

Key data

Share price (HK\$)	1.17
Target price (HK\$)	1.32
Upside potential (%)	12.8%
52Wk H/L(HK\$)	2.28 / 0.87
Issued shares (mn)	8,446.9
H-shares (mn)	2,911.6
Domestic shares (mn)	5,535.3
Market cap (HK\$m)	2,795.1
30-day avg turnover (HK\$m)	6.08
Major shareholder (%):	
Huaneng Group	65.5

Source: Company & Bloomberg

Revenue composition in 1HFY2012 (%)

Sales of electricity	99.9%
Others	0.1%

Source: Company

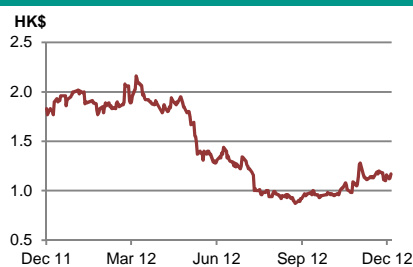
Share performance (%)

	Absolute	Relative*
1-mth	0.0	(4.8)
3-mth	20.6	7.5
6-mth	(15.2)	(28.3)

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

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Huaneng Renewable (958 HK) –Buy
Wind Power Industry

Good entry point

With a moving south strategy, we expect Huaneng RE to achieve stronger recovery in utilization hours in comparison to peers. Lower financial cost and faster release of subsidy reduces dilution risks of the group. We upgrade our rating from Hold to Buy.

Wind speed picking up in non-Three NE Provinces: According to China Electric Council, wind power generation in Oct increased 42.6% YoY and 32.0% MoM to 9,366GWh while total wind power installation grew 43% YoY to 55,894MW. Figures imply that wind power generation growth in Oct was a result of installation growth rather than a recovery in utilization hours. However, flat utilization growth is a net result of lower utilization in the Three Northeast Provinces due to power curtailment and an increase in wind speed in regions such as Shandong, Yunnan and Gansu. In our view, since all new wind power installation of Huaneng RE lie outside the NE provinces and will focus in Guangdong, Shandong, Yunnan and Guizhou, we expect the group to experience a faster recovery in utilization hours in 2013.

Better financial position as less dilution risks: The NDRC announced on 4 Dec that the Renewable Energy Tariff Subsidies for the period during Oct 2010 to Apr 2011 will have to be settled in Dec this year. Total subsidies for the period reached Rmb11.3bn, of which wind power accounts for 78% compared to 20% for biomass power and 1% for solar power. As of 30 Jun 2012, the group has trade debtors and bills receivable of Rmb2,616mn. We believe the settlement of subsidy will improve the financial position of the group. In addition, since the Ministry of Finance has centralized the management of renewable energy fund, we expect the subsidy for the period Apr 2011-2012 to be released much faster and will come in in 2013. Better cash flow position and a lower finance costs due to expected interest rate cut lower the needs for equity financing. The group has promised of no equity placement in 2-3years after IPO (10 Jun 2011).

Valuation: Rolling over to 2013 valuation, we upgrade the stock from Hold to Buy with TP at HK\$1.32, representing 8.0x 2013 PE.

Risks: High gearing; low ROAE; natural resources risks, policy risks

Forecast and valuation

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Net profit (Rmb mn)	264.4	528.3	1,023.0	745.7	1,111.3
Change (YoY)		99.8%	93.7%	-27.1%	49.0%
FD EPS (Rmb)	0.0456	0.0911	0.1211	0.0883	0.1316
Change (YoY)		99.8%	32.9%	-27.1%	49.0%
NBV (Rmb/share)	0.4454	0.9110	1.3415	1.3923	1.5107
PER (x)	-	-	7.73	10.60	7.11
PB (x)	-	-	0.70	0.67	0.62
ROAA (%)	-	2.06%	2.41%	1.37%	1.83%
ROAE (%)	-	13.43%	12.31%	6.46%	9.06%
Net D/E	389.7%	316.2%	163.2%	200.1%	244.3%

Source: Company data, Bloomberg, ABCI Securities estimate



Exhibit 1: Geographical Breakdown of Wind Consolidated Installed Capacity by 30 Jun 2012

	Longyuan MW		DR MW		HR MW	
Inner Mongolia	2,077	23.1%	2,309	42.9%	1,716	34.0%
Northeastern	2,304	25.6%	1,225	22.8%	1,099	21.8%
Central and Western	3,365	37.4%	1,079	20.0%	2,177	43.1%
Southeastern Coastline	1,249	13.9%	769	14.3%	60	1.2%
Total	8,994	100.0%	5,382	100.0%	5,052	100.0%

Source: Company reports; ABCI Securities

Exhibit 2: Finance cost ratios

	2010	2011	2012E	2013E
Longyuan	8.3%	11.7%	-	-
Datang RE	33.0%	37.7%	42.9%	37.3%
Huaneng RE	29.1%	39.4%	38.3%	29.8%
JNCEC	13.8%	14.9%	19.1%	14.1%
Huadian Fuxin	11.7%	17.7%	19.8%	18.5%

Source: Company reports; ABCI Securities

Exhibit 3: Utilization hours of major wind farm operators

	2010	2011	2012E	2013E
Longyuan	2,217	2,026	-	-
Datang RE	2,134	1,951	1,950	2,000
Huaneng RE	2,265	1,962	1,800	2,000
JNCEC	2,369	2,018	2,100	2,100
Huadian Fuxin	2,232	2,072	1,950	2,000
Industry Average	2,097	1,903	-	-

Source: Company reports; ABCI Securities



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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

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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