



# Huaneng Renewables (958 HK)

## Wind power output down 5%YoY in May; 5M17 output up 16%YoY

- Huaneng Renewables (HNR) announced its May operation data on June 9, 2017. Gross output of wind power was 2,052GWh (-5% YoY) for the month mainly due to the decline in Inner Mongolia and southern regions
- Total wind power output in 5M17 reached 45% of our 2017E full-year estimate, slightly below the 46% run rate in 2016. Based on the current development, our full-year output growth estimate at 18%YoY should be achievable
- Maintain **BUY** with TP of HK\$ 3.50 implies 9x 2017E P/E and 1.3x 2017E P/B

**9% YoY decline in Inner Mongolia and 13% YoY decline southern regions were the key drag.** May wind power output in Inner Mongolia and northeast regions declined by 9% and 13% YoY, contributing to 26% and 20% of HNR's total power output.. Output of Yunnan province (in southern regions), which fell 17% YoY and accounted for 11% of total output, remains the key overhang to HNR.

**Weak data in May was expected; June growth should see mid-single-digit growth.** We have mentioned in our previous report (issued on Apr 11) that HNR would see a weak output growth in Apr and May due to the high base in 2016. We believe HNR would record a mid-single-digit growth in June.

**Jan-May power output grew 16% YoY, in line with expectation; 2017 earnings would grow 30% YoY.** 5M17 wind power output reached 9,864GWh (+16%YoY), achieving 45% of our full-year estimate, slightly below the historical run rate of 46%. Based on the current development, our full-year output growth estimate at 18% YoY should be achievable. We believe 2017E earnings would increase by 30% YoY.

**Utilization hour becomes the key earnings driver amid modest capacity expansion.** Management guided that HNR targeted to add 0.9GW of new wind power capacity in 2017 (+ 9% YoY), lower than the market expectation of a 12%-13% YoY capacity growth. Modest capacity growth suggests HNR's future earnings growth will rely on increase in utilization hour. In 2016, HNR recorded the highest utilization hour (1,966) among the wind power operators under our coverage.

**Current valuation is inexpensive with TP at HK\$ 3.50. Maintain BUY.** The stock is now trading at 7x 2017E P/E and 0.9x 2017E P/B based on the Bloomberg consensus. With its rising utilization hour, we expect the Group to deliver a 30%YoY net profit growth in 2017E. Our DCF-derived TP at HK\$ 3.50 implies valuation of 9x 2017 P/E and 1.3x 2017 P/B. 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. (7) New share issued in May dilutes EPS growth in 2017-18.

### Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	7,357	9,239	10,659	11,446	12,793
Chg (% YoY)	19.6	25.6	15.4	7.4	11.8
Net profit (RMB mn)	1,860	2,659	3,447	3,728	4,358
Chg (% YoY)	65.9	43.0	29.6	8.2	16.9
EPS (RMB)	0.191	0.273	0.337	0.353	0.413
Chg (% YoY)	54.3	42.9	23.5	4.6	16.9
BVPS (RMB)	1.830	2.070	2.436	2.688	3.067
Chg (% YoY)	2.8	13.1	17.7	10.4	14.1
P/E (x)	12.28	8.59	6.95	6.65	5.69
P/B (x)	1.28	1.13	0.96	0.87	0.77
ROE (%)	10.45	13.20	13.85	13.13	13.45
ROA (%)	2.25	3.11	3.78	3.85	4.14
DPS (RMB)	0.030	0.041	0.051	0.053	0.062
Yield (%)	1.28	1.75	2.16	2.26	2.64
Net gearing (%)	252.1	240.0	189.7	172.7	158.5

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

June 12, 2017

Rating: **BUY**  
TP: **HK\$ 3.50**

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kelvinn@abci.com.hk

Share price (HK\$)	2.50
Est. share price return	40.0%
Est. dividend yield	2.3%
Est. total return	42.3%
Previous Rating & TP	BUY; HK\$3.50
Previous Report Date	May 26, 2017

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	3.2/2.3
Issued shares (mn)	9,728
Issued H-shares (mn)	5,031
Market cap (HK\$ mn)	25,782
H-share Market cap (HK\$ mn)	12,276
3-mth avg daily turnover(HK\$ mn)	72
Major shareholder(s) (%)	
Huaneng Group.	54.0%

Source(s): Company, ABCI Securities

### Share Performance (%)

	Absolute	Relative*
1-mth	(7.22)	(10.04)
3-mth	(14.39)	(16.88)
6-mth	(2.79)	(11.79)

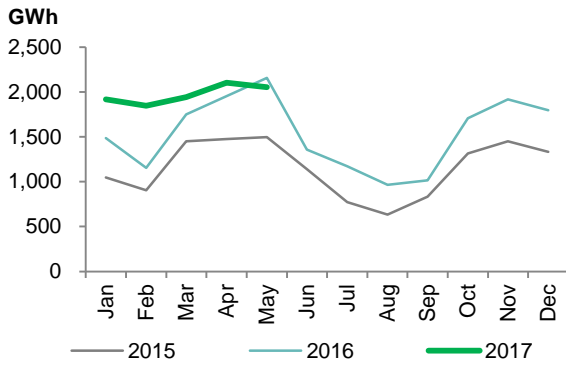
\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

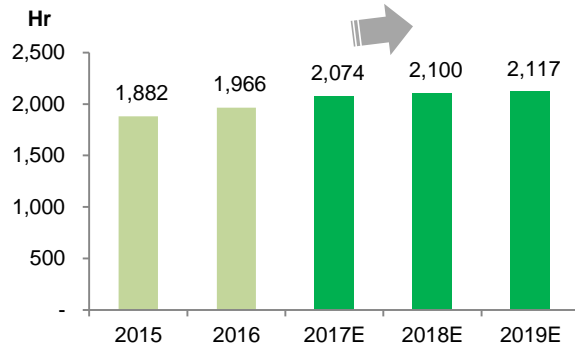
### 1-Year share price performance(HK\$)



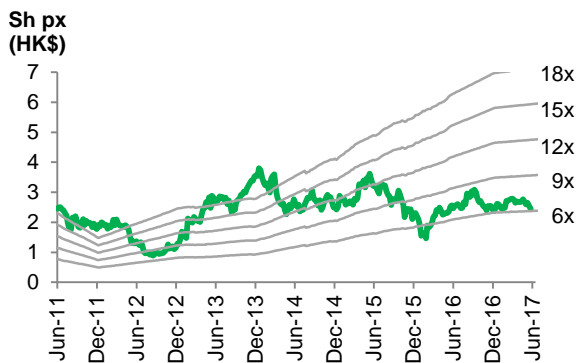
Source(s): Bloomberg, ABCI Securities

**Exhibit 1: HNR's monthly operation data**


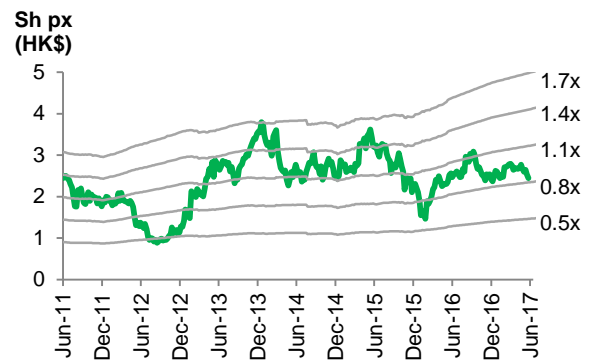
Source(s): Company, ABCI Securities estimates

**Exhibit 2: HNR's utilization hour will continue to improve**


Source(s): Company, ABCI Securities estimates

**Exhibit 3: HNR's fwd P/E chart**


Source(s): Company, ABCI Securities estimates

**Exhibit 4: HNR's fwd P/B chart**


Source(s): Company, ABCI Securities estimates



**Consolidated income statement**

<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>7,357</b>	<b>9,239</b>	<b>10,659</b>	<b>11,446</b>	<b>12,793</b>
Wind power	6,892	8,515	10,001	10,582	11,736
Solar power	462	718	652	858	1,051
Other	3	6	6	6	6
<b>Cost of sales</b>	<b>-3,214</b>	<b>-4,054</b>	<b>-4,194</b>	<b>-4,592</b>	<b>-5,096</b>
<b>Gross Profit</b>	<b>4,143</b>	<b>5,184</b>	<b>6,465</b>	<b>6,854</b>	<b>7,696</b>
SG&A expenses	-189	-223	-266	-286	-320
Net financial income (cost)	-2,073	-1,995	-2,240	-2,269	-2,333
Other income/ (expenses)	160	-56	-176	-208	-262
<b>Profit before tax</b>	<b>2,041</b>	<b>2,910</b>	<b>3,782</b>	<b>4,091</b>	<b>4,782</b>
Tax	-141	-202	-265	-286	-335
<b>Net profit</b>	<b>1,899</b>	<b>2,708</b>	<b>3,517</b>	<b>3,804</b>	<b>4,447</b>
Profit attributable to:					
Minority interest	40	49	70	76	89
<b>Equity shareholders of the Company</b>	<b>1,860</b>	<b>2,659</b>	<b>3,447</b>	<b>3,728</b>	<b>4,358</b>
<b>Basic EPS (RMB)</b>	<b>0.191</b>	<b>0.273</b>	<b>0.337</b>	<b>0.353</b>	<b>0.413</b>
<b>DPS (RMB)</b>	<b>0.030</b>	<b>0.041</b>	<b>0.051</b>	<b>0.053</b>	<b>0.062</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet**

<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>7,652</b>	<b>8,696</b>	<b>11,554</b>	<b>11,196</b>	<b>12,795</b>
Cash	4,504	2,570	5,825	5,044	5,919
Pledged and restricted bank deposits	27	34	0	0	0
Trade and bill receivables	2,900	4,635	5,257	5,644	6,309
Other receivables and prepayments	122	1,415	438	470	526
Inventories	43	33	34	38	42
Other current assets	56	8	0	0	0
<b>Non-current assets</b>	<b>74,901</b>	<b>76,749</b>	<b>79,609</b>	<b>85,541</b>	<b>92,357</b>
Property, plant & equipment	68,658	72,107	76,004	82,175	89,077
Investment properties	0	0	0	0	0
Intangible assets	682	654	627	601	574
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	2,897	2,685	2,626
<b>Total Assets</b>	<b>82,553</b>	<b>85,445</b>	<b>91,163</b>	<b>96,737</b>	<b>105,152</b>
<b>Current Liabilities</b>	<b>28,533</b>	<b>30,517</b>	<b>28,623</b>	<b>29,433</b>	<b>31,195</b>
Trade and bill payables	0	0	0	0	0
Other payables	9,311	7,520	7,415	7,796	8,280
Short term borrowings	18,727	22,563	21,207	21,637	22,916
Other current assets	496	435	0	0	0
<b>Non-current liabilities</b>	<b>35,395</b>	<b>33,933</b>	<b>36,733</b>	<b>37,903</b>	<b>40,461</b>
Deferred tax liabilities	20	20	20	20	20
Long-term borrowings	30,677	28,372	31,811	32,455	34,373
Other non-current assets	4,698	5,542	4,902	5,428	6,069
<b>Total Liabilities</b>	<b>63,928</b>	<b>64,451</b>	<b>65,355</b>	<b>67,335</b>	<b>71,657</b>
Minority interests	827	857	927	1,003	1,092
<b>Shareholders' equities</b>	<b>17,798</b>	<b>20,137</b>	<b>24,881</b>	<b>28,399</b>	<b>32,403</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement**

FY ended Dec 31 (RMB mn)	2015A	2016E	2017E	2018E	2019E
Profit before tax	1,899	2,708	3,517	3,804	4,447
Change in depreciation and amortization	2,720	3,447	3,598	3,983	4,412
Change in Working Capital	967	-844	-1,093	204	-80
Net financial cost (income)	2,197	2,090	2,240	2,269	2,333
Income tax paid	-126	-179	-265	-286	-335
Net interest received	141	202	0	0	0
Others	-116	-85	0	0	0
<b>Operating cash flow</b>	<b>7,682</b>	<b>7,338</b>	<b>7,998</b>	<b>9,974</b>	<b>10,778</b>
Capex	-12,644	-7,877	-7,457	-10,115	-11,275
Increase in intangible assets	0	0	-12	-12	-13
Others	130	507	52	117	101
<b>Investing cash flow</b>	<b>-12,514</b>	<b>-7,370</b>	<b>-7,417</b>	<b>-10,011</b>	<b>-11,187</b>
Net Capital raise	0	0	2,167	0	0
Net debt financing	5,285	1,312	2,084	1,073	3,198
Dividend payout	-214	-316	-517	-559	-654
Interest paid	-2,440	-2,205	-2,133	-2,292	-2,386
Others	-853	-650	169	129	221
<b>Financing cash flow</b>	<b>1,778</b>	<b>-1,858</b>	<b>1,769</b>	<b>-1,649</b>	<b>379</b>
<b>Net change in cash</b>	<b>-3,054</b>	<b>-1,889</b>	<b>2,350</b>	<b>-1,686</b>	<b>-30</b>
Cash at the beginning	6,385	3,470	2,570	5,825	5,044
Adjustment (Time deposit & FX effect)	1,173	990	905	905	905
<b>Cash at the end</b>	<b>4,504</b>	<b>2,570</b>	<b>5,825</b>	<b>5,044</b>	<b>5,919</b>

Source(s): Company, ABCI Securities estimates

**Key ratio**

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
<b>Sales mixed (%)</b>					
Wind power	93.68	92.17	93.82	92.45	91.74
Solar power	6.29	7.77	6.12	7.50	8.21
Other	0.04	0.07	0.06	0.05	0.05
<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	56.31	56.12	60.65	59.88	60.16
Operating profit margin	55.95	53.13	56.50	55.57	55.62
Pre-tax margin	27.74	31.49	35.48	35.74	37.38
Net profit margin	25.82	29.31	33.00	33.24	34.76
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
<b>Growth (%)</b>					
Revenue	19.60	25.58	15.38	7.38	11.77
Gross profit	18.33	25.14	24.70	6.02	12.29
Operating profit	23.03	19.24	22.70	5.61	11.87
Net profit	65.61	42.59	29.89	8.16	16.90
<b>Balance sheet ratios</b>					
Current ratio (x)	0.27	0.28	0.40	0.38	0.41
Quick ratio (x)	0.26	0.24	0.39	0.36	0.39
Cash ratio (x)	0.16	0.09	0.20	0.17	0.19
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	213.09	190.47	176.80
Net debt / equity ratio (%)	252.13	240.01	189.68	172.71	158.53
<b>Returns (%)</b>					
ROAA	2.4	3.2	3.9	4.0	4.3
ROAE	11.0	14.0	15.3	14.0	14.3
Payout ratio	15.69	15.00	15.00	15.00	15.00

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

**Tel: (852) 2868 2183**