



# China Longyuan Power (916 HK)

## Nov wind power output up 22%YoY

- Longyuan announced its Nov operation data on Dec 6
- Wind power gross output was 3,745GWh (+22%YoY) in Nov, mainly driven by northeast and Inner Mongolia regions
- Total wind power output in 11M17 reached 93% of our full-year estimate, ahead of the historical run rate of 90%. Based on current development, our full-year output growth estimate at 11%YoY will be reached
- Maintain **BUY** with TP of HK\$7.50, which implies 12.8x/12.2x 2017/18E P/E and 1.2x/1.1x 2017/18E P/B

**47%/34%YoY strong growth in northeast and Inner Mongolia was the key booster.** Wind power output in northeast / Inner Mongolia regions soared 47%/34%YoY, contributing to 17% /17% of Longyuan's Nov output. Such strong increase reflects effectiveness of the government in tackling air pollution and promoting renewable energy after the 19<sup>th</sup> NCCPC. Coal-fire power output should continue to fall while the mix of wind and nuclear power would continue to rise in China's energy output.

**High single-digit output growth expected for Dec due to high base.** We expected Longyuan to deliver a high single-digit growth in Nov due to high base in 2016 (+ 42%YoY growth); hence the 22%YoY growth presents a surprise on the upside. Nov output is the Group's historical highest. For Dec, we expect Longyuan to deliver a high single-digit growth as the high base effect continues (+ 23%YoY growth in Dec 2016). MoM growth may decline given the high base in Nov.

**2017 power output growth at 11%YoY will be achieved - expect 17%YoY earnings growth.** 11M17 total wind power output was up 15% YoY. Total output corresponds to 93% of our full-year estimate and is ahead of historical run rate of 90%. We believe our 2017E power output growth at 11%YoY will be achieved. Supported by solid power output growth and improved margins in coal sales business, Longyuan's 2017E earnings would go up by 17%YoY.

**TP at HK\$ 7.50; maintain BUY.** We continue to favor Longyuan's well-diversified asset and leading position in China's wind power industry. We project the Group's wind power output to expand by a double digit for the next three years. Our TP at HK\$ 7.50, which implies a valuation of 12.8x/12.2x 2017/18E P/E and 1.2x/1.1x 2017/18E P/B, is based on the assumption of a 2016-19E EPS CAGR of 15%. 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	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	19,683	22,304	24,965	27,837	31,209
Chg (% YoY)	8.0	13.3	11.9	11.5	12.1
Net profit (RMB mn)	2,878	3,415	4,010	4,219	5,185
Chg (% YoY)	12.7	18.7	17.4	5.2	22.9
EPS (RMB)	0.358	0.425	0.499	0.525	0.645
Chg (% YoY)	12.7	18.7	17.4	5.2	22.9
BVPS (RMB)	4.373	4.716	5.427	5.947	6.550
Chg (% YoY)	6.2	7.8	15.1	9.6	10.1
P/E (x)	12.00	10.11	8.61	8.18	6.66
P/B (x)	0.98	0.91	0.79	0.72	0.66
ROE (%)	8.19	9.01	9.19	8.83	9.85
ROA (%)	2.15	2.46	2.66	2.60	3.00
DPS (RMB)	0.072	0.085	0.100	0.105	0.129
Yield (%)	1.67	1.98	2.32	2.44	3.00
Net gearing (%)	203.9	194.9	181.1	172.8	163.6

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Dec 7, 2017

Rating: **BUY**

TP: HK\$ 7.50

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Share price (HK\$)	5.05
Est. share price return	48.5%
Est. dividend yield	2.3%
Est. total return	50.9%
Previous Rating & TP	BUY
Previous Report Date	Nov 8, 2017

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.1/5.0
Issued shares (mn)	8,036
Issued H-shares (mn)	3,340
Market cap (HK\$ mn)	40,584
H-share Market cap (HK\$ mn)	16,867
3-mth avg daily turnover(HK\$ mn)	85
Major shareholder(s) (%)	
Guodian Corp.	58.4%

Source(s): Company, ABCI Securities

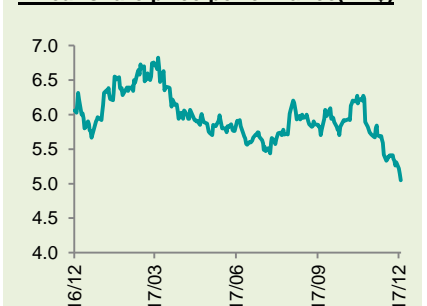
### Share Performance

	Absolute	Relative*
1-mth	(11.75)	(6.79)
3-mth	(12.63)	(12.75)
6-mth	(14.68)	(19.50)

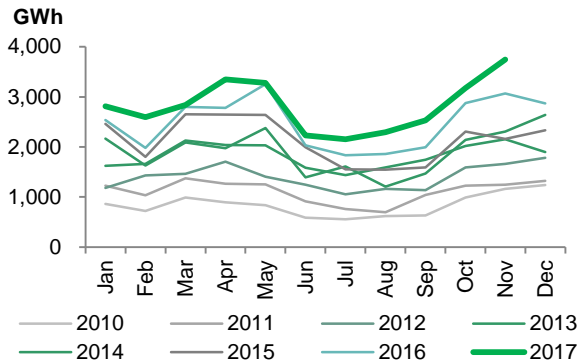
\*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

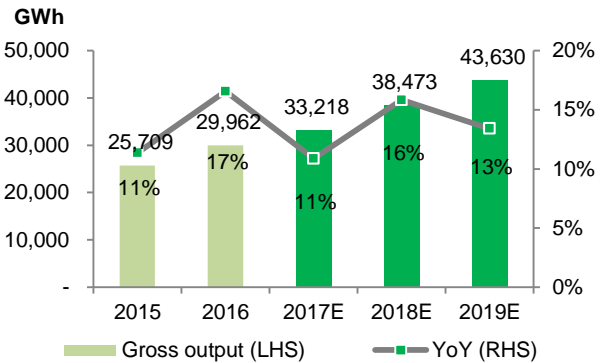
### 1-Year share price performance(HK\$)



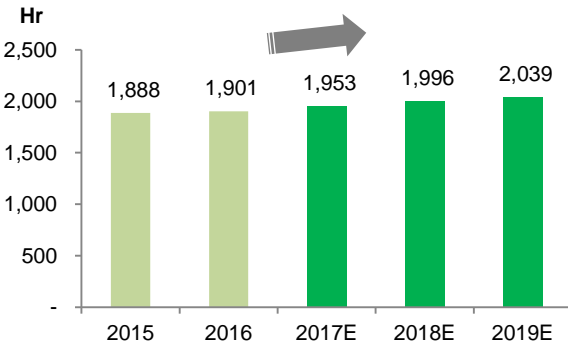
Source(s): Bloomberg, ABCI Securities

**Exhibit 1: Longyuan's monthly operation data: record-high in single month output in Nov 2017**


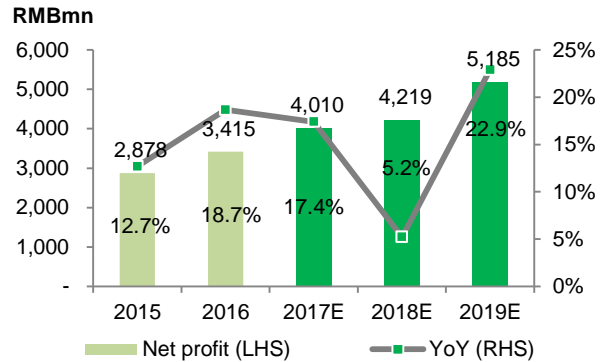
Source(s): Company, ABCI Securities

**Exhibit 2: Longyuan's wind power output would remain robust**


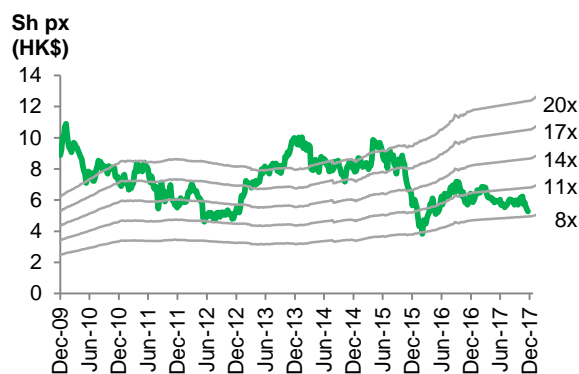
Source(s): Company, ABCI Securities estimates

**Exhibit 3: Longyuan's utilization hour would continue to improve**


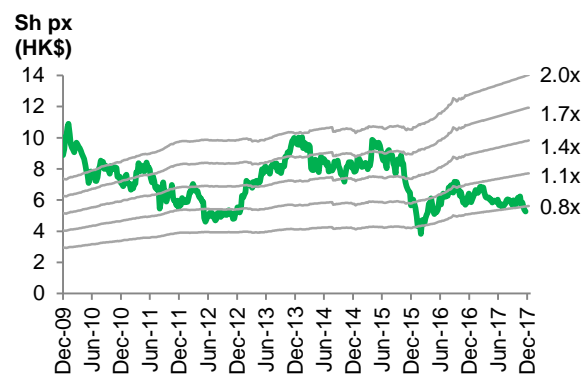
Source(s): Company, ABCI Securities estimates

**Exhibit 4: Longyuan's net profit outlook**


Source(s): Company, ABCI Securities estimates

**Exhibit 5: Longyuan's fwd P/E chart**


Source(s): Company, ABCI Securities estimates

**Exhibit 6: Longyuan's fwd P/B chart**


Source(s): Company, ABCI Securities estimates

**Consolidated income statement**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Revenue</b>	<b>19,683</b>	<b>22,304</b>	<b>24,965</b>	<b>27,837</b>	<b>31,209</b>
Wind power	12,365	13,950	15,448	17,179	19,483
Coal-fire power	5,896	7,270	8,216	9,239	10,149
Other	1,422	1,085	1,300	1,418	1,577
<b>Cost of sales</b>	<b>-12,045</b>	<b>-14,456</b>	<b>-15,416</b>	<b>-17,658</b>	<b>-19,331</b>
<b>Gross Profit</b>	<b>7,638</b>	<b>7,848</b>	<b>9,549</b>	<b>10,179</b>	<b>11,878</b>
SG&A expenses	-373	-429	-524	-585	-655
Net financial income (cost)	-3,039	-2,774	-3,314	-3,543	-3,701
Other income/ (expenses)	441	505	256	227	194
<b>Profit before tax</b>	<b>4,669</b>	<b>5,150</b>	<b>5,967</b>	<b>6,279</b>	<b>7,715</b>
Tax	-601	-660	-955	-1,005	-1,234
<b>Net profit</b>	<b>4,068</b>	<b>4,490</b>	<b>5,012</b>	<b>5,274</b>	<b>6,481</b>
Profit attributable to:					
Minority interest	1,189	941	852	897	1,102
Perpetual medium-term note holders	0	133	150	158	194
<b>Equity shareholders of the Company</b>	<b>2,878</b>	<b>3,415</b>	<b>4,010</b>	<b>4,219</b>	<b>5,185</b>
<b>Basic EPS (RMB)</b>	<b>0.358</b>	<b>0.425</b>	<b>0.499</b>	<b>0.525</b>	<b>0.645</b>
<b>DPS (RMB)</b>	<b>0.072</b>	<b>0.085</b>	<b>0.100</b>	<b>0.105</b>	<b>0.129</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet**

<b>As of Dec 31 (RMB mn)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Current assets</b>	<b>12,704</b>	<b>13,333</b>	<b>17,190</b>	<b>19,021</b>	<b>21,119</b>
Cash	2,887	1,905	2,086	3,000	3,297
Pledged and restricted bank deposits	387	28	28	28	28
Trade and bill receivables	4,243	5,901	8,892	9,152	10,260
Other receivables and prepayments	3,070	3,644	4,104	4,576	5,130
Inventories	1,081	1,040	1,267	1,451	1,589
Other current assets	1,036	814	814	814	814
<b>Non-current assets</b>	<b>121,164</b>	<b>125,328</b>	<b>133,527</b>	<b>143,017</b>	<b>151,985</b>
Property, plant & equipment	98,997	105,598	111,778	120,359	128,805
Investment properties	5	4	4	4	4
Intangible assets	8,699	8,860	8,946	9,036	9,131
Investment in JV and associates	4,822	4,483	4,807	5,169	5,575
Deferred tax assets	155	151	151	151	151
Other non-current assets	8,486	6,232	7,842	8,298	8,319
<b>Total Assets</b>	<b>133,867</b>	<b>138,661</b>	<b>150,718</b>	<b>162,038</b>	<b>173,104</b>
<b>Current Liabilities</b>	<b>56,000</b>	<b>55,807</b>	<b>60,652</b>	<b>65,089</b>	<b>68,672</b>
Trade and bill payables	1,902	2,550	2,112	2,419	2,648
Other payables	9,121	8,747	9,890	11,303	12,357
Short term borrowings	44,977	44,472	48,650	51,367	53,667
Other current assets	0	39	0	0	0
<b>Non-current liabilities</b>	<b>33,293</b>	<b>35,067</b>	<b>35,713</b>	<b>37,524</b>	<b>39,057</b>
Deferred tax liabilities	106	138	138	138	138
Long-term borrowings	29,970	31,327	32,434	34,245	35,778
Other non-current assets	3,217	3,602	3,141	3,141	3,141
<b>Total Liabilities</b>	<b>89,293</b>	<b>90,874</b>	<b>96,365</b>	<b>102,613</b>	<b>107,729</b>
<b>Minority interests</b>	<b>6,439</b>	<b>6,896</b>	<b>7,749</b>	<b>8,645</b>	<b>9,747</b>
<b>Perpetual medium-term note</b>	<b>2,991</b>	<b>2,991</b>	<b>2,991</b>	<b>2,991</b>	<b>2,991</b>
<b>Shareholders' equities</b>	<b>35,145</b>	<b>37,899</b>	<b>43,614</b>	<b>47,789</b>	<b>52,637</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement**

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Profit before tax	4,676	5,150	5,967	6,279	7,715
Change in depreciation and amortization	5,554	6,342	6,962	7,662	8,388
Change in Working Capital	4,175	483	-2,972	803	-517
Net financial cost (income)	2,671	2,602	2,889	3,305	3,497
Income tax paid	-525	-634	-941	-852	-897
Net interest received	0	0	0	0	0
Others	-227	-411	-325	-362	-406
<b>Operating cash flow</b>	<b>16,325</b>	<b>13,533</b>	<b>11,579</b>	<b>16,836</b>	<b>17,781</b>
Capex	-15,264	-13,990	-12,643	-15,720	-16,286
Increase in intangible assets	0	0	-584	-613	-644
Others	-1,055	2,781	211	97	106
<b>Investing cash flow</b>	<b>-16,319</b>	<b>-11,209</b>	<b>-13,015</b>	<b>-16,237</b>	<b>-16,824</b>
Net Capital raise	0	0	0	0	0
Net debt financing	4,837	792	5,285	4,528	3,833
Dividend payout	-1,174	-1,306	-683	-802	-844
Interest paid	-3,368	-3,149	-2,985	-3,411	-3,649
Others	212	379	0	0	0
<b>Financing cash flow</b>	<b>507</b>	<b>-3,284</b>	<b>1,616</b>	<b>315</b>	<b>-660</b>
<b>Net change in cash</b>	<b>513</b>	<b>-961</b>	<b>180</b>	<b>914</b>	<b>297</b>
Cash at the beginning	2,396	2,887	1,905	2,086	3,000
Adjustment (Time deposit & FX effect)	-21	-21	0	0	0
<b>Cash at the end</b>	<b>2,887</b>	<b>1,905</b>	<b>2,086</b>	<b>3,000</b>	<b>3,297</b>

Source(s): Company, ABCI Securities estimates

**Key ratio**

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
<b>Sales mixed (%)</b>					
Wind power	62.82	62.54	61.88	61.71	62.43
Coal-fire power	29.95	32.59	32.91	33.19	32.52
Other	7.23	4.86	5.21	5.10	5.05
<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	38.81	35.19	38.25	36.57	38.06
Operating profit margin	36.23	33.84	35.88	33.98	35.28
Pre-tax margin	23.72	23.09	23.90	22.56	24.72
Net profit margin	20.67	20.13	20.08	18.95	20.77
Selling & administrative expenses/revenue	1.89	1.92	2.10	2.10	2.10
Effective tax rate	12.87	12.82	16.00	16.00	16.00
<b>Growth (%)</b>					
Revenue	7.98	13.32	11.93	11.50	12.11
Gross profit	9.43	2.75	21.68	6.60	16.69
Operating profit	8.70	5.83	18.67	5.62	16.39
Net profit	14.76	10.38	11.63	5.23	22.88
<b>Balance sheet ratios</b>					
Current ratio (x)	0.23	0.24	0.28	0.29	0.31
Quick ratio (x)	0.13	0.14	0.18	0.19	0.20
Cash ratio (x)	0.06	0.03	0.03	0.05	0.05
Trade and bill receivables days	78.67	96.57	130.00	120.00	120.00
Trade and bill payables turnover days	57.65	64.38	50.00	50.00	50.00
Inventory turnover days	32.75	26.26	30.00	30.00	30.00
Total debt / equity ratio (%)	213.25	200.00	185.91	179.15	169.93
Net debt / equity ratio (%)	203.93	194.90	181.07	172.81	163.61
<b>Returns (%)</b>					
ROAA	2.2	2.5	2.8	2.7	3.1
ROAE	8.4	9.4	9.8	9.2	10.3
Payout ratio	20.02	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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