



Company Report

Huaneng Renewables (958 HK)

March 22, 2013

Rating: Buy
TP: HK\$2.33

Key data

| | |
|-----------------------------|-------------|
| Share price (HK\$) | 2.05 |
| Target price (HK\$) | 2.33 |
| Upside potential (%) | 13.7% |
| 52Wk H/L(HK\$) | 2.25 / 0.87 |
| Issued shares (mn) | 8,446.9 |
| H-shares (mn) | 2,911.6 |
| Domestic shares (mn) | 5,535.3 |
| Market cap (HK\$m) | 2,707.8 |
| 30-day avg turnover (HK\$m) | 44.1 |
| Major shareholder (%): | |
| Huaneng Group | 65.5 |

Source: Company & Bloomberg

Revenue composition in FY12 (%)

| | |
|----------------------|--------|
| Sales of electricity | 100.0% |
|----------------------|--------|

Source: Company

Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 1.0 | 5.2 |
| 3-mth | 65.3 | 67.4 |
| 6-mth | 107.1 | 91.8 |

*Relative to Hang Seng Index

Source: Bloomberg

1 year share price performance



Source: Bloomberg

Analyst

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Recovery in FY13

Revenue increased by 26.0% YoY to Rmb 4,026.9mn. But due to a significant decrease in CER income, NP dropped 45.5% YoY to Rmb557.9mn, which was 5.5% below consensus. The group continues to be our top pick within the wind power industry due to better geographical mix. A more significant impact will be seen in FY13 and FY14 in view of faster installation growth and increasing proportion of wind installed capacity in southern regions.

Continue improvement in geographical mix: Wind installed capacity increased by 11.3% YoY to 5,457MW, which was 8% below management guidance. Of the 553.5MW of newly installed capacity in FY12, 35.8%/17.9%/17.9% were built in Guizhou/ Guangdong/Shandong, which were regions with no curtailment problems. In FY12, the group's utilization hours achieved in these regions were 9.1%/32.9%/5.5% higher than the group's average of 1,774 hours. By the end of FY12, 31% of the group's installed capacity was located in Inner Mongolia (IM), compared to 35% in FY11. Although, none of the newly installed capacity were built in IM in FY12, geographical mix improvement was not significant in FY12 due to low installation growth, while 70% of the newly installed capacity was completed in 2HFY12. Looking forward, we expect installed capacity to increase by 18% YoY to 6,457MW in FY13 and continue improvement in geographical mix will lead to higher utilization hours, which will be reflected in FY13 and FY14 results. We assume utilizations hours to increase by 4.3% to 1,850 hrs in FY13.

Faster installation growth is expected due to lower base in 2012. Newly wind installed capacity in China dropped 26.5% YoY to 13.0GW in 2012 as government slowed down the approval of wind projects in 1H2012. However, as the 12th-five year plan of wind installed capacity reached 100GW remain unchanged, we expect a lower base in 2012 will suggest a faster growth/ approval in projects in 2013-2015. We estimate annual new installed capacity in China to reach 14-15GW in 2013-2015.

Valuation: As CER price drop to present of EUR0.16/ton from average of EUR3.0/ton in FY12, we assume there will be virtually no CER incomes in 2013 and 2014. Our DCF model with a WACC of 7.3% gives a fair value of HK\$2.33/share, representing est PB of 1.25x. Maintain Buy.

Risks: Impairment loss on CER receivables (amounted to Rmb643.4mn), policy risks, high gearing with low absolute ROAA.

Results and valuation

| (FY ended Dec 31) | FY10A | FY11A | FY12A | FY13F | FY14F |
|----------------------------|---------|---------|---------|---------|---------|
| Revenue (Rmb mn) | 1,768.5 | 3,195.9 | 4,026.9 | 4,819.4 | 5,830.4 |
| YoY Chg (%) | 92.6% | 80.7% | 26.0% | 19.7% | 21.0% |
| Net Income (Rmb mn) | 528.3 | 1,023.0 | 557.9 | 915.6 | 1,224.2 |
| YoY Chg (%) | 99.8% | 93.7% | -45.5% | 64.1% | 33.7% |
| FD EPS (Rmb) | 0.0911 | 0.1211 | 0.0661 | 0.1084 | 0.1449 |
| YoY Chg (%) | 99.8% | 32.9% | -45.4% | 64.0% | 33.7% |
| NBV (Rmb/share) | 0.9110 | 1.3415 | 1.3993 | 1.4927 | 1.6139 |
| PE (x) | - | 14.66 | 26.87 | 16.38 | 12.25 |
| PB (x) | - | 1.32 | 1.27 | 1.19 | 1.10 |
| ROAA (%) | 2.06% | 2.41% | 1.06% | 1.52% | 1.80% |
| ROAE (%) | 13.43% | 12.31% | 4.82% | 7.50% | 9.33% |
| Net D/E (%) | 316.2% | 163.2% | 209.9% | 211.6% | 224.2% |

Source: Company, ABCI Securities estimates

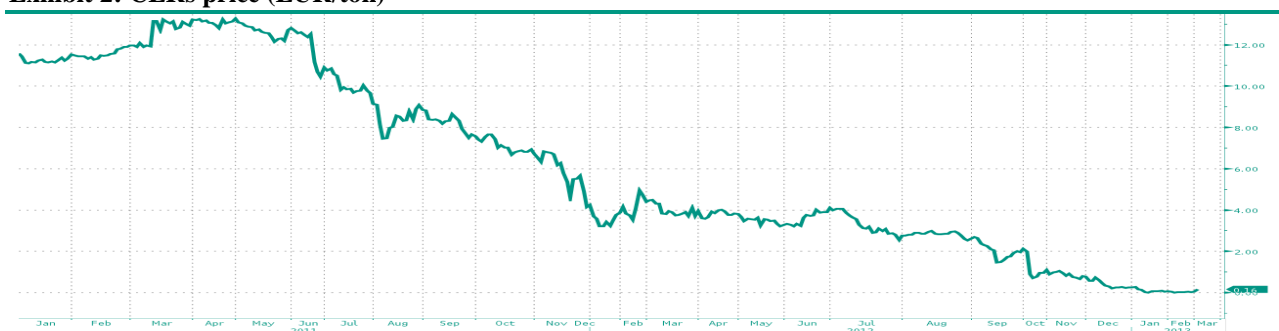


Exhibit 1: Operational statistics

| FY ended Dec 31 | Installed capacity | | YoY Growth | Breakdown | | Newly installed capacity | Break- down | Utilization hours | | YoY Growth |
|--------------------|--------------------|--------------|---------------|---------------|---------------|--------------------------------|----------------|-------------------|--------------|---------------|
| | 2011 | 2012 | 2012 | 2011 | 2012 | 2012 | 2013F | 2011 | 2012 | 2012 |
| Inner Mongolia | 1,716 | 1,716 | 0.0% | 35.0% | 31.4% | 0 | 0.0% | 1,710 | 1,135 | -33.6% |
| Liaoning | 1,049 | 1,098 | 4.7% | 21.4% | 20.1% | 50 | 8.9% | 2,104 | 1,929 | -8.3% |
| Shandong | 695 | 794 | 14.3% | 14.2% | 14.5% | 99 | 17.9% | 2,011 | 1,936 | -3.7% |
| Yunnan | 375 | 425 | 13.2% | 7.6% | 7.8% | 50 | 8.9% | 2,532 | 2,758 | 8.9% |
| Shanxi | 347 | 396 | 14.3% | 7.1% | 7.3% | 50 | 8.9% | 1,491 | 2,126 | 42.6% |
| Hebei | 249 | 249 | 0.0% | 5.1% | 4.6% | 0 | 0.0% | 1,699 | 1,952 | 14.9% |
| Guizhou | 84 | 282 | 235.7% | 1.7% | 5.2% | 198 | 35.8% | 2,343 | 2,335 | -0.3% |
| Guangdong | 173 | 272 | 57.4% | 3.5% | 5.0% | 99 | 17.9% | 2,733 | 2,359 | -13.7% |
| Xinjiang | 99 | 99 | 0.0% | 2.0% | 1.8% | 0 | 0.0% | 3,357 | 3,447 | 2.7% |
| Shanghai | 60 | 60 | 0.0% | 1.2% | 1.1% | 0 | 0.0% | 0 | 2,044 | - |
| Jilin | 50 | 50 | 0.0% | 1.0% | 0.9% | 0 | 0.0% | 0 | 2,157 | - |
| Shaanxi | 9 | 18 | 100.0% | 0.2% | 0.3% | 9 | 1.6% | 0 | 0 | - |
| Total | 4,904 | 5,457 | 11.3% | 100.0% | 100.0% | 554 | 100.0% | 1,962 | 1,774 | -9.6% |

Source: Company reports, Bloomberg

Exhibit 2: CERs price (EUR/ton)



Source: Bloomberg

Exhibit 3: Consensus

| FY ended Dec 31 (Rmbmn) | New Forecast | | Consensus | | 2012F | Difference 2013F |
|-------------------------|--------------|---------|-----------|--------|---------|---------------------|
| | 2012F | 2013F | 2012F | 2013F | | |
| Revenue | 4,819.4 | 5,830.4 | 5,451 | 6,841 | -11.59% | -14.77% |
| Adjusted EBITDA | 4,327.8 | 5,235.7 | 4,429 | 5,661 | -2.28% | -7.51% |
| Net profit | 915.6 | 1,224.2 | 1,097 | 1,498 | -16.54% | -18.27% |
| FD EPS (Rmb/share) | 0.1084 | 0.1449 | 0.1210 | 0.1700 | -10.42% | -14.74% |

Source: Bloomberg, ABCI Securities estimates

Exhibit 4: Major Assumptions

| FY ended Dec 31 | 2010 | 2011 | 2012 | 2013F | 2014F |
|---|---------|---------|---------|--------|--------|
| Consolidated installed capacity (MW) | 3,522 | 4,904 | 5,457 | 6,457 | 7,457 |
| <i>YoY growth (%)</i> | 127.3% | 39.2% | 11.3% | 18.3% | 15.5% |
| Gross power generation (GWh) | 3,789 | 6,844 | 8,402 | 10,154 | 12,044 |
| <i>YoY growth (%)</i> | 101.1% | 80.6% | 22.8% | 20.9% | 18.6% |
| Av utilization hours | 2,265.3 | 1,962.0 | 1,774.0 | 1,850 | 1,900 |
| <i>YoY growth (%)</i> | -4.2% | -13.4% | -9.6% | 4.3% | 5.6% |
| Wtg av on-grid tariff (incl VAT) (Rmb/kwh) | 0.604 | 0.596 | 0.605 | 0.617 | 0.629 |
| Wtg av on-grid tariff (excl VAT) (Rmb/kwh) | 0.516 | 0.509 | 0.517 | 0.527 | 0.538 |
| <i>YoY growth (%)</i> | -2.1% | -1.3% | 1.5% | 2.0% | 2.0% |

Source: Company, ABCI Securities estimates



Profit Forecast

| FY ended Dec 31 (Rmbmn) | 2010 | 2011 | 2012 | 2013F | 2014F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,768.5 | 3,195.9 | 4,026.9 | 4,819.4 | 5,830.4 |
| Other net income | 249.8 | 682.5 | 189.5 | 0.0 | 0.0 |
| Total income | 2,018.4 | 3,878.5 | 4,216.4 | 4,819.4 | 5,830.4 |
| Service concession construction costs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| D&A | (633.7) | (1,169.3) | (1,612.0) | (1,845.4) | (2,146.3) |
| Personnel costs | (79.2) | (118.0) | (151.0) | (173.5) | (209.9) |
| Repairs and maintenance | (27.7) | (29.9) | (50.4) | (57.8) | (70.0) |
| Admin | (96.0) | (117.8) | (126.8) | (144.6) | (174.9) |
| Other operating expenses | (47.3) | (92.1) | (103.9) | (115.7) | (139.9) |
| EBIT | 1,134.3 | 2,351.5 | 2,172.4 | 2,482.3 | 3,089.5 |
| Finance income | 22.2 | 47.8 | 98.7 | 80.0 | 80.0 |
| Finance expenses | (515.2) | (1,260.1) | (1,640.5) | (1,526.0) | (1,784.8) |
| Share of profit of a jointly controlled entity | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| EBT | 641.4 | 1,139.1 | 630.6 | 1,036.3 | 1,385.7 |
| Income tax | (32.0) | (32.3) | (29.5) | (51.8) | (69.3) |
| Profit from continuing operations | 609.4 | 1,106.8 | 601.1 | 984.5 | 1,316.4 |
| Profit from discontinued operation (net of income tax) | 0.0 | 0.0 | | 0.0 | |
| MI | 81.1 | 83.8 | 43.1 | 68.9 | 92.1 |
| NP | 528.3 | 1,023.0 | 557.9 | 915.6 | 1,224.2 |
| Adjusted EBIT | 884.5 | 1,668.9 | 1,982.8 | 2,482.3 | 3,089.5 |
| Adjusted EBITDA | 1,518.2 | 2,838.2 | 3,594.9 | 4,327.8 | 5,235.7 |
| Dividends (post-listing) | - | - | 126.7 | 201.4 | 269.3 |
| Dividends (pre-listing) | - | 316.2 | 0.0 | 0.0 | 0.0 |
| No. of issued shares at end of period (mn) | | | | | |
| Domestic shares (mn shares) | 5,800.0 | 8,446.9 | 8,446.9 | 8,446.9 | 8,446.9 |
| H-shares (mn shares) | - | 2,911.6 | 2,911.6 | 2,911.6 | 2,911.6 |
| | - | 5,535.3 | 5,535.3 | 5,535.3 | 5,535.3 |
| Per share value (Rmb) | | | | | |
| DPS (post-listing) | - | - | 0.0150 | 0.0238 | 0.0319 |
| Basic EPS | 0.0911 | 0.1211 | 0.0661 | 0.1084 | 0.1449 |
| NBV | 0.9110 | 1.3415 | 1.3993 | 1.4927 | 1.6139 |
| Net debt per share | 2.8809 | 2.1899 | 2.9375 | 3.1586 | 3.6188 |

Financial Ratio Analysis

| FY ended Dec 31 (Rmbmn) | 2010 | 2011 | 2012 | 2013F | 2014F |
|--|--------|--------|--------|--------|--------|
| Profitability | | | | | |
| Adjusted EBIT margin | 50.3% | 52.8% | 49.3% | 51.5% | 53.0% |
| Adjusted EBITDA margin | 86.3% | 89.8% | 89.3% | 89.8% | 89.8% |
| Net profit margin | 29.9% | 32.0% | 13.9% | 19.0% | 21.0% |
| ROAA | 2.06% | 2.41% | 1.06% | 1.52% | 1.80% |
| ROAE | 13.43% | 12.31% | 4.82% | 7.50% | 9.33% |
| Leverage | | | | | |
| Current ratio | 0.22 | 0.64 | 0.64 | 0.68 | 0.73 |
| Quick ratio | 0.22 | 0.64 | 0.64 | 0.68 | 0.73 |
| Interest coverage (EBITDA/ Finance cost) | 3.08 | 2.34 | 2.33 | 2.99 | 3.07 |
| Net debt/Equity | 316.2% | 163.2% | 209.9% | 211.6% | 224.2% |

Source: The group (for historical figures only), ABCI Securities estimates

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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Huaneng Renewables Corporation Limited**Balance Sheet Forecast**

| As of Dec 31 (Rmbmn) | 2010 | 2011 | 2012 | 2013F | 2014F |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| PPE | 27,802.9 | 36,956.4 | 39,859.1 | 46,613.1 | 53,082.3 |
| Lease prepayments | 65.1 | 102.2 | 121.6 | 111.1 | 108.6 |
| Intangible assets | 394.8 | 381.4 | 363.5 | 345.2 | 327.1 |
| Others | 2,702.9 | 3,916.4 | 3,808.8 | 3,808.8 | 3,808.8 |
| Total non-current assets | 30,965.7 | 41,356.4 | 44,153.0 | 50,878.1 | 57,326.8 |
| Inventories | 0.7 | 2.1 | 4.1 | 1.2 | 3.6 |
| Trade debtors and bills receivable | 959.7 | 2,010.5 | 3,302.6 | 3,299.2 | 3,090.3 |
| Prepayment and other current assets | 207.7 | 584.3 | 561.5 | 626.8 | 810.8 |
| Tax recoverable | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Restricted deposits | 0.8 | 59.5 | 209.0 | 209.0 | 209.0 |
| Cash at bank and on hand | 1,309.5 | 7,518.0 | 5,468.7 | 8,705.7 | 10,818.8 |
| Total current assets | 2,479.0 | 10,174.3 | 9,545.9 | 12,842.0 | 14,932.5 |
| Borrowings | 4,817.6 | 6,758.8 | 8,276.4 | 8,276.4 | 8,276.4 |
| Obligations under finance leases | 232.2 | 283.1 | 361.4 | 361.4 | 361.4 |
| Other payables | 6,255.2 | 8,838.9 | 6,213.6 | 10,254.9 | 11,678.1 |
| Tax payable | 6.3 | 18.0 | 30.6 | 30.6 | 30.6 |
| Total current liabilities | 11,311.3 | 15,898.8 | 14,881.9 | 18,923.3 | 20,346.5 |
| Borrowings | 13,201.3 | 19,257.1 | 22,004.8 | 27,110.0 | 33,110.0 |
| Obligations under finance leases | 1,768.4 | 2,384.1 | 2,257.0 | 2,257.0 | 2,257.0 |
| Retention payables | 761.8 | 1,546.6 | 1,572.4 | 1,572.4 | 1,572.4 |
| Deferred income | 248.7 | 257.8 | 273.3 | 273.3 | 273.3 |
| Deferred tax liabilities | 34.3 | 26.8 | 18.3 | 18.3 | 18.3 |
| Total non-current liabilities | 16,014.5 | 23,472.5 | 26,125.7 | 31,230.9 | 37,230.9 |
| Total assets | 33,444.6 | 51,530.7 | 53,698.9 | 63,720.1 | 72,259.3 |
| Net assets | 6,118.8 | 12,159.4 | 12,691.3 | 13,565.9 | 14,681.9 |
| Capital and Reserves | | | | | |
| Share capital | 5,800.0 | 8,446.9 | 8,446.9 | 8,446.9 | 8,447.9 |
| Reserves | (516.1) | 2,884.6 | 3,373.1 | 4,162.0 | 5,184.8 |
| MI | 834.9 | 827.9 | 871.3 | 957.0 | 1,049.1 |
| Total Equity | 6,118.8 | 12,159.4 | 12,691.3 | 13,565.9 | 14,681.8 |
| Net debt | 16,709.5 | 18,497.9 | 24,812.4 | 26,680.6 | 30,567.6 |
| Gross debt | 18,018.9 | 26,015.9 | 30,281.1 | 35,386.4 | 41,386.4 |

Source: The group (for historical figures only), 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

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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