



China Longyuan Power (916 HK)

Wind power output up 23%YoY in Aug

- Longyuan announced its Aug operation data on Sep 7
- Wind power gross output was 2,292GWh (+23%YoY) in Aug, mainly driven by growth in northwest and east regions
- Total wind power output in 8M17 reached 65% of our full-year estimate, slightly ahead of the historical run rate of 64%. Based on the current development, our full-year output growth estimate at 11%YoY would be achievable
- Maintain **BUY** with TP of HK\$7.40, implying 13.1x/12.8x 2017/18E P/E and 1.2x/1.1x 2017E/18E P/B

Output in northwest and eastern regions jumped 28%/30% YoY. Wind power output in northwest and eastern regions was the key driver of growth in Aug, contributing to 28% and 18% of output for the month. The increase can be attributed to 1) the government's proactive policy that lowers curtailment rate; 2) continuous recovery of nationwide power demand triggered by improving industrial activities.

Mid-teens growth in Sep and single-digit growth in Oct due to high base. Historically, July-Sep is the low season in power demand before picking up in Oct. Longyuan managed to achieve a solid output growth of ~20% YoY in July/Aug (+18%YoY in July; +23%YoY in Aug), and we believe the momentum would extend to Sep with a mid-teens growth. We expect a single-digit growth in Oct due to the high base in 2016, however.

2017E power output growth at 11%YoY is achievable – expect earnings to increase by 18% YoY. 8M17 wind power output, which grew 13% YoY, reached 65% of our full-year estimate, slightly ahead of the historical run rate of 64%. Our estimated output growth of 11% YoY for 2017E is highly achievable in our view. Supported by solid power output growth and improved margins in coal sales business, Longyuan's 2017E earnings would increase by 18% YoY.

TP at HK\$ 7.40; maintain BUY. Financial data is under review. We continue to favor Longyuan's well-diversified assets and leading position in the wind power industry. Our TP at HK\$7.40, which implies an undemanding valuation of 13.1x/12.8x 2017E/18E P/E and 1.2x/1.1x 2017/18E 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	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	19,683	22,304	26,324	29,932	32,967
Chg (% YoY)	8.0	13.3	18.0	13.7	10.1
Net profit (RMB mn)	2,878	3,415	4,023	4,124	4,863
Chg (% YoY)	12.7	18.7	17.8	2.5	17.9
EPS (RMB)	0.358	0.425	0.501	0.513	0.605
Chg (% YoY)	12.7	18.7	17.8	2.5	17.9
BVPS (RMB)	4.373	4.716	5.428	5.938	6.510
Chg (% YoY)	6.2	7.8	15.1	9.4	9.6
P/E (x)	14.02	11.81	10.03	9.78	8.30
P/B (x)	1.15	1.06	0.92	0.85	0.77
ROE (%)	8.19	9.01	9.22	8.64	9.30
ROA (%)	2.15	2.46	2.70	2.55	2.82
DPS (RMB)	0.072	0.085	0.100	0.103	0.121
Yield (%)	1.43	1.69	1.99	2.04	2.41
Net gearing (%)	203.9	194.9	176.0	169.5	162.1

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Sep 8, 2017

Rating: **BUY**

TP: **HK\$ 7.40**

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Share price (HK\$)	5.80
Est. share price return	27.6%
Est. dividend yield	2.1%
Est. total return	29.7%
Previous Rating & TP	BUY
Previous Report Date	May 26, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	7.3/5.4
Issued shares (mn)	8,036
Issued H-shares (mn)	3,340
Market cap (HK\$ mn)	49,611
H-share Market cap (HK\$ mn)	19,372
3-mth avg daily turnover(HK\$ mn)	81
Major shareholder(s) (%)	
Guodian Corp.	57.3%

Source(s): Company, ABCI Securities

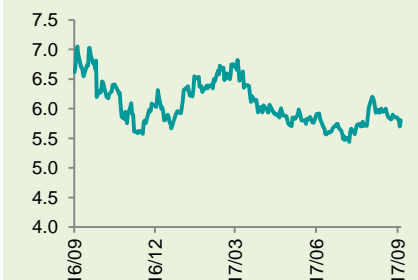
Share Performance

	Absolute	Relative*
1-mth	(5.23)	(6.97)
3-mth	(0.53)	(5.83)
6-mth	(10.36)	(21.12)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

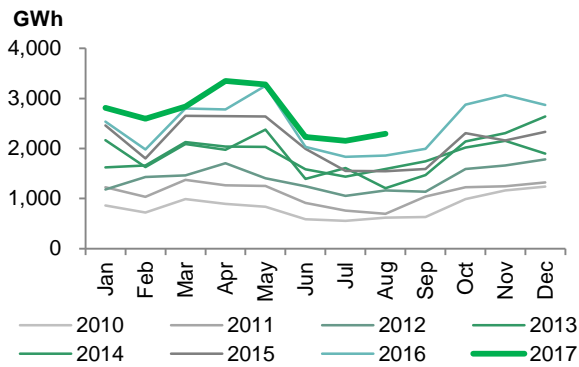
1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

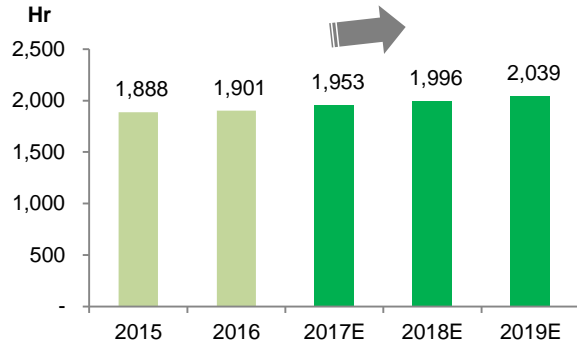


Exhibit 1: Longyuan's monthly operation data



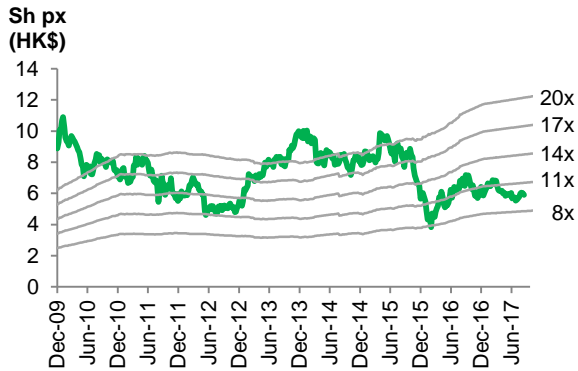
Source(s): Company, ABCI Securities estimates

Exhibit 2: Longyuan's utilization hour would see sequential improvement



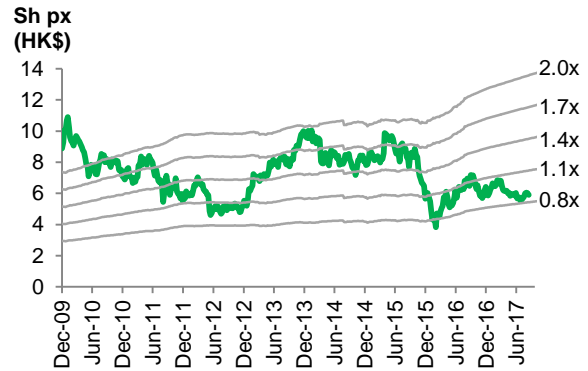
Source(s): Company, ABCI Securities estimates

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

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Revenue	19,683	22,304	26,324	29,932	32,967
Wind power	12,365	13,950	15,604	17,172	19,475
Coal-fire power	5,896	7,270	9,059	10,964	12,161
Other	1,422	1,085	1,662	1,796	1,332
Cost of sales	-12,045	-14,456	-16,668	-19,450	-21,024
Gross Profit	7,638	7,848	9,657	10,482	11,943
SG&A expenses	-373	-429	-658	-748	-824
Net financial income (cost)	-3,039	-2,774	-3,314	-3,446	-3,630
Other income/ (expenses)	441	505	321	296	275
Profit before tax	4,669	5,150	6,006	6,583	7,763
Tax	-601	-660	-781	-856	-1,009
Net profit	4,068	4,490	5,225	5,728	6,754
Profit attributable to:					
Minority interest	1,189	941	1,045	1,432	1,689
Equity shareholders of the Company	0	133	157	172	203
Basic EPS (RMB)	2,878	3,415	4,023	4,124	4,863
DPS (RMB)	0.358	0.425	0.501	0.513	0.605

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Current assets	12,704	13,333	15,395	17,594	18,881
Cash	2,887	1,905	1,643	2,033	1,859
Pledged and restricted bank deposits	387	28	28	28	28
Trade and bill receivables	4,243	5,901	7,212	8,201	9,032
Other receivables and prepayments	3,070	3,644	4,327	4,920	5,419
Inventories	1,081	1,040	1,370	1,599	1,728
Other current assets	1,036	814	814	814	814
Non-current assets	121,164	125,328	133,842	143,836	153,763
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	4,957	5,495	6,089
Deferred tax assets	155	151	151	151	151
Other non-current assets	8,486	6,232	8,007	8,791	9,582
Total Assets	133,867	138,661	149,237	161,430	172,644
Current Liabilities	56,000	55,807	60,025	64,877	68,321
Trade and bill payables	1,902	2,550	2,283	2,664	2,880
Other payables	9,121	8,747	10,679	12,432	13,424
Short term borrowings	44,977	44,472	47,063	49,780	52,016
Other current assets	0	39	0	0	0
Non-current liabilities	33,293	35,067	34,654	36,466	37,957
Deferred tax liabilities	106	138	138	138	138
Long-term borrowings	29,970	31,327	31,375	33,187	34,678
Other non-current assets	3,217	3,602	3,141	3,141	3,141
Total Liabilities	89,293	90,874	94,680	101,342	106,277
Minority interests	6,439	6,896	7,941	9,373	11,062
Perpetual medium-term note	2,991	2,991	2,991	2,991	2,991
Shareholders' equities	35,145	37,899	43,624	47,724	52,314

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2015A	2016E	2017E	2018E	2019E
Profit before tax	4,676	5,150	6,006	6,583	7,763
Change in depreciation and amortization	5,554	6,342	6,962	7,662	8,388
Change in Working Capital	4,175	483	-658	324	-252
Net financial cost (income)	2,671	2,602	2,889	3,327	3,427
Income tax paid	-525	-634	-941	-1,045	-1,432
Net interest received	0	0	0	0	0
Others	-227	-411	-474	-539	-593
Operating cash flow	16,325	13,533	13,782	16,314	17,300
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	84
Investing cash flow	-16,319	-11,209	-13,015	-16,237	-16,847
Net Capital raise	0	0	0	0	0
Net debt financing	4,837	792	2,639	4,528	3,727
Dividend payout	-1,174	-1,306	-683	-805	-825
Interest paid	-3,368	-3,149	-2,985	-3,411	-3,530
Others	212	379	0	0	0
Financing cash flow	507	-3,284	-1,029	313	-627
Net change in cash	513	-961	-262	389	-173
Cash at the beginning	2,396	2,887	1,905	1,643	2,033
Adjustment (Time deposit & FX effect)	-21	-21	0	0	0
Cash at the end	2,887	1,905	1,643	2,033	1,859

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Wind power	62.82	62.54	59.27	57.37	59.07
Coal-fire power	29.95	32.59	34.41	36.63	36.89
Other	7.23	4.86	6.31	6.00	4.04
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	38.81	35.19	36.68	35.02	36.23
Operating profit margin	36.23	33.84	33.60	31.71	32.76
Pre-tax margin	23.72	23.09	22.81	21.99	23.55
Net profit margin	20.67	20.13	19.85	19.14	20.49
Selling & administrative expenses/revenue	1.89	1.92	2.50	2.50	2.50
Effective tax rate	12.87	12.82	13.00	13.00	13.00
Growth (%)					
Revenue	7.98	13.32	18.03	13.70	10.14
Gross profit	9.43	2.75	23.05	8.54	13.94
Operating profit	8.70	5.83	17.21	7.29	13.80
Net profit	14.76	10.38	16.37	9.62	17.92
Balance sheet ratios					
Current ratio (x)	0.23	0.24	0.26	0.27	0.28
Quick ratio (x)	0.13	0.14	0.15	0.16	0.16
Cash ratio (x)	0.06	0.03	0.03	0.03	0.03
Trade and bill receivables days	78.67	96.57	100.00	100.00	100.00
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	179.80	173.85	165.72
Net debt / equity ratio (%)	203.93	194.90	175.97	169.53	162.11
Returns (%)					
ROAA	2.2	2.5	2.8	2.7	2.9
ROAE	8.4	9.4	9.9	9.0	9.7
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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