H2013.



Exhibit 3: Wind power generation in China



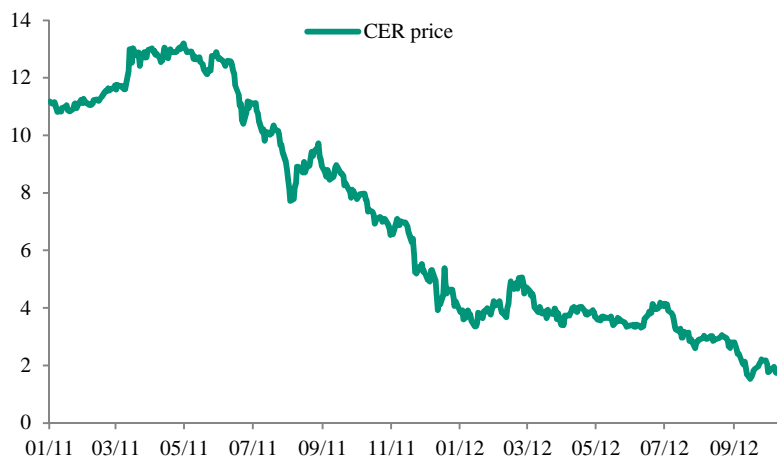
Source: NBSC

Challenge 4: CER incomes

Price of CERs dropped from Eur10/ton in 2011 to as low as Eur1.74/ton up to date. As a result of the large volatility in CERs price, most of the CERs contracts, in which prices were agreed when the contracts were signed, are now changed to floating price. Most of the wind power operators used a conservative method in recognizing revenues from CERs, that is, booking the specific revenues into account only when the contracts are settled. In this case, the significant drop in CERs revenue due to a substantial drop in CERs prices were already reflected the 1H2012 results in some of the wind operators.

We expect the continue downtrend in the CERs price are a results of rapid development of green energy companies which lead to a larger supply in CERs and the trend is unlikely to change in a short period of time.

Exhibit 5: CERs price (EUR/ton)



Source: Bloomberg

Overcoming challenges

Moving south

To alleviate the wind curtailment problem, wind power operators are trying to locate their wind farms in more economically developed areas with greater electricity consumption. By the end of 30 Jun 2012, Datang Renewable (DR), suffer the most from geographical concentration risks. With a total of 65.7% and 55.8% of consolidated installed capacity installed in Inner Mongolia and Northeastern regions where wind curtailment rate is high, DR and Huaneng Renewables (HR) achieved lower utilization hours than Longyuan, which has a more diversified wind capacity portfolio. In 1H2012, average utilization hours for DR and HR are 880 hours and 861 hours respectively, versus 1,003 hours of Longyuan. But there will be another question raised – Will wind curtailment occur in the southern, central and western regions as all the wind power operators are shifting their wind power plant to these areas.

Exhibit 6: Geographical Breakdown of Wind Consolidated Installed Capacity by 30 Jun 2012

| | Longyuan MW | | DR MW | | HR MW | |
|------------------------|----------------|---------------|--------------|---------------|--------------|---------------|
| Inner Mongolia | 2,077 | 23.1% | 2,309 | 42.9% | 1,716 | 34.0% |
| Northeastern | 2,304 | 25.6% | 1,225 | 22.8% | 1,099 | 21.8% |
| Central and Western | 3,365 | 37.4% | 1,079 | 20.0% | 2,177 | 43.1% |
| Southeastern Coastline | 1,249 | 13.9% | 769 | 14.3% | 60 | 1.2% |
| Total | 8,994 | 100.0% | 5,382 | 100.0% | 5,052 | 100.0% |

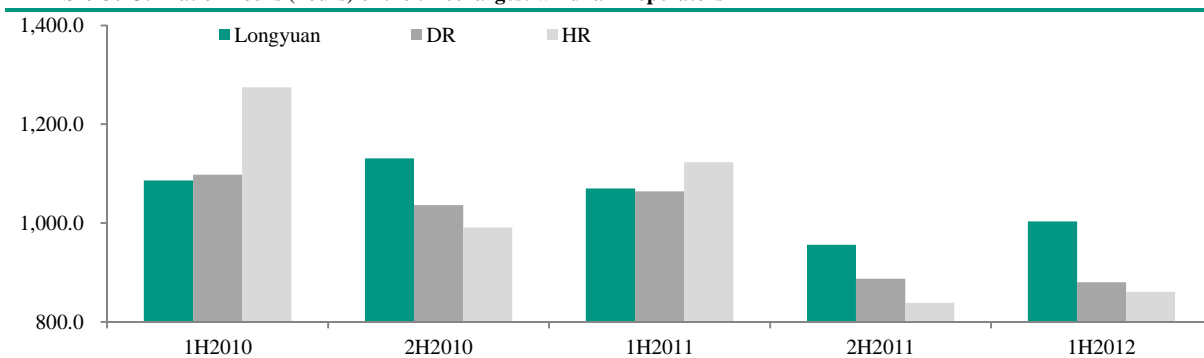
Source: Company reports; ABCI Securities

Exhibit 7: Utilization hours of major wind farm operators

| | 2008 | 2009 | 2010 | 2011 | 1H2012 |
|-------------------------|-------|-------|-------|-------|--------|
| Longyuan | 2,354 | 2,268 | 2,217 | 2,026 | 1,003 |
| DR | 2,255 | 2,159 | 2,134 | 1,951 | 880 |
| HR | 2,380 | 2,365 | 2,265 | 1,962 | 861 |
| JNCEC | 2,156 | 2,243 | 2,369 | 2,018 | 1,006 |
| Huadian Fuxin | - | 2,726 | 2,232 | 2,072 | |
| Industry Average | | 2,077 | 2,097 | 1,903 | |

Source: Company reports; ABCI Securities

Exhibit 8: Utilization hours (hours) of the three largest wind farm operators



Source: Bloomberg



Government Policy

Apart from the moving-south strategy implemented by the wind power operators themselves, the government is also taking the initiative to solve the wind curtailment problem. The long awaited "Quotation System", which centralizes the allocation of electricity, is expected to be announced this year end. In our view, the policy does help but it requires coordination between different local governments and grid companies across different provinces. Effectiveness of the policy depends on ways of implementation and execution which may take time to develop. Out of the three largest wind farm operators, Longyuan has the lowest exposure in the north eastern part of China, but the slowing economy and the possible grid congestion in southern part of China might counter off the effect of their moving south strategy. We expect to see a turnaround only when grid investment speed up, which could be stimulated by a pick-up in electricity consumption.

Exhibit 5: Recent major policies

| | | Related Policy | Content |
|--------|--------------------------------|---------------------|---|
| 1 Jun | NEA | 加强风电并网和消纳工作有关要求的通知 | Put emphasis on ensuring proper grid planning before wind farm construction and will issue policy to eliminate wind curtailment problem. |
| 6 Apr | NDRC, Ministry of Finance, NEA | 可再生能源电价附加补助资金管理暂行办法 | 1) Provided subsidies for renewable energy grid construction: Rmb0.01/kWh within 50km, Rmb0.02/wWh for 50-100km and Rmb0.03/kwh for >100km. 2) On-grid tariff subsidy for renewable energy will be paid to grid company one quarter in advance |
| 5 Apr | NEA | - | Announced second batch of preliminary projects with 16.76GW capacity |
| 29 Mar | NEA | - | Restrict wind power projects approval in regions with wind curtailment rate >20% |

Source: NEA

Less sensitive to CER incomes

We expect company earnings sensitivity to change in CER price will drop as CERs income as a proportion of EBIT decrease. For the three largest wind farm operators (Longyuan, DR and HR), CERs income accounted for 13.8%, 8.7% and 6.3% of their EBIT in 1H2012 respectively, which is significantly lower than 14.4%,15.3% and 20.6% in 2011.

Exhibit 9: CERs income

| | CERs income (Rmb mn) | | | CER/ EBIT | | |
|---------------|----------------------|------|--------|-----------|-------|--------|
| | 2010 | 2011 | 1H2012 | 2010 | 2011 | 1H2012 |
| Longyuan | 392 | 727 | 447 | 9.6% | 14.4% | 13.8% |
| DR | 229 | 371 | 87 | 15.3% | 15.3% | 8.7% |
| HR | 165 | 484 | 65 | 14.5% | 20.6% | 6.3% |
| JNCEC | 156 | 280 | 83 | 15.5% | 18.8% | 11.0% |
| Huadian Fuxin | 75 | 153 | 112 | 4.0% | 8.0% | 5.9% |

Source: Company reports; ABCI Securities

In sum, we have identified 3 major negative factors that are affecting the wind power industry as a whole but two of which are either moving into favour to or having a less negative impact on the players. The only problem remained is the wind curtailment problem which we believe will not be solved in the short term as grid operators has relatively low monetary/economic incentive to buy power from wind farms. We therefore favour diversified player who is set to benefit from its diversified business structure.



Company Report

Huaneng Renewables (958 HK) – Hold Independent Power Producers 12-month target price: HK\$1.02

Key data

| | |
|------------------------------|-------------|
| Share price (HK\$) | 0.96 |
| Target price (HK\$) | 1.02 |
| Upside potential (%) | 6.2% |
| 52Wk H/L(HK\$) | 2.28 / 0.87 |
| Issued shares (mn) | 8,446.9 |
| H-shares (mn) | 2,911.6 |
| Domestic shares (mn) | 5,535.3 |
| Market cap (HK\$mn) | 2,795.1 |
| 30-day avg turnover (HK\$mn) | 2.83 |
| Major shareholder (%): | |
| Huaneng Group | 65.5 |

Source: Company & Bloomberg

Revenue composition in 1HFY2012 (%)

| | |
|----------------------|-------|
| Sales of electricity | 99.9% |
| Others | 0.1% |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 0.0 | (5.4) |
| 3-mth | (22.1) | (29.2) |
| 6-mth | (49.2) | (50.8) |

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

Report Date: 12 October 2012

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Awaiting for turnaround

Utilization hours of the group in 1H2012 were the lowest amongst peers but there was an improvement compared to 2H2011. However, the group has the highest on-grid tariff on average in 1H2012 due to its strategic locations of wind farm. The group is trying to solve the grid curtailment problem by building wind farms in four major southern provinces. We give the group a TP of HK\$1.02, representing 9.4x FY12PE and 0.60x PB. Maintain Hold.

Highest on-grid tariffs amongst peers: Out of all the major wind power operators in China, the group only achieved 861 utilization hours in 2012, which is the lowest amongst the peers. In view of the grid curtailment problem, the group has decided not to have any newly installed capacity built in Inner Mongolia in 2012 and instead focusing on development in Yunnan, Shanxi, Guangdong and Guizhou. Development in these places as well as Shandong allows the group to achieve the highest on-grid tariffs amongst its peers. We also started to see improvement in utilization hours on a HoH basis. Utilization hours improved by 2.6%HoH in 1H2012. However, since newly installed capacity in 1H2012 only accounted for 15% of the 1,000 MW annual target, we expect the positive effect of the moving-south strategy will only be realized after 4Q2012.

Negative impact of CERs income are mostly realized: Currently, 90% of the registered capacity of the group are under floating price contracts and the CERs income under the floating price contracts will only be recognized in P&L when the price is known, that is, when the contracts are settled. Therefore, it will take 7-8 months more for the CERs income to be recognized, as compared to CERs income from fixed price contracts. In our view, the group was the most conservative in terms of booking its CERs income and the negative impact from the significant drop of CERs prices are mostly reflected in P&L in 1H2012.

Valuation: The counter is now trading at 8.8x 2012 PE and 0.56x PB. Our DCF model with a WACC of 7.3% gives a fair value of HK\$1.02/share, representing 9.4x FY12PE and 0.60x PB. Maintain HOLD.

Risk factors: Change in government subsidy policy, high gearing.

Results and valuation

| (FY ended Dec 31) | FY09A | FY10A | FY11A | FY12F | FY13F |
|---------------------|--------|---------|---------|---------|---------|
| Revenue (Rmb mn) | 918.5 | 1,768.5 | 3,195.9 | 3,866.1 | 5,193.5 |
| YoY Chg (%) | | 92.6% | 80.7% | 21.0% | 34.3% |
| Net Income (Rmb mn) | 264.4 | 528.3 | 1,023.0 | 745.7 | 1,111.3 |
| YoY Chg (%) | | 99.8% | 93.7% | -27.1% | 49.0% |
| FD EPS (Rmb) | 0.0456 | 0.0911 | 0.1211 | 0.0883 | 0.1316 |
| YoY Chg (%) | | 99.8% | 32.9% | -27.1% | 49.0% |
| NBV (Rmb/share) | 0.4454 | 0.9110 | 1.3415 | 1.3923 | 1.5107 |
| PE (x) | - | - | 6.44 | 8.83 | 5.93 |
| PB (x) | - | - | 0.58 | 0.56 | 0.52 |
| ROAA (%) | 1.84% | 2.06% | 2.41% | 1.37% | 1.83% |
| ROAE (%) | 12.42% | 13.43% | 12.31% | 6.46% | 9.06% |
| Net D/E (%) | 389.7% | 316.2% | 163.2% | 200.1% | 244.3% |

*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates



Profit Forecast

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 918.5 | 1,768.5 | 3,195.9 | 3,866.1 | 5,193.5 |
| Other net income | 85.3 | 249.8 | 682.5 | 226.0 | 233.6 |
| Total income | 1,003.8 | 2,018.4 | 3,878.5 | 4,092.1 | 5,427.1 |
| Service concession construction costs | (66.6) | 0.0 | 0.0 | 0.0 | 0.0 |
| D&A | (296.8) | (633.7) | (1,169.3) | (1,449.0) | (2,055.2) |
| Personnel costs | (45.2) | (79.2) | (118.0) | (123.7) | (166.2) |
| Repairs and maintenance | (15.2) | (27.7) | (29.9) | (38.7) | (129.8) |
| Admin | (20.0) | (96.0) | (117.8) | (116.0) | (155.8) |
| Other operating expenses | (20.5) | (47.3) | (92.1) | (92.8) | (124.6) |
| EBIT | 539.5 | 1,134.3 | 2,351.5 | 2,272.0 | 2,795.4 |
| Finance income | 12.2 | 22.2 | 47.8 | 100.0 | 80.0 |
| Finance expenses | (251.4) | (515.2) | (1,260.1) | (1,480.0) | (1,546.1) |
| Share of profit of a jointly controlled entity | 3.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBT | 303.5 | 641.4 | 1,139.1 | 892.0 | 1,329.3 |
| Income tax | (22.2) | (32.0) | (32.3) | (44.6) | (66.5) |
| Profit from continuing operations | 281.3 | 609.4 | 1,106.8 | 847.4 | 1,262.8 |
| Profit from discontinued operation (net of income tax) | 39.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| MI | 56.2 | 81.1 | 83.8 | 101.7 | 151.5 |
| NP | 264.4 | 528.3 | 1,023.0 | 745.7 | 1,111.3 |
| Adjusted EBIT | 454.2 | 884.5 | 1,668.9 | 2,046.0 | 2,561.9 |
| Adjusted EBITDA | 751.0 | 1,518.2 | 2,838.2 | 3,495.0 | 4,617.0 |
| Dividends (post-listing) | - | - | - | 111.9 | 166.7 |
| Dividends (pre-listing) | - | - | 316.2 | 0.0 | 0.0 |
| No. of issued shares at end of period (mn) | | | | | |
| Domestic shares (mn shares) | 5,800.0 | 5,800.0 | 8,446.9 | 8,446.9 | 8,446.9 |
| H-shares (mn shares) | - | - | 2,911.6 | 2,911.6 | 2,911.6 |
| | - | - | 5,535.3 | 5,535.3 | 5,535.3 |
| Per share value (Rmb) | | | | | |
| DPS (post-listing) | - | - | - | 0.0132 | 0.0197 |
| Basic EPS | 0.0456 | 0.0911 | 0.1211 | 0.0883 | 0.1316 |
| NBV | 0.4454 | 0.9110 | 1.3415 | 1.3923 | 1.5107 |
| Net debt per share | 1.7356 | 2.8809 | 2.1899 | 2.7857 | 3.6906 |

Financial Ratio Analysis

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|--------|--------|--------|--------|--------|
| Profitability | | | | | |
| Adjusted EBIT margin | 53.6% | 50.3% | 52.8% | 52.9% | 49.3% |
| Adjusted EBITDA margin | 88.7% | 86.3% | 89.8% | 90.4% | 88.9% |
| Net profit margin | 28.8% | 29.9% | 32.0% | 19.3% | 21.4% |
| ROAA | 1.84% | 2.06% | 2.41% | 1.37% | 1.83% |
| ROAE | 12.42% | 13.43% | 12.31% | 6.46% | 9.06% |
| Leverage | | | | | |
| Current ratio | 0.37 | 0.22 | 0.64 | 0.53 | 0.40 |
| Quick ratio | 0.37 | 0.22 | 0.64 | 0.53 | 0.40 |
| Interest coverage (EBITDA/ Finance cost) | 3.14 | 3.08 | 2.34 | 2.53 | 3.15 |
| Net debt/Equity | 389.7% | 316.2% | 163.2% | 200.1% | 244.3% |

Source: The group (for historical figures only), ABCI Securities estimates



Balance Sheet Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| PPE | 14,335.9 | 27,802.9 | 36,956.4 | 44,021.0 | 52,501.5 |
| Lease prepayments | 22.7 | 65.1 | 102.2 | 100.0 | 97.8 |
| Intangible assets | 411.6 | 394.8 | 381.4 | 363.3 | 345.2 |
| Others | 1,180.9 | 2,702.9 | 3,916.4 | 3,916.4 | 3,916.4 |
| Total non-current assets | 15,951.0 | 30,965.7 | 41,356.4 | 48,400.7 | 56,860.9 |
| Inventories | 0.1 | 0.7 | 2.1 | 2.2 | 3.5 |
| Trade debtors and bills receivable | 390.9 | 959.7 | 2,010.5 | 1,590.8 | 3,246.9 |
| Prepayment and other current assets | 596.7 | 207.7 | 584.3 | 369.0 | 911.6 |
| Tax recoverable | 6.9 | 0.5 | 0.0 | 0.0 | 0.0 |
| Restricted deposits | 15.8 | 0.8 | 59.5 | 59.5 | 59.5 |
| Cash at bank and on hand | 819.2 | 1,309.5 | 7,518.0 | 6,828.4 | 3,184.8 |
| Total current assets | 1,829.7 | 2,479.0 | 10,174.3 | 8,849.9 | 7,406.3 |
| Borrowings | 2,798.5 | 4,817.6 | 6,758.8 | 6,758.8 | 6,758.8 |
| Obligations under finance leases | 119.2 | 232.2 | 283.1 | 283.1 | 283.1 |
| Other payables | 2,081.6 | 6,255.2 | 8,838.9 | 9,684.6 | 11,550.3 |
| Tax payable | 12.7 | 6.3 | 18.0 | 18.0 | 18.0 |
| Total current liabilities | 5,011.9 | 11,311.3 | 15,898.8 | 16,744.5 | 18,610.2 |
| Borrowings | 8,087.2 | 13,201.3 | 19,257.1 | 23,600.0 | 27,600.0 |
| Obligations under finance leases | 805.8 | 1,768.4 | 2,384.1 | 2,384.1 | 2,384.1 |
| Retention payables | 324.4 | 761.8 | 1,546.6 | 1,546.6 | 1,546.6 |
| Deferred income | 234.1 | 248.7 | 257.8 | 257.8 | 257.8 |
| Deferred tax liabilities | 20.8 | 34.3 | 26.8 | 26.8 | 26.8 |
| Total non-current liabilities | 9,472.3 | 16,014.5 | 23,472.5 | 27,815.4 | 31,815.4 |
| Total assets | 17,780.7 | 33,444.6 | 51,530.7 | 57,250.6 | 64,267.2 |
| Net assets | 3,296.5 | 6,118.8 | 12,159.4 | 12,690.6 | 13,841.6 |
| Capital and Reserves | | | | | |
| Share capital | 451.5 | 5,800.0 | 8,446.9 | 8,446.9 | 8,446.9 |
| Reserves | 2,131.7 | (516.1) | 2,884.6 | 3,314.1 | 4,313.6 |
| MI | 713.3 | 834.9 | 827.9 | 929.6 | 1,081.1 |
| Total Equity | 3,296.5 | 6,118.8 | 12,159.4 | 12,690.6 | 13,841.6 |
| Net debt | 10,066.5 | 16,709.5 | 18,497.9 | 23,530.4 | 31,174.1 |
| Gross debt | 10,885.7 | 18,018.9 | 26,015.9 | 30,358.8 | 34,358.8 |

Cash Flow Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|------------------|------------------|------------------|------------------|-------------------|
| EBITDA | 836.3 | 1,768.0 | 3,520.7 | 3,721.0 | 4,850.6 |
| Change in working capital | (114.1) | (485.3) | (921.0) | 1,480.6 | (334.4) |
| Others | (28.4) | (7.8) | (16.0) | 100.0 | 80.0 |
| Cash (used in)/generated from operations | 693.8 | 1,275.0 | 2,583.7 | 5,301.6 | 4,596.2 |
| Income tax paid | (19.6) | (15.0) | (21.9) | (44.6) | (66.5) |
| CF from operating activities | 674.3 | 1,260.0 | 2,561.8 | 5,257.0 | 4,529.8 |
| CAPEX | (7,164.1) | (10,418.5) | (7,699.4) | (8,493.3) | (10,515.4) |
| Others | 7.8 | 699.0 | (88.0) | 0.0 | 0.0 |
| Cash flows from investing activities | (7,156.3) | (9,719.5) | (7,787.3) | (8,493.3) | (10,515.4) |
| Net borrowing | 4,614.9 | 7,134.1 | 7,998.2 | 4,342.9 | 4,000.0 |
| Proceeds from issue of shares | 0.0 | 0.0 | 5,402.7 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | (316.2) | (111.9) |
| Interest paid | (484.3) | (704.7) | (1,315.9) | (1,480.0) | (1,546.1) |
| Others | 1,496.9 | 2,538.8 | (504.7) | 11.8 | (1.0) |
| Cash flows from financing activities | 5,627.4 | 8,968.2 | 11,580.3 | 2,558.5 | 2,341.0 |
| Net (decrease)/increase in cash and cash equivalents | (854.6) | 508.7 | 6,354.9 | (677.8) | (3,644.6) |
| Cash and cash equivalents at beginning of year/period | 1,643.8 | 789.2 | 1,297.8 | 7,506.2 | 6,828.4 |
| Effect of foreign exchange rates, net | 0.0 | (0.1) | (146.4) | 0.0 | 1.0 |
| Cash and cash equivalents at end of year/period | 789.2 | 1,297.8 | 7,506.2 | 6,828.4 | 3,184.8 |

Source: The group (for historical figures only), ABCI Securities estimates



Company Report

Datang Renewable (1798 HK) – SELL

Independent Power Producers

12-month target price: HK\$0.55

Key data

| | |
|------------------------------|-------------|
| Share price (HK\$) | 0.76 |
| Target price (HK\$) | 0.55 |
| Upside potential (%) | -27.6% |
| 52Wk H/L(HK\$) | 1.69 / 0.71 |
| Issued shares (mn) | 7,273.7 |
| H-shares (mn) | 2,501.1 |
| Domestic shares (mn) | 4,772.6 |
| Market cap (HK\$mn) | 1,900.8 |
| 30-day avg turnover (HK\$mn) | 1.67 |
| Major shareholder (%): | |
| Datang Corporation | 65.6 |

Source: Company & Bloomberg

Revenue composition in 2HFY2012 (%)

| | |
|----------------------|-------|
| Sales of electricity | 98.7% |
| Others | 1.3% |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 2.7 | (2.9) |
| 3-mth | (25.5) | (32.3) |
| 6-mth | (41.1) | (43.0) |

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

Report Date: 12 October 2012

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Consistently underperform

Due to its highly concentrated wind portfolio, the group is more negatively affected by the grid curtailment problem. Utilization hours of the group worsened in 1H2012. Although the group is trying to move its newly installed capacity to the south, we believe it has lost the first mover advantage to build wind farms in places with best wind resources. We give the group a TP of HK\$0.55, representing 5.1x FY12PE and 0.3x PB.

Highly geographical concentrated wind portfolio: The group is the second largest wind farm operator in China in terms of installed capacity. However, the wind farms of the group are highly concentrated in regions with serious grid curtailment problems. By the end of 1H2012, 43% of the group's installed capacity is located in Inner Mongolia and 23% in north eastern part of China. Therefore, utilization hours of the group are constantly the lowest amongst the top 3 wind power operators in China (apart from 1H2012). In 1H2012, utilization hours of the group dropped 17% YoY to 880 hours. Unlike other peers, we see a deterioration in the indicator. Utilization hours dropped 0.8% HoH in 1H2012 compared to an average of 3.8% increase of the other two largest wind operators. Although grid curtailment problem remained an overhang on the wind power industry as a whole, we believe the group will be the most negatively affected due to its highly geographical concentrated wind portfolio.

Substantial decrease in CER income: Up to 1H2012, the CER contract of the group will be settled in fixed price of around EUR10/ton and contracts thereafter will be calculated in floating price. However, CER income dropped 52% YoY to Rmb86mn, reflecting the fact that the counterparty are not willing to pay the fixed price and no revenues are booked into account. We believe the 1H2012 results had taken into account the significant drop in CER prices. But as CER incomes accounted for a much less proportion to the group's revenue, the continuous downtrend of the CER income has a less impact on the group's net profit(CER/EBIT: 9%/15% in 1H2012/2011).

Valuation: The counter is trading at 7.0x 2012 PE and 0.37x PB. Our DCF model with a WACC of 7.1% gives a fair value of HK\$0.55/share, representing 5.1x FY12PE and 0.27x PB. SELL.

Risk factors: Change in government subsidy policy, high gearing

Results and Valuation

| (FY ended Dec 31) | FY09A | FY10A | FY11A | FY12F | FY13F |
|---------------------|---------|---------|---------|---------|---------|
| Revenue (Rmb mn) | 1,428.1 | 2,379.7 | 3,828.8 | 5,316.5 | 6,620.6 |
| YoY Chg (%) | 120.1% | 66.6% | 60.9% | 38.9% | 24.5% |
| Net Income (Rmb mn) | 248.4 | 455.8 | 729.8 | 643.8 | 1,070.5 |
| YoY Chg (%) | 149.1% | 83.5% | 60.1% | -11.8% | 66.3% |
| FD EPS (Rmb) | - | 0.0638 | 0.1003 | 0.0885 | 0.1472 |
| YoY Chg (%) | - | 77.6% | 57.2% | -11.8% | 66.3% |
| NBV (Rmb/share) | - | 1.47 | 1.57 | 1.67 | 1.83 |
| PE (x) | - | - | 6.15 | 6.97 | 4.19 |
| PB (x) | - | - | 0.39 | 0.37 | 0.34 |
| ROAA (%) | 1.24% | 1.39% | 1.53% | 1.08% | 1.57% |
| ROAE (%) | 4.99% | 5.64% | 6.56% | 5.35% | 8.27% |
| Net D/E (%) | 270.8% | 195.1% | 264.3% | 337.5% | 343.1% |

*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates



Profit Forecast

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,428.1 | 2,379.7 | 3,828.8 | 5,316.5 | 6,620.6 |
| Other net income | 206.8 | 368.7 | 518.4 | 388.4 | 439.2 |
| Total | 1,634.9 | 2,748.4 | 4,347.2 | 5,704.9 | 7,059.9 |
| D&A | (552.7) | (886.3) | (1,360.8) | (1,770.4) | (2,156.3) |
| Service concession construction costs | (38.9) | 0.0 | (24.2) | 0.0 | 0.0 |
| Labour costs | (52.7) | (95.3) | (187.7) | (265.8) | (331.0) |
| Repairs and maintenance | (19.6) | (66.4) | (69.5) | (106.3) | (132.4) |
| Material costs | (9.5) | (24.7) | (30.1) | (42.5) | (53.0) |
| Other expenses | (101.8) | (173.0) | (245.8) | (345.6) | (430.3) |
| EBIT | 859.8 | 1,502.6 | 2,429.0 | 3,174.2 | 3,956.8 |
| Interest income | 5.9 | 20.0 | 10.9 | | |
| Finance costs | (480.7) | (786.0) | (1,442.2) | (2,280.0) | (2,470.0) |
| Share of results of associates | (0.8) | (2.0) | (7.4) | | |
| Share of results of jointly controlled entities | 0.0 | 0.0 | 15.0 | | |
| EBT | 384.2 | 734.6 | 1,005.3 | 894.2 | 1,486.8 |
| Tax | (17.3) | (57.1) | (35.0) | (35.8) | (59.5) |
| MI | (118.5) | (221.7) | (240.5) | (214.6) | (356.8) |
| Net Profit | 248.4 | 455.8 | 729.8 | 643.8 | 1,070.5 |
| Adjusted EBITDA | 653.0 | 1,133.9 | 1,910.6 | 2,785.8 | 3,517.6 |
| Adjusted EBIT | 1,205.7 | 2,020.3 | 3,271.5 | 4,556.3 | 5,673.9 |
| Dividends | 128.8 | 100.3 | 283.7 | 161.0 | 267.6 |
| No. of issued shares at end of period (mn) | - | 2,356.9 | 2,501.1 | 2,501.1 | 2,501.1 |
| Domestic shares (mn shares) | - | 4,785.7 | 4,772.6 | 4,772.6 | 4,772.6 |
| H-shares (mn shares) | - | 7,142.6 | 7,273.7 | 7,273.7 | 7,273.7 |
| Per share value (Rmb) | | | | | |
| Basic EPS | - | 0.0638 | 0.1003 | 0.0885 | 0.1472 |
| NBV | - | 1.4743 | 1.5744 | 1.6703 | 1.8298 |
| DPS | - | - | 0.039 | 0.022 | 0.037 |
| Net debt per share | - | 2.8764 | 4.2645 | 5.7125 | 6.4040 |

Financial Ratio Analysis

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|---------|---------|---------|---------|---------|
| Profitability | | | | | |
| Adjusted EBITDA margin | 84.43% | 84.89% | 85.44% | 85.70% | 85.70% |
| Adjusted EBIT margin | 45.72% | 47.65% | 49.90% | 52.40% | 53.13% |
| Net profit margin | 17.39% | 19.15% | 19.06% | 12.11% | 16.17% |
| ROAA | 1.24% | 1.39% | 1.53% | 1.08% | 1.57% |
| ROAE | 4.99% | 5.64% | 6.56% | 5.35% | 8.27% |
| Leverage | | | | | |
| Current ratio | 0.57 | 1.09 | 0.73 | 1.05 | 0.96 |
| Quick ratio | 0.57 | 1.09 | 0.72 | 1.05 | 0.96 |
| Interest coverage (EBITDA/ Finance cost) | 2.51 | 2.57 | 2.27 | 2.00 | 2.30 |
| Net debt/Equity | 270.78% | 195.10% | 264.31% | 337.53% | 343.09% |

Source: Company, ABCI Securities estimates



Balance Sheet Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| PPE | 11,104.1 | 11,812.7 | 14,044.4 | 25,375.2 | 36,376.4 |
| Intangible assets | 3,995.9 | 3,806.3 | 3,627.5 | 3,408.4 | 3,209.4 |
| Others | 2,256.2 | 2,707.3 | 3,270.6 | 3,270.6 | 3,270.9 |
| Non-current assets | 17,356.2 | 18,326.3 | 20,942.5 | 32,054.1 | 42,856.7 |
| Inventories | 11,279.1 | 17,356.2 | 18,326.3 | 20,942.5 | 32,054.1 |
| Trade and bill receivables | 85.8 | 35.0 | 35.1 | 51.4 | 59.6 |
| Other receivables, deposits and prepayments | 301.7 | 849.8 | 1,157.4 | 1,401.7 | 1,651.5 |
| Other current assets | 294.3 | 303.6 | 330.2 | 330.2 | 330.2 |
| Cash and cash equivalents | 753.9 | 638.8 | 2,443.4 | 1,370.9 | 420.3 |
| Assets classified as held for sale | 0.0 | 282.4 | 0.0 | 0.0 | 0.0 |
| Current assets | 2,018.4 | 2,523.0 | 4,358.6 | 3,546.8 | 3,536.1 |
| Trade and other payables | 1,563.5 | 1,644.3 | 1,367.0 | 1,418.3 | 3,557.7 |
| Amounts due to related parties | 97.6 | 157.6 | 260.7 | 320.0 | 320.0 |
| Bank and other borrowings-due within one year | 3,599.1 | 2,731.3 | 6,087.5 | 6,087.5 | 6,087.5 |
| Income tax payable | 9.3 | 43.5 | 65.8 | 65.8 | 65.8 |
| Deferred income-current portion | 27.9 | 90.6 | 160.1 | 0.0 | 0.0 |
| Others | 0.0 | 176.1 | 0.0 | 0.0 | 0.0 |
| Current liabilities | 5,297.3 | 4,843.4 | 7,941.1 | 7,891.6 | 10,031.0 |
| Bank and other borrowings-due after one year | 8,461.1 | 8,883.4 | 8,154.6 | 18,154.6 | 25,654.6 |
| Deferred tax liabilities | 0.0 | 4.2 | 3.8 | 3.8 | 3.8 |
| Deferred income | 50.7 | 44.7 | 42.1 | 42.1 | 42.1 |
| Other non-current liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-current liabilities | 8,511.7 | 8,932.4 | 8,200.5 | 18,200.5 | 25,700.5 |
| Total assets | 19,374.6 | 20,849.3 | 25,301.1 | 35,600.9 | 46,392.8 |
| Net assets | 5,565.5 | 7,073.5 | 9,159.4 | 9,508.8 | 10,661.2 |
| Capital and Reserves | | | | | |
| Share capital | 1,006.4 | 5,000.0 | 6,032.2 | 6,032.2 | 6,032.2 |
| Reserves | 4,270.1 | 1,764.2 | 2,749.4 | 3,098.8 | 4,251.2 |
| Equity attributable to owners of the Company | 5,276.6 | 6,764.2 | 8,781.6 | 9,131.0 | 10,283.4 |
| MI | 289.0 | 309.3 | 377.8 | 377.8 | 377.8 |
| Total Equity | 5,565.5 | 7,073.5 | 9,159.4 | 9,508.8 | 10,661.3 |
| Net debt | 11,292.3 | 10,975.9 | 11,798.7 | 22,871.2 | 31,321.8 |
| Gross debt | 12,060.2 | 11,614.7 | 14,242.1 | 24,242.1 | 31,742.1 |

Cash Flow Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|------------------|------------------|-------------------|------------------|------------------|
| EBITDA | 324.1 | 674.3 | 1,412.5 | 2,389.0 | 3,789.8 |
| Change in working capital | (374.4) | (512.0) | (1,245.7) | (3,366.6) | (483.6) |
| Others | 1,087.1 | 1,714.0 | 2,375.0 | 2,578.0 | 2,345.8 |
| Cash (used in)/generated from operations | 1,036.8 | 1,876.3 | 2,541.8 | 1,600.3 | 5,652.0 |
| Interest received | 5.9 | 20.0 | 10.3 | 0.0 | 0.0 |
| Income tax paid | (34.4) | (52.4) | (67.1) | (35.8) | (59.5) |
| CF from operating activities | 1,008.3 | 1,843.9 | 2,485.1 | 1,564.5 | 5,592.5 |
| CAPEX | (8,140.8) | (9,854.8) | (10,469.1) | (9,533.1) | (7,991.0) |
| Others | (112.4) | 39.4 | (1,198.4) | 0.0 | 0.0 |
| Cash flows from investing activities | (8,253.2) | (9,815.4) | (11,667.5) | (9,533.1) | (7,991.0) |
| New loans raised | 8,312.7 | 14,873.2 | 7,877.2 | 12,818.7 | 4,000.0 |
| Net proceeds from issue of shares | 0.0 | 4,174.6 | 240.2 | 0.0 | 0.0 |
| Dividends paid | (57.0) | (9.8) | (100.3) | (283.7) | (161.0) |
| Interest paid | (745.9) | (1,078.4) | (1,666.4) | (2,280.0) | (2,470.0) |
| Others | (278.4) | (5,461.5) | 2,098.4 | 0.0 | 0.0 |
| Cash flows from financing activities | 7,231.4 | 12,498.0 | 8,449.1 | 10,255.0 | 1,369.0 |
| Net (decrease)/increase in cash and cash equivalents | (13.5) | 4,526.5 | (733.3) | 2,286.4 | (1,029.4) |
| Cash and cash equivalents at beg of yr | 545.1 | 531.2 | 5,031.3 | 4,162.4 | 6,448.9 |
| Effect of foreign exchange rates, net | (0.4) | (26.3) | (135.6) | 0.0 | 0.0 |
| Cash and cash equivalents at end of year/period | 531.2 | 5,031.3 | 4,162.4 | 6,448.9 | 5,419.4 |

Source: Company, ABCI Securities estimates



Company Report

JNCEC (579 HK) – Hold
Independent Power Producers
 12-month target price: HK\$1.74

Key data

| | |
|------------------------------|-------------|
| Share price (HK\$) | 1.68 |
| Target price (HK\$) | 1.74 |
| Upside potential (%) | 3.6% |
| 52Wk H/L(HK\$) | 1.93 / 1.46 |
| Issued shares (mn) | 6,149.9 |
| H-shares (mn) | 1,637.6 |
| Domestic shares (mn) | 4,512.4 |
| H-share market cap (HK\$mn) | 2,751.2 |
| 30-day avg turnover (HK\$mn) | 0.24 |
| Major shareholder (%): | |
| BEIH | 68.0 |

Source: Company & Bloomberg

Revenue composition in 2HFY2012 (%)

| | |
|--------|-------|
| Gas | 66.1% |
| Wind | 33.4% |
| Others | 0.5% |

Source: Company

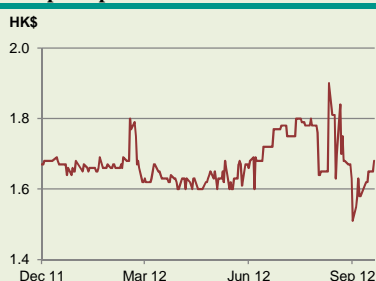
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (1.2) | (6.5) |
| 3-mth | (5.1) | (13.7) |
| 6-mth | 3.7 | 0.4 |

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

Report Date: 12 October 2012

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A niche green energy play in the Capital

The group is the largest gas-fired power provider in Beijing and a leading wind operator in PRC. Backed by a strong shareholder structure and a strong portfolio of pipeline projects, the group is well-positioned to capture the clean energy growth promoted by government policy. We give the group a TP of HK\$1.74, representing 8.6x PE and 0.95x PB. Maintain HOLD.

Strong shareholder background - The controlling shareholder of the group Beijing Energy Investment Holding Co. Ltd (BEIH), is a state-owned investment enterprise wholly owned by the Municipal Government of Beijing. We believe BEIH can provide BJCE with strong resource assurance for both project sourcing and implementation of projects. In addition, the reorganization of BEIH and Beijing District Heating (Group) Co, Ltd (BDHG) in Dec 2011 will further reduce business risks of being unable to dispatch the additional heat output from the new installed capacity.

Capacity plan on track: Installed capacity of the group's gas-fired power business is expected to increase by 87.2% YoY to 2,228MW by the end of 2012 and 288.2% YoY to 4,620MW by the end of 2013. For the wind segment, installed capacity is expected to reach 1,790MW in 2012 and 3,700MW in 2013, representing YoY growth of 37.4% and 154.9% respectively. The rapid capacity installation is the major growth driver of the group.

Valuation: We estimated 2012 FD EPS to be Rmb0.1647, up 23.6% YoY. The counter is trading at 8.3x FY12 PE and 0.92x FY12 PB. We give the group a TP of HK\$1.74, representing 8.6x PE and 0.95x PB. Maintain HOLD.

Risk factors: Change in government subsidy policy, high gearing, fuel costs

Results and valuation

| (FY ended Dec 31) | FY09A | FY10A | FY11A | FY12F | FY13F |
|----------------------------|---------|---------|---------|---------|---------|
| Revenue (Rmb mn) | 4,785.5 | 3,624.8 | 3,905.0 | 5,065.5 | 9,030.2 |
| YoY Chg (%) | 112.1% | -24.3% | 7.7% | 29.7% | 78.3% |
| Net Income (Rmb mn) | 179.6 | 488.9 | 803.5 | 1,012.6 | 1,355.0 |
| YoY Chg (%) | 299.5% | 172.2% | 64.3% | 26.0% | 33.8% |
| FD EPS (Rmb) | 0.0488 | 0.1023 | 0.1332 | 0.1647 | 0.2203 |
| YoY Chg (%) | 178.9% | 109.6% | 30.2% | 23.6% | 33.8% |
| NBV (Rmb/share) | 1.4351 | 1.4155 | 1.4558 | 1.4847 | 1.6721 |
| PE (x) | - | - | 10.24 | 8.29 | 6.19 |
| PB (x) | - | - | 0.94 | 0.92 | 0.82 |
| ROAA (%) | 1.13% | 2.43% | 3.48% | 3.33% | 3.31% |
| ROAE (%) | 3.99% | 8.12% | 10.34% | 11.31% | 13.96% |
| Net D/E (%) | 214.0% | 162.3% | 134.4% | 250.5% | 304.6% |

*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates



Profit Forecast

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|---|----------------|----------------|----------------|----------------|------------------|
| Revenue | 4,785.5 | 3,624.8 | 3,905.0 | 5,065.5 | 9,030.2 |
| Other net income | 580.2 | 609.0 | 962.1 | 1,225.0 | 1,230.0 |
| Total | 5,365.7 | 4,233.9 | 4,867.2 | 6,290.5 | 10,260.2 |
| Gas consumption | (1,458.6) | (1,970.5) | (2,110.1) | (2,541.6) | (5,045.2) |
| Service concession construction costs | (2,375.7) | 0.0 | 0.0 | 0.0 | 0.0 |
| D&A | (496.4) | (758.1) | (767.8) | (897.7) | (1,197.7) |
| Personnel costs | (119.4) | (184.3) | (194.8) | (253.3) | (316.1) |
| Repairs and maintenance | (98.7) | (104.5) | (102.7) | (152.0) | (270.9) |
| Other expenses | (335.9) | (235.2) | (195.1) | (314.5) | (513.0) |
| Other gains and losses | (3.6) | 27.8 | (6.0) | 0.0 | 0.0 |
| EBIT | 477.3 | 1,009.0 | 1,490.7 | 2,131.4 | 2,917.4 |
| Interest income | 18.0 | 12.7 | 15.3 | 13.0 | 13.0 |
| Finance costs | (299.2) | (500.3) | (582.6) | (969.7) | (1,269.7) |
| Share of results of associates | 15.6 | 55.2 | 147.4 | 200.0 | 225.0 |
| Share of results of jointly controlled entities | 5.1 | 0.4 | (0.3) | 0.4 | 0.4 |
| EBT | 216.7 | 577.1 | 1,070.5 | 1,375.1 | 1,886.1 |
| Tax | (17.8) | (56.3) | (175.6) | (247.5) | (377.2) |
| MI | (19.4) | (31.9) | (91.5) | (115.0) | (153.9) |
| Net Profit | 179.6 | 488.9 | 803.5 | 1,012.6 | 1,355.0 |
| D&A | (496.4) | (758.1) | (767.8) | (897.7) | (1,197.7) |
| Adjusted EBITDA | 393.5 | 1,158.1 | 1,296.3 | 1,804.1 | 2,885.1 |
| Adjusted EBIT | (102.9) | 400.0 | 528.6 | 906.4 | 1,687.4 |
| Dividends (post-listing) | - | - | 53.7 | 202.5 | 271.0 |
| Dividends (pre-listing) | 13.9 | 247.9 | 609.5 | - | - |
| No. of issued shares at end of period (mn) | 3,676.7 | 4,778.5 | 6,032.2 | 6,149.9 | 6,149.9 |
| Domestic shares (mn shares) | | | 4,524.1 | 4,512.4 | 4,512.4 |
| H-shares (mn shares) | | | 1,508.1 | 1,637.5 | 1,637.5 |
| Per share value (Rmb) | | | | | |
| Basic EPS | 0.0488 | 0.1023 | 0.1332 | 0.1647 | 0.2203 |
| NBV | 1.4351 | 1.4155 | 1.4558 | 1.4847 | 1.6721 |
| DPS | - | - | 0.00874 | 0.03293 | 0.04407 |
| Net debt per share | 3.0713 | 2.2969 | 1.9559 | 3.7189 | 5.0931 |

Financial Ratio Analysis

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|--------|--------|--------|--------|--------|
| Profitability | | | | | |
| Adjusted EBITDA margin | 8.2% | 31.9% | 33.2% | 35.6% | 31.9% |
| Adjusted EBIT margin | -2.2% | 11.0% | 13.5% | 17.9% | 18.7% |
| Net profit margin | 3.8% | 13.5% | 20.6% | 20.0% | 15.0% |
| ROAA | 1.13% | 2.43% | 3.48% | 3.33% | 3.31% |
| ROAE | 3.99% | 8.12% | 10.34% | 11.31% | 13.96% |
| Leverage | | | | | |
| Current ratio | 0.38 | 0.52 | 0.55 | 0.45 | 0.35 |
| Quick ratio | 0.37 | 0.51 | 0.54 | 0.44 | 0.34 |
| Interest coverage (EBITDA/ Finance cost) | 1.32 | 2.32 | 2.23 | 1.86 | 2.27 |
| Net debt/Equity | 214.0% | 162.3% | 134.4% | 250.5% | 304.6% |

Source: Company, ABCI Securities estimates



Balance Sheet Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| PPE | 11,104.1 | 11,812.7 | 14,044.4 | 25,375.2 | 36,376.4 |
| Intangible assets | 3,995.9 | 3,806.3 | 3,627.5 | 3,408.4 | 3,209.4 |
| Others | 2,256.2 | 2,707.3 | 3,270.6 | 3,270.6 | 3,270.9 |
| Non-current assets | 17,356.2 | 18,326.3 | 20,942.5 | 32,054.1 | 42,856.7 |
| Inventories | 11,279.1 | 17,356.2 | 18,326.3 | 20,942.5 | 32,054.1 |
| Trade and bill receivables | 85.8 | 35.0 | 35.1 | 51.4 | 59.6 |
| Other receivables, deposits and prepayments | 301.7 | 849.8 | 1,157.4 | 1,401.7 | 1,651.5 |
| Other current assets | 294.3 | 303.6 | 330.2 | 330.2 | 330.2 |
| Cash and cash equivalents | 753.9 | 638.8 | 2,443.4 | 1,370.9 | 420.3 |
| Assets classified as held for sale | 0.0 | 282.4 | 0.0 | 0.0 | 0.0 |
| Current assets | 2,018.4 | 2,523.0 | 4,358.6 | 3,546.8 | 3,536.1 |
| Trade and other payables | 1,563.5 | 1,644.3 | 1,367.0 | 1,418.3 | 3,557.7 |
| Amounts due to related parties | 97.6 | 157.6 | 260.7 | 320.0 | 320.0 |
| Bank and other borrowings-due within one year | 3,599.1 | 2,731.3 | 6,087.5 | 6,087.5 | 6,087.5 |
| Income tax payable | 9.3 | 43.5 | 65.8 | 65.8 | 65.8 |
| Deferred income-current portion | 27.9 | 90.6 | 160.1 | 0.0 | 0.0 |
| Others | 0.0 | 176.1 | 0.0 | 0.0 | 0.0 |
| Current liabilities | 5,297.3 | 4,843.4 | 7,941.1 | 7,891.6 | 10,031.0 |
| Bank and other borrowings-due after one year | 8,461.1 | 8,883.4 | 8,154.6 | 18,154.6 | 25,654.6 |
| Deferred tax liabilities | 0.0 | 4.2 | 3.8 | 3.8 | 3.8 |
| Deferred income | 50.7 | 44.7 | 42.1 | 42.1 | 42.1 |
| Other non-current liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-current liabilities | 8,511.7 | 8,932.4 | 8,200.5 | 18,200.5 | 25,700.5 |
| Total assets | 19,374.6 | 20,849.3 | 25,301.1 | 35,600.9 | 46,392.8 |
| Net assets | 5,565.5 | 7,073.5 | 9,159.4 | 9,508.8 | 10,661.2 |
| Capital and Reserves | | | | | |
| Share capital | 1,006.4 | 5,000.0 | 6,032.2 | 6,032.2 | 6,032.2 |
| Reserves | 4,270.1 | 1,764.2 | 2,749.4 | 3,098.8 | 4,251.2 |
| Equity attributable to owners of the Company | 5,276.6 | 6,764.2 | 8,781.6 | 9,131.0 | 10,283.4 |
| MI | 289.0 | 309.3 | 377.8 | 377.8 | 377.8 |
| Total Equity | 5,565.5 | 7,073.5 | 9,159.4 | 9,508.8 | 10,661.3 |
| Net debt | 11,292.3 | 10,975.9 | 11,798.7 | 22,871.2 | 31,321.8 |
| Gross debt | 12,060.2 | 11,614.7 | 14,242.1 | 24,242.1 | 31,742.1 |

Cash Flow Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|------------------|------------------|------------------|-------------------|-------------------|
| EBITDA | 393.5 | 1,158.1 | 1,296.3 | 1,804.1 | 2,885.1 |
| Change in working capital | (679.4) | (120.5) | (413.6) | (310.3) | 1,199.5 |
| Others | 592.6 | 570.5 | 962.1 | 0.0 | 0.0 |
| Cash (used in)/generated from operations | 306.8 | 1,608.1 | 1,844.8 | 2,718.8 | 5,314.5 |
| Income tax paid | (36.4) | (69.9) | (175.6) | (247.5) | (377.2) |
| CF from operating activities | 270.4 | 1,538.2 | 1,669.3 | 2,471.3 | 4,937.3 |
| CAPEX | (5,982.3) | (1,772.4) | (2,854.0) | (12,000.0) | (12,000.0) |
| Others | (151.6) | (159.5) | (613.8) | 13.0 | 13.0 |
| Cash flows from investing activities | (6,133.9) | (1,931.9) | (3,467.8) | (11,987.0) | (11,987.0) |
| New loans raised | 5,559.4 | (359.8) | 2,730.5 | 10,000.0 | 7,500.0 |
| Net proceeds from issue of shares | 0.0 | 0.0 | 1,550.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | (186.5) | (60.0) | (663.2) | (202.5) |
| Interest paid | (456.3) | (496.2) | (792.4) | (969.7) | (1,269.7) |
| Others | 944.8 | 1,323.7 | 0.0 | 136.1 | 71.2 |
| Cash flows from financing activities | 6,047.9 | 281.3 | 3,428.1 | 8,503.2 | 6,099.0 |
| Net (decrease)/increase in cash and cash equivalents | 184.4 | (112.4) | 1,629.5 | (1,012.5) | (950.6) |
| Cash and cash equivalents at beg of yr | 569.5 | 753.9 | 753.9 | 2,383.4 | 1,370.9 |
| Effect of foreign exchange rates, net | 0.0 | (0.9) | 0.0 | 0.0 | 0.0 |
| Cash and cash equivalents at end of year/period | 753.9 | 640.6 | 2,383.4 | 1,370.9 | 420.3 |

Source: Company, ABCI Securities estimates



Company Report

Huadian Fuxin (816 HK) – Buy Independent Power Producers Industry 12-month target price: HK\$1.70

Key data

| | |
|----------------------------|-------------|
| Share price (HK\$) | 1.43 |
| Target price (HK\$) | 1.70 |
| Upside potential (%) | 18.9 |
| 52Wk H/L(HK\$) | 1.75 / 1.35 |
| Issued shares (mn) | 7,623 |
| H-shares | 1,785 |
| Unlisted shares | 5,838 |
| H-share market cap (HK\$m) | 2,552 |
| 30-day avg vol (HK\$m) | 2.26 |
| Major shareholder (%): | |
| Huadian group | 68.0 |

Source: Company & Bloomberg

Segment profit in 1HFY2012(%)

| | |
|--------|-------|
| Hydro | 47.3% |
| Wind | 36.4% |
| Coal | 14.1% |
| Others | 2.2% |

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | (5.3) | (10.4) |
| 3-mth | (13.3) | (21.2) |
| 6-mth | - | - |

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

Report Date: 12 October 2012

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Hydropower benefits from high precipitation

Fujian Province posted 52.2% YoY growth in hydropower generation in 1H2012. We expect Huadian Fuxin, the largest hydropower operator in Fujian, will be one of the biggest beneficiaries from high precipitation in the province. In view of market valuation of comparable peers and the expected earnings growth of the group, we value the share at HK\$1.70, 10.2x 2012 PE and 1.0x PB.

Significant growth in hydropower generation especially in Fujian province. In 1H2012, hydro power generation which accounted for 13% of total power generation output in China, increased by 8.3% YoY as compared to 1.6% YoY increase in thermal power generation, which accounted for 81% of total power generation output. The trend continued in 3Q2012. Hydropower generation increased by 31.2%/43.9% YoY in Jul/Aug compared to 2.3%/2.6% YoY growth of total power output and -5.2%/-7.2% of thermal power output. The higher growth in hydropower is contributed to high precipitation during the period. For the six largest provinces in terms of hydropower generation, hydropower in Fujian province posted the highest growth of 52.2% YoY in 1H2012 and 72.8% YoY in Jul-Aug.

Largest hydropower operator in Fujian. With over 56 years of experiences in the operation of hydropower business in China, the group has established a leadership position with 19.8% of market share in Fujian province. Through acquisitions of mid- to small-sized hydropower projects and increasing shareholdings in existing hydropower subsidiaries or associates, we expect the consolidated installed capacity of hydropower of the group to increase by 8.1% YoY to 2,403MW in 2012 and 15.0% YoY to 2,763MW in 2013.

Valuation: The counter is trading at 8.6x 2012 PE and 0.87x PB. We value the share at HK\$1.70, representing 10.2x 2012 PE and 1.0x PB. Maintain BUY.

Risk factors: Competition with parent group assets, geographical concentration risk; grid connection risk; high gearing, stock liquidity risk.

Results and valuation

| (FY ended Dec 31) | FY09A | FY10A | FY11A | FY12F | FY13F |
|---------------------|---------|---------|---------|---------|---------|
| Revenue (Rmb mn) | 7,349.2 | 8,397.6 | 7,147.4 | 8,003.5 | 9,722.9 |
| YoY Chg (%) | | 14.27 | -14.89 | 11.98 | 21.48 |
| Net Income (Rmb mn) | 385.2 | 521.1 | 561.6 | 1033.3 | 1197.6 |
| YoY Chg (%) | | 35.3 | 7.8 | 84.0 | 15.9 |
| FD EPS (Rmb) | 0.064 | 0.087 | 0.094 | 0.136 | 0.157 |
| YoY Chg (%) | | 35.3 | 7.8 | 44.8 | 15.9 |
| NBV (Rmb/share) | 0.712 | 1.140 | 1.244 | 1.332 | 1.462 |
| PE (x) | | | - | 8.57 | 7.39 |
| PB (x) | | | | 0.87 | 0.79 |
| ROAA (%) | - | 1.3 | 1.2 | 1.9 | 1.9 |
| ROAE (%) | - | 9.4 | 7.9 | 11.7 | 11.2 |
| Net D/E (%) | 358.6 | 307.1 | 315.6 | 287.4 | 317.2 |

*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates



Profit Forecast

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|----------------|----------------|------------------|------------------|------------------|
| Revenue | 7,349.2 | 8,397.6 | 7,147.4 | 8,003.5 | 9,722.9 |
| Other net income | 45.8 | 236.3 | 305.9 | 81.4 | 50.7 |
| Total | 7,395.0 | 8,634.0 | 7,453.3 | 8,084.8 | 9,773.6 |
| Cost of fuel | (2,543.9) | (2,856.7) | (1,930.0) | (1,964.7) | (2,662.7) |
| Cost of substituted electricity | (1,225.1) | (1,048.3) | (1,099.7) | (365.9) | (360.0) |
| D&A | (978.6) | (1,138.3) | (1,230.8) | (1,584.4) | (1,864.4) |
| Service concession construction costs | 0.0 | (193.3) | (43.9) | | |
| Personnel costs | (615.5) | (826.5) | (656.4) | (760.3) | (923.7) |
| Repairs and maintenance | (147.5) | (226.0) | (163.6) | (200.1) | (243.1) |
| Administration expenses | (184.4) | (196.9) | (221.6) | (240.1) | (291.7) |
| Other operating expenses | (208.8) | (249.0) | (190.6) | (184.1) | (223.6) |
| EBIT (Operating profit) | 1,491.3 | 1,899.0 | 1,916.7 | 2,785.3 | 3,204.4 |
| Finance income | 31.9 | 30.1 | 70.9 | 120.0 | 120.0 |
| Finance expenses | (945.0) | (984.6) | (1,266.3) | (1,585.9) | (1,795.3) |
| Net finance expenses | (913.1) | (954.5) | (1,195.4) | (1,465.9) | (1,675.3) |
| Share of profits less losses of associates and jointly controlled entity | (12.3) | 11.6 | 13.1 | | |
| EBT | 565.9 | 956.1 | 734.4 | 1,319.4 | 1,529.1 |
| Income tax | (124.0) | (157.9) | (95.8) | (145.1) | (168.2) |
| MI | (56.7) | (277.0) | (76.9) | (140.9) | (163.3) |
| Net profit | 385.2 | 521.1 | 561.6 | 1,033.3 | 1,197.6 |
| Adjusted EBIT | 1,445.5 | 1,662.6 | 1,610.7 | 2,703.9 | 3,153.7 |
| Adjusted EBITDA | 2,424.1 | 2,800.9 | 2,841.5 | 4,288.3 | 5,018.1 |
| Dividends (post-listing) | 63.1 | 92.0 | 216.0 | 0.0 | 0.0 |
| Dividends (pre-listing) | 0.0 | 0.0 | 0.0 | 206.7 | 239.5 |
| No. of issued shares at end of period (mn) | 6,000 | 6,000 | 6,000 | 7,623 | 7,623 |
| H-shares (mn shares) | - | - | - | 1,785 | 1,785 |
| Domestic shares (mn shares) | - | - | - | 5,838 | 5,838 |
| Per share value (Rmb) | | | | | |
| Pro-forma EPS | - | - | - | 0.1356 | 0.1571 |
| NBV (Rmb/share) | - | - | - | 1.332 | 1.462 |
| DPS (post-listing) | - | - | - | 0.0271 | 0.0314 |
| Net debt per share | - | - | - | 4.5022 | 5.4495 |

Financial Ratio Analysis

| FY ended Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|--------|--------|--------|--------|--------|
| Profitability | | | | | |
| Adjusted EBIT margin | 20.3% | 22.6% | 26.82% | 34.8% | 33.0% |
| Adjusted EBITDA margin | 33.6% | 36.2% | 44.04% | 54.6% | 52.1% |
| Net profit margin | 5.2% | 6.2% | 7.9% | 12.9% | 12.3% |
| ROAA | - | 1.33% | 1.18% | 1.94% | 1.94% |
| ROAE | - | 9.38% | 7.85% | 11.73% | 11.25% |
| Leverage | | | | | |
| Current ratio | 0.30 | 0.37 | 0.31 | 0.29 | 0.34 |
| Quick ratio | 0.28 | | 0.29 | 0.28 | 0.31 |
| Interest coverage (EBITDA/ Finance cost) | 2.61 | 3.08 | 2.49 | 2.76 | 2.82 |
| Net debt/Equity | 358.6% | 307.1% | 315.6% | 287.4% | 317.2% |

Source: The group (for historical figures only), ABCI Securities estimates



Balance Sheet Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| PPE | 26,933.2 | 35,967.2 | 38,307.8 | 47,041.4 | 55,194.9 |
| Investment properties | 0.0 | 20.9 | 20.1 | 19.2 | 18.4 |
| Lease prepayments | 275.2 | 328.8 | 512.1 | 503.7 | 495.2 |
| Intangible assets | 102.3 | 610.0 | 700.3 | 691.8 | 683.2 |
| Others | 2,031.2 | 3,361.8 | 4,694.4 | 4,694.4 | 4,694.4 |
| Non-current assets | 29,342.0 | 40,288.8 | 44,234.8 | 52,950.5 | 61,086.1 |
| Inventories | 243.4 | 216.5 | 268.4 | 216.1 | 440.5 |
| Trade debtors and bills receivable | 1,056.9 | 1,380.5 | 1,893.3 | 1,176.5 | 2,552.8 |
| Prepayments and other current assets | 609.1 | 995.3 | 1,598.9 | 1,598.9 | 1,598.9 |
| Other current assets | 2.1 | 76.5 | 80.9 | 80.9 | 80.9 |
| Restricted deposits | 131.3 | 58.7 | 134.8 | 134.8 | 134.8 |
| Cash and cash equivalents | 1,522.8 | 2,694.7 | 1,488.5 | 923.6 | 701.5 |
| Current assets | 3,565.6 | 5,422.2 | 5,464.9 | 4,130.8 | 5,509.5 |
| Borrowings | 7,014.9 | 6,996.5 | 8,572.8 | 5,286.3 | 6,336.3 |
| Obligations under finance leases | 192.0 | 43.8 | 219.8 | 219.8 | 219.8 |
| Trade creditors and bills payable | 768.7 | 1,377.5 | 974.9 | 1,068.3 | 1,250.5 |
| Other payables | 3,910.1 | 6,164.0 | 7,946.7 | 7,402.5 | 8,580.3 |
| Other current liabilities | 47.3 | 135.7 | 27.4 | 27.4 | 27.4 |
| Current liabilities | 11,933.0 | 14,717.5 | 17,741.7 | 14,004.4 | 16,414.4 |
| Bank and other borrowings-due after one year | 14,411.4 | 21,707.4 | 21,669.5 | 29,956.0 | 35,906.0 |
| Deferred tax liabilities | 610.9 | 262.8 | 444.5 | 444.5 | 444.5 |
| Other non-current liabilities | 401.5 | 553.6 | 734.3 | 734.3 | 734.3 |
| Non-current liabilities | 15,423.9 | 22,523.8 | 22,848.2 | 31,134.7 | 37,084.7 |
| Total liabilities | 32,907.6 | 45,711.0 | 49,699.7 | 57,081.4 | 66,595.6 |
| Net assets | 5,550.7 | 8,469.8 | 9,109.9 | 11,942.3 | 13,096.5 |
| Capital and reserves | | | | | |
| Share capital | 2,200.0 | 5,088.9 | 6,000.0 | 7,874.2 | 7,874.2 |
| Reserves | 2,074.5 | 1,751.3 | 1,462.2 | 2,279.5 | 3,270.4 |
| Equity attributable to owners of the Company | 4,274.5 | 6,840.2 | 7,462.2 | 10,153.7 | 11,144.6 |
| MI | 1,276.2 | 1,629.6 | 1,647.7 | 1,788.6 | 1,951.9 |
| Total Equity | 5,550.7 | 8,469.8 | 9,109.9 | 11,942.3 | 13,096.5 |

Cash Flow Forecast

| As of Dec 31 (Rmbmn) | 2009 | 2010 | 2011 | 2012F | 2013F |
|--|------------------|------------------|------------------|-------------------|------------------|
| EBITDA | 836.3 | 1,768.0 | 3,520.7 | 3,721.0 | 4,850.6 |
| Change in working capital | 147.6 | 198.7 | (1,350.2) | 318.4 | (240.8) |
| Others | 56.0 | (28.0) | (125.4) | 0.0 | 0.0 |
| Cash (used in)/generated from operations | 2,673.5 | 3,207.9 | 1,671.8 | 4,688.1 | 4,828.0 |
| Income tax paid | (101.5) | (193.3) | (189.1) | (145.1) | (168.2) |
| CF from operating activities | 2,572.0 | 3,014.7 | 1,482.7 | 4,542.9 | 4,659.8 |
| CAPEX | (6,815.5) | (6,902.3) | (5,715.5) | (10,300.0) | (10,000.0) |
| Others | (1,016.7) | (1,042.5) | (659.8) | 120.0 | 120.0 |
| Cash flows from investing activities | (7,832.2) | (7,944.7) | (6,375.3) | (10,180.0) | (9,880.0) |
| Net borrowing | 5,683.6 | 5,904.1 | 4,880.0 | 5,000.0 | 7,000.0 |
| Proceeds from issue of shares | 0.0 | 0.0 | 0.0 | 1,874.2 | 0.0 |
| Dividends paid | (64.3) | (96.1) | (181.9) | (216.0) | (206.7) |
| Interest paid | (1,102.6) | (1,351.6) | (1,755.9) | (1,585.9) | (1,795.3) |
| Others | 1,448.0 | 1,643.2 | 751.3 | 0.0 | 0.0 |
| Cash flows from financing activities | 5,964.7 | 6,099.6 | 3,693.6 | 5,072.3 | 4,998.0 |
| Net (decrease)/increase in cash and cash equivalents | 704.4 | 1,169.5 | (1,199.0) | (564.8) | (222.1) |
| Cash and cash equivalents at beginning of year/period | 818.4 | 1,522.8 | 2,694.7 | 1,488.5 | 923.6 |
| Effect of foreign exchange rates, net | 0.0 | 2.3 | (7.2) | (0.1) | 0.0 |
| Cash and cash equivalents at end of year/period | 1,522.8 | 2,694.7 | 1,488.5 | 923.6 | 701.5 |

Source: The group (for historical figures only), ABCI Securities estimates



Disclosures

I, Lee Oi-yee, Lisa, 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.

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

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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