



Company Report

Sep 14, 2017

Rating: BUY

TP: HK\$ 3.00

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Share price (HK\$)	2.47
Est. share price return	21.5%
Est. dividend yield	2.4%
Est. total return	23.8%
Previous Rating & TP	BUY
Previous Report Date	Sep13, 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)	26,099
H-share Market cap (HK\$ mn)	12,427
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	4.29	1.28
3-mth	5.83	(1.07)
6-mth	(9.72)	(15.18)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Huaneng Renewables (958 HK)

Highest utilization hour with attractive valuation; maintain BUY

- Huaneng Renewables (HNR) announced 1H17 results on Aug 22, 2017
- Net profit was up 12%YoY, corresponding to 64%/59% of Bloomberg/our full-year estimates. Historical average run-rate at 60% suggests the results are in line with our estimate
- Utilization hour would stay above 2,000hr, the highest among peers we covered.
- HNR is trading at a low-end of its historical valuation - downside is quite limited.
- Maintain **BUY** with TP of HK\$ 3.00, which implies 7.6x/6.9x 2017/18E P/E and 1.1x/0.9x 2017/18E P/B.

Modest wind capacity growth at 6% YoY in 2017E is expected; 2018E growth would recover to 11%YoY. The government's control over wind capacity in curtailment regions would negatively affect capacity growth of operators. According to management guidance, HNR is likely to add 0.6~0.7GW of new capacity in 2017, implying a moderate capacity growth at 6% YoY. HNR targets to add ~1.2GW of new wind power capacity in 2018, which should help boost HNR's capacity growth to 11% YoY in 2018.

Long-term utilization hour would stay above 2,000hr, the highest among peers. HNR's utilization reached 1,109hr in 1H17, the highest among peers. Management is confident such figure to exceed 2,000hr in 2017 while curtailment rate would be kept under 10% in 2H17. The proportion of HNR's wind capacity in "3-North" regions has been declining, accounting for 50% of overall wind capacity in 1H16 to 48% in 1H17. Reduction in curtailment should help bolster utilization hour to 2,000hr level, in our view. We expect HNR's utilization to be 2,117hr/2,125hr/2,143hr in 2017/18/19E, the highest among peers in our coverage universe.

Attractive valuation as the bright spot. HNR is now trading at 6.22x estimated P/E based on our estimate which is close to its historical low of 6.18x in Jan 2016. HNR is now trading at below-book value at 0.85x P/B based on our estimate and close to its trough at 0.50x in Aug 2012. HNR's current valuation is trading at the low-end of its historical valuation suggesting potential downside is quite limited.

TP at HK\$ 3.00; maintain BUY. Despite its moderate wind capacity growth at 6%YoY for 2017E, HNR has the highest utilization hour in our wind power coverage universe. Its current valuation also suggests a limited downside. We roll over valuation basis from 2017 to 2018 and our DCF-derived TP at HK\$3.00 (previously at HK\$3.50) implies 7.6x/6.9x 2017/18E P/E and 1.1x/0.9x 2017/18E P/B. Maintain **BUY**.

Risks: (1) Power curtailment risk; (2) Wind resources risk; (3) Tariff risk; (4) Construction risks; (5) Fundraising risk (6) China's deleveraging policies may constrain future growth.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	7,357	9,239	10,580	11,489	12,842
Chg (% YoY)	19.6	25.6	14.5	8.6	11.8
Net profit (RMB mn)	1,860	2,659	3,416	3,892	4,394
Chg (% YoY)	65.9	43.0	28.5	14.0	12.9
EPS (RMB)	0.191	0.273	0.334	0.368	0.416
Chg (% YoY)	54.3	42.9	22.4	10.2	12.9
BVPS (RMB)	1.830	2.070	2.433	2.699	3.081
Chg (% YoY)	2.8	13.1	17.6	10.9	14.2
P/E (x)	10.99	7.69	6.28	5.70	5.05
P/B (x)	1.15	1.02	0.86	0.78	0.68
ROE (%)	10.45	13.20	13.74	13.65	13.50
ROA (%)	2.25	3.11	3.84	3.98	4.12
DPS (RMB)	0.030	0.041	0.050	0.055	0.062
Yield (%)	1.43	1.95	2.39	2.63	2.97
Net gearing (%)	252.1	240.0	181.2	166.6	150.4

Source(s): Bloomberg, ABCI Securities estimates



1H17 results highlight

Huaneng Renewables (HNR) announced 1H17 results on Aug 22. Net profit was RMB 2,032mn (+12%YoY), 1.5% lower than Bloomberg consensus (4 observations), corresponding to 64%/59% of Bloomberg and our full-year estimates. Historically, 1H earnings contribute around 60% of HNR's full-year earnings. This set of results is better than market expectation but in line with our estimates

Modest wind capacity growth of 2% YoY due to strict capacity control

Like other wind power operators, HNR recorded a tepid 2% YoY growth in wind power capacity as a result of the government's recent control over capacity expansion in power curtailment regions (e.g. Inner Mongolia, northeast regions, etc.).

6%YoY wind capacity growth for 2017E; 2018E capacity growth to reach 11%YoY

HNR targets to add 0.6–0.7GW of wind capacity in 2017, implying a 6% YoY growth in overall wind capacity. However, the situation would improve as most of preliminary work has been completed, and management is confident to add 1.2GW of new capacity in 2018, implying a 11% YoY growth.

Full-year utilization hour to reach 2,000hr

HNR's wind power segment recorded a utilization hour of 1,109hr in 1H17, up 2% YoY, the highest among wind power operators in our coverage universe (Longyuan at 1,030hr, Datang Renewable at 941hr). Management attributed the improvement to supportive policy reducing curtailment rate. The Group targets to achieve a utilization hour of 2,000hr in 2017, which represents a 5% YoY increase.

Account receivable turnover rose to 233 days suggests postponed subsidy payment

Account receivable turnover increased from 183days by end-2016 to 233days in 1H17 due to postponed subsidy payment by the government. High debt level of local government would negatively affect cash flow of wind power operators.

1H17 net gearing ratio improve on new share placement in May 2017

Net gearing ratio was 197% in 1H17, down 43ppt from 240% by end-2016 due to the HK\$2.17bn new share placement announced on May 11, 2017 (8.6% share dilution). With the Group dialing down its wind capacity expansion from a high-teens to a low-teens level, we expect its gearing to maintain a downtrend.



Results summary		1H16	1H17	YoY
Income Statement				
Revenue	RMBmn	4,914	5,617	14%
Op. profit	RMBmn	2,977	3,387	14%
Net profit	RMBmn	1,807	2,032	12%
Basic EPS	RMB	0.19	0.20	10%
Ratios				
Op. margin	%	60.6%	60.3%	0ppt
Net margin	%	36.8%	36.2%	-1ppt
Net gearing/(Net cash)	%	243%	197%	-46ppt
Wind power op. data				
Installed capacity	MW	10,020	10,253	2%
Gross power generation	GWh	9,858	11,242	14%
Utilization hour	Hour	1,094	1,109	2%
Solar power op. data				
Installed capacity	MW	815	868	7%
Gross power generation	GWh	479	619	29%
Utilization hour	Hour	805	824	2%

Source(s): Company data



2018 outlook

Long term utilization hour would stay at above 2,000hr, the highest among peers

Utilization hour of wind power operators have improved in 2017 due to 1) the government's effort in tackling power curtailment; 2) recent recovery in nationwide power demand. HNR's utilization hour was 1,109hr in 1H17 (+2% YoY), the highest among wind operators in our coverage universe (Longyuan at 1,030hr; Datang Renewable at 941hr). Management is confident such figure to exceed 2,000hr in 2017 while curtailment rate would be kept under 10% in 2H17. The proportion of HNR's wind capacity in "3-North" regions has been declining, accounting for 50% of overall wind capacity in 1H16 to 48% in 1H17. Reduction in curtailment should help bolster utilization hour to 2,000hr level, in our view. We expect HNR's utilization to be 2,117hr/2,125hr/2,143hr in 2017/18/19E, the highest among peers in our coverage universe.

Modest wind capacity growth at 6% YoY in 2017E is expected; 2018E growth would recover to 11%YoY. The government's control over wind capacity in curtailment regions would negatively affect capacity growth of operators. According to management guidance, HNR is likely to add 0.6~0.7GW of new capacity in 2017, implying a moderate capacity growth at 6% YoY. HNR targets to add ~1.2GW of new wind power capacity in 2018, which should help boost HNR's capacity growth to 11% YoY in 2018. We believe future capacity growth would improve as control over capacity expansion in the red-alert regions would ease on recovering power demand. Moreover, the Group is eyeing on building new capacities in southern and eastern China.

Wind power tariff should see a downtrend in long term

We reassert our view that China's wind power tariff should maintain a downtrend because 1) the Chinese government would continue to reduce subsidies for the wind operators so that they would compete with the coal-fire operators on a cost basis; 2) A decreasing renewable energy tariff would lower financial burden of industrial enterprises. HNR's 1H17 wind power tariff dropped 2.3%YoY, and we expect another 1.9% YoY decline in 2H17. The full-year tariff should be decreased by 2.1% YoY. We believe the downtrend in wind tariff would cease once it is at a similar level to the coal-fire one (1H17: wind tariff was 9% over the coal-fire).

Accounts receivable turnover may stay at ~ 200 days

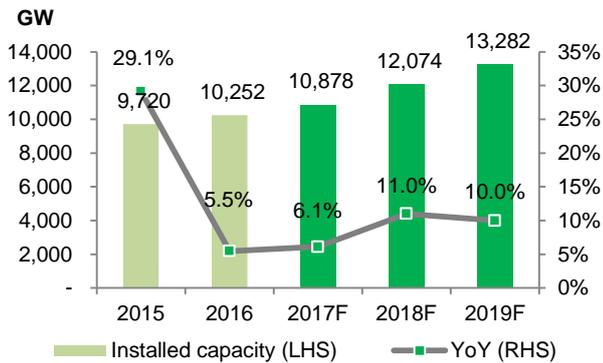
HNR's accounts receivable turnover surged from 183 days by end-2016 to 233 days in 1H17. We believe this is a result of delayed tariff subsidy payment by the local governments /State Grid, who may have prioritized financing for utilities facilities. We estimate accounts receivable turnover would stay high at ~200 days, unless new supportive policies come up or financial situation of local governments improved.

2017/18 net gearing ratio to improve to 182% and 168% respectively

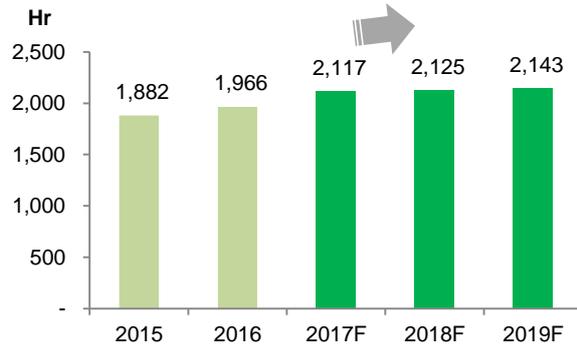
Due to the HK\$2.17bn new share placement (8.6% total share dilution), HNR's 1H17 net gearing ratio trended down from 240% by end-2016 to 197% in 1H17. With the Group dialing down its wind capacity expansion (expect to see 6%YoY and 11%YoY capacity growth in 2017E/18E with an estimated capex of RMB6bn and RMB9bn), as well as the government's intensified effort in deleveraging, we estimate net gearing ratio to be 182% and 168% for 2017E/18E.

Attractive valuation is bright spot

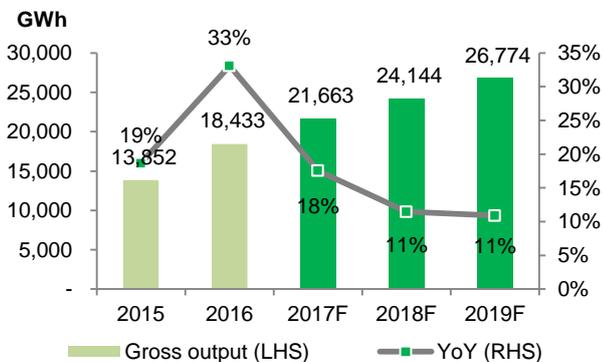
HNR is now trading at 6.22x estimated P/E based on our estimate, close to its historical low of 6.18x in Feb 2016; its current price also represents 0.85x estimated P/B based on our estimate, close to its trough at 0.50x in Aug 2012. We see HNR's current valuation is close to historical low end suggest potential downside is quite limited. HNR's current low valuation is mostly due to concern on decreasing tariff and weak capacity growth. Yet, we believe its double-digit earnings growth in next couple of years and low valuation have made it an attractive bargain play poised for a significant rebound once the industry sentiment improves. Maintain BUY.

Exhibit 1: HNR's installed wind power capacity outlook


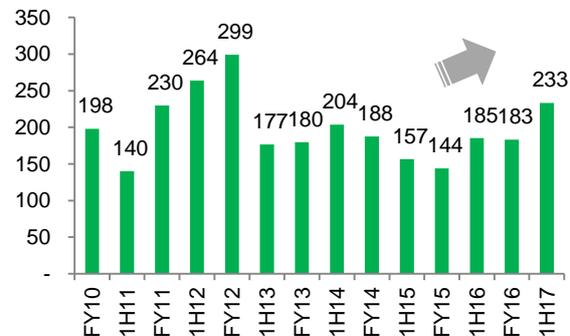
Source(s): Company, ABCI Securities estimates

Exhibit 2: HNR's long term utilization hour should exceed 2,000hr


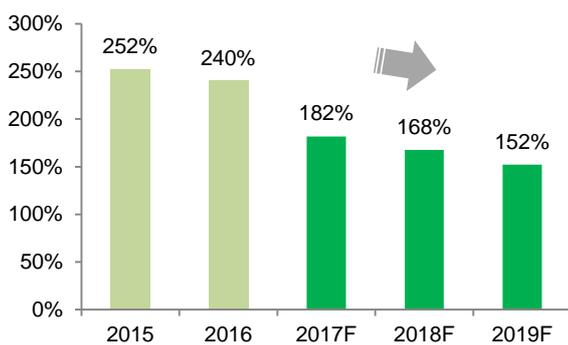
Source(s): Company, ABCI Securities estimates

Exhibit 3: HNR's wind power output should maintain double-digit growth


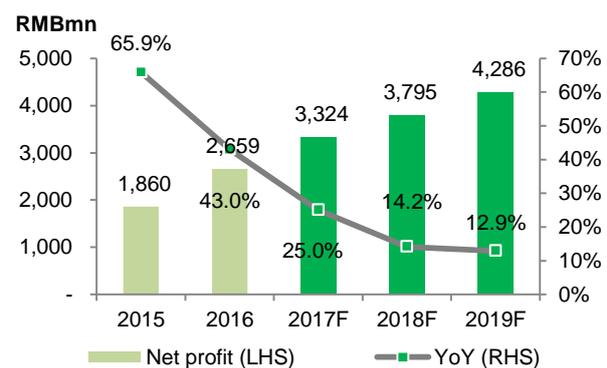
Source(s): Company, ABCI Securities estimates

Exhibit 4: HNR's recent Account Receivable Turnover Days to go up


Source(s): Company, ABCI Securities estimates

Exhibit 5: HNR's net gearing ratio to trend down


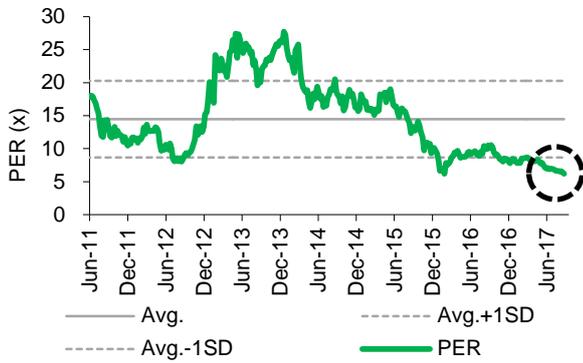
Source(s): Company, ABCI Securities estimates

Exhibit 6: HNR's future net profit growth should maintain double-digit


Source(s): Company, ABCI Securities estimates

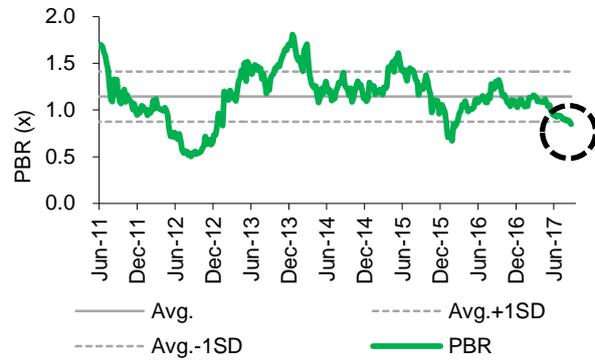


Exhibit 7: HNR's P/E is close to historical low end



Source(s): Company, Bloomberg, ABCI Securities estimates

Exhibit 8: HNR's P/B is also close to historical low end



Source(s): Company, Bloomberg, ABCI Securities estimates



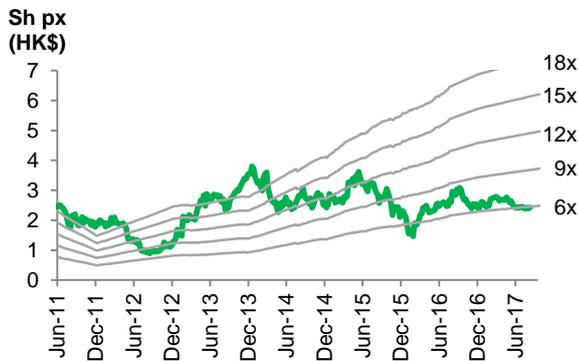
Valuation

TP at HK\$ 3.00; maintain BUY.

We see HNR's 1H17 earnings were inline with our estimate, but its wind capacity growth and tariff were below expectation we therefore lower our capacity and tariff growth assumptions and expect HNR to deliver 25%/14%YoY net profit growth in 2017/18E.

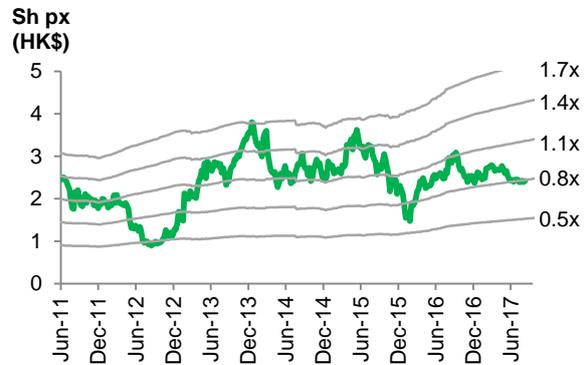
We roll over valuation basis from 2017 to 2018 and our DCF-derived TP at HK\$3.00 (previously at HK\$3.50) implies 7.6x/6.9x 2017/18E P/E and 1.1x/0.9x 2017/18E P/B. Despite HNR's capacity growth to see single-digit in 2017 and tariff to maintain a downtrend, HNR's utilization hour is likely to keep sequential improvement on the back of China government's supportive policy where should support its future earnings growth. We see HNR is likely to deliver 14% EPS 3-year CAGR during 2016-19, our new TP give only 0.6 PEG where we see is inexpensive. In addition, HNR's current valuation is close to its historical low end suggest downside is quite limit, we therefore maintain our **BUY** rating unchanged.

Exhibit 9: HNR's fwd P/E chart



Source(s): Company, ABCI Securities estimates

Exhibit 10: 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
Revenue	7,357	9,239	10,580	11,489	12,842
Wind power	6,892	8,515	9,907	10,600	11,755
Solar power	462	718	666	883	1,081
Other	3	6	6	6	6
Cost of sales	-3,214	-4,054	-4,102	-4,525	-5,022
Gross Profit	4,143	5,184	6,477	6,963	7,820
SG&A expenses	-189	-223	-264	-287	-321
Net financial income (cost)	-2,073	-1,995	-2,240	-2,129	-2,278
Other income/ (expenses)	160	-56	-123	-160	-214
Profit before tax	2,041	2,910	3,850	4,387	5,008
Tax	-141	-202	-346	-395	-501
Net profit	1,899	2,708	3,503	3,992	4,507
Profit attributable to:					
Minority interest	40	49	88	100	113
Equity shareholders of the Company	1,860	2,659	3,416	3,892	4,394
Basic EPS	0.191	0.273	0.334	0.368	0.416
DPS	0.030	0.041	0.050	0.055	0.062

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Current assets	7,652	8,696	12,097	13,189	15,081
Cash	4,504	2,570	4,093	5,598	7,299
Pledged and restricted bank deposits	27	34	0	0	0
Trade and bill receivables	2,900	4,635	6,667	6,295	6,333
Other receivables and prepayments	122	1,415	1,304	1,259	1,407
Inventories	43	33	34	37	41
Other current assets	56	8	0	0	0
Non-current assets	74,901	76,749	76,905	84,711	91,474
Property, plant & equipment	68,658	72,107	73,814	80,657	87,432
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	2,384	3,373	3,388
Total Assets	82,553	85,445	89,003	97,900	106,555
Current Liabilities	28,533	30,517	28,106	30,214	32,089
Trade and bill payables	0	0	0	0	0
Other payables	9,311	7,520	8,450	8,972	9,584
Short term borrowings	18,727	22,563	19,656	21,242	22,504
Other current assets	496	435	0	0	0
Non-current liabilities	35,395	33,933	35,098	38,130	40,762
Deferred tax liabilities	20	20	20	20	20
Long-term borrowings	30,677	28,372	29,484	31,862	33,756
Other non-current assets	4,698	5,542	5,595	6,248	6,986
Total Liabilities	63,928	64,451	63,204	68,344	72,851
Minority interests	827	857	944	1,044	1,157
Shareholders' equities	17,798	20,137	24,854	28,512	32,547

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Profit before tax	1,899	2,708	3,503	3,992	4,507
Change in depreciation and amortization	2,720	3,447	3,512	3,920	4,341
Change in Working Capital	967	-844	-743	395	678
Net financial cost (income)	2,197	2,090	2,240	2,129	2,278
Income tax paid	-126	-179	-346	-395	-501
Net interest received	141	202	0	0	0
Others	-116	-85	0	0	0
Operating cash flow	7,682	7,338	8,166	10,042	11,303
Capex	-12,644	-7,877	-5,180	-10,724	-11,077
Increase in intangible assets	0	0	-12	-12	-13
Others	130	507	52	82	112
Investing cash flow	-12,514	-7,370	-5,140	-10,655	-10,978
Net Capital raise	0	0	2,167	0	0
Net debt financing	5,285	1,312	-1,795	3,964	3,156
Dividend payout	-214	-316	-512	-584	-659
Interest paid	-2,440	-2,205	-2,133	-2,292	-2,211
Others	-853	-650	-134	125	185
Financing cash flow	1,778	-1,858	-2,408	1,213	471
Net change in cash	-3,054	-1,889	618	600	797
Cash at the beginning	6,385	3,470	2,570	4,093	5,598
Adjustment (Time deposit & FX effect)	1,173	990	905	905	905
Cash at the end	4,504	2,570	4,093	5,598	7,299

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Wind power	93.68	92.17	93.64	92.27	91.53
Solar power	6.29	7.77	6.30	7.68	8.42
Other	0.04	0.07	0.06	0.05	0.05
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	56.31	56.12	61.23	60.61	60.89
Operating profit margin	55.95	53.13	57.56	56.72	56.73
Pre-tax margin	27.74	31.49	36.39	38.19	38.99
Net profit margin	25.82	29.31	33.11	34.75	35.10
Selling & administrative expenses/revenue	2.57	2.42	2.50	2.50	2.50
Effective tax rate	6.93	6.93	9.00	9.00	10.00
Growth (%)					
Revenue	19.60	25.58	14.52	8.59	11.78
Gross profit	18.33	25.14	24.94	7.50	12.31
Operating profit	23.03	19.24	24.08	7.01	11.80
Net profit	65.61	42.59	29.37	13.96	12.89
Balance sheet ratios					
Current ratio (x)	0.27	0.28	0.43	0.44	0.47
Quick ratio (x)	0.26	0.24	0.38	0.39	0.42
Cash ratio (x)	0.16	0.09	0.15	0.19	0.23
Trade and bill receivables days	143.88	183.14	230.00	200.00	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	197.71	186.25	172.86
Net debt / equity ratio (%)	252.13	240.01	181.25	166.62	150.43
Returns (%)					
ROAA	2.4	3.2	3.9	4.2	4.3
ROAE	11.0	14.0	15.2	14.6	14.4
Payout ratio	15.69	15.00	15.00	15.00	15.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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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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