



China Longyuan Power (916 HK)

March wind power output inline with expectation

- Longyuan announced its Mar operation data on Apr 7
- Wind power gross output was 2,834GWh (+1%YoY) in Mar, mainly driven by Southern and Northwest regions
- Total wind power output in Jan to Mar 2017 reached 25% of our full-year estimate, in line with the run rate in 2016. Based on the current development, our full-year output growth estimate at 11%YoY will be achievable
- Maintain **BUY** with TP of HK\$8.00 implies 13x 2017 P/E and 1.3x 2017 P/B

Northeast and Inner Mongolia regions recorded decline. Wind power output in Northeast and Inner Mongolia regions declined by 15%/16%YoY, mainly due to the high base in 2016. The two regions contributed to 11% and 12% of Longyuan's Mar output.

Wind power output in Southern and Northwest regions jumped 38%/29%YoY in Mar, contributing to 17% and 21% of Longyuan's monthly output, offsetting the decline in Northeast and Inner Mongolia regions. We believe the Southern region will continue to benefit from solid power demand on better economic growth. Also, better grid construction shall ease power curtailment.

Improving utilization hour should support Longyuan's 2017 earnings. Longyuan recorded a 1% YoY rise in utilization hour for 2016 (1,901hr vs. 1,888hr in 2015), supported by China government's new policy. We estimate utilization hour to record a 3% YoY increase (1,953hr), which will support Longyuan's 2017 earnings growth.

TP at HK\$ 8.00; maintain BUY. We continue to favor Longyuan's well-diversified assets and its leading position in the industry should benefit the most from government's policy. Our TP at HK\$8.00 implies an undemanding valuation of 13x 2017E P/E and 1.3x 2017E 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.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	19,683	22,304	26,324	29,932	32,967
Chg (% YoY)	8.0	13.3	18.0	13.7	10.1
Net profit (RMB mn)	2,878	3,415	4,342	4,420	5,186
Chg (% YoY)	12.7	18.7	27.1	1.8	17.3
EPS (RMB)	0.358	0.425	0.540	0.550	0.645
Chg (% YoY)	12.7	18.7	27.1	1.8	17.3
BVPS (RMB)	4.373	4.716	5.418	5.957	6.560
Chg (% YoY)	6.2	7.8	14.9	10.0	10.1
P/E (x)	15.23	12.83	10.09	9.91	8.45
P/B (x)	1.25	1.16	1.01	0.92	0.83
ROE (%)	8.19	9.01	9.97	9.23	9.84
ROA (%)	2.15	2.46	2.84	2.66	2.92
DPS (RMB)	0.072	0.085	0.108	0.110	0.129
Yield (%)	1.31	1.56	1.98	2.02	2.37
Net gearing (%)	203.9	194.9	180.3	173.2	165.1

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 10, 2017

Rating: **BUY**
TP: **HK\$ 8.00**

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Share price (HK\$)	6.15
Est. share price return	30.1%
Est. dividend yield	2.0%
Est. total return	32.1%
Previous Rating & TP	BUY
Previous Report Date	Mar 30, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	7.3/5.0
Issued shares (mn)	8,036
Issued H-shares (mn)	3,340
Market cap (HK\$ mn)	48,942
H-share Market cap (HK\$ mn)	20,341
3-mth avg daily turnover(HK\$ mn)	91
Major shareholder(s) (%)	
Guodian Corp.	57.3%

Source(s): Company, ABCI Securities

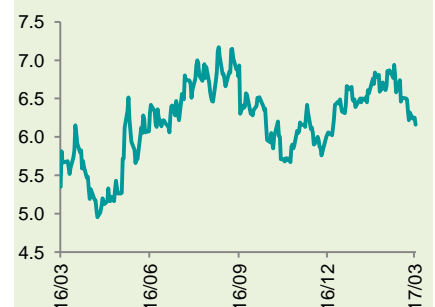
Share Performance (%)

	Absolute	Relative*
1-mth	(7.45)	(9.36)
3-mth	(5.29)	(11.47)
6-mth	(7.02)	(10.43)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

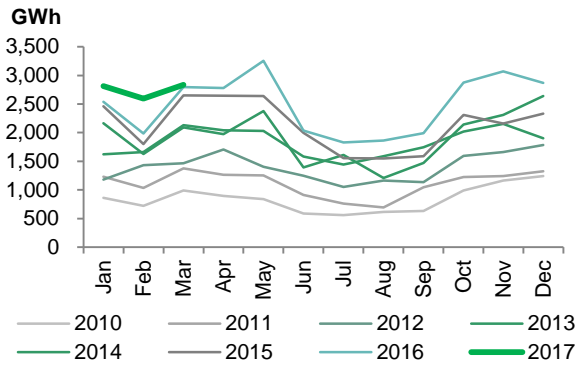
1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

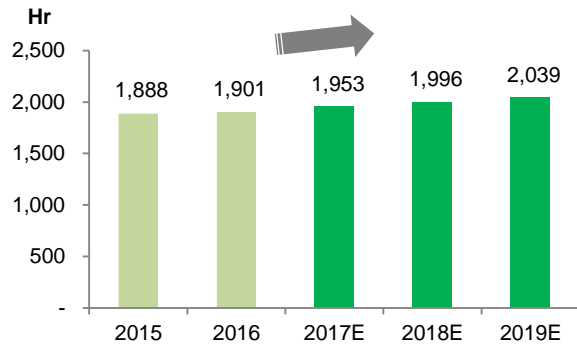


Exhibit 1: Longyuan's monthly operation data



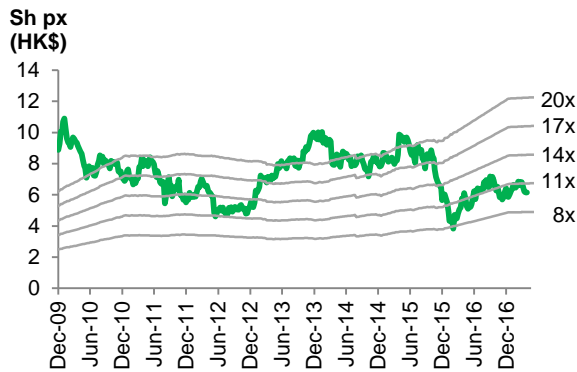
Source(s): Company, ABCI Securities estimates

Exhibit 2: Longyuan's utilization hour will continue to improve



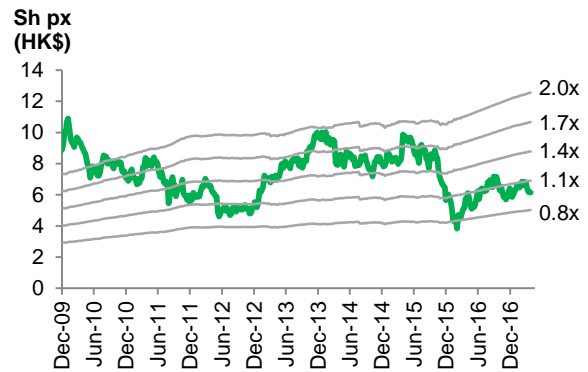
Source(s): Company, ABCI Securities estimates

Exhibit 3: Longyuan's fwd P/E chart



Source(s): Company, ABCI Securities estimates

Exhibit 4: Longyuan'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	19,683	22,304	26,324	29,932	32,967
Wind power	12,365	13,950	15,604	17,172	19,475
Coal-fire power	5,896	7,270	9,059	10,964	12,161
Other	1,422	1,085	1,662	1,796	1,332
Cost of sales	-12,045	-14,456	-16,640	-19,419	-20,990
Gross Profit	7,638	7,848	9,684	10,513	11,978
SG&A expenses	-373	-429	-526	-599	-659
Net financial income (cost)	-3,039	-2,774	-3,314	-3,513	-3,710
Other income/ (expenses)	441	505	637	655	671
Profit before tax	4,669	5,150	6,481	7,056	8,279
Tax	-601	-660	-843	-917	-1,076
Net profit	4,068	4,490	5,638	6,139	7,203
Profit attributable to:					
Minority interest	1,189	941	1,128	1,535	1,801
Equity shareholders of the Company	2,878	3,415	4,342	4,420	5,186
Basic EPS (RMB)	0.358	0.425	0.540	0.550	0.645
DPS (RMB)	0.072	0.085	0.108	0.110	0.129

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Current assets	12,704	13,333	17,554	19,939	20,900
Cash	2,887	1,905	3,805	4,380	3,881
Pledged and restricted bank deposits	387	28	28	28	28
Trade and bill receivables	4,243	5,901	7,212	8,201	9,032
Other receivables and prepayments	3,070	3,644	4,327	4,920	5,419
Inventories	1,081	1,040	1,368	1,596	1,725
Other current assets	1,036	814	814	814	814
Non-current assets	121,164	125,328	135,547	146,170	156,668
Property, plant & equipment	98,997	105,598	110,912	119,500	127,953
Investment properties	5	4	4	4	4
Intangible assets	8,699	8,860	9,195	9,426	9,664
Investment in JV and associates	4,822	4,483	5,273	6,171	7,160
Deferred tax assets	155	151	151	151	151
Other non-current assets	8,486	6,232	10,013	10,918	11,736
Total Assets	133,867	138,661	153,101	166,109	177,567
Current Liabilities	56,000	55,807	62,338	67,473	70,841
Trade and bill payables	1,902	2,550	2,279	2,660	2,875
Other payables	9,121	8,747	10,661	12,413	13,403
Short term borrowings	44,977	44,472	49,397	52,400	54,563
Other current assets	0	39	0	0	0
Non-current liabilities	33,293	35,067	36,210	38,213	39,654
Deferred tax liabilities	106	138	138	138	138
Long-term borrowings	29,970	31,327	32,931	34,934	36,375
Other non-current assets	3,217	3,602	3,141	3,141	3,141
Total Liabilities	89,293	90,874	98,548	105,686	110,495
Minority interests	6,439	6,896	8,024	9,559	11,360
Perpetual medium-term note	2,991	2,991	2,991	2,991	2,991
Shareholders' equities	35,145	37,899	43,537	47,873	52,722

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2015A	2016E	2017E	2018E	2019E
Profit before tax	4,676	5,150	6,481	7,056	8,279
Change in depreciation and amortization	5,554	6,393	6,966	7,673	8,406
Change in Working Capital	4,175	-1,445	-677	322	-255
Net financial cost (income)	2,671	3,031	2,889	3,219	3,484
Income tax paid	-525	-1,189	-941	-1,128	-1,535
Net interest received	0	0	0	0	0
Others	-227	-376	-790	-898	-989
Operating cash flow	16,325	11,563	13,928	16,245	17,391
Capex	-15,264	-12,030	-12,643	-15,720	-16,286
Increase in intangible assets	0	-701	-736	-772	-811
Others	-1,055	204	211	97	192
Investing cash flow	-16,319	-12,527	-13,167	-16,396	-16,905
Net Capital raise	0	0	0	0	0
Net debt financing	4,837	2,078	6,529	5,006	3,604
Dividend payout	-1,174	-576	-683	-868	-884
Interest paid	-3,368	-3,242	-2,985	-3,411	-3,705
Others	212	0	0	0	0
Financing cash flow	507	-1,740	2,861	726	-985
Net change in cash	513	-2,704	3,622	576	-499
Cash at the beginning	2,396	2,887	183	3,805	4,380
Adjustment (Time deposit & FX effect)	-21	1,722	0	0	0
Cash at the end	2,887	1,905	3,805	4,380	3,881

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Wind power	62.82	62.54	59.27	57.37	59.07
Coal-fire power	29.95	32.59	34.41	36.63	36.89
Other	7.23	4.86	6.31	6.00	4.04
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	38.81	35.19	36.79	35.12	36.33
Operating profit margin	36.23	33.84	34.21	32.31	33.37
Pre-tax margin	23.72	23.09	24.62	23.57	25.11
Net profit margin	20.67	20.13	21.42	20.51	21.85
Selling & administrative expenses/revenue	1.89	1.92	2.00	2.00	2.00
Effective tax rate	12.87	12.82	13.00	13.00	13.00
Growth (%)					
Revenue	7.98	13.32	18.03	13.70	10.14
Gross profit	9.43	2.75	23.40	8.55	13.94
Operating profit	8.70	5.83	19.32	7.39	13.73
Net profit	14.76	10.38	25.58	8.88	17.33
Balance sheet ratios					
Current ratio (x)	0.23	0.24	0.28	0.30	0.30
Quick ratio (x)	0.13	0.14	0.18	0.19	0.18
Cash ratio (x)	0.06	0.03	0.06	0.07	0.06
Trade and bill receivables days	78.67	96.57	100.00	100.00	100.00
Trade and bill payables turnover days	57.65	64.38	50.00	50.00	50.00
Inventory turnover days	32.75	26.26	30.00	30.00	30.00
Total debt / equity ratio (%)	196.53	185.37	176.94	171.70	163.23
Net debt / equity ratio (%)	203.93	194.90	180.30	173.22	165.07
Returns (%)					
ROAA	2.2	2.5	3.0	2.8	3.0
ROAE	8.4	9.4	10.7	9.7	10.3
Payout ratio	20.02	20.00	20.00	20.00	20.00

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

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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