農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Alternative Energy Sector

Hydropower is the Cash Cow

Nov 17, 2020

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China's Alternative Energy Sector
Hydropower is the cash cow

- We estimate China's total power output would edge up by 2%/6%YoY for 2020E/21E
- Alternative energy power output would expand by 5%/6%YoY for 2020E/21E, surpassing the growth in total power output
- Hydropower operators are cash-cow companies; nuclear power industry has enormous potential; sizable and low-cost SOEs in wind power industry should outperform the smaller players
- **NEUTRAL** sector outlook; prefer **China Yangtze Power (600900 CH)**

Sector Report
Nov 17, 2020
NEUTRAL

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China's total power output: 2%/6%YoY growth in 2020E/21E. Affected by the outbreak of COVID-19, most industrial and economic activities came to a halt in 1H20, hence reducing power demand. Output of coal-fired power was down by 0.4%YoY, since coal transportation was disrupted during the pandemic. Given coal-fired accounted for over half of the national power output (2019: 69%), we therefore expect a 2%YoY decline in total output for 2020Ebefore a rebound of 6% YoY for 2021E.

Alternative energy power output: 5%/6%YoY growth for 2020E/21E. Benefiting from strong performance of nuclear and wind power, we estimate China's 2020E full-year alternative energy output would report a 5%YoY growth, surpassing the total power output growth. In 9M20, nuclear power and wind power increased by 6.4%/14.3%YoY, suggesting the government's direction to promote alternative energy remains unchanged. For 2021E, we expect alternative energy output to rise by 6%YoY, among which nuclear/wind power output would expand by 12%/9%YoY.

Hydropower: operators are profitable. Hydropower output relies heavily on the geographic landscape. Room for expansion is constrained in China, yet existing operators are highly profitable, thanks to the low cost and limited competition.

Nuclear power: ample room to grow. Contribution of nuclear power to the overall energy output is still low; it as the potential to play a bigger role in China's sustainable development. We expect nuclear power output in China would increase by 7%/12%YoY for 2020E/21E.

Wind power: pick the large, low-cost SOEs. After the launch of subsidy-free policy in 2019, we believe wind power industry in China has entered the mature stage; capacity and output growth would moderate after 2021. We advise investors to focus on the large, low-cost SOE operators as they can adapt better to the lower tariff.

NEUTRAL sector outlook; prefer China Yangtze Power. We believe output from alternative energy would record a mid-single-digit growth in 2020E-22E, higher than growth in the national power output. We advise investors to focus on profitable players. Our sector top pick is **China Yangtze Power (600900 CH, BUY)** for it consistent cash flow and dominant position in China's hydropower market.

Risks. 1) Revenue of wind power operators may slide on tariff cut; 2) Weather conditions, more specifically, drought may reduce hydropower output; 3) Wind power curtailment may worsen and reduce utilization hour; 4) Safety issues related to nuclear power; 5) High initial investment and long construction cycle for nuclear power and hydro power may drive up net gearing of operators.

Key Data

Avg.20E P/E (x)	11.02
Avg.20E P/B (x)	1.28
Avg.20E Dvd. Yield (%)	3.00

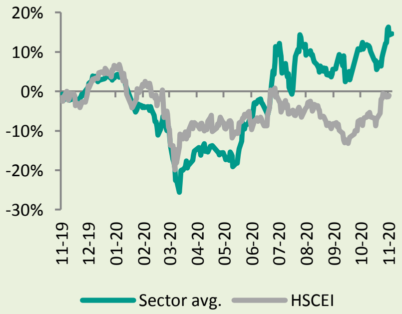
Source(s): ABCI Securities estimates

Sector Performance

	Absolute	Relative*
1-mth	1.67%	(4.62%)
3-mth	4.32%	1.61%
6-mth	37.56%	28.56%

*Relative to HSCEI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities

Sector Valuation Summary

Company	Ticker	Rating	TP (HK$/RMB)	FY20E P/E(x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield(%)	FY21E Yield(%)
China Yangtze Power	600900 CH	BUY	25.00	22.9	18.6	3.5	3.3	2.8	3.5
CGN Power - H	1816 HK	BUY	1.95	8.1	8.7	0.8	0.8	4.3	4.0
CGN Power - A	003816 CH	HOLD	2.64	12.9	13.8	1.3	1.3	2.7	2.5
Longyuan Power	916 HK	HOLD	6.30	9.1	8.3	0.8	0.8	2.2	2.4
Datang Renewable	1798 HK	SELL	1.05	6.3	6.4	0.6	0.5	2.2	2.2

Source(s): Bloomberg, ABCI Securities estimates

Alternative energy: the future of sustainable development

We believe the Chinese government would continue to promote the use of alternative energy in China for sustainable development goals.

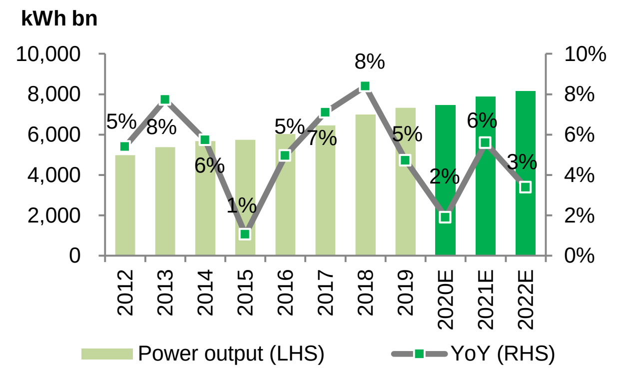
Total power output: 2%/6%YoY growth in 2020E/21E

Affected by the outbreak of COVID-19, most of the industrial and economic activities halted in 1H20. Consequently, power demand, especially that of coal-fire power. According to China Electricity Council (CEC) data, in 9M20, coal-fired power output fell 0.3% YoY, the worst 9M performance since 2013. Since coal-fired power accounted for more than 65%) of total power output (2019: 69%, we expect the national power output growth to report 2%YoY in 2020E. For 2021E, we believe coal-fired power output would rebound, driving up the country's total power output by 6%YoY.

Alternative energy power output: 5%/6%YoY growth in 2020E/21E

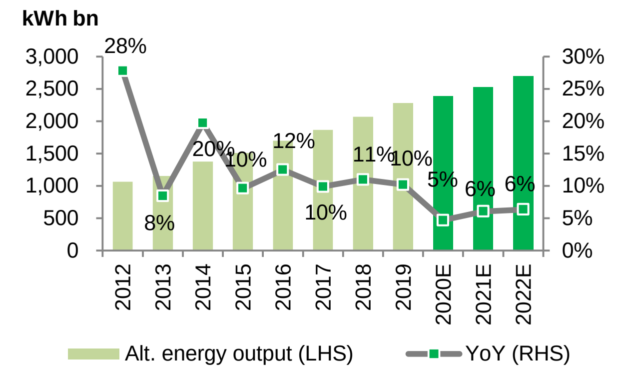
Thanks to the solid growth in nuclear power and wind power, we estimate China's 2020E full-year alternative energy output would increase by 5%YoY, surpassing the 2% estimated for total power output. In 9M20, nuclear power and wind power output increased by 6.4%/14.3% YoY. For 2021E, we expect alternative energy output would climb 6%YoY, driven by 12%/9%YoY growth in nuclear/wind power.

Exhibit 1: China total power output outlook



Source(s): NEA, CEC, ABCI Securities estimates

Exhibit 2: China's alternative energy power output outlook



Source(s): NEA, CEC, ABCI Securities estimates

Hydropower operators: the profitable cash cows

The most profitable alternative energy sub-segment in China

Hydropower has the lowest production cost among all alternative energies as the "fuel" is free. Key production cost of hydropower is depreciation. The unit cost of hydropower is ~RMB0.10/kWh (ex. VAT), lower than the RMB0.29/kWh (ex. VAT) for coal-fired, RMB0.20/kWh (ex. VAT) for nuclear, RMB0.22/kWh (ex. VAT) for wind, and RMB0.44/kWh (ex. VAT) for solar. GPM of hydropower is the highest compared to its alternative peers (60% vs. 31% peer average).

0.3%/1.0%YoY growth in hydropower output in 2020E/21E

Capacity growth of hydropower is constrained by the geographical landscape (e.g. requires hilly landscape with rivers). As most of the water resources in large rivers (e.g. Yangtze River, Yellow River etc.) have already been developed, headroom for capacity growth is limited. As such, we estimate hydropower output to inch up by 0.3%/1.0%YoY in 2020E/21E.

Hydropower operators are cash cows

Hydropower operators have a high GPM due to the low unit production cost. In addition, as hydropower tariff at RMB0.24/kWh ex. VAT, is far lower than that of the coal-fired (RMB 0.35/kWh ex. VAT), no subsidies are needed from the authorities, thereby avoiding the issue of a high account receivables (the amount in wind power and solar power operators is high due to local government's deferred subsidy payment). Without any major capacity expansion plans, hydropower operators usually enjoy a strong cash flow, rendering it a good investment target especially in times of liquidity shortage.

Nuclear power: enormous growth potential

The most feasible alternative to coal-fired power in China

In our view, nuclear power is the best alternative to coal-fired power due to its 1).high utilization hour; 2).low production cost, 3).clean nature, with no greenhouse gas being emitted in the process of generation. 4).nuclear power is less subjected to geographical constraints than hydro power, meaning that the operation has a higher scalability.

Nuclear power output remains low in the overall energy structure

We believe China's switch to alternative energy (e.g. wind, solar, and nuclear) will continue. Nuclear power accounted for only 4.2%/4.8% to China's overall power output in 2018/2019, far below the average at ~30% among developed countries. We believe the government will continue to promote the use of nuclear power.

China's nuclear power output expanded by 6.4%YoY in 9M20

According to CEC, nuclear power output reached 31.9bn kWh in Sep 2020, up 7.4% YoY. For 9M20, the figure was 270bn kWh, up 6.4%YoY. YTD growth was below the full-year growth in 2019 (18.2%YoY) mainly due to 1). economic slowdown during the COVID-19 outbreak in 1H20, 2).China is boosting the output of renewable energy (hydro, wind and solar) in order to maintain the reserves for fossil fuels and nuclear fuels.

7%/12%YoY growth in China's nuclear power output in 2020E/21E

We estimate China's nuclear power output would increase by 7% YoY only on pandemic-related disruptions. For 2021E, the government would continue to promote the use of nuclear power and we forecast output to rebound by 12%YoY.

Wind power: pick the sizable, low-cost operators

The subsidy-free policy would eliminate small players

China will cancel the subsidies for wind and solar power operators. NDRC announced in May 2019 that the government will cease subsidizing onshore wind and solar power facilities approved before end-2018 but remain unfinished by end-2020; no subsidies will be made to onshore wind power facilities approved between Jan 1, 2019 and end-2020 but remain unfinished by end-2021. Starting from Jan 1, 2021, no subsidy will be provided to newly-approved onshore wind power facilities. We believe the subsidy-free policy would lead to consolidation in the wind power industry, with small players being eliminated due to cost disadvantage.

Low-cost SOEs would be the winners

We believe low-cost operators would outperform, especially those with a state-owned background. Operators with the following characteristics would have additional advantages.

- **Low operating cost.** With no feed-in subsidies, operators with lower operating cost would have a higher free cash flow and a stronger balance sheet
- **Higher utilization hours.** Operators with higher utilization hours usually have a lower operating cost due to greater efficiency.
- **Located in higher-tier, coastal regions.** Capacity located in affluent regions with higher power demand would entail a lower default risk; power curtailment in the coastal regions is usually lower since distant transmission is not required.

We believe SOE operators would outperform the private ones because the former have 1) stronger ties with the local governments, which may facilitate approval for wind farm construction; 2) low financing cost, which reduces interest expenditure.

China's wind power output expanded by 14.3%YoY in 9M20

According to CEC, China wind power output was 30.2 bn kWh in Sep 2020, up14.7%YoY. For 9M20, wind power output was 333 bn kWh, up 14.3%YoY. YTD growth rate was ahead of 2019 full-year growth rate (10.9%YoY) because 1). operators were rushing to complete construction of projects before end-2021 before the subsidy-free policy kicks in; 2). consumption of renewable energy is prioritized.

11%/11%YoY capacity growth in 2020E/21E

The subsidy-free policy will expedite the construction of wind power facilities in 2020 and 2021 for subsidy purpose. We therefore expected wind power capacity to climb 11%YoY and 11%YoY in 2020E/21E; after that, we believe capacity growth would fall to the single-digit level.

13%/9%YoY wind power output growth in 2020E/21E

Benefiting from the strong growth in installed capacity, China's national wind power output would expand by 13%/9%YoY for 2020E/21E.

Challenges in the alternative energy sector

Safety and reliability concerns of alternative energy

We believe safety and reliability are the main issues constraining the development of alternative energy in China. Nuclear power incidents, such as the Fukushima nuclear accident in Japan in 2011, result in widespread panic; increased vigilance and scrutiny over nuclear development plans delay construction and approval for nuclear facilities. Separately, unstable wind resources, short sunshine hours, and power curtailment will affect reliability of wind and solar power generation.

Drought and poor wind resources would reduce output of hydro and wind power

Hydropower and wind power relies on natural resources such as rainfall and wind; drought or the lack of wind will adversely affect power output.

China Yangtze Power (600900 CH)
Strong capacity growth ahead

- 3Q20 adjusted net profit up 27%YoY, beat our estimates
- 22%/29%YoY growth in installed capacity and 7%/26%YoY growth in hydropower output in 2020E/21E with the completion of new hydropower plants
- Adjusted net profit to increase by 10%/24%YoY for 2020E/21E
- Maintain **BUY** with TP of RMB 25.00, which implies 22.9x/18.6x 2020/21E P/E and 3.5x/3.3x 2020/21E P/B

Company Report
Nov 17, 2020
Rating: BUY
TP: RMB 25.00

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3Q20 adjusted net profit up 27%YoY, beat our estimates. Net profit was RMB 12,348mn (+33.3%YoY); netting out changes in fair value and impairment loss, adjusted net profit would be RMB 12,098mn (+27.3%YoY) , which is ahead of its historical average of 42.3% and represents 54.6%/53.5% of Bloomberg consensus and our full-year estimate.

22%/29%YoY growth in installed capacity for 2020E/21E. Two hydropower plants, Wudongde and Baihetan, will commence commercial operation in 2020E and 2021E, adding 10.2GW and 16GW of installed capacity. The additional capacity implies 22% and 29%YoY growth in total installed capacity for 2020E and 2021E.

7%/26%YoY growth in hydropower output. We expected 225bn kWh (+7% YoY) and 285bn kWh (+26% YoY) in 2020E/21E hydropower output on the completion of new plants. Growth rate for 2020E is lower was mainly due to 1).reduced power demand on COVID-19 2). Wudongde power plant was only completed in Sep 2020.

Adjusted net profit to increase by 10%/24%YoY for 2020E/21E. We expect adjusted net profit to grow by 10%YoY on reduced power demand in 1H caused by the pandemic. For 2021E, we expect the figure to jump 24%YoY, thanks to the commencement of new power plants.

TP at RMB 25.00; maintain BUY. Our DCF-derived TP at RMB 25.00 (previously at RMB 20.00) implied 22.9x/18.6x 2020E/21E P/E and 3.5x/3.3x 2020E/21E P/B. CYP will continue to benefit from hydropower's low generation cost and clean nature; its two new power plants will be the earnings growth driver. Maintain **BUY**.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	51,214	49,874	53,349	67,313	78,652
Chg (%,YoY)	*2.1*	*-2.6*	*7.0*	*26.2*	*16.8*
*Adj. net profit (RMB mn)	23,235	21,908	23,990	29,626	34,506
Chg (%,YoY)	*0.6*	*-5.7*	*9.5*	*23.5*	*16.5*
Adj. EPS (RMB)	1.056	0.996	1.090	1.347	1.568
Chg (%,YoY)	*0.6*	*-5.7*	*9.5*	*23.5*	*16.5*
BVPS (RMB)	6.464	6.796	7.176	7.647	8.196
Chg (%,YoY)	*5.3*	*5.1*	*5.6*	*6.6*	*7.2*
P/E (x)	23.67	25.11	22.93	18.57	15.94
P/B (x)	3.87	3.68	3.48	3.27	3.05
ROAE (%)	16.31	14.77	15.61	18.17	19.80
ROAA (%)	7.60	7.28	7.23	7.52	7.59
DPS (RMB)	0.680	0.680	0.709	0.875	1.019
Yield (%)	2.72	2.72	2.84	3.50	4.08
**Net gearing (%)	52.0	60.2	88.2	102.4	119.4

* Adj. net profit = net profit excluded impairment loss, fair value change and other non-operating profit and loss
** Net gearing=Net debt/Total equity;
Source(s): Bloomberg, ABCI Securities estimates

Share price (RMB)	20.0
Est. share price return	25.1%
Est. dividend yield	3.6%
Est. total return	28.7%
Previous Rating	BUY
Previous Report Date	May 7, 2020

Source(s): ABCI Securities estimates

Key Data

52Wk H/L (RMB)	21.0/16.0
Issued shares (mn)	22,000
Market cap (RMB mn)	440,000
3-mth avg daily turnover (RMB mn)	425
Major shareholder(s):	
Three Gorges Corp.	62.3%

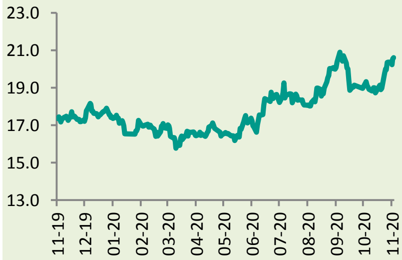
Source(s): Company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	5.66	5.34
3-mth	9.54	12.56
6-mth	21.58	5.18

*Relative to SHCOMP
Source(s): Bloomberg, ABCI Securities

1-Year share price performance RMB)



Source(s): Bloomberg, ABCI Securities

3Q20 results highlight

3Q20 adjusted net profit up 27%YoY, beat our estimates

Net profit was RMB 12,348mn (+33.3%YoY); netting out changes in fair value and impairment loss, adjusted net profit would be RMB 12,098mn (+27.3%YoY) , which is ahead of its historical average of 42.3% and represents 54.6%/53.5% of Bloomberg consensus and our full-year estimate.

21.7%YoY growth in hydropower gross output on greater water resources

Gross power output was up 21.7% YoY to 91.1 bn kWh in 3Q20 due to greater water resources during the period. Three Gorges dam and Luoxidu dam reported strong 38.4%/16.4%YoY growth in power output where contributed 51.6% and 28.6% of total power output in 3Q20.

3.5%YoY decrease in net financial expense

CYP reported RMB1.286bn in net finance expense in 3Q20, 3.5% lower than RMB 1.332bn in 3Q19. We believe a decreased financial burden would help the Group perform better in the future

Net gearing ratio improve to 56% from 60% by end-2019

CYP reported net gearing ratio at 56% in 9M20, down 4ppt from 60% at end-2019 and 81% at end-1H20. Improved net gearing ratio attribute to strong earnings growth during 3Q ease debt pressure.

2020/21 outlook

22%/29%YoY growth in installed capacity for 2020E/21E

Two hydropower plants, Wudongde and Baihetan, will commence commercial operation in 2020E and 2021E, which should bring 10.2GW and 16GW new installed capacity to CYP, implying 22% and 29%YoY growth in 2020E and 2021E respectively.

7%/26%YoY growth in hydropower output

We expect CYP's 2020E/21E hydropower output to be 225bn kWh (+7% YoY) and 285bn kWh (+26% YoY) on the completion of new plants. Growth rate for 2020E is lower was mainly due to 1).reduced power demand on COVID-19 2). Wudongde power plant was only completed in Sep 2020.

Utilization hour to drop 12.5%/1.8%YoY in 2020E/21E; 17%YoY rebound in 2022E

In 1H20, utilization hour was down 6.2% YoY on poor water resources and pandemic outbreak but is still better than our forecast. We estimate CYP's 2020E full-year utilization hour to be 4,046hrs (-12.5%YoY) due to the pandemic in 1H and new power plant commencement. For 2021E, the Baihetan power plant will drag down the overall utilization hour further by 1.8%YoY as it enters into operation. The figure, however, would rebound by 17% YoY in 2022E as economic activities fully resume and utilization hour of new plants ramp up

Net gearing ratio to trend up on CAPEX

We expect net gearing ratio to be 88%/102% in 2020E and 2021E due to the construction of two new power plants. The situation should improve later on as contribution from the new plants improves cash flow.

Adjusted net profit to increase by 10%/24%YoY for 2020E/21E

We expect a mild growth in adjusted net profit growth at 10%YoY due to the reduced power demand in 1H20 on economic disruption. For 2021E, we expect the figure to jump 24%YoY on commencement of new power plants.

TP at RMB 25.00; maintain BUY

We revise up our 2021E and 2022E utilization hour by 3%/4% on post-COVID economic resumption and the government's push for alternative energy. Our new adjusted net profit forecasts were up

9%/12% for 2021E/22E. Our DCF-derived TP at RMB 25.00 (previously at RMB 20.00) implies 22.9x/18.6x 2020E/21E P/E and 3.5x/3.3x 2020E/21E P/B. CYP will continue to benefit from hydropower's low generation cost and clean nature; its two new power plants will be its earnings growth engine. Maintain **BUY**.

Exhibit 3: Changes in estimates

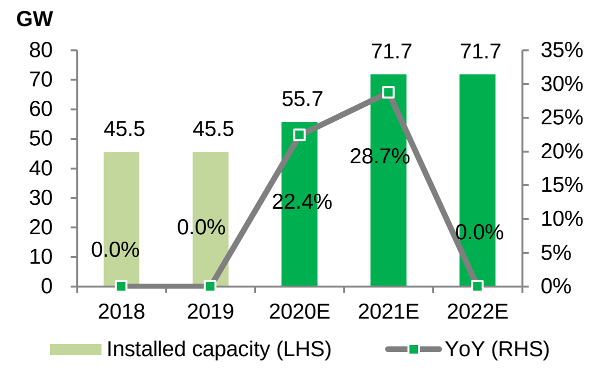
	Units	Old estimates		New estimates		Change		Main reasons
		2021E	2022E	2021E	2022E	2021E	2022E	
Adj. NP	RMBmn	27,130	30,951	29,626	34,506	9.2%	11.5%	Increased utilization hour in 2021/22E boosts earnings
EPS	RMB	1.23	1.41	1.35	1.57	9.2%	11.5%	Increased utilization hour in 2021/22E boosts earnings
Valuation	RMBmn	440,000		550,000		25.0%		Increase in 2021E/22E earnings boost valuation
TP	RMB	20.00		25.00		25.0%		Increase in 2021E/22E earnings boost valuation

Source(s): ABCI Securities estimates

Risk factors

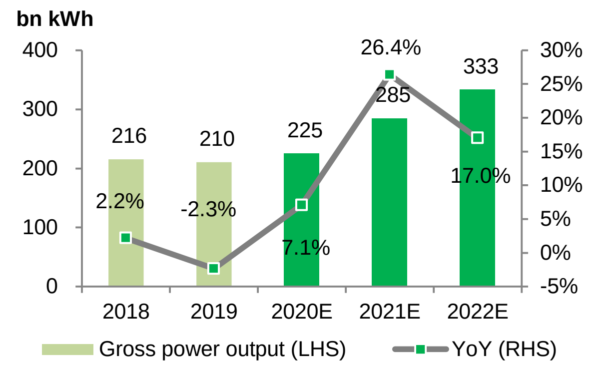
(1) Widespread drought would affect power output; (2) Construction risk; (3) High net gearing ratio prompts concern on fundraising activities; (4) Operation risk; (5) Policy risk

Exhibit 4: CYP's hydropower capacity outlook



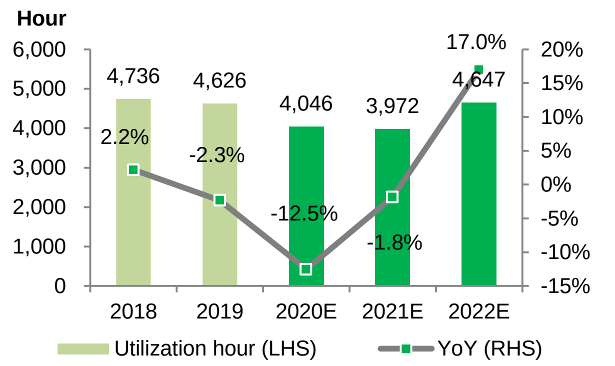
Source(s): Company, ABCI Securities estimates

Exhibit 5: CYP's gross hydropower output



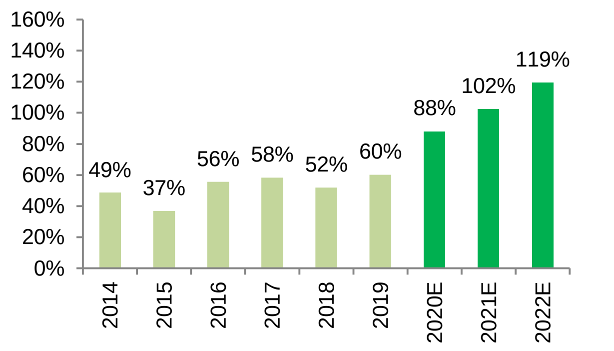
Source(s): Company, ABCI Securities estimates

Exhibit 6: CYP's utilization hour



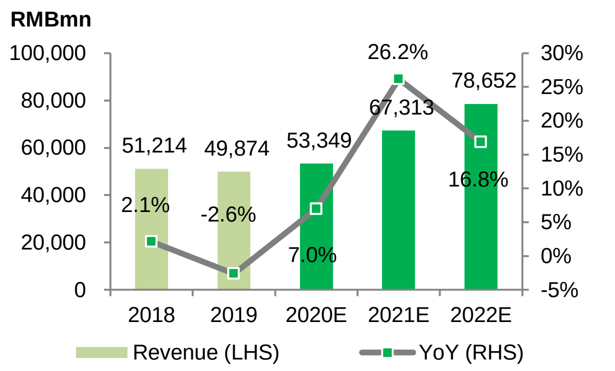
Source(s): Company, ABCI Securities estimates

Exhibit 7: CYP's net gearing ratio



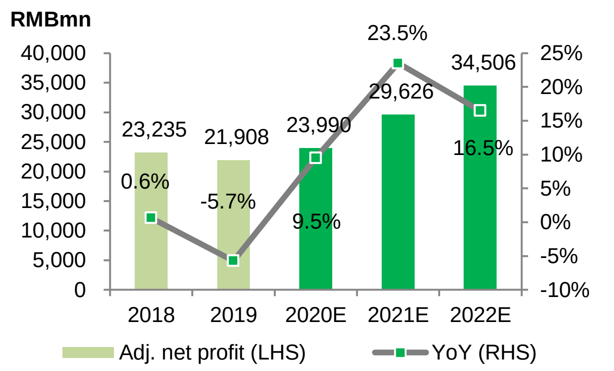
Source(s): Company, ABCI Securities estimates

Exhibit 8: CYP's revenue outlook



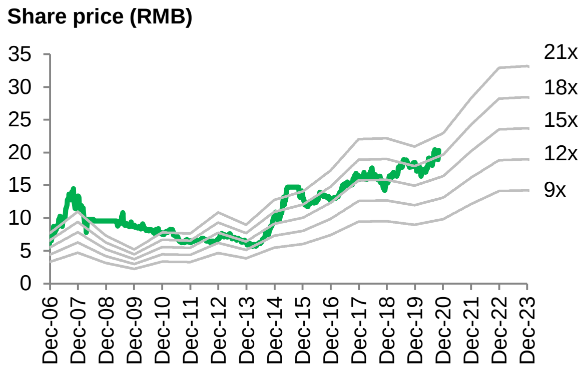
Source(s): Company, ABCI Securities estimates

Exhibit 9: CYP's adjusted net profit outlook



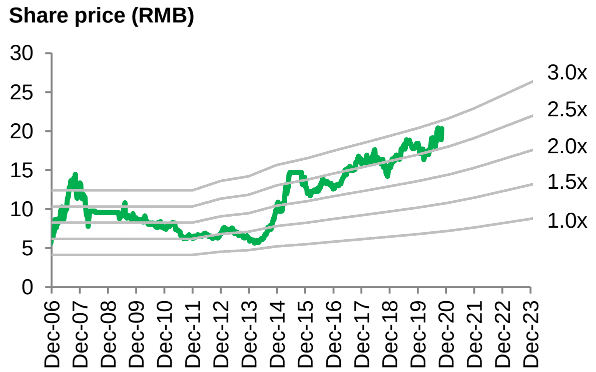
Source(s): Company, ABCI Securities estimates

Exhibit 10: CYP's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 11: CYP's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	**51,214**	**49,874**	**53,349**	**67,313**	**78,652**
Hydro power	51,137	49,659	53,113	67,053	78,366
Other	76	215	236	260	286
Cost of sales	**(20,294)**	**(19,866)**	**(21,816)**	**(25,487)**	**(29,454)**
Gross Profit	**30,920**	**30,008**	**31,534**	**41,826**	**49,197**
SG&A expenses	(868)	(882)	(987)	(1,198)	(1,400)
Net financial income (cost)	(5,846)	(5,211)	(4,790)	(7,455)	(9,176)
Other income/ (expenses)	2,809	2,712	4,009	4,046	4,727
Profit before tax	**27,015**	**26,627**	**29,766**	**37,219**	**43,349**
Tax	(4,364)	(5,060)	(5,656)	(7,444)	(8,670)
Profit after tax	**22,651**	**21,567**	**24,110**	**29,775**	**34,679**
Profit attributable to:					
Minority interest	33	24	121	149	173
Equity shareholders of the Co.	**22,611**	**21,543**	**23,990**	**29,626**	**34,506**
Adj. equity shareholders of the Co.	**23,235**	**21,908**	**23,990**	**29,626**	**34,506**
Basic EPS (RMB)	**1.028**	**0.979**	**1.090**	**1.347**	**1.568**
Adj. basic EPS (RMB)	**1.056**	**0.996**	**1.090**	**1.347**	**1.568**
DPS (RMB)	**0.680**	**0.680**	**0.709**	**0.875**	**1.019**

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	**9,485**	**11,035**	**17,178**	**20,093**	**24,566**
Cash	5,337	7,323	12,662	14,122	18,633
Trade and bill receivables	2,630	2,947	3,192	4,554	4,497
Other receivables and prepayments	90	83	93	121	124
Inventories	219	222	231	296	313
Other current assets	1,209	460	1,000	1,000	1,000
Non-current assets	**286,012**	**285,448**	**349,610**	**401,434**	**463,031**
Property, plant & equipment	237,912	226,292	251,632	275,582	316,021
Intangible assets	181	191	207	224	240
Investment in JV and associates	21,487	40,258	60,149	81,033	102,962
Deferred tax assets	344	369	380	380	380
Other non-current assets	26,088	18,337	37,241	44,215	43,428
Total Assets	**295,497**	**296,483**	**366,787**	**421,527**	**487,597**
Current Liabilities	**56,827**	**55,959**	**82,770**	**105,787**	**135,810**
Trade and bill payables	146	106	121	143	162
Other payables	21,695	23,278	27,484	33,439	33,894
Short term borrowings	19,196	29,307	51,994	68,781	97,562
Other current assets	15,790	3,268	3,170	3,425	4,192
Non-current liabilities	**95,985**	**90,508**	**125,521**	**146,725**	**170,521**
Deferred tax liabilities	1,080	875	1,000	1,000	1,000
Long-term borrowings	60,266	68,395	100,394	118,409	137,424
Other non-current assets	34,639	21,239	24,127	27,316	32,098
Total Liabilities	**152,812**	**146,467**	**208,290**	**252,512**	**306,332**
Minority interests	481	506	626	775	949
Shareholders' equities	**142,203**	**149,510**	**157,870**	**168,240**	**180,317**

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	**22,611**	**21,543**	**23,990**	**29,626**	**34,506**
Change in depreciation and amortization	12,209	12,038	13,435	14,832	16,897
Change in Working Capital	(5,344)	(23,939)	6,208	7,965	6,061
Income tax paid	(14,959)	(14,968)	(14,960)	(15,593)	(19,257)
Others	25,220	41,791	1,856	4,762	6,030
Operating cash flow	**39,737**	**36,464**	**30,529**	**41,592**	**44,236**
CAPEX	(14,587)	(17,321)	(20,169)	(21,177)	(22,236)
Increase in intangible assets	0	0	(32)	(34)	(36)
Others	(6,107)	(3,915)	(36,603)	(35,746)	(54,535)
Investing cash flow	**(20,694)**	**(21,236)**	**(56,804)**	**(56,957)**	**(76,807)**
Net Capital raise	0	0	0	0	0
Net debt financing	(60)	5,419	51,856	37,304	63,958
Dividend payout	(14,959)	(14,968)	(14,960)	(15,593)	(19,257)
Others	(3,985)	(3,719)	(5,283)	(4,885)	(7,619)
Financing cash flow	**(19,005)**	**(13,269)**	**31,614**	**16,826**	**37,082**
Net change in cash	**37**	**1,959**	**5,339**	**1,460**	**4,511**
Cash at the beginning	5,201	5,337	7,323	12,662	14,122
Adjustment (Time deposit & FX effect)	98	27	0	0	0
Cash at the end	**5,337**	**7,323**	**12,662**	**14,122**	**18,633**

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Hydro power	99.85	99.57	99.56	99.61	99.64
Other	0.15	0.43	0.44	0.39	0.36
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	60.37	60.17	59.11	62.14	62.55
Operating profit margin	62.54	60.40	59.27	62.37	62.78
Pre-tax margin	52.75	53.39	55.79	55.29	55.11
Net profit margin	44.23	43.24	45.19	44.23	44.09
Selling & administrative expenses/revenue	1.70	1.77	1.85	1.78	1.78
Effective tax rate	16.15	19.00	19.00	20.00	20.00
Growth (%)					
Revenue	2.13	(2.62)	6.97	26.17	16.85
Gross profit	4.33	(2.95)	5.08	32.64	17.62
Operating profit	(0.65)	(5.94)	4.97	32.76	17.62
Net profit	1.69	(4.78)	11.79	23.50	16.47
Balance sheet ratios					
Current ratio (x)	0.17	0.20	0.21	0.19	0.18
Trade and bill receivables days	21.10	20.41	21.00	21.00	21.00
Trade and bill payables turnover days	3.21	2.46	2.00	2.00	2.00
Inventory turnover days	4.57	4.31	4.00	4.00	4.00
Total debt / equity ratio (%)	55.69	65.13	96.15	110.75	129.64
Net debt / equity ratio (%)	51.95	60.25	88.16	102.40	119.36
Returns (%)					
ROAA	7.60	7.28	7.23	7.52	7.59
ROAE	16.31	14.77	15.61	18.17	19.80
Payout ratio	66.20	69.44	65.00	65.00	65.00

Source(s): Company, ABCI Securities estimates

CGN Power (1816 HK / 003816 CH) Indispensable for China's sustainable growth

- 3Q20 adjusted net profit was down 9%YoY, inline with our estimate
- Contribution of nuclear power in the overall energy structure remains low
- Adjusted net profit growth would be low in 2020E/21E; 10%YoY growth in 2022E
- Maintain **BUY** on CGN-H with revised TP of HK$ 1.95
- Downgrade to **HOLD** on CGN-A with TP of RMB 2.64

Company Report

Nov 17, 2020

Rating (H): BUY
Rating (A): HOLD
TP (H): HK$ 1.95
TP (A): RMB 2.64

Analyst : Kelvin Ng
Tel: (852) 2147 8869
kelvinng@abci.com.hk

3Q20 adjusted net profit was down 9%YoY, inline with our estimate. Net profit was RMB 2,979mn, (-9.0%YoY); netting out changes in fair value and other impairment gains, adjusted net profit would be RMB 2,979mn (-9.4%YoY), representing 31%/29% of Bloomberg consensus/our estimates, Historically, 3Q contributes to ~29.5% of full-year net profit. The results beat market expectation but were in-line with our forecast.

Nuclear power's contribution is still low in the overall energy structure. As of end-2019, nuclear power output accounted for 4.8% of overall power output in China, far below the 68.9% from coal-fired and 17.8% from hydropower. In developed countries, this figure was at ~30%. As an industry leader, CGN can benefit from the enormous expansion opportunity. .

Adjusted net profit growth to rebound by 10%YoY in 2022E. Affected by COVID-19, nationwide coal-fired power output dropped due to difficulty in transportation of coal which is likely to boost nuclear power output, we therefore expect CGN's nuclear power output to grow 8% and boosting its adjusted net profit growth by 4%YoY for 2020E despite no capacity growth during the period. For 2021E, despite Hongyanhe Unit 5 to commence operation, we believe its power output contribution is quite limited and rising financial cost may erode earnings where we expect 7%YoY decline during the period. The case may turn positive in 2022E as Fangchenggang Unit 3 and Unit 4 to commence operation where may help boosting adjusted net profit to report 10%YoY growth.

H-share TP at HK$1.95; maintain BUY. As the industry leader and the only listed nuclear power operator in the H-share market, we believe CGN would benefit immensely from the rise of nuclear power in China. We roll over our valuation to 2021 and our TP, which is derived from DCF, arrives at HK$ 1.95 (previously at HK$ 2.20), implying 8.1x/8.7x 2020/21E P/E and 0.84x/0.79x 2020/21E P/B.

A-share TP at RMB2.64; downgrade to HOLD. Our TP for CGN-A was at RMB 2.64 (RMB 3.30 previously), which implies 12.9x/13.8x 2020/21E P/E and 1.33x/1.25x 2020/21E P/B based on our estimate.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	50,828	60,875	65,563	66,019	70,914
Chg (%,YoY)	*11.4*	*19.8*	*7.7*	*0.7*	*7.4*
*Adj. net profit (RMB mn)	8,913	9,955	10,363	9,677	10,680
Chg (%,YoY)	*7.6*	*11.7*	*4.1*	*-6.6*	*10.4*
Adj. EPS (RMB)	0.196	0.211	0.205	0.192	0.211
Chg (%,YoY)	*7.5*	*8.1*	*-2.9*	*-6.6*	*10.4*
BVPS (RMB)	1.561	1.907	1.985	2.110	2.247
Chg (%,YoY)	*8.9*	*22.2*	*4.1*	*6.3*	*6.5*
**Net Gearing (%)	183.4	143.0	125.2	108.4	94.0
P/E (x) –H shr	8.52	7.88	8.12	8.70	7.88
P/E (x) –A shr	13.51	12.51	12.88	13.80	12.50
P/B (x)–H shr	1.07	0.87	0.84	0.79	0.74
P/B (x) –A shr	1.69	1.39	1.33	1.25	1.18
ROAE (%)	12.76	11.76	10.90	9.36	9.71
ROAA (%)	2.41	2.50	2.62	2.43	2.67
DPS (HK$)	0.072	0.081	0.072	0.067	0.074
Yield (%) - H shr	4.31	4.89	4.31	4.03	4.44
Yield (%) - A shr	2.72	3.08	2.72	2.54	2.80

* Adj. net profit = net profit excluded impairment loss, fair value change and other non-operating profit and loss
** Net gearing=Net debt/Total equity;
Source(s): Bloomberg, ABCI Securities estimates

Price (H/A shr)	HK$ 1.68/ RMB 2.73
Est. price return (H/A shr)	16.1%/(3.3%)
Est. dividend yield (H/A shr)	5.0%/2.6%
Est. total return (H/A shr)	21.1%/(0.7%)
Last Rating &TP (H/A shr)	BUY, HK$ 2.2 BUY, RMB 3.3
Previous Report Date	Apr 20, 2020

Source(s): ABCI Securities estimates

Key Data

52Wk H/L (HK$) (H shr)	2.1/1.5
52Wk H/L (RMB) (A shr)	3.8/2.7
Total issued shares (mn)	50,499
Issued H shr (mn)	11,164
Issued A shr (mn)	2,525
Unlisted shr (mn)	36,810
H-shr market cap (HK$ mn)	18,756
A-shr market cap (RMB mn)	6,893
3-mth avg daily turnover (HK$ mn) (H shr)	38.4
3-mth avg daily turnover (RMB mn) (A shr)	164.9
Major shareholder(s) :	
CGNPC	64.2%

Source(s): Bloomberg, ABCI Securities

Share Performance H-Share (%)

	Absolute	Relative*
1-mth	1.20	(5.49)
3-mth	(1.18)	(2.65)
6-mth	0.48	(8.29)

*Relative to HSCEI
Source(s): Bloomberg, ABCI Securities

Share Performance A-Share (%)

	Absolute	Relative*
1-mth	(5.86)	(6.94)
3-mth	(11.65)	(11.28)
6-mth	(2.29)	(29.44)

*Relative to SZCOMP
Source(s): Bloomberg, ABCI Securities

3Q20 results highlight

3Q20 adjusted net profit was down 9%YoY, inline with our estimate

Net profit was RMB 2,979mn, (-9.0%YoY); netting out changes in fair value and other impairment gains, adjusted net profit would be RMB 2,979mn (-9.4%YoY), representing 31%/29% of Bloomberg consensus/our estimates, Historically, 3Q contributes to ~29.5% of full-year net profit. The results beat market expectation but were in-line with our forecast.

2%YoY growth in nuclear power output in 3Q20

10%YoY growth in Ningde power plants (contributed 18% of total power output in 3Q20) has outweigh the 16%YoY decline in Taishan power plants (contributed 7% of total power output in 3Q20) where pushed CGN's overall nuclear power output to report 2%YoY growth during the period.

Net gearing ratio further improves to 123% in 9M20 due to strong operating cash flow

Net gearing ratio decreased from 143% by end-2019 to 139% in 1H20 and further to 123% in 9M20, mainly due to the A-share listing in 2019 and better operating cash flow reported at RMB25.1bn in 9M20, as compared to RMB24.6bn in 9M19.

2020/21 outlook

Nuclear's contribution is still low in the overall energy structure

According to CEC, as of end-2019, nuclear power output accounted for 4.8% of overall power output in China, far below the 68.9% from coal-fired and 17.8% from hydropower. In advanced countries, this figure was ~30%. As an industry leader, CGN can benefit from the enormous expansion opportunity. Nuclear's contribution is still low in the overall energy structure.

Positive free cash flow to persist

CGN reported a negative free cash flow during 2013-16 due to the surging CAPEX for power plant expansion. Free cash flow has turned positive since 2017. With the completion of facility construction and additional contribution from the new plants, we believe CGN's free cash flow will stay positive - a long-term positive for the Group.

Net gearing ratio to trend down in 2020-22E

Since most of CGN's projects have already entered the final construction stage, we believe CAPEX is unlikely to increase significantly in the next few years. We therefore expect net gearing ratios to trend down to 125%/108%/94% for 2020E/21E/22E.

No growth in installed capacity for 2020E; 4.1%/11.1%YoY capacity growth in 2021E/22E

According to the Group's construction schedule, no new power plants will be completed in 2020. Hongyanhe Unit 5 is expected to be completed in 2021, and Fangchenggang Unit 3 and Unit 4 are expected to be completed in 2022, adding 1.1GW and 2GW of new installed capacity to the total and representing 4.1%/ 11.1%YoY growth respectively.

Key concern: increase in finance cost would drag earnings

In 1H20, CGN reported a net finance expense of RMB 4,314mn, up 25% YoY. Finance cost rate was at 4.18% (annualized), higher than 1H19 level (annualized at 3.22%). We believe any potential liquidity shortage in the future would add to CGN's financial burden.

Adjusted net profit growth would be low in 2020E/21E; 10%YoY growth in 2022E

Affected by COVID-19, nationwide coal-fired power output dropped due to difficulty in transportation of coal which is likely to boost nuclear power output, we therefore expect CGN's nuclear power output to grow 8% and boosting its adjusted net profit growth by 4%YoY for 2020E despite no capacity growth during the period. For 2021E, despite Hongyanhe Unit 5 to commence operation, we believe its power output contribution is quite limited and rising financial cost may erode earnings where we expect

7%YoY decline during the period. The case may turn positive in 2022E as Fangchenggang Unit 3 and Unit 4 to commence operation where may help boosting adjusted net profit to report 10%YoY growth.

H-share (1816 HK) TP at HK$ 1.95; maintain BUY

We roll over our valuation to 2021E and our TP, which is derived from DCF, is HK$ 1.95 (previously at HK$ 2.20), implying 8.1x/8.7x 2020/21E P/E and 0.84x/0.79x 2020/21E P/B. Despite the earnings decline estimated for 2021E, we still view CGN as the top pick in the nuclear power sector because of 1). its leading position in the oligopolistic industry (only three companies are allowed to operate nuclear power plants in China); 2). the inevitable trend in China to substitute coal-fired power with alternative energy for sustainable economic development.

A-share (003816 CH) TP at RMB 2.64; downgrade to HOLD

Our TP for CGN-A was at RMB 2.64 (previous at RMB 3.30), which implies 12.9x/13.8x 2020/21E P/E and 1.33x/1.25x 2020/21E P/B based on our estimate.

Unlike H-share, CGN's A-share is trading at 14.1x 2021E P/E and has a 17% premium over its closest peer, China National Nuclear Power (CNNP, 601985 CH, NR). We believe the valuation of CGN-H is more attractive.

Exhibit 12: Changes in estimates

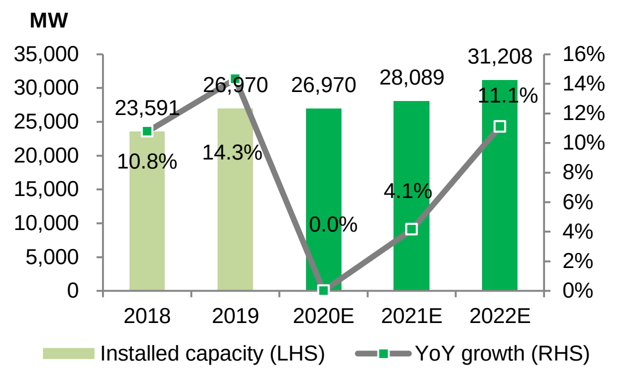
	Units	Old estimates		New estimates		Change		Main reasons
		2021E	2022E	2021E	2022E	2021E	2022E	
Adj. NP	RMBmn	10,316	11,160	9,677	10,680	-6.2%	-4.3%	Increased finance expense lowers earnings growth
Adj. EPS	RMB	0.20	0.22	0.19	0.21	-6.2%	-4.3%	Increased finance expense lowers earnings growth
Valuation - H	RMBmn	100,918		84,140		-16.6%		Decrease in 2021E/22E earnings lowers valuation
Valuation - A	RMBmn	166,648		133,488		-19.9%		Decrease in 2021E/22E earnings lowers valuation
TP – H	HK$	2.20		1.95		-11.4%		Decrease in 2021E/22E earnings lowers valuation
TP – A	RMB	3.30		2.64		-19.9%		Decrease in 2021E/22E earnings lowers valuation

Source(s): ABCI Securities estimates

Risk factors

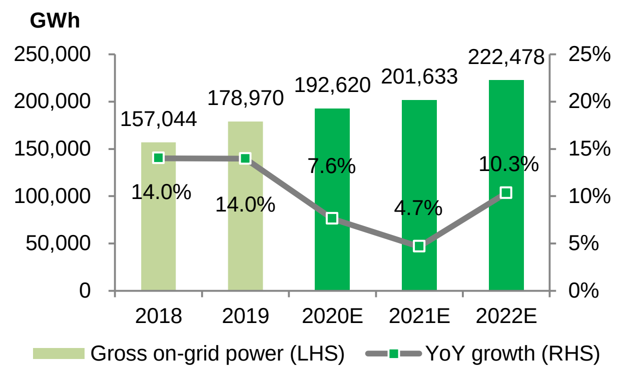
(1) Operation safety; (2) Slower-than-expect construction progress; (3) Fuel cost risk; (4) Currency and interest rate risks; (5) Fundraising activities to finance upcoming M&A

Exhibit 13: CGN's installed capacity outlook



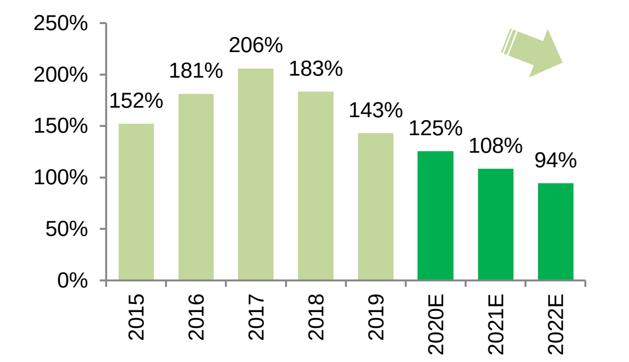
Source(s): Company, ABCI Securities estimates

Exhibit 14: CGN's nuclear power output outlook



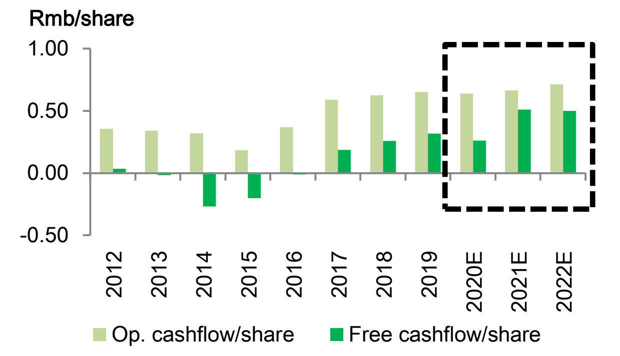
Source(s): Company, ABCI Securities estimates

Exhibit 15: CGN's net gearing ratio will trend down



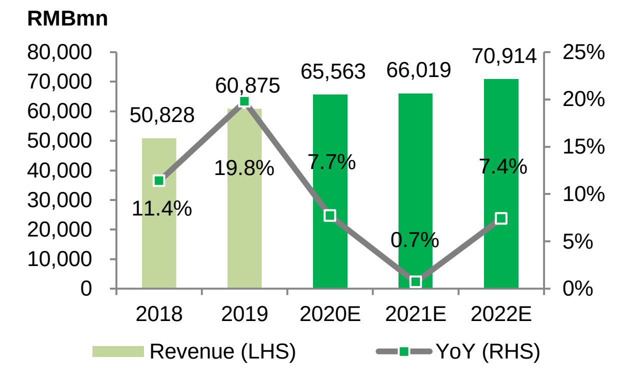
Source(s): Company, ABCI Securities estimates

Exhibit 16 CGN's free cash flow will stay positive



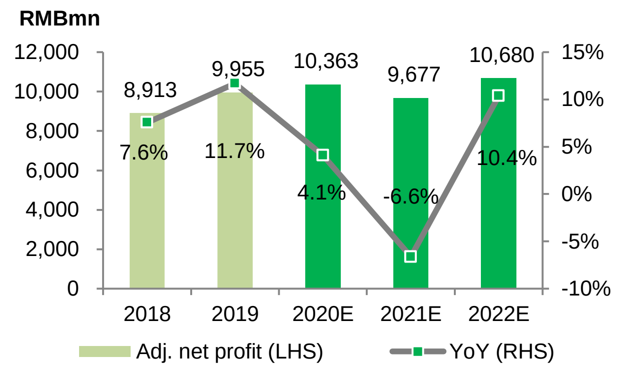
Source(s): Company, ABCI Securities estimates

Exhibit 17: CGN's revenue outlook



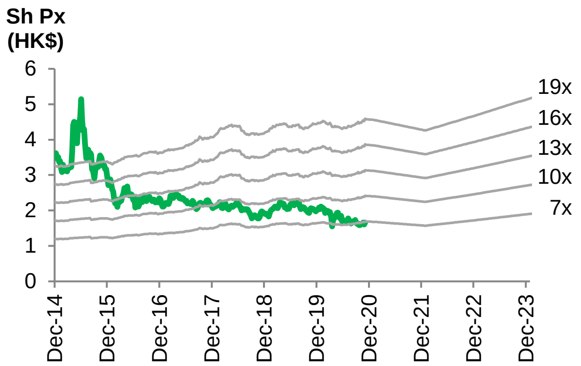
Source(s): Company, ABCI Securities estimates

Exhibit 18: CGN's adjusted net profit outlook



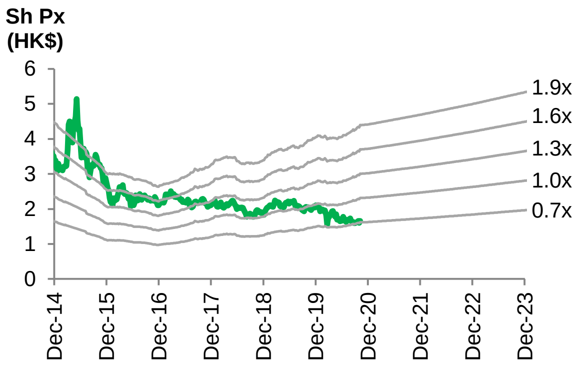
Source(s): Company, ABCI Securities estimates

Exhibit 19: CGN-H's fwd P/E chart



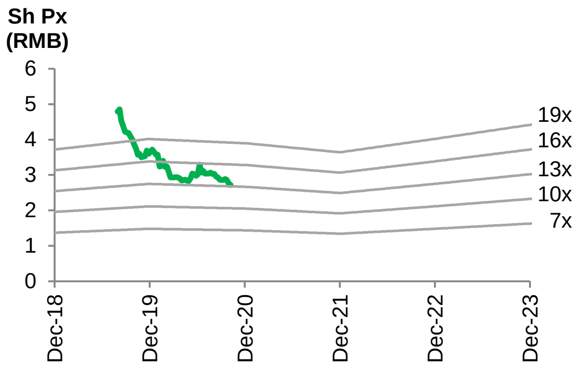
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 20: CGN-H's fwd P/B chart



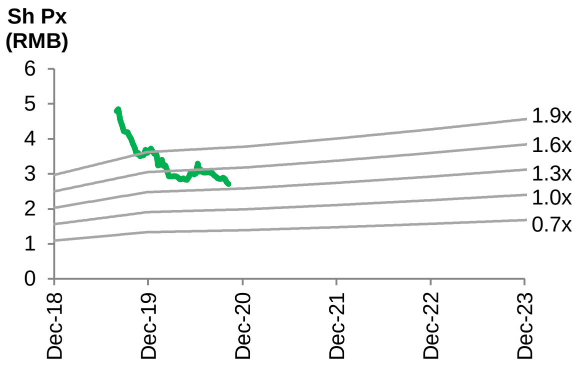
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 21: CGN-A's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 22: CGN-A's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	**50,828**	**60,875**	**65,563**	**66,019**	**70,914**
Electricity	46,072	52,783	56,045	55,550	59,397
Service revenue	3,179	6,164	7,396	8,136	8,950
Other	856	1,028	1,131	1,244	1,368
Cost of sales	**(29,137)**	**(36,171)**	**(39,472)**	**(40,173)**	**(43,185)**
Gross Profit	**21,691**	**24,704**	**26,091**	**25,847**	**27,728**
SG&A expenses	(2,465)	(2,658)	(2,675)	(2,694)	(2,893)
Net financial income (cost)	(5,689)	(7,020)	(8,227)	(9,479)	(9,823)
Other income/ (expenses)	1,362	1,529	3,031	3,339	3,765
Profit before tax	**14,899**	**16,555**	**18,220**	**17,014**	**18,778**
Tax	(1,218)	(1,770)	(2,277)	(2,127)	(2,347)
Profit after tax	**13,682**	**14,785**	**15,942**	**14,887**	**16,431**
Profit attributable to:					
Minority interest	4,979	5,320	5,580	5,210	5,751
Equity shareholders of the Co.	**8,703**	**9,466**	**10,363**	**9,677**	**10,680**
Adj. equity shareholders of the Co.	**8,913**	**9,955**	**10,363**	**9,677**	**10,680**
Basic EPS (RMB)	**0.191**	**0.201**	**0.205**	**0.192**	**0.211**
Adj. basic EPS (RMB)	**0.196**	**0.211**	**0.205**	**0.192**	**0.211**
DPS (RMB)	**0.072**	**0.081**	**0.072**	**0.067**	**0.074**

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	**55,388**	**61,923**	**64,370**	**57,797**	**69,124**
Cash	15,208	19,572	24,312	22,450	23,444
Pledged and restricted bank deposits	0	0	0	0	0
Trade and bill receivables	6,649	8,153	8,013	8,266	9,220
Other receivables and prepayments	6,037	9,345	13,647	8,058	15,256
Inventories	21,372	18,371	18,398	19,023	21,204
Other current assets	6,122	6,483	0	0	0
Non-current assets	**313,168**	**326,052**	**339,281**	**336,321**	**336,179**
Property, plant & equipment	210,850	256,955	264,750	260,984	259,837
Investment properties	210	184	184	184	184
Intangible assets	5,139	6,401	4,861	4,920	4,972
Investment in JV and associates	10,203	11,199	12,460	14,017	15,867
Deferred tax assets	1,775	1,904	1,904	1,904	1,904
Other non-current assets	84,990	49,409	55,122	54,312	53,415
Total Assets	**368,556**	**387,975**	**403,651**	**394,117**	**405,303**
Current Liabilities	**60,625**	**67,018**	**51,493**	**43,895**	**51,952**
Trade and bill payables	18,247	22,602	24,981	19,044	28,283
Other payables	6,819	7,426	1,457	1,457	1,457
Short term borrowings	34,589	36,172	25,055	23,395	22,213
Other current assets	970	817	0	0	0
Non-current liabilities	**194,805**	**185,663**	**198,985**	**185,548**	**175,985**
Deferred tax liabilities	1,177	1,217	1,217	1,217	1,217
Long-term borrowings	188,128	176,847	190,983	177,547	167,984
Other non-current assets	5,500	7,599	6,784	6,784	6,784
Total Liabilities	**255,430**	**252,681**	**250,478**	**229,443**	**227,937**
Minority interests	42,011	45,492	52,910	58,121	63,871
Shareholders' equities	**71,115**	**89,802**	**100,264**	**106,553**	**113,495**

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	**14,899**	**16,555**	**18,220**	**17,014**	**18,778**
Change in depreciation and amortization	9,194	10,155	11,712	11,994	12,372
Change in Working Capital	575	4,777	(2,930)	(1,225)	(1,095)
Income tax paid	(1,444)	(1,218)	(1,770)	(2,277)	(2,127)
Others	5,185	330	6,966	7,922	7,972
Operating cash flow	**28,410**	**30,599**	**32,198**	**33,427**	**35,900**
CAPEX	(16,631)	(15,653)	(19,000)	(7,684)	(10,644)
Increase in intangible assets	(354)	(547)	(574)	(603)	(633)
Others	602	1,563	294	243	225
Investing cash flow	**(16,382)**	**(14,637)**	**(19,281)**	**(8,044)**	**(11,053)**
Net Capital raise	0	12,574	0	0	0
Net debt financing	4,877	(9,132)	3,020	(15,097)	(10,745)
Dividend payout	(5,998)	(7,477)	(3,838)	(3,627)	(3,387)
Others	(9,789)	(8,788)	(7,359)	(8,521)	(9,722)
Financing cash flow	**(10,910)**	**(12,823)**	**(8,177)**	**(27,245)**	**(23,854)**
Net change in cash	**1,118**	**3,139**	**4,740**	**(1,862)**	**993**
Cash at the beginning	12,387	15,208	19,572	24,312	22,450
Adjustment (Time deposit & FX effect)	1,704	1,225	0	0	0
Cash at the end	**15,208**	**19,572**	**24,312**	**22,450**	**23,444**

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Electricity	90.64	86.71	85.48	84.14	83.76
Service revenue	6.25	10.13	11.28	12.32	12.62
Other	3.10	3.17	3.24	3.53	3.62
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	42.68	40.58	39.80	39.15	39.10
Operating profit margin	38.90	37.73	38.42	37.77	37.72
Pre-tax margin	29.31	27.20	27.79	25.77	26.48
Net profit margin	26.92	24.29	24.32	22.55	23.17
Selling & administrative expenses/revenue	4.85	4.37	4.08	4.08	4.08
Effective tax rate	8.17	10.69	12.50	12.50	12.50
Growth (%)					
Revenue	11.38	19.77	7.70	0.70	7.41
Gross profit	9.44	13.89	5.61	(0.94)	7.28
Operating profit	8.71	16.17	9.66	(0.99)	7.27
Net profit	7.52	8.07	7.83	(6.62)	10.37
Balance sheet ratios					
Current ratio (x)	0.91	0.92	1.25	1.32	1.33
Quick ratio (x)	0.36	0.41	0.63	0.70	0.63
Cash ratio (x)	0.25	0.29	0.47	0.51	0.45
Trade and bill receivables days	47.03	44.38	45.00	45.00	45.00
Trade and bill payables turnover days	222.93	206.10	220.00	200.00	200.00
Inventory turnover days	257.50	200.52	170.00	170.00	170.00
Total debt / equity ratio (%)	313.18	237.21	215.47	188.58	167.58
Net debt / equity ratio (%)	183.43	142.98	125.17	108.39	94.02
Returns (%)					
ROAA	2.41	2.50	2.62	2.43	2.67
ROAE	12.76	11.76	10.90	9.36	9.71
Payout ratio	37.60	40.55	35.00	35.00	35.00

Source(s): Company, ABCI Securities estimates

Longyuan Power (916 HK)
High account receivables a concern

- 3Q20 earnings up 84%YoY, beating consensus and our estimates
- 9%/8%YoY growth in wind power capacity for 2020E/21E
- High account receivables is a concern
- Adjusted net profit growth of 10%/10%YoY for 2020E/21E
- Maintain **HOLD** with TP of HK$ 6.30, implying 9.1x/8.3x 2020E/21E P/E and 0.84x/0.77x 2020E/21E P/B

Company Report
Nov 17, 2020
Rating: HOLD
TP: HK$ 6.30

Analyst : Kelvin Ng
Tel: (852) 2147 8869
kelvinng@abci.com.hk

3Q20 earnings up 84%YoY, beating consensus and our estimates. Net profit was RMB 544mn (+84%YoY), achieved 11.5%/12.5% of Bloomberg and our 2020E full-year estimates, running ahead of average historical run rate of 9.1%.

9%/8%YoY growth in wind power capacity for 2020E/21E. As China's wind power industry will enter the subsidy-free era (new wind power capacity to be completed after 2021 will not enjoy any subsidies by the government), we believe the Group's installed capacity in 2020/21 will expand by 9%/8%YoY in 2020/21, higher than the average in 2017-19 (4.9%). Capacity growth would maintain at a mid-single-digit level after 2021.

Key concern: delayed payment drive up account receivables. Under the subsidy-free policy by the government, facilities completed before 2021 would be eligible for subsidized tariff (with RMB0.1/kWh subsidy). Most of Longyuan's existing facilities were completed before 2021 – this means that over 90% of its facilities will be entitled to the subsided tariff. Financial health of the local governments will affect their ability to pay, and deferred payment will drive up Longyuan's account receivables.

Adjusted net profit growth of 10%/10%YoY in 2020E/21E. We believe Longyuan would benefit from 9%/8%YoY capacity growth in 2020E/21E on the back of the impending subsidy-free policy and higher utilization hour. We expect adjusted net profit (excl. one-off impairment loss impact) would be up by 10%/10%YoY for the same period.

TP at HK$ 6.30; maintain HOLD. Our DCF-derived TP at HK$ 6.30 (previously at HK$ 4.10) implies 9.1x/8.3x 2020E/21E P/E and 0.84x/0.77x 2020E/21E P/B. We like Longyuan's leading position in China's wind power industry, though high account receivables and high gearing would remain the key concerns. Maintain **HOLD**.

Share price (HK$)	6.39
Est. share price return	(1.4%)
Est. dividend yield	2.2%
Est. total return	0.8%
Previous Rating	HOLD
Previous Report Date	Apr 20, 2020

Source(s): ABCI Securities estimates

Key Data

52Wk H/L(HK$)	6.6/3.4
Issued shares (mn)	8,036
Issued H-shares (mn)	3,340
Market cap (HK$ mn)	51,353
H-share Market cap (HK$ mn)	21,343
3-mth avg daily turnover(HK$ mn)	73
Major shareholder(s) (%):	
CHN Energy	57.3%

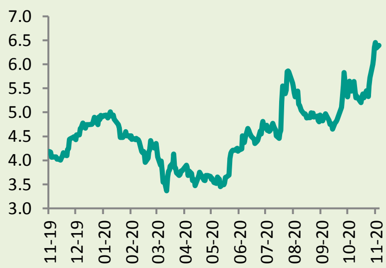
Source(s): Company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	17.46	10.77
3-mth	23.60	22.13
6-mth	81.59	72.82

*Relative to HSCEI
Source(s): Bloomberg, ABCI Securities

1-Year share price performance (HK$)



Source(s): Bloomberg, ABCI Securities

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	26,388	27,541	28,507	30,536	32,295
Chg (%,YoY)	*7.3*	*4.4*	*3.5*	*7.1*	*5.8*
*Adj. net profit (RMB mn)	4,438	4,328	4,746	5,240	5,694
Chg (%,YoY)	*17.0*	*-2.5*	*9.7*	*10.4*	*8.7*
Adj. EPS (RMB)	0.552	0.539	0.591	0.652	0.709
Chg (%,YoY)	*17.0*	*-2.5*	*9.7*	*10.4*	*8.7*
BVPS (RMB)	5.506	5.965	6.437	6.959	7.526
Chg (%,YoY)	*7.6*	*8.3*	*7.9*	*8.1*	*8.1*
P/E (x)	9.75	10.00	9.11	8.25	7.60
P/B (x)	0.98	0.90	0.84	0.77	0.72
ROAE (%)	9.19	9.38	9.52	9.74	9.78
ROAA (%)	2.69	2.85	2.89	2.97	3.13
DPS (RMB)	0.098	0.108	0.118	0.130	0.142
Yield (%)	1.82	2.00	2.19	2.42	2.63
**Net gearing (%)	127.0	122.7	125.1	124.3	113.8

* Adj. net profit = net profit excluded impairment loss, fair value change and other non-operating profit and loss
** Net gearing=Net debt/Total equity;
Source(s): Bloomberg, ABCI Securities estimates

3Q20 results highlight

Adjusted net profit edged up 84%YoY, beating consensus and our estimates

3Q20 adjusted net profit was RMB 544mn (+84%YoY), achieved 11.5%/12.5% of Bloomberg and our 2020E full-year estimates, running ahead of average historical run rate of 9.1%.

9%YoY increase in wind power output in 3Q

Longyuan reported 8,376 GWh wind power output in 3Q20, 9% higher than 7,717 GWh in 3Q19, which was key driver to boost earnings growth.

Net gearing improves

Longyuan's net gearing ratio was 101% in 9M20, improved from 125% in 1H20 and 123% by end-2019. We believe the deleveraging campaign in China would be positive to Longyuan in the long run.

2020 /21 outlook

Wind power industry to enter the mature stage; future capacity and power output growth will slow

China's wind power capacity and output expanded at 28%/31% CAGRs during 2009-19. Due to the subsidized tariffs, however, financial burden of the local governments also increased. As the subsidy-free policy commences in 2021, we believe the wind power industry would enter the maturity stage in which both capacity and output growth would moderate.

9%/8%YoY growth in wind power capacity for 2020E/21E

As China's wind power industry will enter the subsidy-free era (new wind power capacity to be completed after 2021 will not enjoy any subsidies by the government), we believe the Group's installed capacity in 2020/21 will expand by 9%/8%YoY in 2020/21, higher than the average in 2017-19 (4.9%). Capacity growth would maintain at a mid-single-digit level after 2021.

Utilization hour to stay high at 2,186/2,203hrs for 2020E/21E

Longyuan reported a 1%YoY growth in utilization hour in 1H20. As economic activities resume in 2H20 and coal-fired power plants ramp up utilization, we believe 2H20 utilization hour would rebound and full-year utilization hour would be 2,186hr (similar with 2019's 2,189 hrs). For 2021E, we expect a 0.8% increment YoY to 2,203hrs.

Adjusted net profit growth of 10%/10%YoY in 2020E/21E

We believe capacity would expand by 9%/8%YoY in 2020/21E and adjusted net profit (excl. one-off impairment loss impact) would be up by 10%/10%YoY.

Net gearing ratio to trend down

After the rapid capacity expansion in 2020 and 2021, we believe the pace will decrease to 5%YoY in 2022E. As such, net gearing would trend down in from 125% in 2020E to 114% in 2022E.

Key concern: delayed payment drive up account receivables

Under the subsidy-free policy by the government, facilities completed before 2021 would be eligible for subsidized tariff (with RMB0.1/kWh subsidy). Most of Longyuan's existing facilities were completed before 2021 – this means that over 90% of its facilities will be entitled to the subsided tariff. Financial health of the local governments will affect their ability to pay, and deferred payment will drive up Longyuan's account receivables.

TP at HK$ 6.30; maintain HOLD

We revised up our 2020E/21E/22E utilization hour assumptions by 5%/3%/1% respectively as Longyuan's 1H20 utilization hour performance was better-than-expected and implementation of "Subsidy-free tariff" policy would screen out low-competiveness operators in the industry which would help lifting Longyuan's future utilization hour. For tariff assumptions, Longyuan's 1H20 tariff grew 1%YoY which is also better-than-expected, we therefore revise up 2020E/21E/22E assumption by 1.2%/1.6%/1.8%. Our new adjusted net profit forecasts therefore revised up by 9%/15%/15% for 2020E/21E/22E.

Our DCF-derived TP at HK$ 6.30 (previously at HK$ 4.10) implies 9.1x/8.3x 2020E/21E P/E and 0.84x/0.77x 2020E/21E P/B. Longyuan, as a leader in China's wind power industry, will benefit from sector consolidation catalyzed by the subsidy-free policy. Nonetheless, high account receivables and net gearing ratio would remain the key concerns. Maintain **HOLD**.

Exhibit 23: Changes in estimates

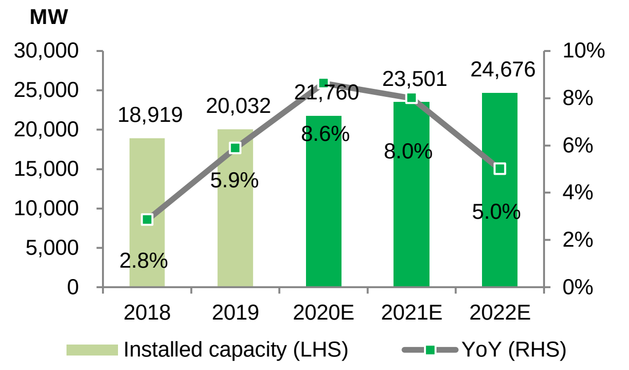
	Units	Old estimates		New estimates		Change		Main reasons
		2021E	2022E	2021E	2022E	2021E	2022E	
Adj. NP	RMBmn	4,363	4,566	5,240	5,694	14.8%	15.4%	Increased utilization hours in 2021/22E boost earnings growth
Adj. EPS	RMB	0.54	0.57	0.65	0.71	14.8%	15.4%	Increased utilization hours in 2021/22E boost earnings growth
Valuation	RMBmn	29,929		43,257		44.5%		Increased 2021E/22E earnings boost valuation
TP	HK$	4.10		6.30		53.7%		Increased 2021E/22E earnings boost valuation

Source(s): ABCI Securities estimates

Risk factors

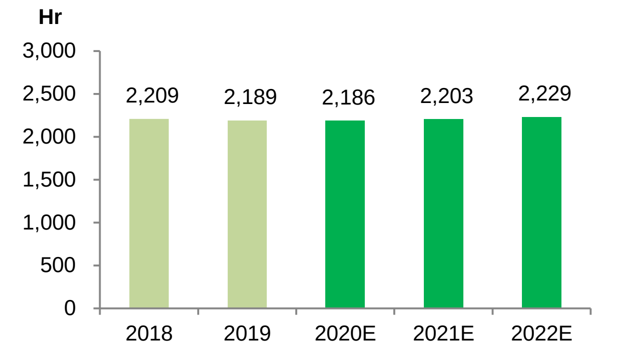
(1) Power curtailment risk; (2) Wind resources risk; (3) Construction risks; (4) Fundraising risk; (5) Government policy to deleverage may constrain growth. (6) High account receivables

Exhibit 24: Longyuan's wind power installed capacity outlook



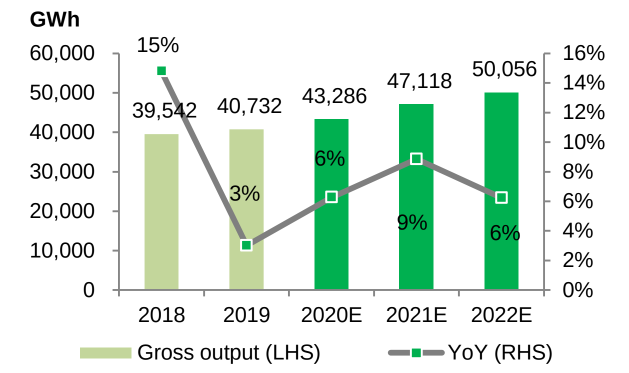
Source(s): Company, ABCI Securities estimates

Exhibit 25: Longyuan's utilization hour outlook



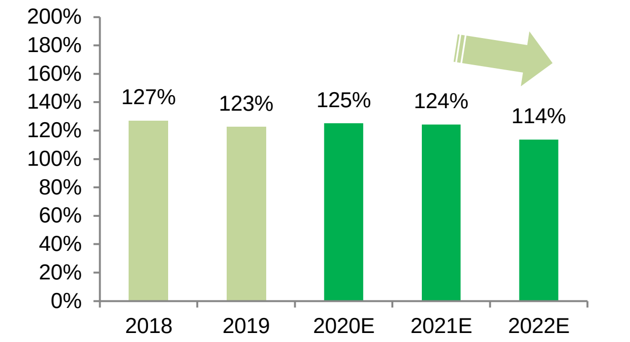
Source(s): Company, ABCI Securities estimates

Exhibit 26: Longyuan's wind power output outlook



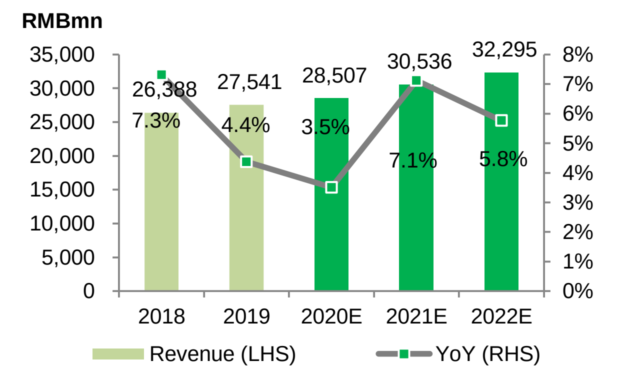
Source(s): Company, ABCI Securities estimates

Exhibit 27: Longyuan's net gearing ratio outlook



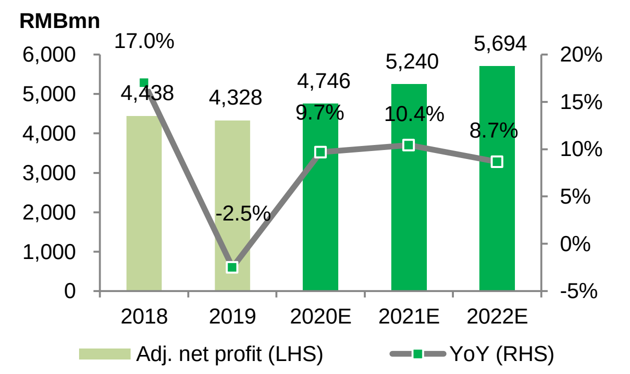
Source(s): Company, ABCI Securities estimates

Exhibit 28: Longyuan's revenue outlook



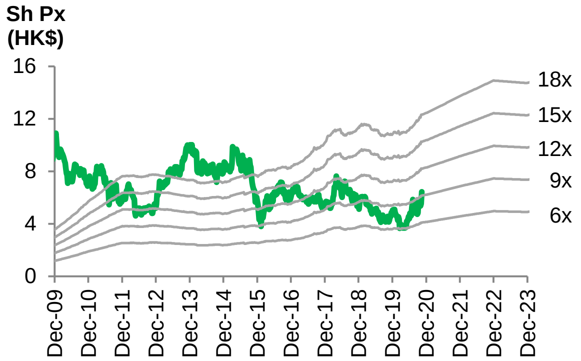
Source(s): Company, ABCI Securities estimates

Exhibit 29: Longyuan's adjusted net profit outlook



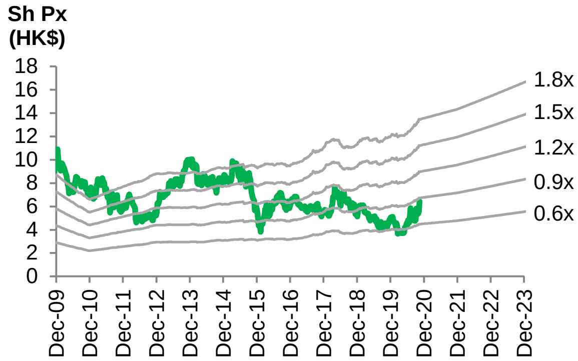
Source(s): Company, ABCI Securities estimates

Exhibit 30: Longyuan's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 31: Longyuan's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	**26,388**	**27,541**	**28,507**	**30,536**	**32,295**
Wind power	18,410	18,981	20,300	22,076	23,429
Coal-fire power	6,366	6,632	6,246	6,350	6,641
Other	1,612	1,927	1,960	2,111	2,226
Cost of sales	**(16,002)**	**(16,840)**	**(17,182)**	**(18,453)**	**(19,556)**
Gross Profit	**10,386**	**10,701**	**11,324**	**12,083**	**12,739**
SG&A expenses	(588)	(564)	(570)	(611)	(646)
Net financial income (cost)	(3,513)	(3,486)	(3,634)	(3,607)	(3,542)
Other income/ (expenses)	(388)	(201)	114	122	129
Profit before tax	**5,897**	**6,450**	**7,235**	**7,988**	**8,680**
Tax	(976)	(1,131)	(1,302)	(1,438)	(1,562)
Profit after tax	**4,921**	**5,320**	**5,932**	**6,550**	**7,118**
Profit attributable to:					
Minority interest	755	753	890	983	1,068
Perpetual medium-term note holders	242	242	297	328	356
Equity shareholders of the Co.	**3,924**	**4,325**	**4,746**	**5,240**	**5,694**
Adj. equity shareholders of the Co.	**4,438**	**4,328**	**4,746**	**5,240**	**5,694**
Basic EPS (RMB)	**0.488**	**0.538**	**0.591**	**0.652**	**0.709**
Adj. basic EPS (RMB)	**0.552**	**0.539**	**0.591**	**0.652**	**0.709**
DPS (RMB)	**0.098**	**0.108**	**0.118**	**0.130**	**0.142**

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	**17,786**	**23,029**	**28,824**	**27,033**	**27,151**
Cash	2,861	2,908	7,816	4,117	3,720
Pledged and restricted bank deposits	253	523	523	523	523
Trade and bill receivables	10,542	16,365	16,437	18,701	18,461
Other receivables and prepayments	2,819	1,963	2,723	2,297	3,012
Inventories	852	819	875	945	984
Other current assets	460	450	450	450	450
Non-current assets	**128,718**	**133,773**	**143,337**	**153,254**	**156,112**
Property, plant & equipment	110,001	114,607	125,636	135,977	139,540
Investment properties	10	9	9	9	9
Intangible assets	8,171	10,886	7,549	7,370	7,194
Investment in JV and associates	4,549	4,328	4,471	4,623	4,785
Deferred tax assets	146	157	157	157	157
Other non-current assets	5,841	3,786	5,515	5,117	4,428
Total Assets	**146,504**	**156,803**	**172,161**	**180,287**	**183,263**
Current Liabilities	**39,780**	**43,538**	**54,289**	**56,035**	**54,162**
Trade and bill payables	2,059	3,411	3,650	3,933	4,104
Other payables	9,332	11,070	10,102	10,579	9,168
Short term borrowings	28,336	28,965	40,537	41,523	40,890
Other current assets	54	92	0	0	0
Non-current liabilities	**50,158**	**52,610**	**52,530**	**53,735**	**52,962**
Deferred tax liabilities	164	263	263	263	263
Long-term borrowings	46,645	48,881	49,545	50,750	49,977
Other non-current assets	3,349	3,465	2,721	2,721	2,721
Total Liabilities	**89,939**	**96,148**	**106,819**	**109,770**	**107,124**
Minority interests	**7,329**	**7,732**	**8,622**	**9,605**	**10,672**
Perpetual medium-term note	**4,991**	**4,991**	**4,991**	**4,991**	**4,991**
Shareholders' equities	**44,245**	**47,932**	**51,728**	**55,921**	**60,476**

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	**5,897**	**6,450**	**7,235**	**7,988**	**8,680**
Change in depreciation and amortization	7,286	7,633	8,474	9,310	9,879
Change in Working Capital	(1,078)	(3,668)	(1,616)	(1,147)	(1,756)
Income tax paid	(1,106)	(1,064)	(1,131)	(1,302)	(1,438)
Others	3,257	3,163	3,380	3,317	3,564
Operating cash flow	**14,255**	**12,515**	**16,341**	**18,166**	**18,928**
CAPEX	(8,720)	(11,787)	(19,012)	(19,149)	(12,926)
Increase in intangible assets	0	0	(308)	(323)	(339)
Others	87	1,013	140	103	267
Investing cash flow	**(8,633)**	**(10,774)**	**(19,180)**	**(19,369)**	**(12,998)**
Net Capital raise	0	0	0	0	0
Net debt financing	(2,606)	2,642	12,236	2,191	(1,406)
Dividend payout	(1,289)	(1,138)	(865)	(949)	(1,048)
Others	(3,907)	(3,204)	(3,626)	(3,737)	(3,874)
Financing cash flow	**(7,802)**	**(1,700)**	**7,746**	**(2,495)**	**(6,327)**
Net change in cash	**(2,179)**	**41**	**4,907**	**(3,698)**	**(397)**
Cash at the beginning	5,072	2,861	2,908	7,816	4,117
Adjustment (Time deposit & FX effect)	(31)	7	0	0	0
Cash at the end	**2,861**	**2,908**	**7,816**	**4,117**	**3,720**

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Wind power	69.77	68.92	71.21	72.29	72.55
Coal-fire power	24.13	24.08	21.91	20.80	20.56
Other	6.11	7.00	6.88	6.91	6.89
Total	**100**	**100**	**100**	**100**	**100**
Profit & loss ratios (%)					
Gross margin	39.36	38.86	39.73	39.57	39.45
Operating profit margin	36.97	36.12	37.63	37.47	37.35
Pre-tax margin	22.35	23.42	25.38	26.16	26.88
Net profit margin	18.65	19.32	20.81	21.45	22.04
Selling & administrative expenses/revenue	2.23	2.05	2.00	2.00	2.00
Effective tax rate	16.55	17.53	18.00	18.00	18.00
Growth (%)					
Revenue	7.30	4.37	3.51	7.12	5.76
Gross profit	16.04	3.03	5.83	6.70	5.43
Operating profit	15.57	1.98	7.81	6.68	5.41
Net profit	8.16	8.10	11.52	10.42	8.66
Balance sheet ratios					
Current ratio (x)	0.45	0.53	0.53	0.48	0.50
Quick ratio (x)	0.34	0.45	0.46	0.42	0.42
Cash ratio (x)	0.08	0.08	0.15	0.08	0.08
Trade and bill receivables days	122.39	178.30	210.00	210.00	210.00
Trade and bill payables turnover days	45.05	59.28	75.00	75.00	75.00
Inventory turnover days	20.59	18.11	18.00	18.00	18.00
Total debt / equity ratio (%)	169.47	162.41	174.15	165.01	150.25
Net debt / equity ratio (%)	127.05	122.68	125.10	124.27	113.77
Returns (%)					
ROAA	2.69	2.85	2.89	2.97	3.13
ROAE	9.19	9.38	9.52	9.74	9.78
Payout ratio	20.01	19.99	20.00	20.00	20.00

Source(s): Company, ABCI Securities estimates

Datang Renewable (1798 HK)
High leverage remains a concern

- 27% YoY revenue growth in 3Q20, net loss narrowed
- 8%/10%YoY wind power capacity growth in 2020E/21E
- Thin interest coverage ratio remains a concern
- High net gearing to persist, which prompts fundraising concern
- 2020E earnings to grow 26%YoY; 2021E earnings to stay flat
- Maintain **SELL** with TP of HK$ 1.05, which implies 6.3x/6.4x 2020/21E P/E and 0.57x/0.53x 2020/21E P/B

Company Report

Nov 17, 2020

Rating: SELL

TP: HK$ 1.05

Analyst : Kelvin Ng
Tel: (852) 2147 8869
kelvinng@abci.com.hk

27%YoY revenue growth in 3Q20, net loss narrowed. 3Q20 revenue was reported at RMB 1,754mn (+27%YoY), equivalent to 19.5%/20.1% of Bloomberg and our 2020E full-year estimates and ahead of the historical average of 18.4%. Operating profit was RMB 447mn (+88%YoY), representing 11.6%/13.5% of Bloomberg and our 2020E full-year estimates and ahead of historical average of 11.2%. Net loss was RMB 115mn, improved from net loss of RMB 366mn in 3Q19.

8%/10%YoY wind power capacity growth in 2020E/21E. DTR is likely to follow other wind power operators to expand installed wind power capacity in 2020E and 2021E due to the impending subsidy cut by end-2021. We expect the Group to add 752MW/1,029MW of new capacity in 2020E/21E, which translates to 8%/10%YoY increase in total wind power capacity.

Thin interest coverage ratio. Interest coverage ratio was 1.67 in 2019; the 10-year average (2009 - 2019) was 1.46. Under our estimate, every 0.1% increase in interest rate would reduce 2021E earnings by 3.4%, suggests small change in interest rate would have big impact to DTR's earnings.

High net gearing ratio to persist. DTR's net gearing ratio exceeded 300% since 2016 (2016-2019: 315%, 324%, 306%, and 367% respectively) while maintaining the highest net gearing wind power operators among peers. High net gearing ratio would prompt market concern on potential fundraising activities and erode earnings as financial burden increases.

2020E earnings to grow 26%YoY; 2021E earnings to stay flat. We estimate capacity to grow 8%YoY in 2020E due to the completion deadline for subsidy eligibility, as utilization hour had maintained high during the period, we expect DTR 2020E earnings to report 26%YoY growth. Despite there is 10%YoY capacity growth in 2021E, 1%YoY decline in tariff and high net finance cost (+10%YoY in 2021E vs. +3%YoY in 2020E) caused by high net gearing would erode earnings growth, we therefore expect earnings growth to go flat in 2021E.

TP at HK$1.05; maintain SELL. We believe a high net gearing ratio would dent the Group's earnings momentum; implementation of the subsidy-free policy would suppress growth in feed-in tariff. Our DCF-derived TP at HK$ 1.05 (previously at HK$ 0.50) implies 6.3x/6.4x 2020E/21E P/E and 0.57x/0.53x 2020E/21E P/B. Maintain **SELL**.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	8,319	8,325	9,181	10,035	10,573
Chg (%,YoY)	*17.1*	*0.1*	*10.3*	*9.3*	*5.4*
Net profit (RMB mn)	1,209	936	1,179	1,179	1,112
Chg (%,YoY)	*66.2*	*-22.6*	*25.9*	*0.0*	*-5.6*
EPS (RMB)	0.15	0.11	0.14	0.14	0.13
Chg (%,YoY)	*78.7*	*-25.0*	*25.9*	*0.0*	*-5.6*
BVPS (RMB)	1.53	1.33	1.59	1.71	1.83
Chg (%,YoY)	*16.0*	*-12.7*	*19.0*	*7.9*	*6.9*
P/E (x)	5.99	7.99	6.34	6.35	6.72
P/B (x)	0.59	0.68	0.57	0.53	0.49
ROAE (%)	10.21	8.02	9.73	8.61	7.57
ROAA (%)	1.67	1.21	1.39	1.26	1.12
DPS (RMB)	0.018	0.026	0.017	0.017	0.016
Yield (%)	2.01	2.92	1.89	1.89	1.78
*Net gearing (%)	305.8	367.0	345.2	353.0	334.9

* Net gearing=Net debt/Total equity;
Source(s): Bloomberg, ABCI Securities estimates

Share price (HK$)	1.20
Est. share price return	(12.5%)
Est. dividend yield	1.7%
Est. total return	(10.8%)
Previous Rating	SELL
Previous Report Date	Apr 20, 2020

Source(s): ABCI Securities estimates

Key Data

52Wk H/L(HK$)	1.3/0.5
Issued shares (mn)	7,274
Issued H-shares (mn)	2,501
Market cap (HK$ mn)	10,474
H-share Market cap (HK$ mn)	3,602
3-mth avg daily turnover(HK$ mn)	5.4
Major shareholder(s) :	
Datang Group.	57.4%

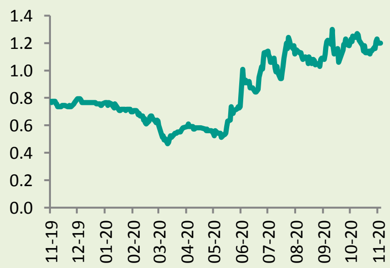
Source(s): Company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	(4.00)	(10.70)
3-mth	6.19	4.72
6-mth	120.99	112.23

*Relative to HSCEI
Source(s): Bloomberg, ABCI Securities

1-Year share price performance (HK$)



Source(s): Bloomberg, ABCI Securities

3Q20 results highlight

27%YoY revenue growth in 3Q20, net loss narrowed

3Q20 revenue was reported at RMB 1,754mn (+27%YoY), equivalent to 19.5%/20.1% of Bloomberg and our 2020E full-year estimates and ahead of the historical average of 18.4%. Operating profit was RMB 447mn (+88%YoY), representing 11.6%/13.5% of Bloomberg and our 2020E full-year estimates and ahead of historical average of 11.2%. Net loss was RMB 115mn, improved from net loss of RMB 366mn in 3Q19.

31%YoY growth in wind power output boosted revenue

Benefiting from 31%YoY strong growth in wind power output in 3Q20, DTR reported 27%YoY revenue growth. Such robust power output growth was mainly driven by 35%/23%YoY growth in northeast and Inner Mongolia region (contributed 17% and 32% of total power output respectively).

Net gearing ratio improved to 194%

Net gearing ratio maintained downtrend from 367% by end-2019 to 239% by end-1H20 and further to 194% in 9M20, due to increase in operating cash flow during the period.

2020/21 outlook

8%/10%YoY wind power capacity growth in 2020E/21E

DTR is likely to follow other wind power operators to expand installed wind power capacity in 2020E and 2021E due to the impending subsidy cut by end-2021. We expect the Group to add 752MW/1,029MW of new capacity in 2020E/21E, which translates to 8%/10%YoY increase in total wind power capacity.

1%/1%YoY decline in wind power tariff in 2020E/21E

DTR has been reporting down trend in its wind power tariff since 2013, (RMB 0.51/kWh ex. VAT at 2013 to RMB 0.458/kWh ex. VAT at 2019) with CAGR at -1.8%. We believe the Group is likely to report 1%YoY decline in wind power tariff in 2020E. Furthermore, China government has announced to implement "Subsidy-free tariff" policy by end-2020, as DTR to continue ramping up capacity in 2021E, which is subjected to the new policy, we expect DTR's wind power tariff to report 1%YoY decline in 2021E.

Utilization hour to stay flat in 2020E; 0.4%YoY increase in 2021E

In 1H20, DTR reported a 0.6%YoY decline in utilization hour due to weaker power demand from non-coastal regions (most of DTR's wind facilities were located in northwest, Inner Mongolia, and northeast regions where power demand are weaker). For 2020E, we expect utilization hour to stay flat at 2,065hrs; for 2021E, we expect the figure to recover by 0.4%YoY to 2,074hrs.

Concern 1: Thin interest coverage ratio

Interest coverage ratio was 1.67 in 2019; the 10-year average (2009 - 2019) was 1.46. Under our estimate, every 0.1% increase in interest rate would reduce 2021E earnings by 3.4%, suggests small change in interest rate would have big impact to DTR's earnings.

Concern 2: High net gearing

DTR's net gearing ratio exceeded 300% in 2016-19 (2016-2019: 315%, 324%, 306%, and 367% respectively), the highest among peers. A high net gearing may increase finance cost; growing financial burden also prompts concerns on potential fundraising activities that may dilute earnings of existing shareholders.

Potential privatization as share price catalyst

DTR has the lowest valuation among wind power operators in the market - it is now trading at ~7.5x/7.5x 2020E/21E P/E and 0.59x/0.54x 2019E/20E P/B, based on our estimates. The low valuation can be attributed to its wind power assets in the "three north regions" and its high net gearing ratio (1H20: 239%). Privatization of Huaneng Renewables (previous stock code was 958 HK, privatized in 2020) has spurred speculation that DTR may follow suit, especially with its depressed valuation. We believe this will be a catalyst to share price.

2020E earnings to grow 26%YoY; 2021E earnings to stay flat

We estimate capacity to grow 8%YoY in 2020E due to the completion deadline for subsidy eligibility, as utilization hour had maintained high during the period, we expect DTR 2020E earnings to report 26%YoY growth. Despite there is 10%YoY capacity growth in 2021E, 1%YoY decline in tariff and high net finance cost (+10%YoY in 2021E vs. +3%YoY in 2020E) caused by high net gearing would erode earnings growth, we therefore expect earnings growth to go flat in 2021E.

TP at HK$1.05; maintain SELL

DTR's 1H20 results were better than expected on the shallower drop in utilization hour lower financial cost and its 3Q20 results were also better than expected on higher power output. We revise up our 2020/21 utilization hour by 3.9%/2.1%/1.3% and adjust our financial cost and related assumptions. Our new net profit forecasts are revised up by 26%/28%/40% for 2020E/21E/22E

We believe a high net gearing ratio would dent earnings momentum; implementation of the subsidy-free policy would suppress growth in feed-in tariff. Our DCF-derived TP at HK$ 1.05 (previously at HK$ 0.50) implies 6.3x/6.4x 2020E/21E P/E and 0.57x/0.53x 2020E/21E P/B. Maintain **SELL.**

Exhibit 32: Changes in estimates

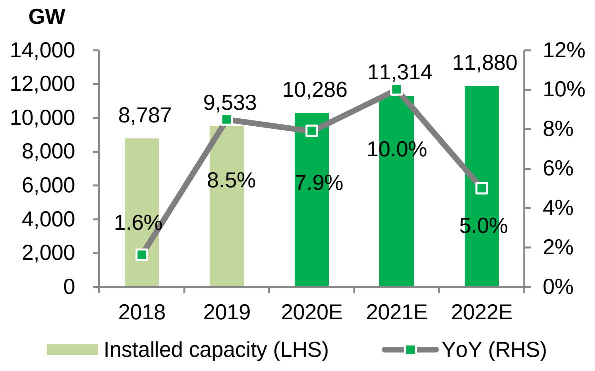
	Units	Old estimates		New estimates		Change		Main reasons
		2021E	2022E	2021E	2022E	2021E	2022E	
Net Profit	RMBmn	918	795	1,179	1,112	28.4%	39.9%	Increased utilization hour in 2021/22E boosts earnings growth
EPS	RMB	0.11	0.10	0.14	0.13	28.4%	39.9%	Increased utilization hour in 2021/22E boosts earnings growth
Valuation	RMBmn	3,787		7,479		97.5%		Increased 2021E/22E earnings boost valuation
TP	HK$	0.50		1.05		109.9%		Increased 2021E/22E earnings boost valuation

Source(s): ABCI Securities estimates

Risk factors

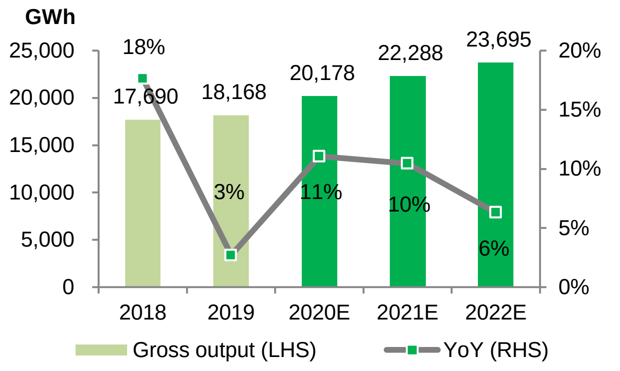
(1) Power curtailment risk; (2) Wind resources risk; (3) Construction risks; (4) Fundraising risk; (5) Government policy to deleverage may constrain growth. (6) High account receivables; (7) High net gearing ratio

Exhibit 33: DTR's wind power installed capacity outlook



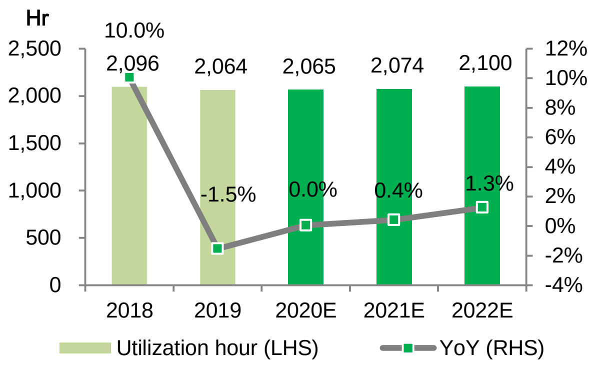
Source(s): Company, ABCI Securities estimates

Exhibit 34: DTR's wind power output outlook



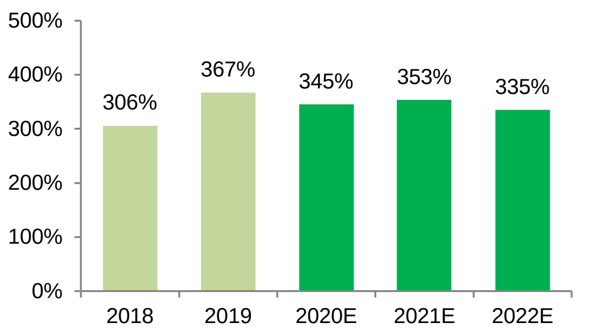
Source(s): Company, ABCI Securities estimates

Exhibit 35: DTR's utilization hour outlook



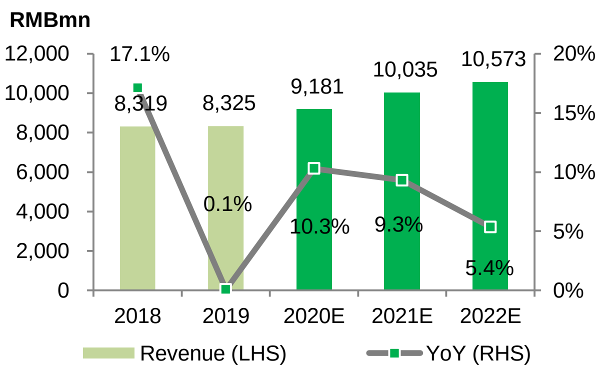
Source(s): Company, ABCI Securities estimates

Exhibit 36: DTR's net gearing ratio outlook



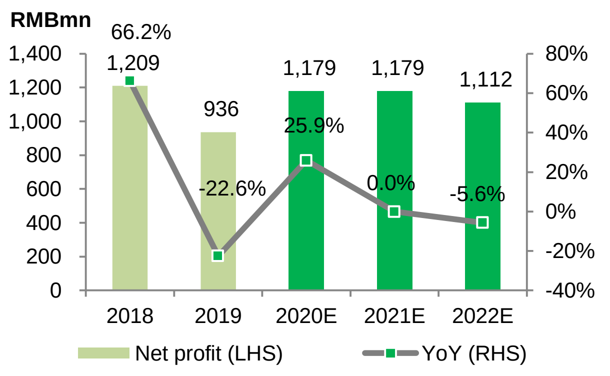
Source(s): Company, ABCI Securities estimates

Exhibit 37: DTR's revenue outlook



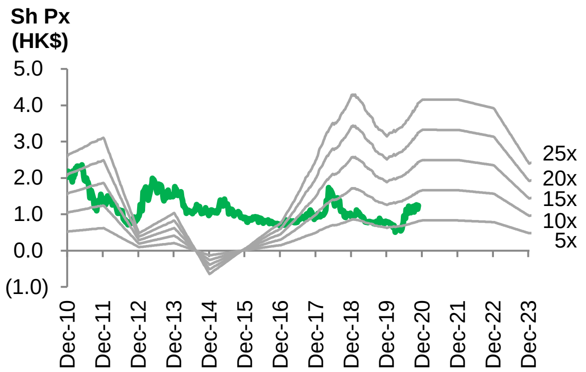
Source(s): Company, ABCI Securities estimates

Exhibit 38: DTR's net profit outlook



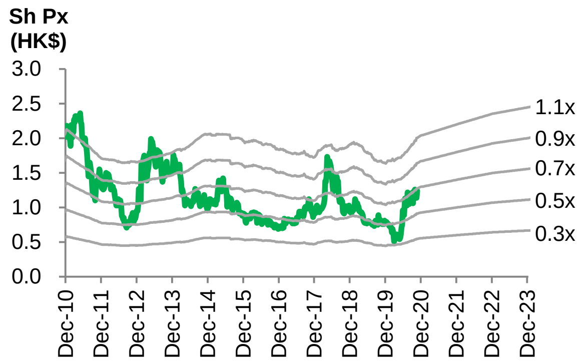
Source(s): Company, ABCI Securities estimates

Exhibit 39: DTR's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 40: DTR's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	**8,319**	**8,325**	**9,181**	**10,035**	**10,573**
Wind power	8,088	8,156	8,968	9,807	10,322
Concession construction	5	0	0	0	0
Other	227	164	213	228	251
Cost of sales	**(4,272)**	**(4,579)**	**(5,143)**	**(5,768)**	**(6,134)**
Gross Profit	**4,047**	**3,745**	**4,038**	**4,268**	**4,439**
SG&A expenses	0	0	0	0	0
Net financial income (cost)	(2,112)	(2,146)	(2,218)	(2,446)	(2,717)
Other income/ (expenses)	(206)	(160)	(23)	(25)	(26)
Profit before tax	**1,729**	**1,440**	**1,797**	**1,797**	**1,696**
Tax	(303)	(296)	(324)	(323)	(305)
Profit after tax	**1,426**	**1,144**	**1,474**	**1,473**	**1,390**
Profit attributable to:					
Minority interest	(217)	(208)	(295)	(295)	(278)
Equity shareholders of the Co.	**1,209**	**936**	**1,179**	**1,179**	**1,112**
Basic EPS (RMB)	**0.150**	**0.113**	**0.142**	**0.142**	**0.134**
DPS (RMB)	**0.018**	**0.026**	**0.017**	**0.017**	**0.016**

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	**12,801**	**14,801**	**18,806**	**20,701**	**21,232**
Cash	3,633	3,517	4,497	5,700	5,637
Trade and bill receivables	7,473	9,546	11,584	12,060	12,851
Other receivables and prepayments	1,486	1,500	2,525	2,699	2,515
Inventories	168	194	201	242	229
Other current assets	41	44	0	0	0
Non-current assets	**61,616**	**65,223**	**70,651**	**77,630**	**79,473**
Property, plant & equipment	56,430	59,055	64,418	71,231	72,685
Intangible assets	1,199	2,092	530	513	496
Investment in JV and associates	802	833	833	833	833
Deferred tax assets	16	12	12	12	12
Other non-current assets	3,170	3,230	4,858	5,041	5,446
Total Assets	**74,417**	**80,023**	**89,457**	**98,332**	**100,705**
Current Liabilities	**20,969**	**26,457**	**26,162**	**28,650**	**29,178**
Trade and bill payables	364	367	338	452	388
Other payables	5,978	5,959	6,975	7,183	7,523
Short term borrowings	14,627	20,131	18,849	21,015	21,267
Other current assets	0	0	0	0	0
Non-current liabilities	**38,166**	**39,065**	**46,397**	**51,451**	**52,040**
Deferred tax liabilities	20	18	18	18	18
Long-term borrowings	35,781	36,650	43,981	49,036	49,624
Other non-current assets	2,365	2,398	2,398	2,398	2,398
Total Liabilities	**59,135**	**65,523**	**72,559**	**80,102**	**81,218**
Minority interests	2,990	3,432	3,727	4,021	4,300
Shareholders' equities	**12,292**	**11,069**	**13,171**	**14,209**	**15,187**

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Profit before tax	**1,729**	**1,440**	**1,797**	**1,797**	**1,696**
Change in depreciation and amortization	3,469	3,566	4,051	4,539	4,807
Change in working capital	(1,792)	(1,586)	(2,555)	(459)	(581)
Income tax paid	(284)	(265)	(208)	(295)	(295)
Others	2,184	2,220	2,083	2,149	2,370
Operating cash flow	**5,306**	**5,375**	**5,169**	**7,730**	**7,996**
CAPEX	(5,146)	(6,349)	(8,842)	(11,314)	(6,223)
Increase in intangible assets	0	0	(19)	(20)	(21)
Others	67	(62)	0	0	0
Investing cash flow	**(5,080)**	**(6,411)**	**(8,862)**	**(11,335)**	**(6,244)**
Net Capital raise	0	0	1,028	0	0
Net debt financing	4,562	3,101	6,049	7,221	840
Dividend payout	(318)	(300)	(218)	(141)	(141)
Others	(2,062)	(1,881)	(2,187)	(2,271)	(2,513)
Financing cash flow	**2,182**	**921**	**4,672**	**4,808**	**(1,815)**
Net change in cash	**2,408**	**(116)**	**979**	**1,203**	**(63)**
Cash at the beginning	1,224	3,633	3,517	4,497	5,700
Adjustment (Time deposit & FX effect)	1	0	0	0	0
Cash at the end	**3,633**	**3,517**	**4,497**	**5,700**	**5,637**

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Sales mixed (%)					
Wind power	97.22	97.98	97.68	97.73	97.63
Concession construction	0.06	0.00	0.00	0.00	0.00
Other	2.73	1.97	2.32	2.27	2.37
Total	**100**	**100**	**100**	**100**	**100**
Profit & loss ratios (%)					
Gross margin	48.65	44.99	43.98	42.53	41.98
Operating profit margin	45.50	42.36	43.18	41.73	41.18
Pre-tax margin	20.78	17.30	19.58	17.90	16.04
Net profit margin	17.15	13.74	16.05	14.68	13.15
Selling & administrative expenses/revenue	0.00	0.00	0.00	0.00	0.00
Effective tax rate	17.50	20.55	18.00	18.00	18.00
Growth (%)					
Revenue	17.11	0.06	10.29	9.30	5.36
Gross profit	25.27	(7.45)	7.82	5.68	4.01
Operating profit	31.98	(6.83)	12.42	5.62	3.98
Net profit	58.02	(19.80)	28.83	(0.03)	(5.63)
Balance sheet ratios					
Trade and bill receivables days	274.54	373.08	420.00	430.00	430.00
Trade and bill payables turnover days	76.61	29.13	25.00	25.00	25.00
Inventory turnover days	13.05	14.40	14.00	14.00	14.00
Total debt / equity ratio (%)	410.09	512.98	477.02	493.02	466.77
Net debt / equity ratio (%)	305.82	367.01	345.20	352.99	334.86
Returns (%)					
ROAA	1.67	1.21	1.39	1.26	1.12
ROAE	10.21	8.02	9.73	8.61	7.57
Payout ratio	12.03	23.30	12.00	12.00	12.00

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (10%)
Hold	- Market return rate (-10%) ≤ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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