



## China Longyuan Power (916 HK) 2016 results preview

- Longyuan is likely to record a 20%YoY net profit growth (vs. Bloomberg consensus 26%YoY) for 2016E
- Diversified wind power asset mix should help the Group maintain a high utilization hour
- Longyuan's relatively low all-in unit capacity cost would help the Group maintain a solid capacity growth without stressing its balance sheet.
- Maintain **BUY** with TP of HK\$7.30, which implies 13x 2017 P/E and 1.2x 2017 P/B.

**2016 net profit is likely to record a solid growth of 20%YoY.** Longyuan's 2016E power output would increase by 16% YoY due to 1).its solid capacity growth of 12% YoY, driven by a relatively low unit all-in capacity cost supportive to wind power output; 2).its well-diversified prime wind power asset nationwide would help sustain a high utilization hour. Under our estimates, Longyuan's 2016E net profit would grow by 20% YoY.

**Geographically diversified assets help reduce curtailment impact.** Longyuan is the largest wind power operator in China with geographically diversified facilities across provinces. Such diverse distribution asset would help the Group minimize negative impacts of power curtailment and sustain a high utilization hour. This will serve as Longyuan's long-term positive as the Group could grow expand its wind power output while limiting the impacts of power curtailment in specific regions.

**A lower all-in unit capacity cost than peers.** Longyuan's low all-in unit capacity cost (construction cost + equipment cost) is one of its strongest competitive edges as it can expand wind power capacity without increasing net gearing ratio significantly. As of 1H16, Longyuan's all-in unit capacity cost is RMB 8/W, 20% lower than the peer average of RMB 10/W.

<b>2016 net profit estimates:</b>	<b>RMB 3,461mn (+20%YoY)</b>
<b>Announcement date:</b>	<b>Mar 14, 2017</b>

**TP at HK\$7.30; maintain BUY.** We favor Longyuan based on (1) its leading position in China's wind power operation sector; (2) its well-diversified asset with a low all-in unit capacity cost, which would help the Group maintaining a double-digit net profit growth over the next few years, according to our estimates. Our TP at HK\$7.30 implies 13x 2017 P/E and 1.2x 2017 P/B, which is undemanding 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	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	18,228	19,649	22,374	24,958	27,273
Chg (% YoY)	-4.8	7.8	13.9	11.6	9.3
Net profit (RMB mn)	2,555	2,881	3,461	4,025	4,525
Chg (% YoY)	24.5	12.8	20.1	16.3	12.4
EPS (RMB)	0.318	0.358	0.431	0.501	0.563
Chg (% YoY)	24.7	12.7	20.2	16.3	12.4
BVPS (RMB)	4.120	4.369	4.741	5.142	5.592
Chg (% YoY)	7.0	6.0	8.5	8.5	8.8
P/E (x)	17.88	15.86	13.20	11.35	10.10
P/B (x)	1.38	1.30	1.20	1.11	1.02
ROE (%)	7.72	8.20	9.08	9.74	10.07
ROA (%)	2.06	2.16	2.37	2.54	2.69
DPS (RMB)	0.060	0.072	0.086	0.100	0.113
Yield (%)	1.05	1.26	1.52	1.76	1.98
<b>Net gearing (%)</b>	<b>203.0</b>	<b>203.3</b>	<b>201.6</b>	<b>196.4</b>	<b>189.1</b>

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Mar 3, 2017

Rating: **BUY**

TP: **HK\$ 7.30**

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Share price (HK\$)	6.78
Est. share price return	7.7%
Est. dividend yield	1.4%
Est. total return	9.1%
Previous Rating & TP	BUY
Previous Report Date	Nov 16, 2016

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.3/4.4
Issued shares (mn)	8,036
Issued H-shares (mn)	3,340
Market cap (HK\$ mn)	54,487
H-share Market cap (HK\$ mn)	22,645
3-mth avg daily turnover(HK\$ mn)	91
Major shareholder(s) (%)	
Guodian Corp.	57.3%

Source(s): Company, ABCI Securities

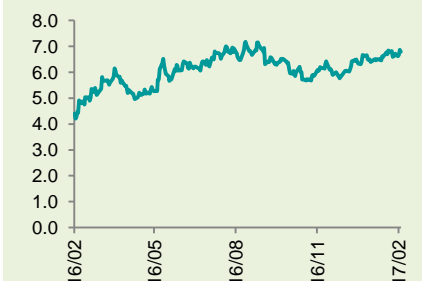
### Share Performance

	Absolute	Relative*
1-mth	6.10	3.63
3-mth	10.06	3.98
6-mth	4.79	1.44

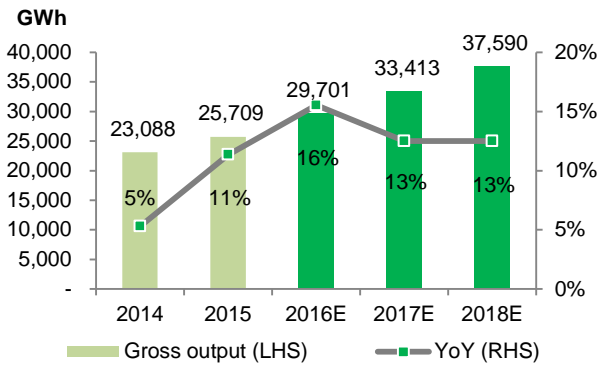
\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

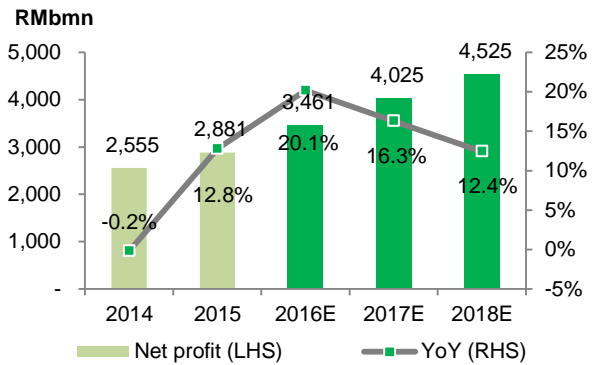
### 1-Year Share Performance(HK\$)



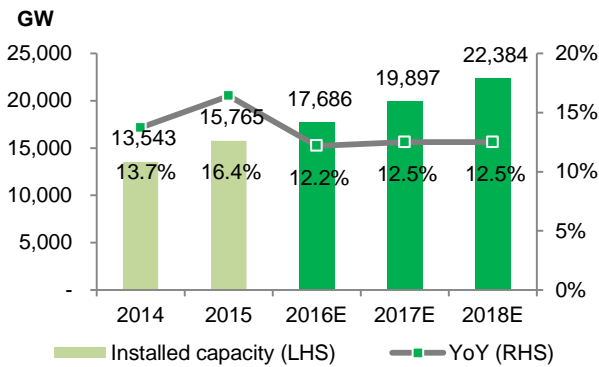
Source(s): Bloomberg, ABCI Securities

**Exhibit 1: Longyuan would record a solid wind power output growth in 2016E**


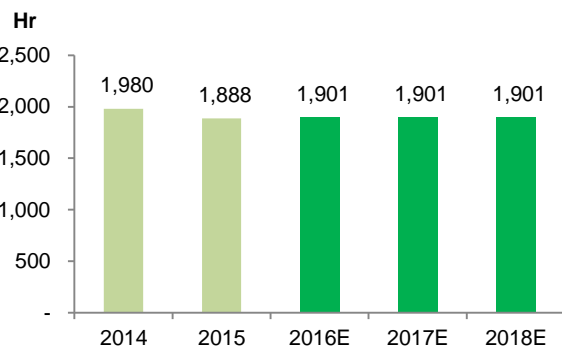
Source(s): Company, ABCI Securities estimates

**Exhibit 2: Longyuan's net profit growth outlook**


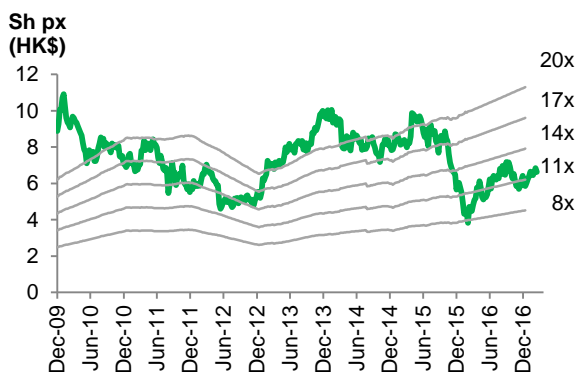
Source(s): Company, ABCI Securities estimates

**Exhibit 3: Longyuan's wind power capacity growth would remain strong**


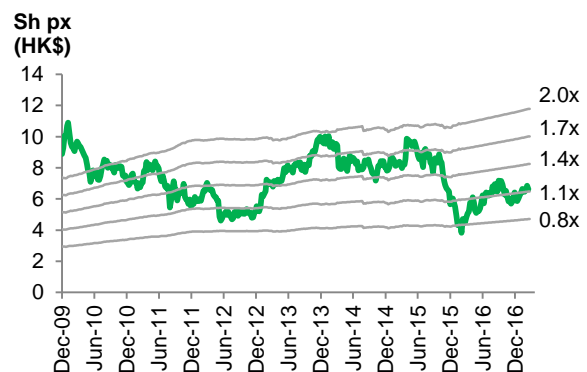
Source(s): Company, ABCI Securities estimates

**Exhibit 4: Longyuan's utilization hour would stay high at ~2,000hr going forward**


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 (2014A-2018E)**

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Revenue</b>	<b>18,228</b>	<b>19,649</b>	<b>22,374</b>	<b>24,958</b>	<b>27,273</b>
Wind power	11,154	12,331	13,922	15,757	17,463
Coal-fire power	6,156	5,896	6,941	7,531	7,992
Other	919	1,422	1,511	1,670	1,818
<b>Cost of sales</b>	<b>-11,249</b>	<b>-12,017</b>	<b>-13,886</b>	<b>-15,301</b>	<b>-16,610</b>
<b>Gross Profit</b>	<b>6,980</b>	<b>7,632</b>	<b>8,488</b>	<b>9,657</b>	<b>10,663</b>
SG&A expenses	-378	-370	-447	-499	-545
Net financial income (cost)	-2,960	-3,025	-3,196	-3,436	-3,618
Other income/ (expenses)	413	439	618	630	642
<b>Profit before tax</b>	<b>4,055</b>	<b>4,676</b>	<b>5,462</b>	<b>6,352</b>	<b>7,141</b>
Tax	-510	-600	-655	-762	-857
<b>Net profit</b>	<b>3,545</b>	<b>4,076</b>	<b>4,807</b>	<b>5,590</b>	<b>6,284</b>
Profit attributable to:					
Minority interest	990	1,196	1,202	1,397	1,571
<b>Equity shareholders of the Company</b>	<b>2,555</b>	<b>2,881</b>	<b>3,461</b>	<b>4,025</b>	<b>4,525</b>
<b>Basic EPS (RMB)</b>	<b>0.318</b>	<b>0.358</b>	<b>0.431</b>	<b>0.501</b>	<b>0.563</b>
<b>DPS (RMB)</b>	<b>0.060</b>	<b>0.072</b>	<b>0.086</b>	<b>0.100</b>	<b>0.113</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2014A-2018E)**

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Current assets</b>	<b>14,795</b>	<b>12,697</b>	<b>16,184</b>	<b>19,793</b>	<b>20,234</b>
Cash	2,396	2,887	3,812	6,172	5,491
Pledged and restricted bank deposits	440	387	387	387	387
Trade and bill receivables	6,416	4,238	6,130	6,838	7,472
Other receivables and prepayments	4,102	3,069	3,678	4,103	4,483
Inventories	1,017	1,081	1,141	1,258	1,365
Other current assets	425	1,036	1,036	1,036	1,036
<b>Non-current assets</b>	<b>109,018</b>	<b>120,776</b>	<b>129,603</b>	<b>138,561</b>	<b>147,670</b>
Property, plant & equipment	88,555	98,609	106,081	113,859	121,548
Investment properties	5	5	5	5	5
Intangible assets	8,542	8,699	8,919	9,145	9,376
Investment in JV and associates	3,602	4,822	5,493	6,242	7,060
Deferred tax assets	155	155	155	155	155
Other non-current assets	8,159	8,486	8,950	9,155	9,525
<b>Total Assets</b>	<b>123,813</b>	<b>133,473</b>	<b>145,787</b>	<b>158,354</b>	<b>167,904</b>
<b>Current Liabilities</b>	<b>46,328</b>	<b>55,647</b>	<b>61,326</b>	<b>66,609</b>	<b>69,698</b>
Trade and bill payables	1,021	1,902	1,902	2,096	2,275
Other payables	9,188	9,057	10,808	11,894	12,897
Short term borrowings	36,114	44,688	48,617	52,619	54,525
Other current assets	6	0	0	0	0
<b>Non-current liabilities</b>	<b>36,581</b>	<b>33,293</b>	<b>35,734</b>	<b>38,402</b>	<b>39,673</b>
Deferred tax liabilities	107	106	106	106	106
Long-term borrowings	33,922	29,970	32,411	35,079	36,350
Other non-current assets	2,552	3,217	3,217	3,217	3,217
<b>Total Liabilities</b>	<b>82,909</b>	<b>88,940</b>	<b>97,060</b>	<b>105,011</b>	<b>109,370</b>
Minority interests	7,797	6,433	7,635	9,032	10,603
Perpetual medium-term note	0	2,991	2,991	2,991	2,991
<b>Shareholders' equities</b>	<b>33,107</b>	<b>35,109</b>	<b>38,101</b>	<b>41,320</b>	<b>44,940</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2014A-2018E)**

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Profit before tax	4,055	4,676	5,462	6,352	7,141
Change in depreciation and amortization	5,011	5,554	6,454	7,102	7,774
Change in Working Capital	1,973	4,175	-812	31	61
Net financial cost (income)	2,895	2,671	3,065	3,150	3,318
Income tax paid	-522	-525	-1,196	-1,202	-1,397
Net interest received	0	0	0	0	0
Others	-531	-227	-671	-749	-818
<b>Operating cash flow</b>	<b>12,881</b>	<b>16,325</b>	<b>12,303</b>	<b>14,683</b>	<b>16,079</b>
Capex	-18,273	-15,264	-13,446	-14,370	-14,922
Increase in intangible assets	0	0	-701	-736	-772
Others	-2,591	-1,055	204	164	210
<b>Investing cash flow</b>	<b>-20,864</b>	<b>-16,319</b>	<b>-13,943</b>	<b>-14,942</b>	<b>-15,485</b>
Net Capital raise	0	0	0	0	0
Net debt financing	12,035	4,837	6,370	6,670	3,176
Dividend payout	-1,042	-1,174	-576	-692	-805
Interest paid	-3,385	-3,368	-3,228	-3,360	-3,646
Others	45	212	0	0	0
<b>Financing cash flow</b>	<b>7,653</b>	<b>507</b>	<b>2,565</b>	<b>2,619</b>	<b>-1,275</b>
<b>Net change in cash</b>	<b>-330</b>	<b>513</b>	<b>925</b>	<b>2,360</b>	<b>-681</b>
Cash at the beginning	2,732	2,396	2,887	3,812	6,172
Adjustment (Time deposit & FX effect)	-6	-22	0	0	0
<b>Cash at the end</b>	<b>2,396</b>	<b>2,887</b>	<b>3,812</b>	<b>6,172</b>	<b>5,491</b>

Source(s): Company, ABCI Securities estimates

**Key ratio (2014A-2018E)**

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Sales mixed (%)</b>					
Wind power	61.19	62.76	62.22	63.13	64.03
Coal-fire power	33.77	30.01	31.02	30.18	29.31
Other	5.04	7.24	6.75	6.69	6.66
<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	38.29	38.84	37.94	38.69	39.10
Operating profit margin	35.99	36.26	35.70	36.22	36.45
Pre-tax margin	22.25	23.80	24.41	25.45	26.18
Net profit margin	19.45	20.75	21.48	22.40	23.04
Selling & administrative expenses/revenue	2.07	1.88	2.00	2.00	2.00
Effective tax rate	12.59	12.83	12.00	12.00	12.00
<b>Growth (%)</b>					
Revenue	-4.80	7.79	13.87	11.55	9.27
Gross profit	0.31	9.34	11.22	13.77	10.42
Operating profit	9.15	8.61	12.09	13.18	9.98
Net profit	19.25	15.01	17.92	16.28	12.43
<b>Balance sheet ratios</b>					
Current ratio (x)	0.32	0.23	0.26	0.30	0.29
Quick ratio (x)	0.20	0.13	0.17	0.20	0.19
Cash ratio (x)	0.06	0.06	0.07	0.10	0.08
Trade and bill receivables days	128.36	78.72	100.00	100.00	100.00
Trade and bill payables turnover days	33.12	57.78	50.00	50.00	50.00
Inventory turnover days	33.00	32.82	30.00	30.00	30.00
Total debt / equity ratio (%)	211.54	195.95	197.19	197.91	189.59
Net debt / equity ratio (%)	202.98	203.32	201.65	196.37	189.13
<b>Returns (%)</b>					
ROAA	2.2	2.2	2.5	2.6	2.8
ROAE	8.0	8.4	9.5	10.1	10.5
Payout ratio	18.78	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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