

October 28, 2013 Company Report Rating: BUY TP: HK\$ 3.60

H-Share price (HK\$)	3.14
Est. share price return	14.65%
Est. dividend yield	1.73%
Est. total return	16.38%

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Key Data

52Wk H/L(HK\$)	3.48/1.32
Issued shares (mn)	6,150
H-Shares (mn)	1,638
Domestic (mn)	4,512
H-share Market cap	6,170
3-mth avg daily turnover (HK\$ mn)	26.82
Major shareholder(s) (%):	
BEIH	68.58
% of H-share:	
Beijing Enterprises Energy Tech	11.15
SAIF Partners	8.83
Keywise Capital	7.49
Goldwind New Energy	7.13
Chen Li	6.97
Norges Bank	5.98

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Sales of electricity	98.62
Others	1.38

Source(s): Company, ABCI Securities

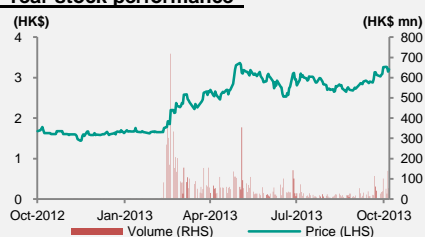
Share performance (%)

	Absolute	Relative*
1-mth	12.63	14.72
3-mth	6.64	2.81
6-mth	25.88	24.56

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

BJCE (579 HK)

Major beneficiary in Beijing's cleanup campaign

- Determination of Beijing Municipal Government to reduce air pollution will continue to drive construction of gas-fired cogeneration plants in Beijing. As the largest state-owned gas-fired provider in the city, BJCE will become the largest beneficiary under the supportive policy
- Increasing gas price will erode BJCE's profit but we believe government will also increase subsidy accordingly
- Based on our DCF model with a WACC of 8.5%, we set our TP at HK\$3.60, which represents 12.0x FY14 PE and 1.52x FY14 PB. Recommend BUY

Government's strong support accelerates capacity growth. To reduce the severe air pollution problem, the Beijing municipal government provides strong support and subsidies to gas-fired power generation in order to meet the coal-free objective within the fifth ring road target by end-2015. The Group's earnings will be driven by capacity growth from three major gas-fired projects, namely, the Jingxi co-gen power plant (1,308MW), Gaoantun co-gen power plant (845MW) and Future Sci-Tech City distributed energy project (240MW). The consolidated capacity of 2,393MW is expected to commence operation in late Nov 2013 and 2014 respectively, doubling the Group's installed capacity to 4,421MW by end-2014 from 2,208MW in 1H13 (2,028 in end-2012).

Diversified power operator. The Group is the ninth largest wind power operator in China in terms of installed capacity. We expect wind power installed capacity to increase by 11% YoY to 1,887MW in 2014 and utilization hours to improve to 2,100 as curtailment rate decreases. Revenue from wind power accounted for 31.8% of total revenue. The diversified operating model reduces the Group's reliance on a single natural resource and generates a stable revenue stream.

Concerns on increasing gas price. NDRC announced to raise average price of non-residential use natural gas retail price by 18.2% to RMB1.95/m³, effective on July 10, 2013. Beijing will raise retail price of natural gas used for power generation by 17.1% to RMB 2.67/m³. The Group's natural gas purchased is subsidized by the government and is calculated based on the price of natural gas. In addition, Beijing plans to increase fiscal expenditure on energy saving and environment conservation by 58.5%YoY to RMB 10.3bn in 2013. We assume that the higher natural gas price will be offset by increased subsidy. Nevertheless, we calculate that for each 5% increase in natural gas price, the Group's net profit will drop by 22%. The reverse is true for each 5% decline in natural gas price.

Recommend BUY with TP at HK\$ 3.60. The Group issued 327mn H-shares at HK\$ 2.82 each and raised a total of HK\$905.2mn in Oct 2013. Thus, previous concerns on earnings dilution have been cleared. Based on our DCF model with a WACC of 8.5%, we set our TP at HK\$ 3.60, which represents 12.0x FY14E P/E and 1.52x FY14E P/B. Recommend BUY.

Risk factors: (1) High gearing; (2) Increase in natural gas price; (3) Policy risks.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	4,051	4,152	7,243	10,930	13,042
Chg (% YoY)	11.75	2.49	74.47	50.90	19.33
Net Income (RMB mn)	845.8	910.1	1,315.5	1,534.6	1,829.5
EBITDA (RMB mn)	1,401	1,670	2,196	3,873	4,713
Chg (% YoY)	20.94	19.23	31.50	76.34	21.70
EPS (RMB)	0.1682	0.1481	0.2139	0.2369	0.2824
Chg (% YoY)	64.42	-11.95	44.43	10.76	19.22
BVPS (RMB)	1.8352	1.4711	1.7636	1.8707	2.1058
Chg (% YoY)	29.65	-19.84	19.89	6.07	12.57
P/E (x)	-	16.73	11.58	10.46	8.77
P/B (x)	-	1.68	1.40	1.32	1.18
ROE (%)	9.49	9.05	13.23	13.15	14.94
ROA (%)	3.48	3.07	3.79	3.50	4.00
DPS(RMB)	0.0087	0.0375	0.0428	0.0474	0.0565
Yield (%)	0.35	1.51	1.73	1.91	2.28
Net gearing* (%)	106.1	174.3	162.9	175.4	200.1

*Net gearing=Net debt/Total equity

Source(s): Company, ABCI Securities estimate

Consolidated income statement (2011A-2015)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Revenue	4,050.7	4,151.6	7,243.1	10,929.6	13,041.9
Other income	963.1	733.2	1,030.7	2,663.3	3,530.2
Total income	5,013.9	4,884.8	8,273.8	13,592.9	16,572.1
Gas consumption	(2,110.1)	(1,841.3)	(4,198.9)	(8,346.4)	(10,189.9)
Service concession construction costs	0.0	0.0	0.0	0.0	0.0
D&A	(801.5)	(854.4)	(1,068.4)	(1,348.4)	(1,628.4)
Personnel costs	(211.7)	(249.1)	(362.2)	(546.5)	(652.1)
Repairs and maintenance	(105.6)	(151.2)	(30.9)	(79.9)	(105.9)
Other expenses	(213.5)	(291.3)	(455.1)	(747.6)	(911.5)
Other gains and losses	(9.2)	51.4	0.0	0.0	0.0
EBIT	1,562.3	1,548.8	2,158.4	2,524.1	3,084.4
Interest income	16.3	27.9	13.0	13.0	13.0
Finance costs	(591.5)	(708.5)	(835.8)	(942.9)	(1,142.9)
Share of results of associates	147.4	243.5	280.0	280.0	280.0
Share of results of jointly controlled entities	(0.3)	0.2	0.4	0.4	0.4
EBT	1,134.2	1,111.9	1,616.1	1,874.6	2,234.8
Tax	(196.8)	(123.5)	(193.9)	(215.6)	(257.0)
MI	(91.5)	(78.3)	(106.7)	(124.4)	(148.3)
Net profit	845.8	910.1	1,315.5	1,534.6	1,829.5
Adjusted EBITDA	1,400.7	1,670.0	2,196.1	3,872.5	4,712.8
Adjusted EBIT	599.1	815.6	1,127.7	(139.3)	(445.8)
Dividends	53.7	230.6	263.1	306.9	365.9
No. of issued shares at end of period (mn)	6,032.2	6,149.9	6,149.9	6,477.4	6,477.4
H-shares	1,508.1	1,637.5	1,965.1	1,965.1	1,965.1
Domestic shares	4,524.1	4,512.4	4,512.4	4,512.4	4,512.4
Per share value (RMB)					
FD EPS	0.1682	0.1481	0.2139	0.2369	0.2824
NBV	1.8352	1.4711	1.7636	1.8707	2.1058
DPS	0.0087	0.0375	0.0428	0.0474	0.0565

Source(s): Company, ABCI Securities estimates

Key Ratio (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Profitability ratio (%)					
Adjusted EBITDA margin	34.58	40.23	30.32	35.43	36.14
Adjusted EBIT margin	14.79	19.64	15.57	-1.27	-3.42
EBT margin	28.00	26.78	22.31	17.15	17.14
Net profit margin	20.88	21.92	18.16	14.04	14.03
ROAA	3.48	3.07	3.79	3.50	4.00
ROAE	9.49	9.05	13.23	13.15	14.94
Cost ratio (%)					
Personnel costs/Sales	-5.2	-6.0	-5.0	-5.0	-5.0
Repair & maintenance/Sales	-2.6	-3.6	-3.0	-3.0	-3.0
Other expenses/Sales	-5.3	-7.0	-5.5	-5.5	-5.5
Effective tax rate	-17.4	-11.1	-12.0	-11.5	-11.5
Leverage (x)					
Current ratio	0.61	0.63	1.00	0.96	0.96
Quick ratio	0.60	0.63	0.99	0.95	0.95
Net debt/total equity (%)	106.1	174.3	162.9	175.4	200.1
Working capital cycle (days)					
Inventory turnover days	4.3	5.7	4.0	4.0	4.0
Receivables turnover days	117.0	128.1	80.0	80.0	80.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
PPE	14,866.4	17,405.5	21,536.0	28,386.5	34,957.1
Intangible assets	4,795.8	4,656.1	4,656.1	4,656.1	4,656.1
Goodwill	124.2	124.2	124.2	124.2	124.2
Others	3,319.6	4,061.2	4,061.2	4,061.2	4,061.2
Non-current assets	23,106.0	26,247.0	30,377.4	37,228.0	43,798.6
Inventories	59.8	69.9	88.9	150.7	135.2
Trade and bill receivables	1,440.0	1,475.2	1,699.9	3,091.2	2,625.8
Other receivables, deposits and prepayments	153.1	317.6	63.4	511.5	174.5
Current tax assets	1.0	11.5	11.5	11.5	11.5
Amounts due from related parties	285.8	138.5	138.5	138.5	138.5
Prepaid lease payments	2.9	2.1	2.1	2.1	2.1
Value-added tax recoverable	291.3	426.8	426.8	426.8	426.8
Restricted bank deposits	0.0	207.6	207.6	207.6	207.6
Cash and cash equivalents	2,747.3	2,178.0	5,275.0	6,698.7	5,655.5
Current assets	4,981.2	4,827.1	7,913.6	11,238.6	9,377.5
Assets classified as held for sale		35.0	35.0	35.0	35.0
Trade and other payables	1,578.8	1,915.1	2,226.3	6,005.8	4,044.5
Amounts due to related parties	242.6	1,339.3	1,339.3	1,339.3	1,339.3
Bank and other borrowings-due within one year	6,127.5	4,266.8	4,266.8	4,266.8	4,266.8
Income tax payable	96.9	49.5	49.5	49.5	49.5
Deferred income-current portion	160.1	32.9	32.9	32.9	32.9
Current liabilities	8,205.9	7,603.6	7,914.8	11,694.3	9,733.0
Liabilities associate with assets classified as held for sale	0.0	1.2	1.2	1.2	1.2
Bank and other borrowings-due after one year	8,364.6	9,305.9	14,305.9	19,305.9	24,305.9
Medium-term notes		1,000.0	1,000.0	1,000.0	1,000.0
Corporate bonds		3,582.9	3,582.9	3,582.9	3,582.9
Deferred tax liabilities	26.4	24.9	24.9	24.9	24.9
Deferred income	42.1	268.3	268.3	268.3	268.3
Other non-current liabilities	0.0		0.0	0.0	0.0
Non-current liabilities	8,433.0	14,182.0	19,182.0	24,182.0	29,182.0
Total assets	28,087.2	31,109.1	38,326.0	48,501.5	53,211.0
Net assets	11,448.3	9,322.3	11,228.1	12,624.0	14,294.9
CAPITAL AND RESERVES					
Share capital	6,032.2	6,149.9	6,864.1	6,864.1	6,864.1
Reserves	5,038.3	2,896.9	3,981.7	5,253.3	6,775.8
Equity attributable to owners of the Company	11,070.5	9,046.8	10,845.8	12,117.4	13,639.9
Non-controlling interests	377.8	275.5	382.2	506.6	655.0
Total Equity	11,448.3	9,322.3	11,228.0	12,624.0	14,294.9

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	1,400.7	1,670.0	2,196.1	3,872.5	4,712.8
Change in working capital	3.9	(607.9)	321.6	1,878.4	(1,143.6)
Others	960.8	685.4	1,030.7	0.0	0.0
Cash (used in)/generated from operations	2,365.3	1,747.5	3,548.4	5,750.9	3,569.2
Income tax paid	(183.2)	(180.7)	(193.9)	(215.6)	(257.0)
CF from operating activities	2,182.0	1,566.8	3,354.5	5,535.3	3,312.2
CAPEX	(3,674.0)	(4,110.3)	(5,000.0)	(8,000.0)	(8,000.0)
Others	176.0	663.0	13.0	13.0	13.0
Cash flows from investing activities	(3,498.0)	(3,447.3)	(4,987.0)	(7,987.0)	(7,987.0)
Net borrowing	2,627.3	(625.0)	5,000.0	5,000.0	5,000.0
Proceeds from issue of shares	1,382.8	(940.4)	714.2	0.0	0.0
Bonds issuance	0.0	4,580.2	0.0	0.0	0.0
Dividends paid	(105.0)	(671.6)	(230.6)	(263.1)	(306.9)
Interest paid	(584.3)	(586.3)	(835.8)	(942.9)	(1,142.9)
Others	105.9	(445.5)	0.0	0.0	0.0
Cash flows from financing activities	3,426.7	1,311.3	4,647.8	3,794.0	3,550.2
Net (decrease)/increase in cash and cash equivalents	2,110.7	(569.2)	3,015.3	1,342.3	(1,124.6)
Cash and cash equivalents at beginning of year/period	638.8	2,747.3	1,330.1	5,275.0	6,698.7
Effect of foreign exchange rates, net	(4.0)	0.0	0.0	0.0	0.0
Cash and cash equivalents at end of year/period	2,745.5	2,178.1	4,345.5	6,617.3	5,574.1

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

Definition of share price risk

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

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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