



China Longyuan Power (916 HK) Sep wind power output up 27%YoY

- Longyuan announced its Sep operation data on Oct 10
- Wind power gross output was 2,533GWh (+27%YoY) in Sep, mainly driven by Inner Mongolia and northwest region
- Total wind power output in 9M17 reached 73% of our full-year estimate, ahead of historical run rate of 70%. Based on the current development, our full-year output growth estimate at 11%YoY is likely to be reached
- Maintain **BUY** with TP of HK\$7.50, which implies 12.8x/12.2x 2017/18E P/E and 1.2x/1.1x 2017/18E P/B

Output in Inner Mongolia and northwest region jumped 63% / 47% YoY, driving up growth in Sep. Wind power output in Inner Mongolia and northwest region contributed to 16% and 23% of Longyuan's Sep output. We believe the expanded output can be attributed to the government's effort in tackling power curtailment and the strong push for renewable energy. According to NDRC data, nationwide wind power output was up 53% YoY in Sep.

We expect a high single-digit power output growth for Oct and Nov due to the high base. Longyuan's Sep wind output was better than our estimate of a mid-teens growth. Given its output increased by 25% / 42% YoY in Oct / Nov last year, we expect a high single-digit growth for the next 2 months due to the high base.

2017E power output growth at 11% YoY will be reached; expect 17% YoY earnings growth. 9M17 wind power output grew 14% YoY, corresponding to 73% of our full-year estimate and is ahead of the historical run rate of 70%. Our full-year estimate of an 11% YoY output growth will likely be reached. Supported by the solid wind power output growth as well as improved margins in coal sales business, Longyuan's 2017E earnings would increase by 17% YoY.

TP at HK\$ 7.50; maintain BUY. We continue to favor Longyuan's well-diversified asset and leading position in China's wind power industry. We project the Group to deliver a double-digit solid wind power output growth for the next three years. Our TP at HK\$ 7.50, which implies an undemanding valuation of 12.8x/12.2x 2017/18E P/E and 1.2x/1.1x 2017/18E P/B, is based on the assumption of a 15% EPS CAGR in 2016-19E. 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	24,965	27,837	31,209
Chg (% YoY)	8.0	13.3	11.9	11.5	12.1
Net profit (RMB mn)	2,878	3,415	4,010	4,219	5,185
Chg (% YoY)	12.7	18.7	17.4	5.2	22.9
EPS (RMB)	0.358	0.425	0.499	0.525	0.645
Chg (% YoY)	12.7	18.7	17.4	5.2	22.9
BVPS (RMB)	4.373	4.716	5.427	5.947	6.550
Chg (% YoY)	6.2	7.8	15.1	9.6	10.1
P/E (x)	14.06	11.85	10.10	9.59	7.81
P/B (x)	1.15	1.07	0.93	0.85	0.77
ROE (%)	8.19	9.01	9.19	8.83	9.85
ROA (%)	2.15	2.46	2.66	2.60	3.00
DPS (RMB)	0.072	0.085	0.100	0.105	0.129
Yield (%)	1.42	1.69	1.98	2.08	2.56
Net gearing (%)	203.9	194.9	181.1	172.8	163.6

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 11, 2017

Rating: **BUY**

TP: **HK\$ 7.50**

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Share price (HK\$)	5.92
Est. share price return	26.7%
Est. dividend yield	2.0%
Est. total return	28.8%
Previous Rating & TP	BUY
Previous Report Date	Sep 14, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	7.1/5.4
Issued shares (mn)	8,036
Issued H-shares (mn)	3,340
Market cap (HK\$ mn)	49,022
H-share Market cap (HK\$ mn)	20,374
3-mth avg daily turnover(HK\$ mn)	79
Major shareholder(s) (%)	
Guodian Corp.	58.4%

Source(s): Company, ABCI Securities

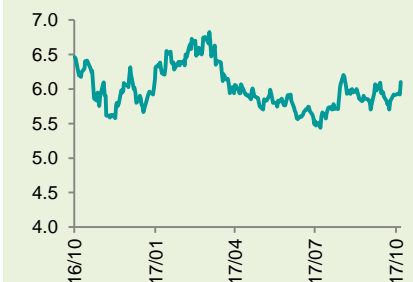
Share Performance

	Absolute	Relative*
1-mth	2.69	0.36
3-mth	8.93	1.38
6-mth	2.71	(9.78)

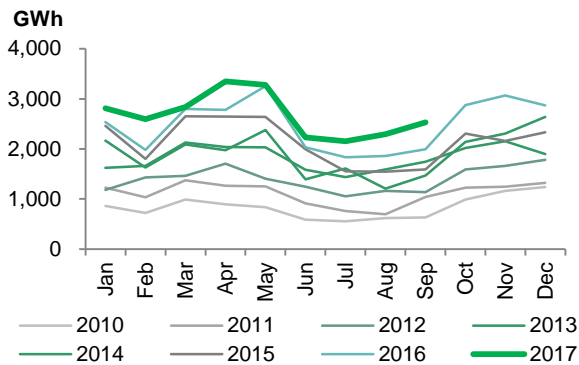
*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

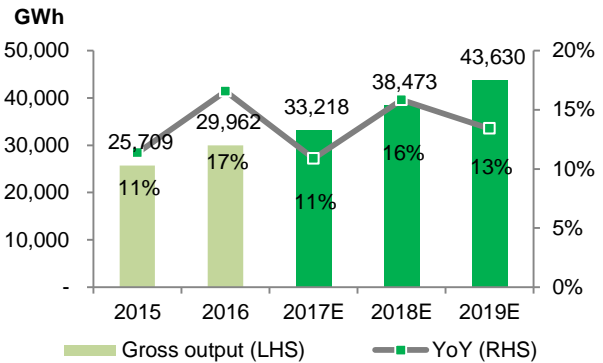
1-Year share price performance(HK\$)



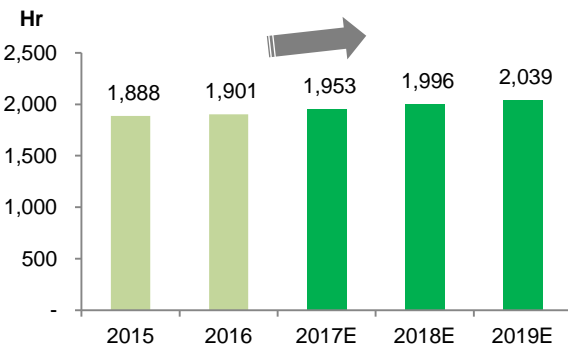
Source(s): Bloomberg, ABCI Securities

Exhibit 1: Longyuan's monthly operation data


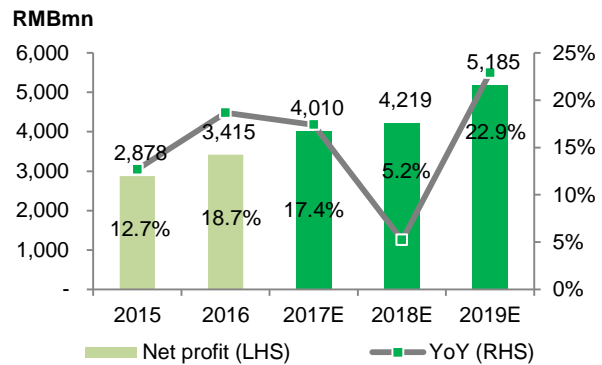
Source(s): Company, ABCI Securities estimates

Exhibit 2: Longyuan's wind power output would remain robust


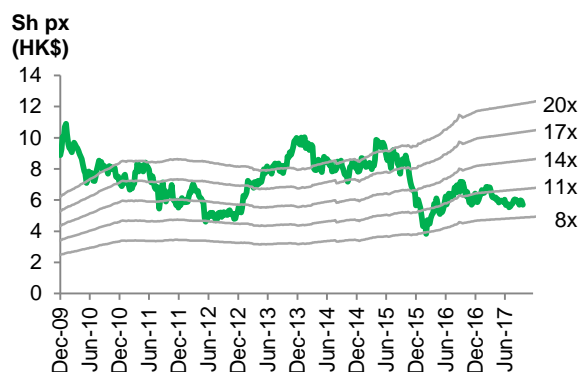
Source(s): Company, ABCI Securities estimates

Exhibit 3: Longyuan's utilization hour would continue to improve


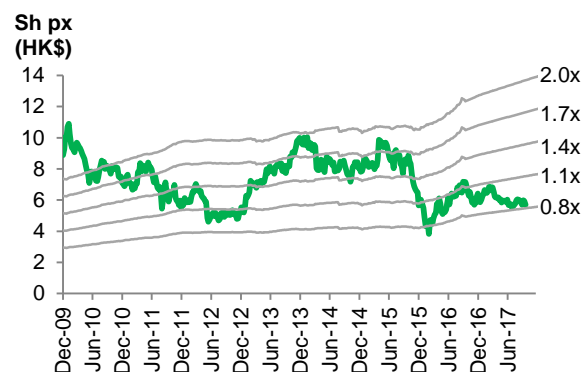
Source(s): Company, ABCI Securities estimates

Exhibit 4: Longyuan's net profit outlook


Source(s): Company, ABCI Securities estimates

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

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Revenue	19,683	22,304	24,965	27,837	31,209
Wind power	12,365	13,950	15,448	17,179	19,483
Coal-fire power	5,896	7,270	8,216	9,239	10,149
Other	1,422	1,085	1,300	1,418	1,577
Cost of sales	-12,045	-14,456	-15,416	-17,658	-19,331
Gross Profit	7,638	7,848	9,549	10,179	11,878
SG&A expenses	-373	-429	-524	-585	-655
Net financial income (cost)	-3,039	-2,774	-3,314	-3,543	-3,701
Other income/ (expenses)	441	505	256	227	194
Profit before tax	4,669	5,150	5,967	6,279	7,715
Tax	-601	-660	-955	-1,005	-1,234
Net profit	4,068	4,490	5,012	5,274	6,481
Profit attributable to:					
Minority interest	1,189	941	852	897	1,102
Perpetual medium-term note holders	0	133	150	158	194
Equity shareholders of the Company	2,878	3,415	4,010	4,219	5,185
Basic EPS (RMB)	0.358	0.425	0.499	0.525	0.645
DPS (RMB)	0.072	0.085	0.100	0.105	0.129

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Current assets	12,704	13,333	17,190	19,021	21,119
Cash	2,887	1,905	2,086	3,000	3,297
Pledged and restricted bank deposits	387	28	28	28	28
Trade and bill receivables	4,243	5,901	8,892	9,152	10,260
Other receivables and prepayments	3,070	3,644	4,104	4,576	5,130
Inventories	1,081	1,040	1,267	1,451	1,589
Other current assets	1,036	814	814	814	814
Non-current assets	121,164	125,328	133,527	143,017	151,985
Property, plant & equipment	98,997	105,598	111,778	120,359	128,805
Investment properties	5	4	4	4	4
Intangible assets	8,699	8,860	8,946	9,036	9,131
Investment in JV and associates	4,822	4,483	4,807	5,169	5,575
Deferred tax assets	155	151	151	151	151
Other non-current assets	8,486	6,232	7,842	8,298	8,319
Total Assets	133,867	138,661	150,718	162,038	173,104
Current Liabilities	56,000	55,807	60,652	65,089	68,672
Trade and bill payables	1,902	2,550	2,112	2,419	2,648
Other payables	9,121	8,747	9,890	11,303	12,357
Short term borrowings	44,977	44,472	48,650	51,367	53,667
Other current assets	0	39	0	0	0
Non-current liabilities	33,293	35,067	35,713	37,524	39,057
Deferred tax liabilities	106	138	138	138	138
Long-term borrowings	29,970	31,327	32,434	34,245	35,778
Other non-current assets	3,217	3,602	3,141	3,141	3,141
Total Liabilities	89,293	90,874	96,365	102,613	107,729
Minority interests	6,439	6,896	7,749	8,645	9,747
Perpetual medium-term note	2,991	2,991	2,991	2,991	2,991
Shareholders' equities	35,145	37,899	43,614	47,789	52,637

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2015A	2016E	2017E	2018E	2019E
Profit before tax	4,676	5,150	5,967	6,279	7,715
Change in depreciation and amortization	5,554	6,342	6,962	7,662	8,388
Change in Working Capital	4,175	483	-2,972	803	-517
Net financial cost (income)	2,671	2,602	2,889	3,305	3,497
Income tax paid	-525	-634	-941	-852	-897
Net interest received	0	0	0	0	0
Others	-227	-411	-325	-362	-406
Operating cash flow	16,325	13,533	11,579	16,836	17,781
Capex	-15,264	-13,990	-12,643	-15,720	-16,286
Increase in intangible assets	0	0	-584	-613	-644
Others	-1,055	2,781	211	97	106
Investing cash flow	-16,319	-11,209	-13,015	-16,237	-16,824
Net Capital raise	0	0	0	0	0
Net debt financing	4,837	792	5,285	4,528	3,833
Dividend payout	-1,174	-1,306	-683	-802	-844
Interest paid	-3,368	-3,149	-2,985	-3,411	-3,649
Others	212	379	0	0	0
Financing cash flow	507	-3,284	1,616	315	-660
Net change in cash	513	-961	180	914	297
Cash at the beginning	2,396	2,887	1,905	2,086	3,000
Adjustment (Time deposit & FX effect)	-21	-21	0	0	0
Cash at the end	2,887	1,905	2,086	3,000	3,297

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Wind power	62.82	62.54	61.88	61.71	62.43
Coal-fire power	29.95	32.59	32.91	33.19	32.52
Other	7.23	4.86	5.21	5.10	5.05
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	38.81	35.19	38.25	36.57	38.06
Operating profit margin	36.23	33.84	35.88	33.98	35.28
Pre-tax margin	23.72	23.09	23.90	22.56	24.72
Net profit margin	20.67	20.13	20.08	18.95	20.77
Selling & administrative expenses/revenue	1.89	1.92	2.10	2.10	2.10
Effective tax rate	12.87	12.82	16.00	16.00	16.00
Growth (%)					
Revenue	7.98	13.32	11.93	11.50	12.11
Gross profit	9.43	2.75	21.68	6.60	16.69
Operating profit	8.70	5.83	18.67	5.62	16.39
Net profit	14.76	10.38	11.63	5.23	22.88
Balance sheet ratios					
Current ratio (x)	0.23	0.24	0.28	0.29	0.31
Quick ratio (x)	0.13	0.14	0.18	0.19	0.20
Cash ratio (x)	0.06	0.03	0.03	0.05	0.05
Trade and bill receivables days	78.67	96.57	130.00	120.00	120.00
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 (%)	213.25	200.00	185.91	179.15	169.93
Net debt / equity ratio (%)	203.93	194.90	181.07	172.81	163.61
Returns (%)					
ROAA	2.2	2.5	2.8	2.7	3.1
ROAE	8.4	9.4	9.8	9.2	10.3
Payout ratio	20.02	20.00	20.00	20.00	20.00

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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