



Huaneng Renewables (958 HK)

Sep wind power output up 48%YoY- a bargain BUY

- Huaneng Renewables (HNR) announced its Sep operation data on Oct 11. Gross output of wind power in Sep was 1,497GWh (+48% YoY), mainly due to 70%/73% YoY strong growth in Inner Mongolia and northeast region
- Total wind power output in 9M17 reached 70% of our 2017E estimate, broadly in line with the 71% historical run rate. Our full-year output growth estimate at 18%YoY is highly achievable
- Maintain **BUY** with TP of HK\$ 3.00, which implies 8x/7x 2017/18E P/E and 1.1x/0.9x 2017/18E P/B

Strong performance in Inner Mongolia and northeast regions. Sep wind power output in Inner Mongolia and northeast region jumped 70% YoY and 73% YoY, contributing to 27% and 21% of HNR's total monthly power output. HNR's expanded output can be attributed to 1) the government's effort in tackling power curtailment issue; 2) rising power demand among industrial enterprises in China. Reduction in the Group's curtailment rate will continue to boost output, especially given that capacity growth guidance was only 6%YoY for 2017 as announced in the 1H17 analyst briefing.

Oct and Nov data should both record mid-teens growth. Despite the improved curtailment rate and the upcoming peak season in 4Q, HNR's high growth in Oct / Nov 2016 (+30%/+32%YoY) means output increase would be limited on a YoY basis. We expect HNR to deliver a mid-teens growth for the two months.

9M17 power output grew 16% YoY, in line with expectation; 2017 EPS would be up 22% YoY. 9M17 wind power output reached 15,048GWh (+16%YoY), achieving 70% of our full-year estimate and is similar to the historical run rate of 71%. Based on the current development, our full-year output growth estimate at 18% YoY is highly achievable. We forecast 2017E EPS would increase by 22% YoY.

Current valuation is unjustifiably low; maintain BUY with TP at HK\$3.00. The stock is now trading at 7.4x/6.6x 2017/18E P/E and 0.96x/0.86x 2017/18E P/B, based on the Bloomberg consensus. With its rising utilization hour, we expect the Group to deliver a 22%/10%/13%YoY EPS growth in 2017E/18E/19E, which implies an EPS CAGR of 15% in 2016-19E. Hence, its trading at below-book value signals a bargain. Our DCF-derived TP at HK\$ 3.00 implies valuation of 7.6x/6.9x 2017E/18E P/E and 1.1x/0.9x 2017E/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 2017 dilutes 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)	11.84	8.28	6.77	6.14	5.44
P/B (x)	1.24	1.09	0.93	0.84	0.73
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 (%)	1.33	1.81	2.22	2.44	2.76
Net gearing (%)	252.1	240.0	181.2	166.6	150.4

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 12, 2017

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

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kelvinn@abci.com.hk

Share price (HK\$)	2.66
Est. share price return	12.8%
Est. dividend yield	2.2%
Est. total return	15.0%
Previous Rating	BUY
Previous Report Date	Sep 14, 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)	28,107
H-share Market cap (HK\$ mn)	13,383
3-mth avg daily turnover(HK\$ mn)	66
Major shareholder(s) (%)	
Huaneng Group.	54.0%
Source(s): Company, ABCI Securities	

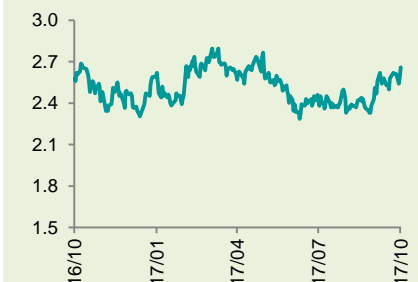
Share Performance (%)

	Absolute	Relative*
1-mth	5.98	4.47
3-mth	9.22	3.55
6-mth	1.22	(10.61)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

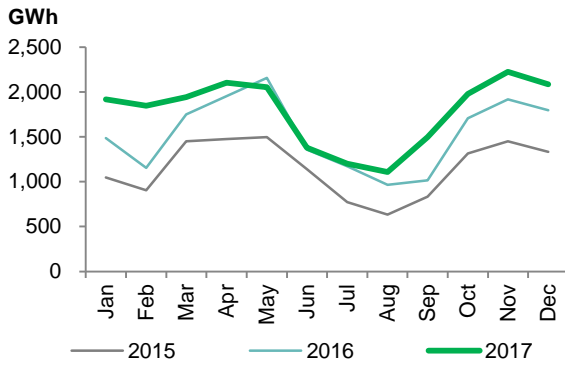
1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

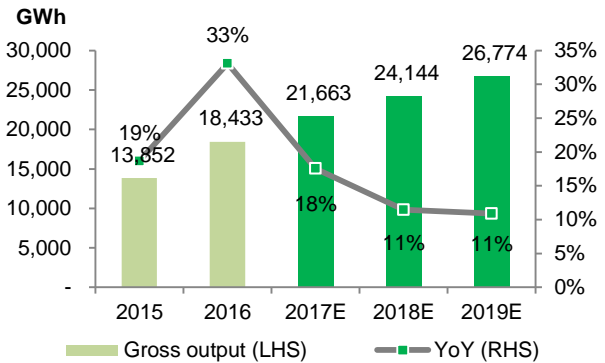


Exhibit 1: HNR's monthly operation data



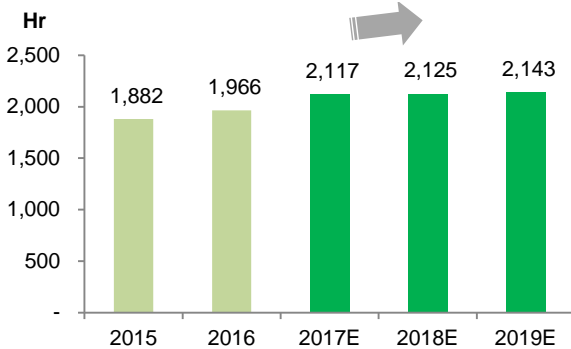
Source(s): Company, ABCI Securities estimates

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



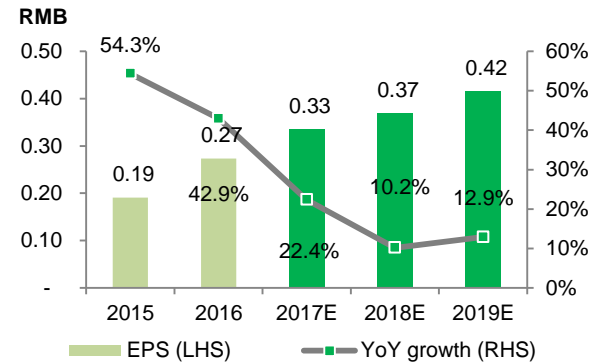
Source(s): Company, ABCI Securities estimates

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



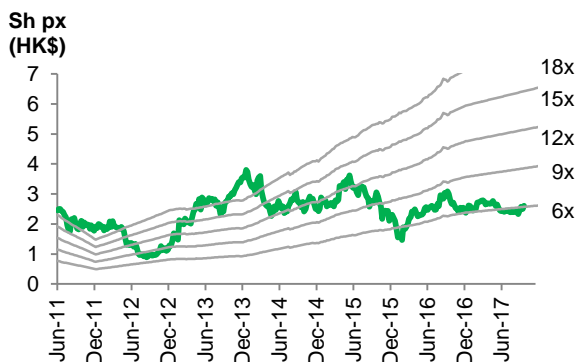
Source(s): Company, ABCI Securities estimates

Exhibit 4: HNR's EPS growth would see a double-digit growth in coming years



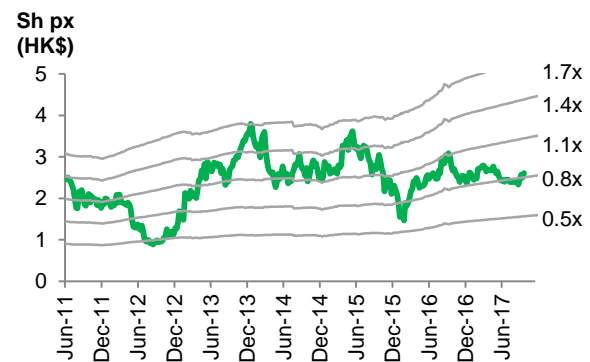
Source(s): Company, ABCI Securities estimates

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	2016E	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