



# China Longyuan Power (916 HK)

## Feb wind power output up 31%YoY

- Longyuan announced its Feb operation data on Mar 7
- Wind power gross output was 2,596GWh (+31%YoY) in Feb mainly due to strong growth in northeast and northwest regions
- Total wind power output in Jan and Feb 2017 reached 16% of our full-year estimate, in line with the run rate in 2016. Based on the current development, our full-year output growth estimate at 13%YoY should be achievable
- Maintain **BUY** with TP of HK\$7.30 implies 13x 2017 P/E and 1.2x 2017 P/B

**Northeast region recorded strong growth.** Longyuan's wind power output in northeast China jumped 96% YoY, contributing to 14% of its overall output in Feb. Such strong performance in the "3-North" regions points to reduced power curtailment; and increased electricity direct sales.

**Northwest region continues to record strong growth.** Longyuan's wind power output in northwest China jumped 83%/28%/36%YoY growth in Dec 2016/ Jan 2017/Feb 2017. Wind output in the region contributed to 16% of Longyuan's overall wind power output in Feb. In our view, the continuous output growth in northwest region has been supported by increased electricity direct sales.

**Focus on strong performance in eastern and southern regions.** We believe energy demand in eastern and southern China will continue to be robust; better grid construction should help alleviate power curtailment. Longyuan's wind power output in eastern and southern regions grew 5%/57% YoY in Feb, contributing to 21%/12% of total wind output in Feb. We believe the Group may increase its focus on coastal regions.

**13%YoY capacity growth in 2017 will be the key earnings driver.** China's wind power tariff will maintain its downtrend to lower the operating burden of industrial enterprises. Hence, strong capacity growth would serve as the key support to Longyuan's earnings growth. Based on the Group's expansion pace in the past and its ambitious capex plan, we believe its capacity is likely to increase by 13% YoY in 2017E, which would drive up its net profit by 16%YoY.

**TP at HK\$ 7.30; maintain BUY.** We continue to favor Longyuan's well-diversified asset and its low all-in unit capacity cost. Our TP at HK\$7.30, which implies an undemanding valuation of 13x 2017 P/E and 1.2x 2017 P/B. Maintain **BUY**.

**Risks:** (1) Power curtailment risk; (2) Wind resources risk; (3) Tariff risk; (4) Construction risks; (5) Fundraising risk (6) Government policy to deleverage may constrain future growth.

### Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	18,228	19,649	22,374	24,958	27,273
Chg (% YoY)	-4.8	7.8	13.9	11.6	9.3
Net profit (RMB mn)	2,555	2,881	3,461	4,025	4,525
Chg (% YoY)	24.5	12.8	20.1	16.3	12.4
EPS (RMB)	0.318	0.358	0.431	0.501	0.563
Chg (% YoY)	24.7	12.7	20.2	16.3	12.4
BVPS (RMB)	4.120	4.369	4.741	5.142	5.592
Chg (% YoY)	7.0	6.0	8.5	8.5	8.8
P/E (x)	19.05	16.89	14.06	12.09	10.75
P/B (x)	1.47	1.39	1.28	1.18	1.08
ROE (%)	7.72	8.20	9.08	9.74	10.07
ROA (%)	2.06	2.16	2.37	2.54	2.69
DPS (RMB)	0.060	0.072	0.086	0.100	0.113
Yield (%)	0.99	1.18	1.42	1.65	1.86
<b>Net gearing (%)</b>	<b>203.0</b>	<b>203.3</b>	<b>201.6</b>	<b>196.4</b>	<b>189.1</b>

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Mar 10, 2017

Rating: BUY

TP: HK\$ 7.30

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kelvinng@abci.com.hk

Share price (HK\$)	6.80
Est. share price return	7.4%
Est. dividend yield	1.4%
Est. total return	8.8%
Previous Rating & TP	BUY
Previous Report Date	Mar 3, 2017

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.3/4.8
Issued shares (mn)	8,036
Issued H-shares (mn)	3,340
Market cap (HK\$ mn)	54,647
H-share Market cap (HK\$ mn)	22,712
3-mth avg daily turnover(HK\$ mn)	91
Major shareholder(s) (%)	
Guodian Corp.	57.3%

Source(s): Company, ABCI Securities

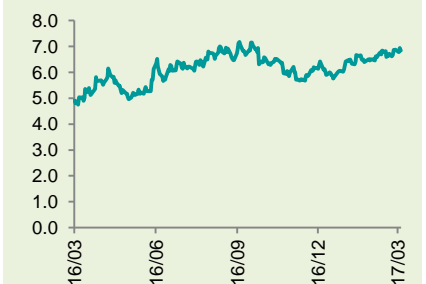
### Share Performance

	Absolute	Relative*
1-mth	5.43	5.21
3-mth	7.59	4.19
6-mth	(3.55)	(1.20)

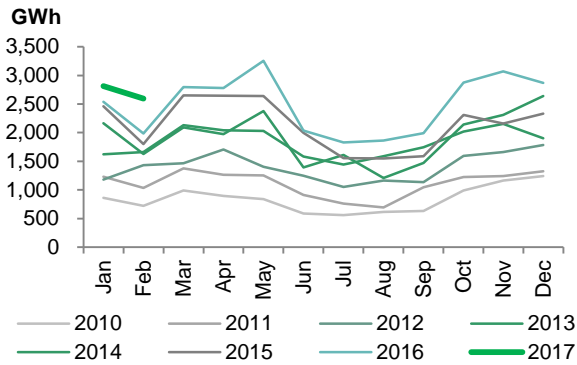
\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

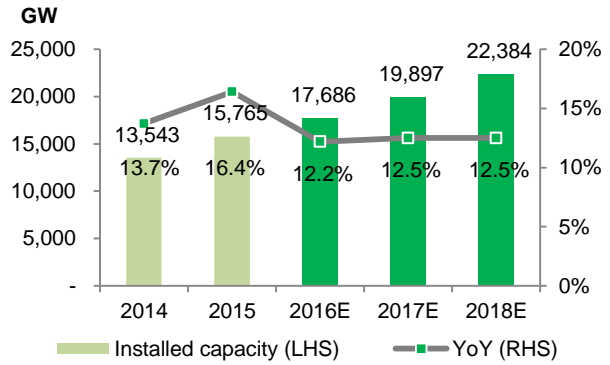
### 1-Year share price performance(HK\$)



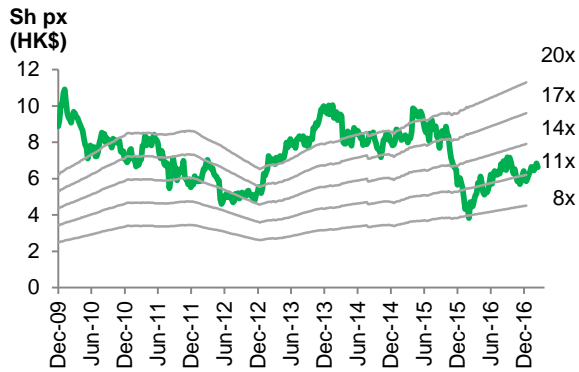
Source(s): Bloomberg, ABCI Securities

**Exhibit 1: Longyuan's monthly operation data**


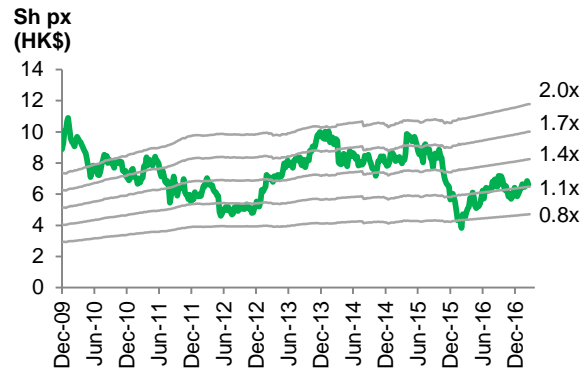
Source(s): Company, ABCI Securities estimates

**Exhibit 2: Longyuan's wind power capacity is likely to see strong growth**


Source(s): Company, ABCI Securities estimates

**Exhibit 3: Longyuan's fwd P/E chart**


Source(s): Company, ABCI Securities estimates

**Exhibit 4: Longyuan's fwd P/B chart**


Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2014A-2018E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Revenue</b>	<b>18,228</b>	<b>19,649</b>	<b>22,374</b>	<b>24,958</b>	<b>27,273</b>
Wind power	11,154	12,331	13,922	15,757	17,463
Coal-fire power	6,156	5,896	6,941	7,531	7,992
Other	919	1,422	1,511	1,670	1,818
<b>Cost of sales</b>	<b>-11,249</b>	<b>-12,017</b>	<b>-13,886</b>	<b>-15,301</b>	<b>-16,610</b>
<b>Gross Profit</b>	<b>6,980</b>	<b>7,632</b>	<b>8,488</b>	<b>9,657</b>	<b>10,663</b>
SG&A expenses	-378	-370	-447	-499	-545
Net financial income (cost)	-2,960	-3,025	-3,196	-3,436	-3,618
Other income/ (expenses)	413	439	618	630	642
<b>Profit before tax</b>	<b>4,055</b>	<b>4,676</b>	<b>5,462</b>	<b>6,352</b>	<b>7,141</b>
Tax	-510	-600	-655	-762	-857
<b>Net profit</b>	<b>3,545</b>	<b>4,076</b>	<b>4,807</b>	<b>5,590</b>	<b>6,284</b>
Profit attributable to:					
Minority interest	990	1,196	1,202	1,397	1,571
<b>Equity shareholders of the Company</b>	<b>2,555</b>	<b>2,881</b>	<b>3,461</b>	<b>4,025</b>	<b>4,525</b>
<b>Basic EPS (RMB)</b>	<b>0.318</b>	<b>0.358</b>	<b>0.431</b>	<b>0.501</b>	<b>0.563</b>
<b>DPS (RMB)</b>	<b>0.060</b>	<b>0.072</b>	<b>0.086</b>	<b>0.100</b>	<b>0.113</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2014A-2018E)**

<b>As of Dec 31 (RMB mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Current assets</b>	<b>14,795</b>	<b>12,697</b>	<b>16,184</b>	<b>19,793</b>	<b>20,234</b>
Cash	2,396	2,887	3,812	6,172	5,491
Pledged and restricted bank deposits	440	387	387	387	387
Trade and bill receivables	6,416	4,238	6,130	6,838	7,472
Other receivables and prepayments	4,102	3,069	3,678	4,103	4,483
Inventories	1,017	1,081	1,141	1,258	1,365
Other current assets	425	1,036	1,036	1,036	1,036
<b>Non-current assets</b>	<b>109,018</b>	<b>120,776</b>	<b>129,603</b>	<b>138,561</b>	<b>147,670</b>
Property, plant & equipment	88,555	98,609	106,081	113,859	121,548
Investment properties	5	5	5	5	5
Intangible assets	8,542	8,699	8,919	9,145	9,376
Investment in JV and associates	3,602	4,822	5,493	6,242	7,060
Deferred tax assets	155	155	155	155	155
Other non-current assets	8,159	8,486	8,950	9,155	9,525
<b>Total Assets</b>	<b>123,813</b>	<b>133,473</b>	<b>145,787</b>	<b>158,354</b>	<b>167,904</b>
<b>Current Liabilities</b>	<b>46,328</b>	<b>55,647</b>	<b>61,326</b>	<b>66,609</b>	<b>69,698</b>
Trade and bill payables	1,021	1,902	1,902	2,096	2,275
Other payables	9,188	9,057	10,808	11,894	12,897
Short term borrowings	36,114	44,688	48,617	52,619	54,525
Other current assets	6	0	0	0	0
<b>Non-current liabilities</b>	<b>36,581</b>	<b>33,293</b>	<b>35,734</b>	<b>38,402</b>	<b>39,673</b>
Deferred tax liabilities	107	106	106	106	106
Long-term borrowings	33,922	29,970	32,411	35,079	36,350
Other non-current assets	2,552	3,217	3,217	3,217	3,217
<b>Total Liabilities</b>	<b>82,909</b>	<b>88,940</b>	<b>97,060</b>	<b>105,011</b>	<b>109,370</b>
Minority interests	7,797	6,433	7,635	9,032	10,603
Perpetual medium-term note	0	2,991	2,991	2,991	2,991
<b>Shareholders' equities</b>	<b>33,107</b>	<b>35,109</b>	<b>38,101</b>	<b>41,320</b>	<b>44,940</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2014A-2018E)**

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Profit before tax	4,055	4,676	5,462	6,352	7,141
Change in depreciation and amortization	5,011	5,554	6,454	7,102	7,774
Change in Working Capital	1,973	4,175	-812	31	61
Net financial cost (income)	2,895	2,671	3,065	3,150	3,318
Income tax paid	-522	-525	-1,196	-1,202	-1,397
Net interest received	0	0	0	0	0
Others	-531	-227	-671	-749	-818
<b>Operating cash flow</b>	<b>12,881</b>	<b>16,325</b>	<b>12,303</b>	<b>14,683</b>	<b>16,079</b>
Capex	-18,273	-15,264	-13,446	-14,370	-14,922
Increase in intangible assets	0	0	-701	-736	-772
Others	-2,591	-1,055	204	164	210
<b>Investing cash flow</b>	<b>-20,864</b>	<b>-16,319</b>	<b>-13,943</b>	<b>-14,942</b>	<b>-15,485</b>
Net Capital raise	0	0	0	0	0
Net debt financing	12,035	4,837	6,370	6,670	3,176
Dividend payout	-1,042	-1,174	-576	-692	-805
Interest paid	-3,385	-3,368	-3,228	-3,360	-3,646
Others	45	212	0	0	0
<b>Financing cash flow</b>	<b>7,653</b>	<b>507</b>	<b>2,565</b>	<b>2,619</b>	<b>-1,275</b>
<b>Net change in cash</b>	<b>-330</b>	<b>513</b>	<b>925</b>	<b>2,360</b>	<b>-681</b>
Cash at the beginning	2,732	2,396	2,887	3,812	6,172
Adjustment (Time deposit & FX effect)	-6	-22	0	0	0
<b>Cash at the end</b>	<b>2,396</b>	<b>2,887</b>	<b>3,812</b>	<b>6,172</b>	<b>5,491</b>

Source(s): Company, ABCI Securities estimates

**Key ratio (2014A-2018E)**

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Sales mixed (%)</b>					
Wind power	61.19	62.76	62.22	63.13	64.03
Coal-fire power	33.77	30.01	31.02	30.18	29.31
Other	5.04	7.24	6.75	6.69	6.66
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	38.29	38.84	37.94	38.69	39.10
Operating profit margin	35.99	36.26	35.70	36.22	36.45
Pre-tax margin	22.25	23.80	24.41	25.45	26.18
Net profit margin	19.45	20.75	21.48	22.40	23.04
Selling & administrative expenses/revenue	2.07	1.88	2.00	2.00	2.00
Effective tax rate	12.59	12.83	12.00	12.00	12.00
<b>Growth (%)</b>					
Revenue	-4.80	7.79	13.87	11.55	9.27
Gross profit	0.31	9.34	11.22	13.77	10.42
Operating profit	9.15	8.61	12.09	13.18	9.98
Net profit	19.25	15.01	17.92	16.28	12.43
<b>Balance sheet ratios</b>					
Current ratio (x)	0.32	0.23	0.26	0.30	0.29
Quick ratio (x)	0.20	0.13	0.17	0.20	0.19
Cash ratio (x)	0.06	0.06	0.07	0.10	0.08
Trade and bill receivables days	128.36	78.72	100.00	100.00	100.00
Trade and bill payables turnover days	33.12	57.78	50.00	50.00	50.00
Inventory turnover days	33.00	32.82	30.00	30.00	30.00
Total debt / equity ratio (%)	211.54	195.95	197.19	197.91	189.59
Net debt / equity ratio (%)	202.98	203.32	201.65	196.37	189.13
<b>Returns (%)</b>					
ROAA	2.2	2.2	2.5	2.6	2.8
ROAE	8.0	8.4	9.5	10.1	10.5
Payout ratio	18.78	20.00	20.00	20.00	20.00

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

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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**