



October 28, 2013
Company Report
Rating: BUY
TP: HK\$ 3.63

H-Share price (HK\$)	2.97
Est. share price return	22.22%
Est. dividend yield	1.34%
Est. total return	23.56%

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Key Data

52Wk H/L(HK\$)	3.11/0.96
Issued shares (mn)	9,029
H-Shares (mn)	3,494
Domestic (mn)	5,535
H-share Market cap	10,377
3-mth avg daily turnover (HK\$ mn)	59.88
Major shareholder(s) (%):	
Huaneng Group	61.30
% of H-share:	
JP Morgan	9.78
FIL Limited	9.76
Social Security Fund	7.58

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Sales of electricity	99.96
Others	0.04

Source(s): Company, ABCI Securities

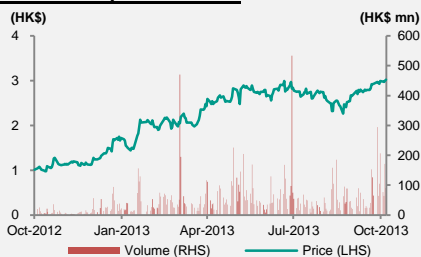
Share performance (%)

	Absolute	Relative*
1-mth	8.60	10.61
3-mth	14.77	10.65
6-mth	20.72	19.45

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

Huaneng Renewables (958 HK)

Strategic locations bear fruits

- Added capacities in strategic locations allow HN Renew to achieve the highest on-grid tariffs among peers and strongest recovery in utilization hour
- Earnings growth will be driven by installation growth and acquisition of assets from parent group. These assets, however, are mainly located in curtailment regions that may have lower returns
- The Group announced to issue 582mn shares at HK\$ 2.71 apiece on Oct 15, 2013, removing the lingering concerns of possible earnings dilution
- Based on our DCF model, we recommend BUY with TP at HK\$3.63, which represents 15.0x FY14E P/E and 1.65x FY14E P/B.

Utilization hour improves on added capacities in strategic locations. HN Renew utilization hours recovered strongly in 1H13 because of better wind resources and lower curtailment rate, which dropped to 13% in 1H13 from 24% in 1H12 as the Group's newly installed capacities were built in non-curtailment regions only since 2012. The Group has been focusing on project development in four regions, namely, Yunnan, Guangdong, Guizhou and Shandong. These projects are located in Class IV regions where the highest on-grid tariff of RMB0.61/kwh can be charged. As of end-2012, the Group's regional market shares (in terms of capacity) in the four provinces were the highest at 21.6%, 16.1%, 55.6% and 13.9%, respectively. Because of its strategic locations, the Group has achieved the highest on-grid tariffs among major peers since its listing. Its on-grid tariff in 2012 was RMB 0.6049/kwh, 3.9% higher than Longyuan and 2.0% higher than DT Renew.

Wind capacity expansion. Management confirms that its 2013 wind capacity expansion target will be 1GW and the increase will exceed 1GW for 2014. Given that the Group has missed its installation target by more than 30% in 2012, we therefore assume the Group will only add 800MW of capacity in 2013E and 1,000MW in 2014E. Management also reiterates its plan to acquire wind assets from its parent group before end-2016. We estimate that power generation of the parent's wind power projects in 1H13 amounted to ~14% of HN Renew's total gross power generation for the same period. However, these assets are mainly located in curtailment regions with tariffs lower than the HN Renew's average.

Share placement in Oct. HN Renew reiterated in Aug that it would consider external debt and equity funding in the short term. On Oct 15, the Group announced that it would issue 582mn shares at HK\$2.71 apiece, representing 6.4% of the total enlarged share capital and 16.7% of its H-share capital. We believe the overhang factor of possible earnings dilution expected is now cleared.

BUY with TP at HK\$ 3.63. Based on our DCF model with a WACC of 8.4%, we set our TP at HK\$3.63, which represents 15.0x FY14E P/E and 1.65x FY14E P/B. Recommend Buy on higher unit return and strengthening capital base to support capacity growth.

Risk factors: (1) Acquisition of parent assets; (2) Earnings dilution; (3) Policy risks.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	3,195.9	4,026.9	5,073.5	6,027.8	6,858.4
Chg (% YoY)	80.7	26.0	26.0	18.8	13.8
Net Income (RMB mn)	1,023.0	557.9	1,293.5	1,725.1	2,118.6
EBITDA (RMB mn)	2,838.2	3,594.9	4,474.8	5,292.4	6,001.1
Chg (% YoY)	86.9	26.7	24.5	18.3	13.4
EPS (RMB)	0.1211	0.0661	0.1433	0.1911	0.2346
Chg (% YoY)	32.9	-45.4	116.7	33.4	22.8
BVPS (RMB)	1.3415	1.3993	1.5740	1.7336	1.9262
Chg (% YoY)	47.25	4.31	12.48	10.14	11.11
P/E (x)	-	35.45	16.36	12.27	10.00
P/B (x)	-	1.67	1.49	1.35	1.22
ROE (%)	12.31	4.82	9.94	11.55	12.82
ROA (%)	2.41	1.06	2.34	2.90	3.29
DPS (RMB)	-	0.015	0.032	0.042	0.052
Yield (%)	-	0.64	1.34	1.79	2.20
Net gearing* (%)	152.1	195.5	170.7	161.0	156.2

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Revenue	3,195.9	4,026.9	5,073.5	6,027.8	6,858.4
Other net income	682.5	189.5	100.0	100.0	100.0
Total income	3,878.5	4,216.4	5,173.5	6,127.8	6,958.4
Service concession construction costs	0.0	0.0	0.0	0.0	0.0
D&A	(1,169.3)	(1,612.0)	(1,739.9)	(1,933.9)	(2,110.9)
Personnel costs	(118.0)	(151.0)	(152.2)	(180.8)	(205.8)
Repairs and maintenance	(29.9)	(50.4)	(40.6)	(72.3)	(102.9)
Admin	(117.8)	(126.8)	(152.2)	(180.8)	(205.8)
Other operating expenses	(92.1)	(103.9)	(253.7)	(301.4)	(342.9)
EBIT	2,351.5	2,172.4	2,834.9	3,458.5	3,990.2
Finance income	47.8	98.7	80.0	80.0	81.0
Finance expenses	(1,260.1)	(1,640.5)	(1,481.3)	(1,627.6)	(1,725.1)
Share of profit of a jointly controlled entity	0.0	0.0	0.0	0.0	0.0
EBT	1,139.1	630.6	1,433.6	1,910.9	2,346.1
Income tax	(32.3)	(29.5)	(93.2)	(124.2)	(152.5)
MI	83.8	43.1	46.9	62.5	76.8
Net profit	1,023.0	557.9	1,293.5	1,724.2	2,116.8
Adjusted EBIT	1,668.9	1,982.8	2,734.9	3,358.5	3,890.2
Adjusted EBITDA	2,838.2	3,594.9	4,474.8	5,292.4	6,001.1
Dividends	-	126.7	284.6	379.3	465.7
No. of issued shares at end of period (mn)	8,446.9	8,446.9	9,029.2	9,029.2	9,029.2
H-shares	2,911.6	2,911.6	3,493.9	3,493.9	3,493.9
Domestic shares	5,535.3	5,535.3	5,535.3	5,535.3	5,535.3
Per share value (RMB)					
FD EPS	0.1211	0.0661	0.1433	0.1911	0.2346
NBV	1.3415	1.3993	1.5740	1.7336	1.9262
DPS	-	0.0150	0.0315	0.0420	0.0516

Source(s): Company, ABCI Securities estimates

Key Ratio (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Profitability ratio (%)					
Adjusted EBITDA margin	89.81	89.30	88.20	87.80	87.50
Adjusted EBIT margin	52.81	49.26	53.91	55.72	56.72
EBT margin	29.37	14.96	27.71	31.20	33.74
Net profit margin	32.01	13.86	25.49	28.62	30.89
ROAA	2.41	1.06	2.34	2.90	3.29
ROAE	12.31	4.82	9.94	11.55	12.82
Cost ratio (%)					
Personnel/Sales	-3.0%	-3.6%	-3.0%	-3.0%	-3.0%
Repair & maintenance/Sales	-0.8%	-1.2%	-0.8%	-1.2%	-1.5%
Admin/Sales	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
Effective tax rate	-2.4%	-2.5%	-5.0%	-5.0%	-5.0%
Leverage (x)					
Current ratio	0.64	0.64	0.58	0.65	0.68
Quick ratio	0.64	0.64	0.58	0.65	0.68
Net debt/total equity (%)	152.1	195.5	170.7	161.0	156.2
Working capital cycle (days)					
Inventory turnover days	0.2	0.3	0.2	0.2	0.2
Receivables turnover days	169.6	240.8	250.0	200.0	180.0
Payables turnover days	861.9	682.2	577.8	441.0	417.8

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
PPE	36,956.4	39,859.1	43,703.7	47,332.9	50,799.4
Lease prepayments	102.2	121.6	111.1	108.6	108.6
Intangible assets	381.4	363.5	345.2	327.1	327.1
Investment in a jointly controlled entity	85.1	85.1	85.1	85.1	85.1
Other non-current assets	3,824.2	3,717.3	3,717.3	3,717.3	3,717.3
Deferred tax assets	7.1	6.4	6.4	6.4	6.4
Total non-current assets	41,356.4	44,153.0	47,968.7	51,577.4	55,043.9
Inventories	2.1	4.1	1.5	3.5	2.2
Trade debtors and bills receivable	2,010.5	3,302.6	3,647.3	2,958.5	3,806.0
Prepayment and other current assets	584.3	561.5	689.5	796.8	894.3
Tax recoverable	0.0	0.0	0.0	0.0	1.0
Restricted deposits	59.5	209.0	209.0	209.0	209.0
Cash at bank and on hand	7,518.0	5,468.7	4,523.0	6,576.7	6,534.4
Total current assets	10,174.3	9,545.9	9,070.3	10,544.5	11,446.8
Borrowings	6,758.8	8,276.4	8,276.4	8,276.4	8,276.4
Obligations under finance leases	283.1	361.4	361.4	361.4	361.4
Other payables	8,838.9	6,213.6	6,992.6	7,573.3	8,127.9
Tax payable	18.0	30.6	30.6	30.6	30.6
Total current liabilities	15,898.8	14,881.9	15,661.0	16,241.6	16,796.3
Borrowings	19,257.1	22,004.8	22,110.0	25,110.0	27,110.0
Obligations under finance leases	2,384.1	2,257.0	2,257.0	2,257.0	2,257.0
Retention payables	1,546.6	1,572.4	1,572.4	1,572.4	1,572.4
Deferred income	257.8	273.3	273.3	273.3	273.3
Deferred tax liabilities	26.8	18.3	18.3	18.3	18.3
Total non-current liabilities	23,472.5	26,125.7	26,230.9	29,230.9	31,230.9
Total assets	51,530.7	53,698.9	57,039.0	62,121.8	66,490.7
Net assets	12,159.4	12,691.3	15,147.1	16,649.3	18,463.5
Capital and Reserves					
Share capital	8,446.9	8,446.9	9,672.2	9,672.2	9,672.2
Reserves	2,884.6	3,373.1	4,539.9	5,979.5	7,717.0
MI	827.9	871.3	935.0	997.5	1,074.3
Total Equity	12,159.4	12,691.3	15,147.1	16,649.2	18,463.5
Equity to owners	11,331.5	11,820.0	14,212.1	15,651.8	17,389.2

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	3,520.7	3,784.4	4,574.8	5,392.4	6,101.1
Change in working capital	(921.0)	(618.9)	309.0	1,160.2	(389.0)
Others	(16.0)	(27.9)	80.0	80.0	81.0
Cash (used in)/generated from operations	2,583.7	3,137.7	4,963.8	6,632.6	5,793.1
Income tax paid	(21.9)	(24.7)	(93.2)	(124.6)	(152.6)
CF from operating activities	2,561.8	3,112.9	4,870.6	6,509.3	5,642.5
CAPEX	(7,699.4)	(6,579.9)	(5,493.8)	(5,542.5)	(5,575.0)
Others	(88.0)	(1,775.2)	0.0	0.0	0.0
Cash flows from investing activities	(7,787.3)	(8,355.1)	(5,493.8)	(5,542.5)	(5,575.0)
Net borrowing	7,998.2	4,263.0	105.2	3,000.0	2,000.0
Proceeds from issue of shares	5,402.7	0.0	1,225.3	0.0	0.0
Dividends paid	0.0	(316.2)	(126.7)	(284.6)	(379.3)
Interest paid	(1,315.9)	(1,857.9)	(1,481.3)	(1,627.6)	(1,725.1)
Others	(504.7)	(585.4)	(45.1)	0.0	(3.5)
Cash flows from financing activities	11,580.3	1,503.5	(322.6)	1,087.8	(108.1)
Net (decrease)/increase in cash and cash equivalents	6,354.9	(3,738.7)	(945.7)	2,053.7	(42.3)
Cash and cash equivalents at beginning of year/period	1,297.8	7,506.2	5,468.7	4,523.0	6,576.7
Effect of foreign exchange rates, net	(146.4)	0.8	0.0	0.0	0.0
Cash and cash equivalents at end of year/period	7,506.2	3,768.4	4,523.0	6,576.7	6,534.4

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 from 2007-2011

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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