

China Alternative Energy Industry

Oct power consumption up 5%YoY; alternative energy as bright spot

- China National Energy Administration (NEA) and China Electricity Council (CEC) released data on power consumption and generation
- Overall power consumption grew 5.0%YoY in Oct; 10M17 growth was 6.7%YoY. Strong tertiary industrial consumption was the main driver
- Overall power generation grew 2.5%YoY in Oct; 10M17 growth was 6.0% YoY. Strong growth in wind / nuclear power is the bright spot
- We remain **POSITIVE** on China Alternative Energy sector. Favor market leader of **CGN Power (1816 HK, BUY, TP HK\$3.00)** and **Longyuan Power (916 HK, BUY, TP HK\$7.50)**

On Nov 14, China's National Energy Administration (NEA) released data on electricity consumption in Oct. Overall power consumption reached 513 bn kWh (+5.0% YoY), vs. the 7.2% YoY increase in Sep. 10M17 growth was 6.7% YoY vs. 4.8% YoY in 10M16.

Secondary industrial consumption growth stayed modest. The segment accounted for 71% of total power consumption in Oct. Secondary industrial consumption was up 3.0% YoY in Oct, compared to 5.1% YoY in Sep. 10M17 consumption was up 5.7% YoY - a modest growth in our view.

Tertiary industrial consumption was robust. The segment accounted for 14% of total power consumption in Oct. Tertiary industrial consumption was up 12.4% YoY in Oct, similar to 11.9% YoY in Sep. 10M17 consumption extended its robust trend and was up 10.7% YoY.

Residential consumption growth slowed down. The segment accounted for 13% of total power consumption in Oct. Residential consumption was up 8.7% YoY in Oct, lower than the 11.7% YoY growth in Sep and 16.4%YoY in Aug. 10M17 consumption was up 7.6% YoY.

China Electricity Council (CEC) released Oct data on electricity generation on Oct 17. Overall power generation reached 504 bn kWh (+2.5%YoY). Such growth rate was lower than the 5.3%YoY increase in Sep. 10M17 generation was up 6.0% YoY vs. 4.6% YoY in 10M16.

Wind power soared 19% YoY in Oct – a bright spot. The segment accounted for 5.2% of total power generation in Oct. Wind power generation soared 19%YoY in Oct and 10M17 growth reached 25% YoY. Wind power showed the strongest growth in power generation among the energy segments.

Nuclear power generation growth saw 15%YoY in Oct. The segment accounted for 4.0% of total power generation in Oct. Nuclear power was up 15%YoY in Oct, lower than the 22%YoY increase in Sep. 10M17 power generation grew 18%YoY.

Coal-fired power generation continued to decline in Oct. The segment accounted for 69% of total power generation in Oct. Coal-fired generation declined 2.8% YoY in Oct, compared to the 0.5%YoY decrease in Sep; 10M17 power generation was up 5.4%YoY, running behind the overall run rate of 6.0%YoY. We believe measures to discourage coal-fire use nationwide will continue to exert pressure on the segment.

Sector Report

Nov 20, 2017

OVERWEIGHT

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Wind power sector key data

| | |
|-----------------------------|-----|
| Avg. 17E P/E (x) | 7.7 |
| Avg. 17E P/B (x) | 0.7 |
| Avg. 17E Dividend Yield (%) | 3.0 |

Source(s): Bloomberg, ABCI Securities

Nuclear power sector key data

| | |
|-----------------------------|-----|
| Avg. 17E P/E (x) | 9.5 |
| Avg. 17E P/B (x) | 1.3 |
| Avg. 17E Dividend Yield (%) | 3.0 |

Source(s): Bloomberg, ABCI Securities

Wind sector performance

| | <u>Absolute</u> | <u>Relative*</u> |
|-------|-----------------|------------------|
| 1-mth | (12.83%) | (12.72%) |
| 3-mth | 5.91% | 0.59% |
| 6-mth | 12.12% | 0.90% |

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

Nuclear sector performance

| | <u>Absolute</u> | <u>Relative*</u> |
|-------|-----------------|------------------|
| 1-mth | (4.44%) | (4.36%) |
| 3-mth | 3.86% | (1.55%) |
| 6-mth | (4.91%) | (16.23%) |

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities



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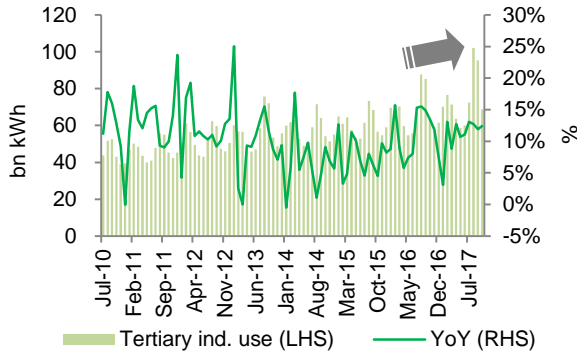
Power consumption will continue to recover in the remainder of 2017; alternative energy will extend its robust growth. As industrial activities continue to recover, we expect China's power consumption to increase by 5% YoY over the next few months. More specifically, independent power producers (IPP) would benefit. For power generation, alternative energy (e.g. nuclear, wind etc.) operators would thrive on the government's efforts in developing alternative energy and reducing reliance on coal-fire power.

Focus on alternative energy players. We advise investors to focus on alternative energy players. Favor market leader **CGN Power (1816 HK, BUY, TP HK\$3.00)** in nuclear power segment and **Longyuan Power (916 HK; BUY; TP HK\$7.50)** in wind power segment.

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.

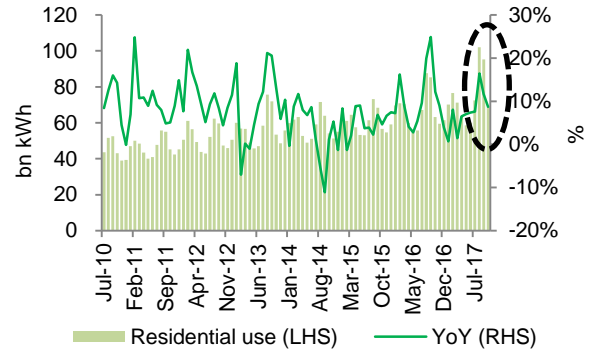


Exhibit 1: China's tertiary industry power demand has been maintaining uptrend



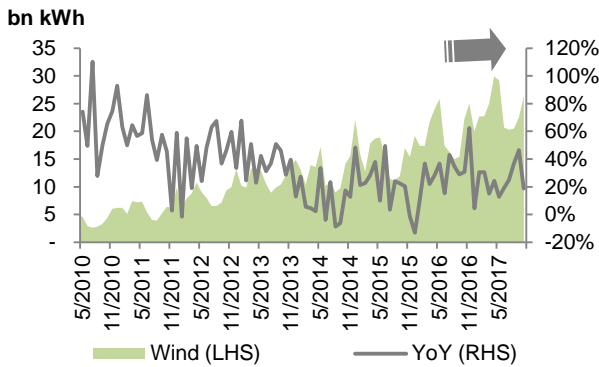
Source(s): NEA

Exhibit 2: China's residential power demand remain strong



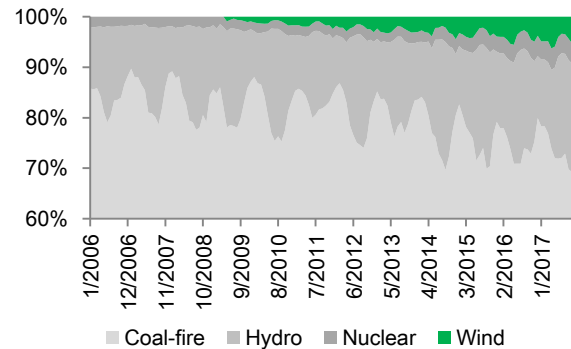
Source(s): NEA

Exhibit 3: China's monthly wind power generation remain robust



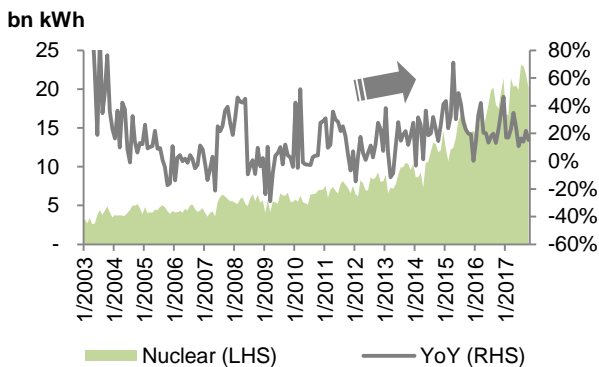
Source(s): CEC

Exhibit 4: The portion of wind power generation in China's overall power output maintain uptrend



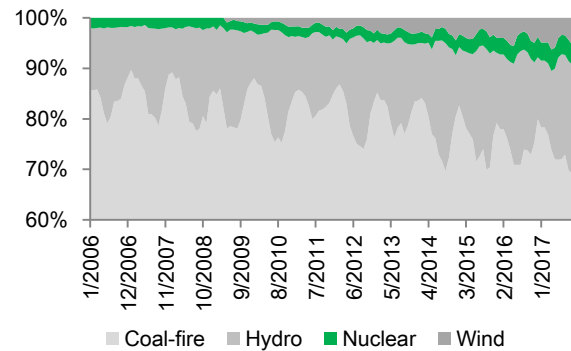
Source(s): CEC

Exhibit 5: China's monthly nuclear power generation has been maintaining uptrend



Source(s): CEC

Exhibit 6: The portion of nuclear power generation in China's overall power output maintain uptrend



Source(s): CEC



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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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