

## Key Data

Share price (HK\$)	6.04
52Wk H/L(HK\$)	6.13 / 3.01
Issued shares (mn)	14,055
H-shares	3,555
A-shares	10,500
H-share market cap (HK\$mn)	19,446
30-day avg vol (HK\$mn)	127.93
Major shareholder of H-shares(%):	
Huaneng group	13.96
Blackrock	5.64

Source: Company, Bloomberg, ABCI Securities

## Revenue composition in 1HFY12 (%)

Sales of power and heat	98.4%
Sales of coal	0.5%
Port Service	0.3%
Others	98.4%

Source: Company

## Share performance (%)

	Absolute	Relative*
1-mth	5.1	0.4
3-mth	6.0	-7.8
6-mth	31.7	25.6

Source: Bloomberg

\*Relative to Hang Seng Index

## 1 year price performance



Source: Bloomberg

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## Huaneng Power (902 HK) – Unrated Independent Power Production Industry

### Key takeaways from Analyst Presentation

**Huaneng NP increased by 86%QoQ to Rmb32,937mn in 3Q2012. Global economic slowdown put a cap on international coal price and we believe a sharp rebound in domestic coal price is unlikely. While thermal power is expected to pick up in winter, we believe bottom line growth will sustain in Q42012.**

**Continue to benefit from falling coal price.** Revenue increased 0.05% QoQ/ dropped 7.9% YoY to Rmb32,937mn. Net profit increased by 827% YoY/86%QoQ to Rmb2,408mn in 3Q2012. The increase in net profit was largely contributed to the significant drop in coal price. Qinhuangdao coal price has dropped by 12.1% during 1H2012 and dropped further by 9.0% during 3Q2012. Imported coal price is trading at a discount of ~7% to domestic coal price. We believe global economic slowdown will continue to put pressure on international coal price, which in turn limit sharp rebound of domestic coal price.

**Thermal power output drop less than industry average:** Thermal power output dropped 7.2% YoY to 927bn kwh in 3Q2012. Due to slower economic growth and substitution to hydro power, thermal power growth continues to drop on a YoY basis. In particular, China thermal power output dropped 5.2%/7.2%/9.4% YoY in Jul/Aug/Sep. Huaneng (902) also experienced a drop in power output. In 3Q2012, Huaneng's power output fell by 12.5% YoY/0.7%QoQ to 73.5bn kwh. However, as substitution to hydropower is expected to diminish in Q4 while heating demand is expected to increase in winter, management expect power output to reach 76bn kwh in Q4, representing an increase of 3.4%QoQ/-1.5% YoY.

**Valuation.** Huaneng is trading at 1.23x PB which is still below its 6-yr historical mean of 1.53x. As coal price growth is limited and thermal power is expected to pick up, we believe further upside is possible.

**Risk factors:** Slowing electricity consumption growth, high gearing

## Forecast and Valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	76,710	104,170	132,936	139,146	150,533
YoY Chg (%)	13.3	35.8	27.6	4.7	8.2
Net Income (Rmb mn)	4,930	3,348	1,181	5,888	7,355
YoY Chg (%)	-225.2	-32.1	-64.7	398.6	24.9
FD EPS (Rmb)	0.41	0.28	0.08	0.42	0.53
YoY Chg (%)	-224.2	-31.7	-71.4	425.0	25.7
NBV (Rmb/share)	3.494	3.827	3.620	4.016	4.331
PE (x)	--	--	61.4	11.7	9.3
PB (x)	--	--	1.4	1.2	1.1
ROAA (%)	2.7	1.6	0.5	2.8	3.3
ROAE (%)	12.5	7.0	2.3	10.6	12.8
Net D/E (%)	244.2	212.0	265.8	288.5	265.6

\*We assume Rmb1 = HK\$1.23; Source: Company, Bloomberg, ABCI Securities



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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

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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