



Huaneng Renewables (958 HK)

Wind power output up 11%YoY in March; maintain BUY

- Huaneng Renewables (HNR) announced its Mar operation data on Apr 11, 2017. Gross output of wind power was 1,944GWh (+11% YoY) for the month mainly because of the strong growth in southern China
- Total wind power output in 3M17 reached 27% of our 2017E full-year estimate, slightly above the 24% run rate in 2016. Based on the current development, our full-year output growth estimate at 15%YoY should be achievable
- Maintain **BUY** with TP of HK\$ 3.30 implies 9x 2017E P/E and 1.2x 2017E P/B

Strong performance in southern region offset weak performance in Inner Mongolia. Wind power output in southern region was up 18% YoY in Mar, contributing to 33% of HNR's total power output for the month. Strong growth in this area offset the 10% YoY output decline in Inner Mongolia, which contributed to 17% of total output. Output growth in the southern region can be attributed to 1).the government's new policy that helps raise utilization hour and minimize power curtailment; 2). strong energy demand in southern region, which will continue to boost HNR's output in the area.

Power output growth in Apr and May will be weaker, yet full-year output growth will stay firm at 15%YoY. HNR's strong output in Apr/May 2016 that recorded a 33%YoY and 44% YoY increase means that YoY growth in the next 2 months will be limited because of the high base. Yet, we believe rising utilization hour will deliver strong output growth in July-Sep, bringing the full-year wind power output up by 15% YoY.

Rising utilization hour would outweigh capacity growth to become the key earnings driver. Management guided that HNR targets to add 0.9GW of new wind power capacity in 2017, representing a 9% capacity growth YoY and is below the market expectation of a 12%-13% expansion. With such modest capacity growth, HNR's future earnings growth will rely more on utilization hour improvement. In 2016, HNR recorded the highest utilization hour (1,966hr) among wind power operators in our coverage universe, and we expect the figure to rise further to 2,013hr for 2017E.

Current valuation is attractive; TP at HK\$ 3.30, maintain BUY. The stock is now trading at 7x 2017E P/E and 1.0x 2017E P/B based on the Bloomberg consensus, with HNR's rising utilization hour, we expect the Group to deliver a 23%YoY net profit growth in 2017E suggests current valuation is attractive. Our TP at HK\$ 3.30 implies an undemanding valuation of 9x 2017 P/E and 1.2x 2017 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)	7,357	9,239	10,368	11,184	12,649
Chg (% YoY)	19.6	25.6	12.2	7.9	13.1
Net profit (RMB mn)	1,860	2,659	3,264	3,530	4,254
Chg (% YoY)	65.9	43.0	22.8	8.1	20.5
EPS (RMB)	0.191	0.273	0.336	0.363	0.437
Chg (% YoY)	54.3	42.9	22.8	8.1	20.5
BVPS (RMB)	1.830	2.071	2.350	2.658	3.061
Chg (% YoY)	2.8	13.2	13.5	13.1	15.1
P/E (x)	12.35	8.64	7.03	6.50	5.40
P/B (x)	1.29	1.14	1.00	0.89	0.77
ROE (%)	10.45	13.20	14.28	13.65	14.29
ROA (%)	2.25	3.11	3.67	3.75	4.15
DPS (RMB)	0.030	0.041	0.050	0.054	0.066
Yield (%)	1.27	1.74	2.13	2.31	2.78
Net gearing (%)	252.1	240.0	216.1	198.3	180.0

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 11, 2017

Rating: **BUY**
TP: **HK\$ 3.30**

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Share price (HK\$)	2.66
Est. share price return	24.1%
Est. dividend yield	2.1%
Est. total return	26.2%
Previous Rating & TP	BUY
Previous Report Date	Apr 5, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.2/2.2
Issued shares (mn)	9,728
Issued H-shares (mn)	4,193
Market cap (HK\$ mn)	25,876
H-share Market cap (HK\$ mn)	11,153
3-mth avg daily turnover(HK\$ mn)	68
Major shareholder(s) (%)	
Huaneng Group.	54.0%

Source(s): Company, ABCI Securities

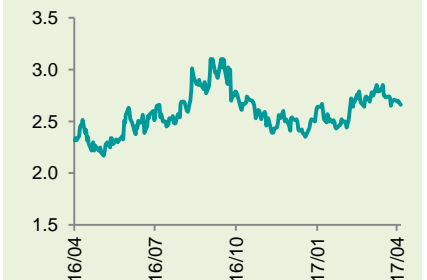
Share Performance (%)

	Absolute	Relative*
1-mth	(3.27)	(4.11)
3-mth	(0.37)	(4.69)
6-mth	1.14	(2.42)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

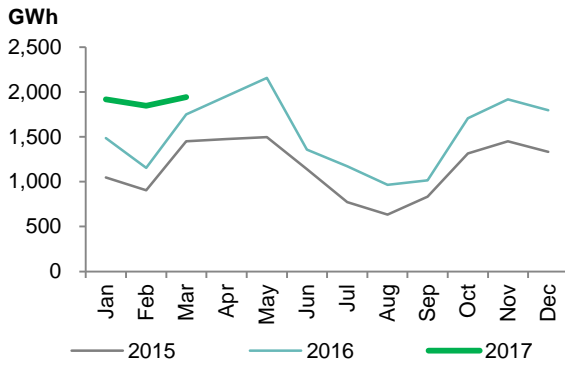
1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

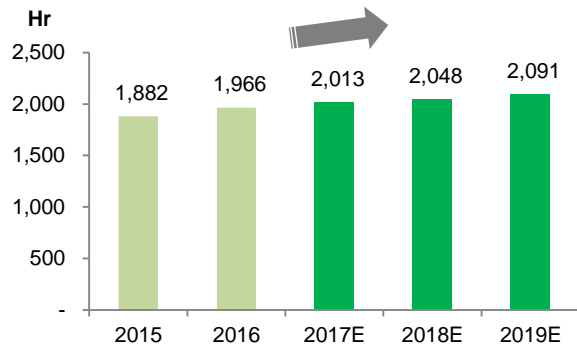


Exhibit 1: HNR's monthly operation data



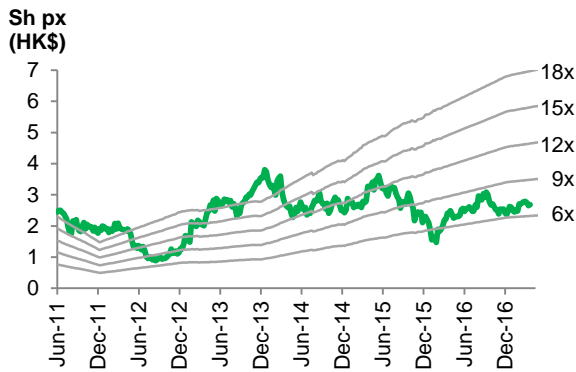
Source(s): Company, ABCI Securities estimates

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



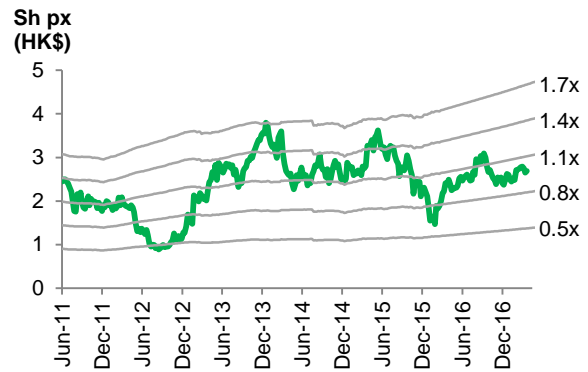
Source(s): Company, ABCI Securities estimates

Exhibit 3: HNR's fwd P/E chart



Source(s): Company, ABCI Securities estimates

Exhibit 4: 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	10,368	11,184	12,649
Wind power	6,892	8,515	9,709	10,320	11,592
Solar power	462	718	652	858	1,051
Other	3	6	6	6	6
Cost of sales	-3,214	-4,054	-4,122	-4,520	-5,030
Gross Profit	4,143	5,184	6,246	6,664	7,619
SG&A expenses	-189	-223	-259	-280	-316
Net financial income (cost)	-2,073	-1,995	-2,240	-2,314	-2,379
Other income/ (expenses)	160	-56	-165	-197	-256
Profit before tax	2,041	2,910	3,582	3,873	4,668
Tax	-141	-202	-251	-271	-327
Net profit	1,899	2,708	3,331	3,602	4,341
Profit attributable to:					
Minority interest	40	49	67	72	87
Equity shareholders of the Company	1,860	2,659	3,264	3,530	4,254
Basic EPS (RMB)	0.191	0.273	0.336	0.363	0.437
DPS (RMB)	0.030	0.041	0.050	0.054	0.066

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	9,253	8,876	10,561
Cash	4,504	2,570	3,680	2,864	3,762
Pledged and restricted bank deposits	27	34	0	0	0
Trade and bill receivables	2,900	4,635	5,113	5,516	6,238
Other receivables and prepayments	122	1,415	426	460	520
Inventories	43	33	34	37	41
Other current assets	56	8	0	0	0
Non-current assets	74,901	76,749	79,730	85,181	91,890
Property, plant & equipment	68,658	72,107	74,697	80,927	87,890
Investment properties	0	0	0	0	0
Intangible assets	682	654	666	659	652
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	4,287	3,514	3,269
Total Assets	82,553	85,445	88,983	94,057	102,451
Current Liabilities	28,533	30,517	28,568	29,383	31,154
Trade and bill payables	0	0	0	0	0
Other payables	9,311	7,520	7,346	7,727	8,216
Short term borrowings	18,727	22,563	21,222	21,656	22,938
Other current assets	496	435	0	0	0
Non-current liabilities	35,395	33,933	36,620	37,807	40,427
Deferred tax liabilities	20	20	20	20	20
Long-term borrowings	30,677	28,372	31,833	32,484	34,407
Other non-current assets	4,698	5,542	4,767	5,303	6,000
Total Liabilities	63,928	64,451	65,188	67,190	71,581
Minority interests	827	857	942	1,014	1,101
Shareholders' equities	17,798	20,137	22,852	25,852	29,769

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	3,331	3,602	4,341
Change in depreciation and amortization	2,720	3,247	3,531	3,916	4,346
Change in Working Capital	967	-2,424	-1,037	187	-123
Net financial cost (income)	2,197	1,995	2,240	2,314	2,379
Income tax paid	-126	-202	-251	-271	-327
Net interest received	141	0	0	0	0
Others	-116	0	0	0	0
Operating cash flow	7,682	5,325	7,814	9,749	10,616
Capex	-12,644	-5,299	-7,457	-10,115	-11,275
Increase in intangible assets	0	-22	-23	-24	-25
Others	130	137	52	74	57
Investing cash flow	-12,514	-5,184	-7,428	-10,066	-11,243
Net Capital raise	0	0	0	0	0
Net debt financing	5,285	-104	2,121	1,084	3,206
Dividend payout	-214	-399	-490	-530	-638
Interest paid	-2,440	-2,242	-2,133	-2,292	-2,388
Others	-853	-435	121	134	241
Financing cash flow	1,778	-3,180	-381	-1,603	421
Net change in cash	-3,054	-3,038	5	-1,920	-207
Cash at the beginning	6,385	4,504	2,570	3,680	2,864
Adjustment (Time deposit & FX effect)	1,173	1,105	1,105	1,105	1,105
Cash at the end	4,504	2,570	3,680	2,864	3,762

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Wind power	93.68	92.17	93.65	92.28	91.64
Solar power	6.29	7.77	6.29	7.67	8.31
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	60.24	59.59	60.23
Operating profit margin	55.95	53.13	56.15	55.32	55.71
Pre-tax margin	27.74	31.49	34.55	34.63	36.90
Net profit margin	25.82	29.31	32.13	32.21	34.32
Selling & administrative expenses/revenue	2.57	2.42	2.50	2.50	2.50
Effective tax rate	6.93	6.93	7.00	7.00	7.00
Growth (%)					
Revenue	19.60	25.58	12.22	7.88	13.09
Gross profit	18.33	25.14	20.47	6.70	14.33
Operating profit	23.03	19.24	18.62	6.28	13.89
Net profit	65.61	42.59	23.01	8.14	20.51
Balance sheet ratios					
Current ratio (x)	0.27	0.28	0.32	0.30	0.34
Quick ratio (x)	0.26	0.24	0.31	0.29	0.32
Cash ratio (x)	0.16	0.09	0.13	0.10	0.12
Trade and bill receivables days	143.88	183.14	180.00	180.00	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	232.17	209.42	192.64
Net debt / equity ratio (%)	252.13	240.01	216.07	198.34	180.00
Returns (%)					
ROAA	2.4	3.2	3.7	3.9	4.3
ROAE	11.0	14.0	15.2	14.5	15.3
Payout ratio	15.69	15.00	15.00	15.00	15.00

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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