



Huaneng Renewables (958 HK)

Expect strong output growth on higher utilization hour; maintain BUY

- Huaneng Renewables (HNR) announced FY16 results on Mar 28, 2017. Net profit was up 43%YoY to RMB 2.7bn, 5% higher than our estimates and 1% above the Bloomberg consensus
- Installed wind power capacity was up 5%YoY to 10GW; wind power output rose 33% YoY to 18,433GWh
- The Group is a quality play with the highest utilization hour among peers in 2016. Its increasing utilization hour will boost power output. Maintain **BUY** with TP of HK\$ 3.30, which implies 9x 2017E P/E and 1.2x 2017E P/B

FY16 earnings beat ABCI estimates. FY16 net profit was RMB 2,659mn (+43%YoY), 1%/5% higher than Bloomberg consensus and our estimate. Wind capacity was up 5%YoY while utilization hour grew 4% YoY, raising the wind power output by 33%YoY.

Long-term utilization hour would exceed 2,000; GPM should see improvement. Management expects wind power utilization hour in 2017 to exceed 2,000, which is achievable based on supportive government policy that encourages local governments and State Grid to enforce priority dispatch of renewable energy to the grid. HNR recorded the highest utilization hour in 2016 (1,966hrs) among peers. We believe the Group's utilization hour would exceed 2,000 in the future with the continuous support from government policies. In addition, we see increased utilization hour with slower pace in wind capacity growth should help improving HNR's GPM.

Wind capacity to grow by 9%YoY in 2017E and 10% YoY in 2018E/19E. Management guided that HNR is targeting to add 0.9GW of new wind capacity in 2017, which represents a 9% YoY capacity growth. The tamed expansion is a result of the government's latest policy that prohibits wind power new capacity to be added in the red alert regions (mainly the "3-North" regions). HNR would resume wind capacity growth after 2017 and we expect to see a 10% YoY expansion each in 2018E and 2019E.

TP at HK\$ 3.30; maintain BUY. HNR's highest utilization hour among peers in 2016 suggests the Group's competitiveness in the wind power industry. In addition, its utilization hour has been trending up and we expect to see mid-teen growth in wind power output in 2017E and 2018E. We estimate the Group's 2016-19E EPS CAGR to be 17%. Our TP at HK\$ 3.30 implies 9x 2017E P/E and 1.2x 2017E P/B, which is inexpensive in our view. 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)	12.53	8.77	7.14	6.60	5.48
P/B (x)	1.31	1.16	1.02	0.90	0.78
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 (%)	1.25	1.71	2.10	2.27	2.74
Net gearing (%)	252.1	240.0	216.1	198.3	180.0

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 7, 2017

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

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Share price (HK\$)	2.69
Est. share price return	22.7%
Est. dividend yield	2.1%
Est. total return	24.8%
Previous Rating & TP	BUY
Previous Report Date	Mar 13, 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)	26,168
H-share Market cap (HK\$ mn)	11,278
3-mth avg daily turnover(HK\$ mn)	68
Major shareholder(s) (%)	
Huaneng Group.	54.0%

Source(s): Company, ABCI Securities

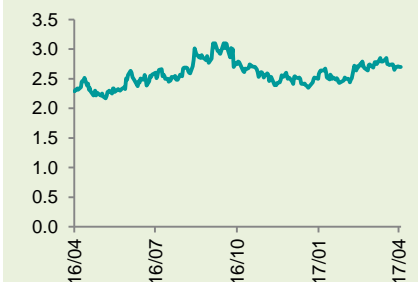
Share Performance

	Absolute	Relative*
1-mth	(3.24)	(3.14)
3-mth	1.89	(4.96)
6-mth	(2.54)	(6.02)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities



2016 results highlight

4%YoY increase in utilization hour helped boost power output

HNR's wind power utilization hour in 2016 was 1,966 (+4%YoY), higher than Longyuan(916 HK, BUY, TP HK\$8.00)'s 1,901hrs and Datang (1798 HK, HOLD, TP HK\$0.82)'s 1,755hrs. This can be attributed to the government's policy against wind power curtailment and increased power direct sales.

Wind capacity growth at 5% YoY misses our estimate

Installed wind power capacity recorded only a 5%YoY growth in 2016, 7% lower than our estimate. This could be due to the government's policies to deter wind power capacity expansion in the "3-North" regions, which have hindered HNR's original capacity plan.

Strong solar capacity growth at 34%YoY can be inflated by the low base

Solar capacity went up by 210MW in 2016, up 34% YoY. Such strong growth was mainly due to HNR's low existing base in solar capacity (2015: 625MW, equivalent to 6% of HNR's wind power capacity).

6% YoY decline in overall power tariff

HNR reported the overall power tariff (wind+solar) at RMB0.579/kWh, down 5.7%YoY, while Longyuan also recorded a 4% YoY tariff decline for the same period. This suggests increasing electricity direct sale should continue to pressure tariff among renewable energy operators.

Net gearing ratio fell from 252% to 240%

HNR's net gearing ratio was 240% by end-2016, representing a 12ppt-decline from 252% by end-2015. The lower gearing was enabled by the decreased wind power capacity capex in 2016 (2016: RMB7.9bn vs. 2015: RMB15.9bn). An improved net gearing ratio should help lessen interest burden.

Results summary		2015	2016	YoY
Income Statement				
Revenue	RMB mn	7,357	9,239	26%
Sales of electricity	RMB mn	7,354	9,233	26%
Others	RMB mn	3	6	116%
Op. profit	RMB mn	4,116	4,908	19%
Net income	RMB mn	1,860	2,659	43%
Basic EPS	RMB	0.19	0.27	43%
Ratios				
Op. margin	%	56.0%	53.1%	-2.8ppt
Net margin	%	25.3%	28.8%	3.5ppt
ROE	%	10.4%	13.2%	2.8ppt
ROA	%	2.3%	3.1%	0.9ppt
Net gearing/(Net cash)	%	252%	240%	-12.1ppt
Wind power				
Installed capacity	MW	9,720	10,252	5%
Gross power generation	GWh	13,852	18,433	33%
Utilization hour	Hour	1,882	1,966	4%
Solar power				
Installed capacity	MW	625	835	34%
Gross power generation	GWh	818	1,003	23%
Utilization hour	Hour	1,591	1,528	-4%

Source(s): Company data



2017 outlook

Wind capacity growth would be 9% YoY for 2017E and 10% YoY in 2018E/19E

Management guided that HNR is targeting to add 0.9GW of new wind capacity in 2017, which represents a 9% YoY capacity growth. The tamed expansion could be a result of the government's latest policy that prohibits wind power new capacity to be added in red alert regions (mainly the "3-North" regions). HNR would resume capacity growth after 2017 and we expect to see a 10% YoY expansion each in 2018E and 2019E.

Long-term utilization hour would exceed 2,000; GPM should see improvement

Management expects wind power utilization hour in 2017 to exceed 2,000, where we believe is achievable based on supportive government policy that encourages local governments and State Grid to enforce priority dispatch of renewable energy to the grid. HNR recorded the highest utilization hour in 2016 (1,966hrs) among peers in 2016. We believe the Group's utilization hour would exceed 2,000 in the future with the continuous support from government policies. In addition, we see increased utilization hour with slower pace in wind capacity growth should help improving HNR's GPM.

Wind power output to grow by 15% YoY in 2017E on improved utilization hour

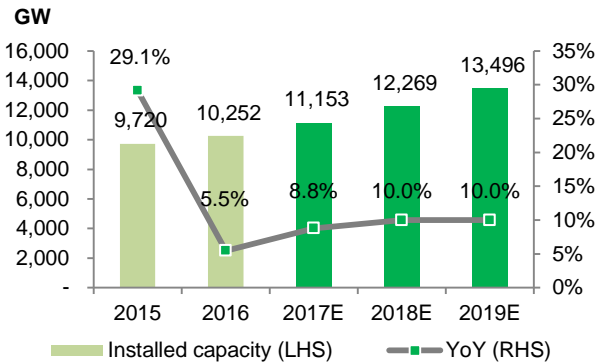
We expect HNR's 2017 wind power output to increase by 15%YoY on improving utilization hour. The Group's 2M17 wind power output was 3,764GWh, up 43%YoY, equivalent to 18% of our full-year total output forecast and was higher than the historical run rate of 14% for the same period. We expect HNR's utilization hour and wind power output would continue to trend up with policy support.

Net gearing ratio would continue to improve

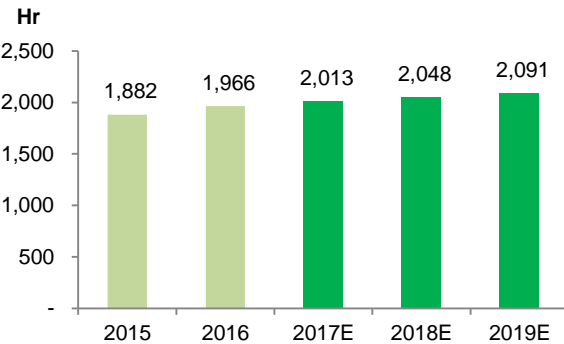
We expect HNR to pace down its wind capacity expansion due to the government's new policies deterring capacity growth in the "3-North" regions as well as the need to maintain a healthy balance sheet. HNR's long-term capacity growth would stay at ~10% YoY, reducing the need for active fundraising. We therefore expect HNR's long-term net gearing ratio to fall below 200% in the future.

Major concern: wind power tariff would decline by 5% YoY in 2018E, which may drag down earnings

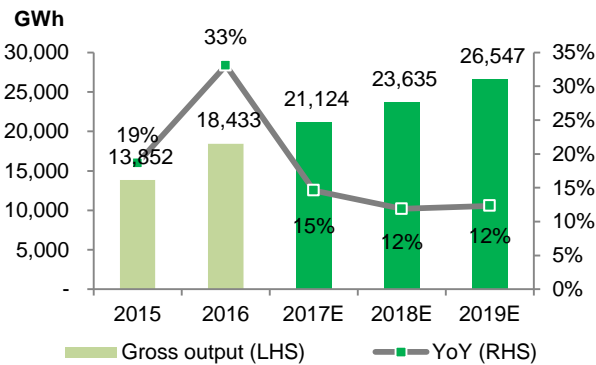
China National Energy Administration (NEA) announced on Dec 26, 2016 that wind power on-grid tariff would be revised down by 5%-15%, depending on the region. As we believe the government's long-term goal is to lower the wind power subsidy so as to reduce financial burden, further reduction in on-grid tariff for wind power will likely continue. However, investors should be aware that for FY18E, we estimate HNR's average wind power tariff would decline by 5% YoY; hence net profit growth would only be 8% YoY for the period.

Exhibit 1: HNR's future wind power capacity growth would stay at ~10%YoY


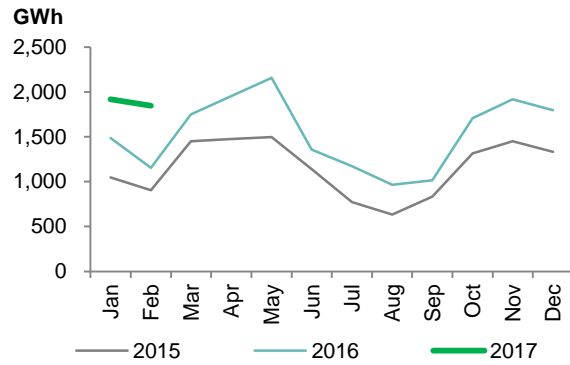
Source(s): Company, ABCI Securities estimates

Exhibit 2: HNR's future utilization hour would exceed 2,000


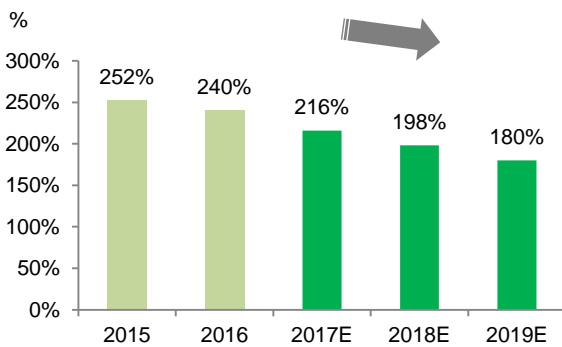
Source(s): Company, ABCI Securities estimates

Exhibit 3: HNR's wind power output should maintain a strong growth due to improved utilization hour


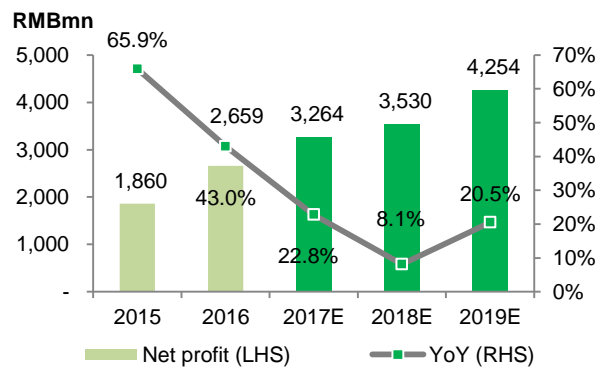
Source(s): Company, ABCI Securities estimates

Exhibit 4: HNR's YTD monthly wind power output growth jumped 43% YoY


Source(s): Company, ABCI Securities estimates

Exhibit 5: HNR's net gearing ratio would trend down


Source(s): Company, ABCI Securities estimates

Exhibit 6: HNR's 2017E net profit growth would be 23% YoY


Source(s): Company, ABCI Securities estimates



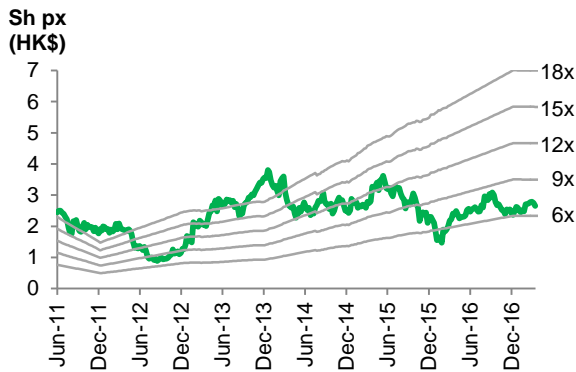
Valuation

TP at HK\$3.30; maintain BUY

HNR's 2016 results are better than expected due to the higher utilization hour. However, its lower wind capacity growth than estimate remains our major concern. We revise up our utilization hour assumptions while scaling down projections for the wind power capacity. We expect HNR to deliver a 17% EPS CAGR in 2016-19E. Our DCF-derived TP at HK\$3.30 (previously at HK\$ 3.40) implies 9x 2017E P/E and 1.2x 2017E P/B. Our TP at HK\$ 3.30 suggests 0.5 PEG, which we deem attractive.

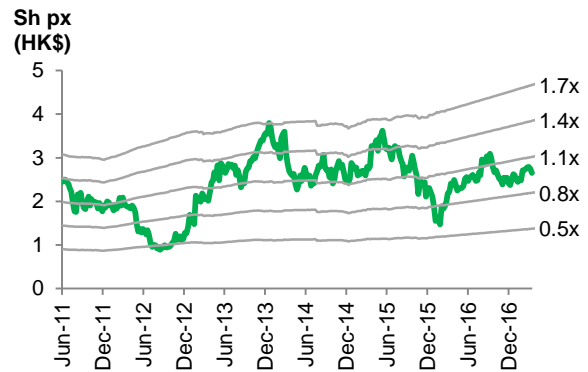
We see HNR's future capacity growth should return to the low-teen level (30% CAGR in 2010-15) while continuous increase in utilization hour would enable a mid-teen growth in wind power output for 2017E/18E. The declining net gearing ratio would also help reduce finance cost. Maintain **BUY**.

Exhibit 7: HNR's fwd P/E chart



Source(s): Company, ABCI Securities estimates

Exhibit 8: HNR's fwd P/B chart



Source(s): Company, ABCI Securities estimates



Consolidated income statement (2015A-2019E)

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 (2015A-2019E)

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 (2015A-2019E)

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 (2015A-2019E)

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

Disclosures

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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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