



# Company Report

## JNCEC (579 HK) – Hold

### Independent Power Producers

12-month target price: HK\$1.74

#### Key data

Share price (HK\$)	1.64
Target price (HK\$)	1.74
Upside potential (%)	6.0%
52Wk H/L(HK\$)	1.85 / 1.57
Issued shares (mn)	6,149.9
H-shares (mn)	1,637.6
Domestic shares (mn)	4,512.4
H-share market cap (HK\$mn)	1,637.6
30-day avg turnover (HK\$mn)	0.24
Major shareholder (%):	
BEIH	68.0

Source: Company & Bloomberg

#### Revenue composition in FY11 (%)

Gas	69.1%
Wind	30.1%
Hydro	0.3%
Others	0.5%

Source: Company

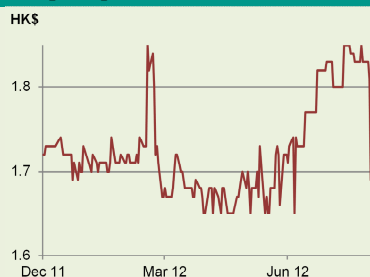
#### Share performance (%)

	Absolute	Relative*
1-mth	(5.7)	(10.5)
3-mth	1.2	(4.7)
6-mth	(0.6)	7.0

\*Relative to Hang Seng Index

Source: Bloomberg

#### Share price performance



Source: Bloomberg

#### Analyst

Report Date: 27 August 2012

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Previous report

Date: 11 Apr 2012

Rating – HOLD

#### Key takeaways from analyst presentation

The group posted net profit of Rmb423.5mn in 1H2012, which is in line with expectation. Capacity plan of gas-fired power business is on track and is expected to bring in significant contribution to 2013 earnings. But due to the slight delay in wind power projects construction, we lower our target price by 1.7% to HK\$1.74, representing est 2012 PE of 8.6x and PB of 0.95x. Maintain Hold.

**Half-year results in line with expectation:** The group posted revenue of Rmb1,809.7mn, down 4.4% YoY/10.1% HoH mainly due to the decrease in heat and electricity sales of the gas-fired power segment as a result of the inspection and maintenance of power generation units. But thanks to twice on-grid tariff hikes in Apr and Dec last year and decrease in unit gas consumption, net profit of the group increased by 4.9% YoY/6.0% HoH to Rmb423.5mn.

**Capacity plan on track:** Installed capacity of the group's gas-fired power business is expected to increase by 87.2% YoY to 2,228MW by the end of 2012 and 288.2% YoY to 4,620MW by the end of 2013. For the wind segment, installed capacity is expected to reach 1,790MW in 2012 and 3,700MW in 2013, representing YoY growth of 37.4% and 154.9% respectively.

**Valuation:** We lower our est 2012 FD EPS slightly by 1.6% to Rmb0.1647 due to a slight decrease in expected wind installed capacity in 2012. We lower our target price by 1.7% to HK\$1.74, representing est 2012 PE of 8.6x and PB of 0.95x. Maintain Hold.

**Risk factors:** Change in government subsidy policy, high gearing, fuel costs

#### Results and Valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	4,785.5	3,624.8	3,905.0	5,065.5	9,030.2
YoY Chg (%)	112.1%	-24.3%	7.7%	29.7%	78.3%
Net Income (Rmb mn)	179.6	488.9	803.5	1,012.6	1,355.0
YoY Chg (%)	299.5%	172.2%	64.3%	26.0%	33.8%
FD EPS (Rmb)	0.0488	0.1023	0.1332	0.1647	0.2203
YoY Chg (%)	178.9%	109.6%	30.2%	23.6%	33.8%
NBV (Rmb/share)	1.4351	1.4155	1.4558	1.4847	1.6721
PE (x)	-	-	10.61	8.58	6.41
PB (x)	-	-	0.97	0.95	0.85
ROAA (%)	1.13%	2.43%	3.48%	3.33%	3.31%
ROAE (%)	3.99%	8.12%	10.34%	11.31%	13.96%
Net D/E (%)	214.0%	162.3%	134.4%	250.5%	304.6%

\*We assume Rmb1 = HK\$1.23; Source: Company, ABCI Securities estimates

## Key takeaways

**Results in line with expectation:** The group posted revenue of Rmb1,809.7mn, down 4.4% YoY/10.1% HoH mainly due to the decrease in heat and electricity sales of the gas-fired power segment as a result of the inspection and maintenance of power generation units. But thanks to twice on-grid tariff hikes in Apr and Dec last year and decrease in unit gas consumption, net profit of the group increased by 4.9% YoY/6.0% HoH to Rmb423.5mn.

Utilization hours of the gas-fired plants was 1,750 hours in 1H2012 but the management is confident that it can meet annual target of 4,500 hours in 2012 as winter will be the peak season of the business. We make a more conservative assumption of 4,250 utilization hours in 2012 and 2013. On the other hand, utilization hours of the wind-power segment was 1,006hrs in 1H2012, and we believe our 2012 assumptions of 2,151 hours is achievable as wind speed starts to pick up.

**Capacity plan on track:** No capacity is added to the gas-fired power and wind power in 1H2012 but the construction of Jingqiao Power Plant with a capacity of 838MW was substantially completed which is in line with the original expansion plan. As the Jingqiao Power Plant is expected to commence production in 4Q2012, the new capacity will be fully reflected in 2013 results. In addition, the equipment procurement bidding process for the Gaoantun project was completed while the Gaojing Project, which obtained approval in Mar 2012, has already entered the phase for the design plan optimization and equipment procurement bidding. We believe the Gaoantun and Gaojing projects will be able to commence operation in 4Q2013. Installed capacity of the gas-fired power of the group is expected to increase by 87.2% YoY to 2,228MW by the end of 2012 and 288.2% YoY to 4,620MW by the end of 2013. For the wind segment, installed capacity is expected to reach 1,790MW in 2012 and 3,700MW in 2013, representing YoY growth of 37.4% and 154.9% respectively.

### Gas-Fired Power Project of the group

Location	Projects	Commencement	Installed capacity (MW)
Southwest Thermal Power Centre	Jingqiao Gas-Fired Power Project	2012	838
Northwest Thermal Power Centre	Gaoantun Gas-fired Power Project	2013 (Approved in 2011)	845
Northwest Thermal Power Centre	Gaojing Gas-fired Power Project	2013 (Preliminary approval was granted)	1,308
<b>Total:</b>			<b>2,991</b>

Source: Company

**Funding needs:** CAPEX will reach Rmb4.4bn in 2H2012 (total of Rmb6.0bn in 2012) and Rmb10bn in 2013 in order to support the construction of Gaoantun and Gaojing gas fired plants as well as the wind power projects. We expect borrowings (e.g. corporate bonds) will continue to be the major channel for the group to get its funding needs and we estimate gearing ratio will increase from 140% as at 30 Jun 2012 to 250% by the end of 2012.

**Valuation:** We lower our est 2012 FD EPS slightly by 1.6% to Rmb0.1647 due to a slight decrease in expected wind installed capacity in 2012. We lower our target price by 1.7% to HK\$1.74, representing est 2012 PE of 8.6x and PB of 0.95x

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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

**Huaneng Renewables Corporation Limited****Major Assumptions**

FY ended Dec 31	2009	2010	2011	2012F	2013F
<b>Consolidated installed capacity (MW)</b>	<b>2,008</b>	<b>2,255</b>	<b>2,499</b>	<b>4282</b>	<b>8,584</b>
Gas	1,190	1,190	1,190	2,228	4,620
Wind	811	1,059	1,303	1,845	3,760
Hydro	6	6	6	264	264
<b>Gross generation (GWh)</b>	<b>4,680</b>	<b>7,390</b>	<b>7,745</b>	<b>9,748</b>	<b>17,621</b>
Gas	3,855	5,042	5,198	5,793	11,164
Wind	802	2,326	2,525	3,485	5,560
Hydro	23	22	22	471	898
<b>Net generation (GWh)</b>	<b>4,558</b>	<b>7,216</b>	<b>7,554</b>	<b>9,563</b>	<b>17,287</b>
Gas	3,748	4,906	5,058	5,677	10,941
Wind	787	2,288	2,474	3,415	5,448
Hydro	23	22	22	471	898
<b>Av utilization hours</b>					
Gas	3,239	4,237	4,250	4,250	4,250
Wind	2,243	2,369	2,000	2,150	2,150
Hydro	3,529	3,438	3,400	3,400	3,400
<b>Av on-grid tariffs (Rmb/kwh)</b>					
Gas	0.4825	0.5211	0.5580	0.5915	0.6151
(YoY)	14.8%	8.0%	7.1%	6.0%	4.0%
Wind	0.5412	0.5281	0.5418	0.5548	0.5659
(YoY)	7.9%	-2.4%	2.6%	2.4%	2.0%
Hydro	0.3133	0.2892	0.3227	0.3292	0.3358
(YoY)	14.6%	-7.7%	11.6%	2.0%	2.0%

Source: Company, ABCI Securities estimates

**Half-year results**

FY ended Dec 31 (Rmbmn)	1H11	2H11	1H12	YoY	HoH
Revenue	1,892.3	2,012.8	1,809.7	-4.4%	-10.1%
Other net income	429.3	532.8	308.3	-28.2%	-42.1%
<b>Total</b>	<b>2,321.6</b>	<b>2,545.6</b>	<b>2,117.9</b>	<b>-8.8%</b>	<b>-16.8%</b>
Gas consumption	(1,027.2)	(1,082.8)	(829.8)	-19.2%	-23.4%
Service concession construction costs	0.0	0.0	0.0	-	-
D&A	(391.6)	(376.1)	(406.6)	3.8%	8.1%
Personnel costs	(81.2)	(113.6)	(86.3)	6.2%	-24.1%
Repairs and maintenance	(36.2)	(66.6)	(45.1)	24.8%	-32.2%
Other expenses	(76.7)	(118.4)	(92.5)	20.6%	-21.8%
Other gains and losses	0.3	(6.3)	100.2	-	-
<b>EBIT</b>	<b>708.9</b>	<b>781.8</b>	<b>757.8</b>	<b>6.9%</b>	<b>-3.1%</b>
Interest income	9.2	6.2	13.8	50.5%	124.1%
Finance costs	(283.8)	(298.8)	(339.5)	19.6%	13.6%
Share of results of associates	78.3	69.1	106.2	35.6%	53.6%
Share of results of jointly controlled entities	(1.3)	1.0	0.1	-	-86.5%
<b>EBT</b>	<b>511.3</b>	<b>559.2</b>	<b>538.4</b>	<b>5.3%</b>	<b>-3.7%</b>
Tax	(76.3)	(99.3)	(75.2)	-1.5%	-24.3%
MI	(31.2)	(60.4)	(39.7)	27.4%	-34.2%
<b>Net Profit</b>	<b>403.9</b>	<b>399.6</b>	<b>423.5</b>	<b>4.9%</b>	<b>6.0%</b>



## Profit Forecast

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Revenue	4,785.5	3,624.8	3,905.0	5,065.5	9,030.2
Other net income	580.2	609.0	962.1	1,225.0	1,230.0
<b>Total</b>	<b>5,365.7</b>	<b>4,233.9</b>	<b>4,867.2</b>	<b>6,290.5</b>	<b>10,260.2</b>
Gas consumption	(1,458.6)	(1,970.5)	(2,110.1)	(2,541.6)	(5,045.2)
Service concession construction costs	(2,375.7)	0.0	0.0	0.0	0.0
D&A	(496.4)	(758.1)	(767.8)	(897.7)	(1,197.7)
Personnel costs	(119.4)	(184.3)	(194.8)	(253.3)	(316.1)
Repairs and maintenance	(98.7)	(104.5)	(102.7)	(152.0)	(270.9)
Other expenses	(335.9)	(235.2)	(195.1)	(314.5)	(513.0)
Other gains and losses	(3.6)	27.8	(6.0)	0.0	0.0
<b>EBIT</b>	<b>477.3</b>	<b>1,009.0</b>	<b>1,490.7</b>	<b>2,131.4</b>	<b>2,917.4</b>
Interest income	18.0	12.7	15.3	13.0	13.0
Finance costs	(299.2)	(500.3)	(582.6)	(969.7)	(1,269.7)
Share of results of associates	15.6	55.2	147.4	200.0	225.0
Share of results of jointly controlled entities	5.1	0.4	(0.3)	0.4	0.4
<b>EBT</b>	<b>216.7</b>	<b>577.1</b>	<b>1,070.5</b>	<b>1,375.1</b>	<b>1,886.1</b>
Tax	(17.8)	(56.3)	(175.6)	(247.5)	(377.2)
MI	(19.4)	(31.9)	(91.5)	(115.0)	(153.9)
<b>Net Profit</b>	<b>179.6</b>	<b>488.9</b>	<b>803.5</b>	<b>1,012.6</b>	<b>1,355.0</b>
<b>D&amp;A</b>	<b>(496.4)</b>	<b>(758.1)</b>	<b>(767.8)</b>	<b>(897.7)</b>	<b>(1,197.7)</b>
<b>Adjusted EBITDA</b>	<b>393.5</b>	<b>1,158.1</b>	<b>1,296.3</b>	<b>1,804.1</b>	<b>2,885.1</b>
<b>Adjusted EBIT</b>	<b>(102.9)</b>	<b>400.0</b>	<b>528.6</b>	<b>906.4</b>	<b>1,687.4</b>
<b>Dividends (post-listing)</b>	-	-	53.7	202.5	271.0
<b>Dividends (pre-listing)</b>	13.9	247.9	609.5	-	-
No. of issued shares at end of period (mn)	3,676.7	4,778.5	6,032.2	6,149.9	6,149.9
Domestic shares (mn shares)			4,524.1	4,512.4	4,512.4
H-shares (mn shares)			1,508.1	1,637.5	1,637.5
<b>Per share value (Rmb)</b>					
<b>Basic EPS</b>	0.0488	0.1023	0.1332	0.1647	0.2203
<b>NBV</b>	1.4351	1.4155	1.4558	1.4847	1.6721
<b>DPS</b>	-	-	0.00874	0.03293	0.04407
<b>Net debt per share</b>	3.0713	2.2969	1.9559	3.7189	5.0931

## Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
<b>Profitability</b>					
Adjusted EBITDA margin	8.2%	31.9%	33.2%	35.6%	31.9%
Adjusted EBIT margin	-2.2%	11.0%	13.5%	17.9%	18.7%
Net profit margin	3.8%	13.5%	20.6%	20.0%	15.0%
ROAA	1.13%	2.43%	3.48%	3.33%	3.31%
ROAE	3.99%	8.12%	10.34%	11.31%	13.96%
<b>Leverage</b>					
Current ratio	0.38	0.52	0.55	0.45	0.35
Quick ratio	0.37	0.51	0.54	0.44	0.34
Interest coverage (EBITDA/ Finance cost)	1.32	2.32	2.23	1.86	2.27
Net debt/Equity	214.0%	162.3%	134.4%	250.5%	304.6%

Source: Company, ABCI Securities estimates



### Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
PPE	11,104.1	11,812.7	14,044.4	25,375.2	36,376.4
Intangible assets	3,995.9	3,806.3	3,627.5	3,408.4	3,209.4
Others	2,256.2	2,707.3	3,270.6	3,270.6	3,270.9
<b>Non-current assets</b>	<b>17,356.2</b>	<b>18,326.3</b>	<b>20,942.5</b>	<b>32,054.1</b>	<b>42,856.7</b>
Inventories	11,279.1	17,356.2	18,326.3	20,942.5	32,054.1
Trade and bill receivables	85.8	35.0	35.1	51.4	59.6
Other receivables, deposits and prepayments	301.7	849.8	1,157.4	1,401.7	1,651.5
Other current assets	294.3	303.6	330.2	330.2	330.2
Cash and cash equivalents	753.9	638.8	2,443.4	1,370.9	420.3
Assets classified as held for sale	0.0	282.4	0.0	0.0	0.0
<b>Current assets</b>	<b>2,018.4</b>	<b>2,523.0</b>	<b>4,358.6</b>	<b>3,546.8</b>	<b>3,536.1</b>
Trade and other payables	1,563.5	1,644.3	1,367.0	1,418.3	3,557.7
Amounts due to related parties	97.6	157.6	260.7	320.0	320.0
Bank and other borrowings-due within one year	3,599.1	2,731.3	6,087.5	6,087.5	6,087.5
Income tax payable	9.3	43.5	65.8	65.8	65.8
Deferred income-current portion	27.9	90.6	160.1	0.0	0.0
Others	0.0	176.1	0.0	0.0	0.0
<b>Current liabilities</b>	<b>5,297.3</b>	<b>4,843.4</b>	<b>7,941.1</b>	<b>7,891.6</b>	<b>10,031.0</b>
Bank and other borrowings-due after one year	8,461.1	8,883.4	8,154.6	18,154.6	25,654.6
Deferred tax liabilities	0.0	4.2	3.8	3.8	3.8
Deferred income	50.7	44.7	42.1	42.1	42.1
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>8,511.7</b>	<b>8,932.4</b>	<b>8,200.5</b>	<b>18,200.5</b>	<b>25,700.5</b>
<b>Total assets</b>	<b>19,374.6</b>	<b>20,849.3</b>	<b>25,301.1</b>	<b>35,600.9</b>	<b>46,392.8</b>
<b>Net assets</b>	<b>5,565.5</b>	<b>7,073.5</b>	<b>9,159.4</b>	<b>9,508.8</b>	<b>10,661.2</b>
<b>Capital and Reserves</b>					
Share capital	1,006.4	5,000.0	6,032.2	6,032.2	6,032.2
Reserves	4,270.1	1,764.2	2,749.4	3,098.8	4,251.2
<b>Equity attributable to owners of the Company</b>	<b>5,276.6</b>	<b>6,764.2</b>	<b>8,781.6</b>	<b>9,131.0</b>	<b>10,283.4</b>
MI	289.0	309.3	377.8	377.8	377.8
<b>Total Equity</b>	<b>5,565.5</b>	<b>7,073.5</b>	<b>9,159.4</b>	<b>9,508.8</b>	<b>10,661.3</b>
<b>Net debt</b>	11,292.3	10,975.9	11,798.7	22,871.2	31,321.8
<b>Gross debt</b>	12,060.2	11,614.7	14,242.1	24,242.1	31,742.1

### Cash Flow Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
<b>EBITDA</b>	<b>393.5</b>	<b>1,158.1</b>	<b>1,296.3</b>	<b>1,804.1</b>	<b>2,885.1</b>
Change in working capital	(679.4)	(120.5)	(413.6)	(310.3)	1,199.5
Others	592.6	570.5	962.1	0.0	0.0
<b>Cash (used in)/generated from operations</b>	<b>306.8</b>	<b>1,608.1</b>	<b>1,844.8</b>	<b>2,718.8</b>	<b>5,314.5</b>
Income tax paid	(36.4)	(69.9)	(175.6)	(247.5)	(377.2)
<b>CF from operating activities</b>	<b>270.4</b>	<b>1,538.2</b>	<b>1,669.3</b>	<b>2,471.3</b>	<b>4,937.3</b>
CAPEX	(5,982.3)	(1,772.4)	(2,854.0)	(12,000.0)	(12,000.0)
Others	(151.6)	(159.5)	(613.8)	13.0	13.0
<b>Cash flows from investing activities</b>	<b>(6,133.9)</b>	<b>(1,931.9)</b>	<b>(3,467.8)</b>	<b>(11,987.0)</b>	<b>(11,987.0)</b>
New loans raised	5,559.4	(359.8)	2,730.5	10,000.0	7,500.0
Net proceeds from issue of shares	0.0	0.0	1,550.0	0.0	0.0
Dividends paid	0.0	(186.5)	(60.0)	(663.2)	(202.5)
Interest paid	(456.3)	(496.2)	(792.4)	(969.7)	(1,269.7)
Others	944.8	1,323.7	0.0	136.1	71.2
<b>Cash flows from financing activities</b>	<b>6,047.9</b>	<b>281.3</b>	<b>3,428.1</b>	<b>8,503.2</b>	<b>6,099.0</b>
Net (decrease)/increase in cash and cash equivalents	184.4	(112.4)	1,629.5	(1,012.5)	(950.6)
Cash and cash equivalents at beg of yr	569.5	753.9	753.9	2,383.4	1,370.9
Effect of foreign exchange rates, net	0.0	(0.9)	0.0	0.0	0.0
<b>Cash and cash equivalents at end of year/period</b>	<b>753.9</b>	<b>640.6</b>	<b>2,383.4</b>	<b>1,370.9</b>	<b>420.3</b>

Source: Company, ABCI Securities estimates



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## Disclosures

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