



# Huaneng Renewables (958 HK)

## Wind power output up 15%YoY in Aug; 8M18 up 13%YoY

- Huaneng Renewables (HNR) announced its Aug operation data on Sep 11, 2017. Gross output of wind power was 1,110GWh (+15% YoY) for the month, mainly driven by growth in southern and northwest regions
- Total wind power output in 8M17 reached 62% of our 2017E full-year estimate, slightly below the 65% historical run rate. Based on the current development, full-year output growth may miss our 18% YoY growth estimate by a thin margin
- Maintain **BUY** with TP of HK\$ 3.50 implies 9x 2017E P/E and 1.3x 2017E P/B

**Strong performance in southern and northwest regions – a bright spot.** Aug wind power output in southern and northwest regions was up 62%YoY and 11% YoY, accounting for 25% and 11% of total power output for the month. Yunnan province in the south and Xinjiang province in the northwest were the key drivers whose output jumped 102% YoY and 25% YoY. We believe such increase may be a result of a pick-up in industrial activities and the government's new policies that help improve utilization hour and reduce power curtailment.

**8%YoY decline in Inner Mongolia was the key drag.** Wind power output in Inner Mongolia region recorded a 8% YoY decline in Aug, contributing to 22% of HNR's monthly power output. Compared to Longyuan (916 HK, BUY, TP HK\$7.40) who recorded a 12% YoY output increase in the region, HNR's decline can be attributed to the poor location of its facilities where wind resources were weaker.

**Sep and Oct would record a low double-digit growth.** Traditionally, wind power output in June-Aug are usually low before picking up in Sep. We expect a low double-digit YoY growth in Sep and Oct as more facilities commence operation in 2H and power demand recovers.

**Current valuation is attractive; maintain BUY. Financial data is under review.** The counter is now trading at 6.8x/6.2x 2017E/18E P/E and 0.89x/0.81x 2017E/18E P/B based on Bloomberg consensus, which is attractive in our view. We estimate HNR would deliver a double-digit net profit growth in coming years on increased utilization hour and recovery in power demand, hence we maintain our **BUY** rating. Nonetheless, Longyuan (916 HK, BUY, TP HK\$7.40) remains our top pick in the wind power sector based on its solid capacity growth, quality wind power assets diversified nationwide that helps minimize power curtailment, as well as impressive execution ability. Its accounts receivable turnover (days) is also the lowest among peers.

**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)	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

Sep 13, 2017

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

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Share price (HK\$)	2.51
Est. share price return	39.4%
Est. dividend yield	2.4%
Est. total return	41.8%
Previous Rating & TP	BUY
Previous Report Date	Jun 12, 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)	26,522
H-share Market cap (HK\$ mn)	12,628
3-mth avg daily turnover(HK\$ mn)	68
Major shareholder(s) (%)	
Huaneng Group.	52.0%

Source(s): Company, ABCI Securities

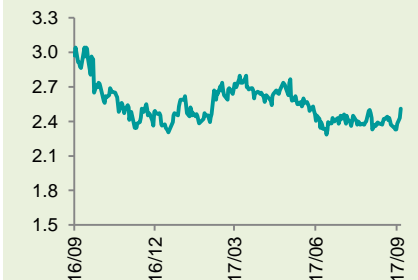
### Share Performance (%)

	Absolute	Relative*
1-mth	7.73	1.40
3-mth	4.89	(2.03)
6-mth	(10.20)	(19.18)

\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

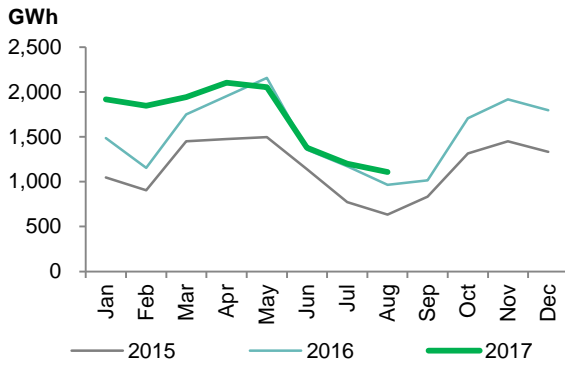
### 1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

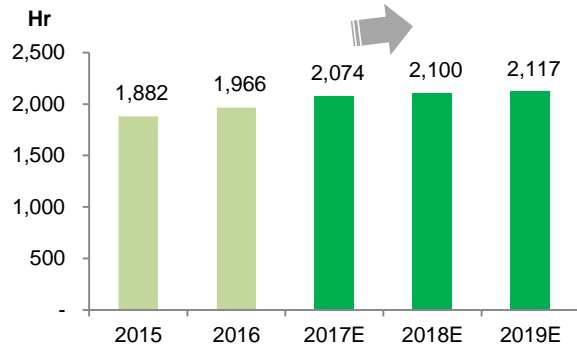


Exhibit 1: HNR's monthly operation data



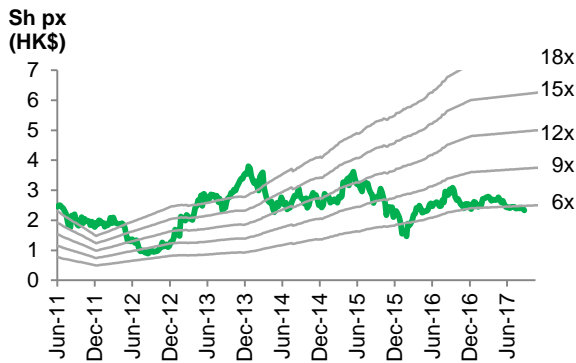
Source(s): Company, ABCI Securities estimates

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



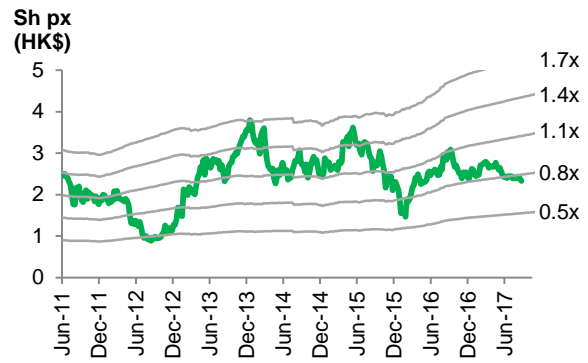
Source(s): Company, ABCI Securities estimates

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**

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
<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**

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
<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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