



Company Report

Mar 31, 2017

Rating: BUY  
TP: HK\$ 8.00

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kelvinn@abci.com.hk

Share price (HK\$)	6.16
Est. share price return	29.9%
Est. dividend yield	2.0%
Est. total return	31.9%
Previous Rating & TP	BUY
Previous Report Date	Mar 10, 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)	49,504
H-share Market cap (HK\$ mn)	20,575
3-mth avg daily turnover(HK\$ mn)	91
Major shareholder(s) (%)	
Guodian Corp..	57.3%

Source(s): Company, ABCI Securities

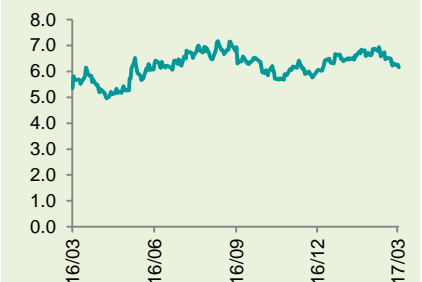
Share Performance

	Absolute	Relative*
1-mth	(10.20)	(10.86)
3-mth	1.65	(8.58)
6-mth	(2.22)	(10.30)

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

# Longyuan Power (916 HK)

## Market leader with solid earnings growth ahead; maintain BUY

- Longyuan Power (Longyuan) announced FY16 results on Mar 14, 2017. Net profit was up 19%YoY to RMB 3.4bn, 1% lower than our estimates and 6% lower than the Bloomberg consensus.
- Installed wind power capacity was up 10%YoY to 17GW; wind power output rose 17% YoY to 29,962GWh.
- Longyuan's wind power capacity growth will remain solid. Together with its prime asset mix and leading position in the industry, we believe future earnings growth will be robust. Maintain BUY with TP of HK\$ 8.00 implies 13x 2017 P/E and 1.3x 2017 P/B

**FY16 earnings in line with ABCI estimates.** FY16 net profit was RMB 3,415mn (+19%YoY), missing the Bloomberg consensus by 6% but was only 1% lower than our estimate. Utilization hour edged up 1% YoY, while wind capacity grew 10% YoY and revenue from coal sales business jumped 55% YoY.

**Solid wind capacity growth of 10%/11%YoY in 2017E/18E.** Management guided that Longyuan targets to add 1.6GW of new wind capacity in 2017, which is achievable based on the Company's track record. The double-digit capacity growth would serve as the key earnings driver.

**Long-term utilization hour would be close to 2,000.** Management expects 2017 wind power utilization hour to reach 1,960, which is achievable in our view. In the long term, we estimate Longyuan's utilization hour to approach ~2,000, supported by 1) the government's policies that increase utilization hour; 2) its well-diversified wind power assets located nationwide that help reduce impact of power curtailment.

**Potential coal price rebound as another earnings driver.** The government's call to cut excessive industrial capacity in coal mining industries has caused supply shortage and spurred domestic coal price. We believe surging coal price should help support Longyuan's profitability and drive up earnings.

**TP at HK\$ 8.00; maintain BUY.** Aside from Longyuan's prime asset mix, its leading position in wind power industry would allow the Company to benefit immensely from China's renewable energy policies. We expect Longyuan to deliver robust 15% EPS CAGR in 2016-19E. Our TP at HK\$ 8.00 implies 13x 2017 P/E and 1.3x 2017 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)	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)	15.45	13.02	10.24	10.06	8.57
P/B (x)	1.27	1.17	1.02	0.93	0.84
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 (%)	1.30	1.54	1.95	1.99	2.33
Net gearing (%)	203.9	194.9	180.3	173.2	165.1

Source(s): Bloomberg, ABCI Securities estimates



## 2016 results highlight

### **Solid wind capacity growth at 10% YoY was the key earnings driver in 2016**

Installed wind power capacity grew 10%YoY in 2016, slightly below our forecast of 13% YoY. The divergence was caused by the lower growth in 2H16 at 10%YoY, which dragged down the full-year run rate (1H16: +14%YoY). However, we expect Longyuan's wind power capacity to expand at a double-digit rate as the Chinese government continues to expedite clean energy development.

### **Utilization hour edged up by 1% on government's policy**

Utilization hour was 1,901 in 2016, in line with our forecast, up 1%YoY (2015: 1,888hrs). We believe the slight improvement was caused by China government's policy to enforce priority dispatch of renewable energy to the grid which eradicates some of the negative impacts of power curtailment.

### **55% YoY revenue growth in coal sales business was another revenue driver in 2016**

Thanks to the 16%YoY jump in China's coal price in 2016, Longyuan recorded a robust 55%YoY revenue growth in coal sales business (contributed to 19% of 2016 total revenue). China's coal price has recorded a 29% increase YTD in 2017. We expect Longyuan's coal sales business to extend its strength in 2017.

### **All-in unit capacity cost rose to RMB 7.5/W**

Longyuan's all-in wind power capacity cost rose to RMB 7.5/W in 2016, up 7% YoY. The higher cost can be attributed to increasing material cost given China's steel price has rebounded in recent years. An increasing all-in unit capacity cost can potentially drag down pace of capacity growth in the future.

### **Net gearing ratio improved by 9ppt YoY**

Longyuan's net gearing ratio improved from 204% in 2015 to 195% in 2016, suggesting continuous deleveraging in the Group. Deleveraging would help Longyuan to lower finance cost (interest coverage ratio improved from 2.38 in 2015 to 2.65 in 2016) and improve its balance sheet.



Results summary		2015	2016	YoY
<b>Income Statement</b>				
Revenue	RMBmn	19,683	22,304	13%
Wind power	RMBmn	12,318	13,891	13%
Coal fire	RMBmn	3,139	3,010	-4%
Coal sales	RMBmn	2,757	4,260	55%
Others	RMBmn	1,470	1,143	-22%
Op. profit	RMBmn	7,132	7,548	6%
Net income	RMBmn	2,878	3,415	19%
Basic EPS	RMB	0.36	0.42	19%
<b>Ratios</b>				
Op. margin	%	36.2%	33.8%	-2.4ppt
Net margin	%	14.6%	15.3%	0.7ppt
ROE	%	8.2%	9.0%	0.8ppt
ROA	%	2.2%	2.5%	0.3ppt
Net gearing/(Net cash)	%	204%	195%	-9.0ppt
<b>Wind power</b>				
Installed capacity	MW	15,765	17,369	10%
Gross power generation	GWh	25,709	29,962	17%
Utilization hour	Hour	1,888	1,901	1%
Tariff	RMB/kWh, in VAT	0.59	0.57	-4%
<b>Coal-fire power</b>				
Installed capacity	MW	117	147	26%
Gross power generation	GWh	181	191	5%
Utilization hour	Hour	1,544	1,476	-4%
Tariff	RMB/kWh, in VAT	0.42	0.38	-9%

Source(s): Company data



## 2017 outlook

### **Solid wind capacity growth of 10%/11%YoY in 2017E/18E.**

Management guided that Longyuan targets to add 1.6GW of new wind capacity in 2017, which we believe is achievable based on the Company's track record. The double-digit capacity growth would serve as the key earnings driver.

### **Long-term utilization hour would be close to 2,000.**

Management expects wind power utilization hour in 2017 to reach 1,960, where is achievable based on the government's supportive policy that encourages the local governments and State Grid to enforce priority dispatch of renewable energy to the grid. In the long term, we estimate Longyuan's utilization hour to be ~2,000, supported by 1) the government's policies that help increase utilization hour; 2) its well-diversified wind power assets located nationwide that help reduce power curtailment.

### **Potential coal price rebound as another earnings driver for Longyuan**

As a result of the government's call to cut excessive industrial capacity in industries including coal, steel and cement, etc., China's domestic coal price rose 80% between June 2016 and March 2017. As coal sales business accounted for 19% of FY16 total revenue, continuous rise in coal price would help support Longyuan's overall profitability and prop up earnings. Based on our calculation, for every 1% increase in coal price, Longyuan's net profit would rise by 0.5% in 2017.

### **Net gearing ratio should continue to improve**

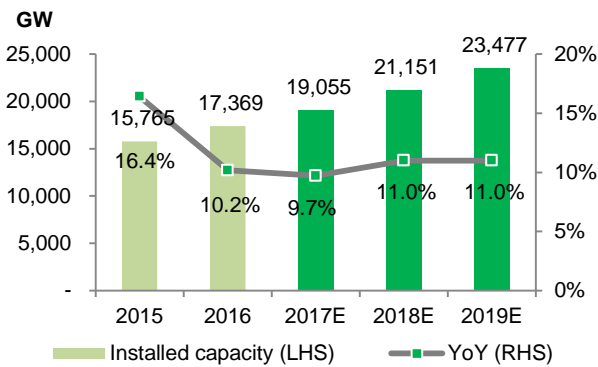
Longyuan would slow down its wind power capacity expansion pace due to 1) its existing high base. Currently, Longyuan is the largest wind power operator by capacity in China; 2) rapid increase in capacity may lead to balance sheet deterioration. Longyuan's long-term capacity would stay at ~10% YoY, which means its capital need would gradually decrease. We therefore expect its net gearing to come down to ~100% in the future.

### **Major concern: wind power tariff would decline by 5% YoY in 2018E**

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 government's financial burden, further reduction in on-grid tariff for wind power will likely continue. However, investors should be aware that for FY18E, we estimate Longyuan's average wind power tariff would decline by 5%YoY, hence net profit growth would be narrowed to 2% YoY for the period.

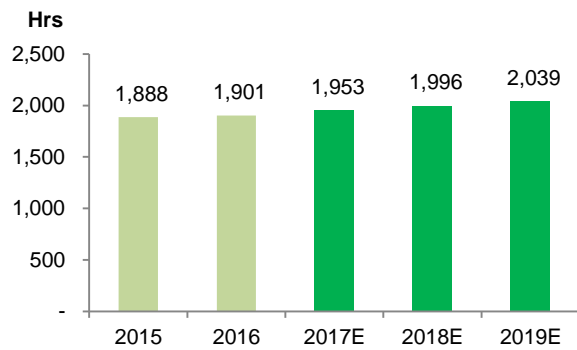


Exhibit 1: Longyuan's future wind power capacity growth should stay at ~10%YoY



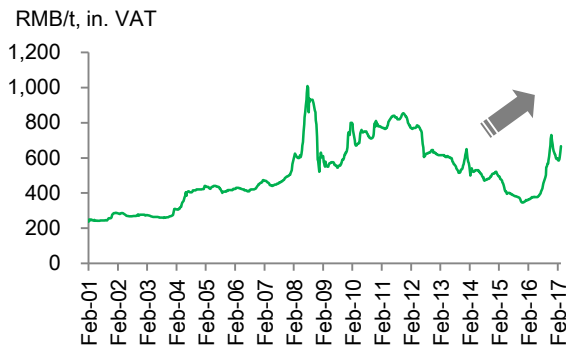
Source(s): Company, ABCI Securities estimates

Exhibit 2: Longyuan's future utilization hour would be close to 2,000



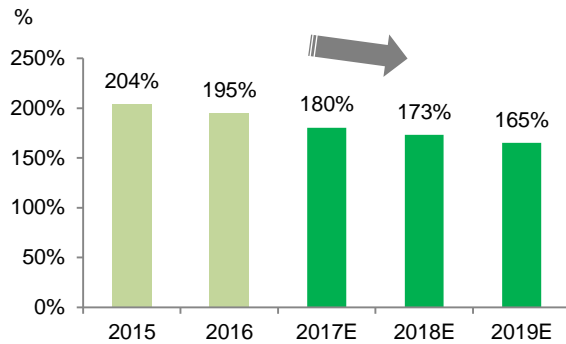
Source(s): Company, ABCI Securities estimates

Exhibit 3: China's Qinhuangdao coal price has rebounded recently



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 4: Longyuan's net gearing ratio would trend down



Source(s): Company, ABCI Securities estimates



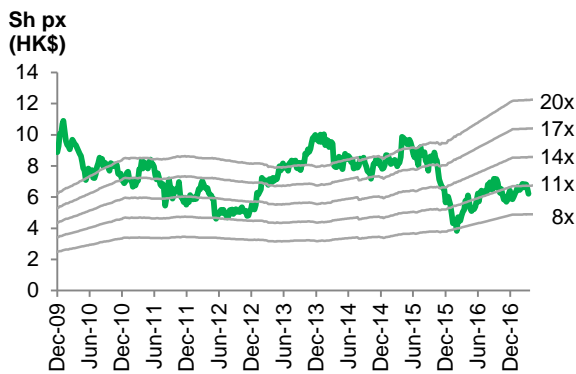
## Valuation

### TP at HK\$8.00; maintain BUY

Longyuan's 2016 results are generally in line with our expectation. Its coal sales business is better than expected but wind power capacity growth was lower than our forecast. We therefore revise up our revenue forecasts for coal sales business while adjusting down our wind power capacity projections. Our DCF-derived TP at HK\$8.00 (previously at HK\$ 7.30) implies 13x 2017E P/E and 1.3x 2017E P/B.

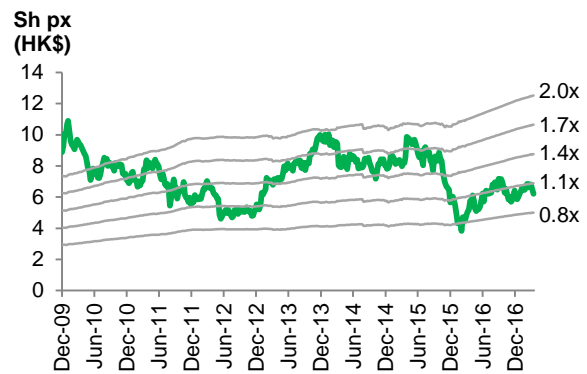
Despite a potential slow earnings growth in 2018 caused by tariff cut, we believe Longyuan is likely to achieve a robust 15% EPS CAGR in 2016-19E. Our TP is equivalent to 0.9 PEG, which is attractive in our view. Longyuan's strength lies on its well-diversified wind power assets located nationwide and its leading position in wind power industry. Together with the government's supportive policies, we believe the Company will benefit strongly from China's shift to renewable energy during the 13<sup>th</sup> FYP period. Maintain **BUY**.

Exhibit 5: Longyuan's fwd P/E chart



Source(s): Company, ABCI Securities estimates

Exhibit 6: Longyuan's fwd P/B chart



Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2015A-2019E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Revenue</b>	<b>19,683</b>	<b>22,304</b>	<b>26,324</b>	<b>29,932</b>	<b>32,967</b>
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
<b>Cost of sales</b>	<b>-12,045</b>	<b>-14,456</b>	<b>-16,640</b>	<b>-19,419</b>	<b>-20,990</b>
<b>Gross Profit</b>	<b>7,638</b>	<b>7,848</b>	<b>9,684</b>	<b>10,513</b>	<b>11,978</b>
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
<b>Profit before tax</b>	<b>4,669</b>	<b>5,150</b>	<b>6,481</b>	<b>7,056</b>	<b>8,279</b>
Tax	-601	-660	-843	-917	-1,076
<b>Net profit</b>	<b>4,068</b>	<b>4,490</b>	<b>5,638</b>	<b>6,139</b>	<b>7,203</b>
Profit attributable to:					
Minority interest	1,189	941	1,128	1,535	1,801
<b>Equity shareholders of the Company</b>	<b>2,878</b>	<b>3,415</b>	<b>4,342</b>	<b>4,420</b>	<b>5,186</b>
<b>Basic EPS (RMB)</b>	<b>0.358</b>	<b>0.425</b>	<b>0.540</b>	<b>0.550</b>	<b>0.645</b>
<b>DPS (RMB)</b>	<b>0.072</b>	<b>0.085</b>	<b>0.108</b>	<b>0.110</b>	<b>0.129</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2015A-2019E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Current assets</b>	<b>12,704</b>	<b>13,333</b>	<b>17,554</b>	<b>19,939</b>	<b>20,900</b>
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
<b>Non-current assets</b>	<b>121,164</b>	<b>125,328</b>	<b>135,547</b>	<b>146,170</b>	<b>156,668</b>
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
<b>Total Assets</b>	<b>133,867</b>	<b>138,661</b>	<b>153,101</b>	<b>166,109</b>	<b>177,567</b>
<b>Current Liabilities</b>	<b>56,000</b>	<b>55,807</b>	<b>62,338</b>	<b>67,473</b>	<b>70,841</b>
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
<b>Non-current liabilities</b>	<b>33,293</b>	<b>35,067</b>	<b>36,210</b>	<b>38,213</b>	<b>39,654</b>
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
<b>Total Liabilities</b>	<b>89,293</b>	<b>90,874</b>	<b>98,548</b>	<b>105,686</b>	<b>110,495</b>
Minority interests	6,439	6,896	8,024	9,559	11,360
<b>Perpetual medium-term note</b>	<b>2,991</b>	<b>2,991</b>	<b>2,991</b>	<b>2,991</b>	<b>2,991</b>
<b>Shareholders' equities</b>	<b>35,145</b>	<b>37,899</b>	<b>43,537</b>	<b>47,873</b>	<b>52,722</b>

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	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
<b>Operating cash flow</b>	<b>16,325</b>	<b>11,563</b>	<b>13,928</b>	<b>16,245</b>	<b>17,391</b>
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
<b>Investing cash flow</b>	<b>-16,319</b>	<b>-12,527</b>	<b>-13,167</b>	<b>-16,396</b>	<b>-16,905</b>
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
<b>Financing cash flow</b>	<b>507</b>	<b>-1,740</b>	<b>2,861</b>	<b>726</b>	<b>-985</b>
<b>Net change in cash</b>	<b>513</b>	<b>-2,704</b>	<b>3,622</b>	<b>576</b>	<b>-499</b>
Cash at the beginning	2,396	2,887	183	3,805	4,380
Adjustment (Time deposit & FX effect)	-21	1,722	0	0	0
<b>Cash at the end</b>	<b>2,887</b>	<b>1,905</b>	<b>3,805</b>	<b>4,380</b>	<b>3,881</b>

Source(s): Company, ABCI Securities estimates

**Key ratio (2015A-2019E)**

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
<b>Sales mixed (%)</b>					
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
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
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
<b>Growth (%)</b>					
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
<b>Balance sheet ratios</b>					
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
<b>Returns (%)</b>					
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



## 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.

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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**