



Company Report

Huaneng Renewables (958 HK) – Hold Independent Power Producers 12-month target price: HK\$1.02

Key data

Share price (HK\$)	0.93
Target price (HK\$)	1.02
Upside potential (%)	9.7%
52Wk H/L(HK\$)	0.90 / 2.32
Issued shares (mn)	8,446.9
H-shares (mn)	2,911.6
Domestic shares (mn)	5,535.3
Market cap (HK\$mn)	2,707.8
30-day avg turnover (HK\$mn)	3.97
Major shareholder (%):	
Huaneng Group	65.5

Source: Company & Bloomberg

Revenue composition in FY11 (%)

Sales of electricity	98.9%
Repair and maintenance services	1.0%
Others	0.1%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	(7.0)	(10.9)
3-mth	(29.0)	(33.4)
6-mth	(51.1)	(47.0)

*Relative to Hang Seng Index

Source: Bloomberg

Share price performance



Source: Bloomberg

Analyst

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Key takeaways from analyst presentation

The group posted poor 1H2012 results as expected. Uncontrollable factors including small wind phenomenon and the significant decrease of CERs incomes are affecting the industry as a whole. We expect the grid curtailment issues, another negative factor to the industry, cannot be solved in short period of time especially when electricity consumption is slowing down. We lower our TP from HK\$1.21 to HK\$1.02, representing 9.4x FY12 PE. Maintain Hold.

Poor results as expected: The group posted revenue of Rmb1,809.7mn in 1H2012, up 11.6% YoY due to a 7% increase in consolidated gross power generation and 1.6% increase in weighted average on-grid tariffs. However, due to a decline in CDM income, net profit of the group dropped 63.4% YoY to Rmb246.2mn, which is widely expected after the group announced a profit warning in 17 Jul.

Grid curtailment issues lingered: Overall curtailment rate of the group reached 24% in 1H2012. In particular, curtailment rate in Inner Mongolia, which accounted for 34% of the group's consolidated installed capacity, was over 50%. Due to the small wind phenomenon in 1Q2012 and the grid curtailment issues, utilization hours of the group dropped 24% YoY to 861 hours. Therefore, power generation only increased by 7% YoY despite a 36% YoY increase in installed capacity in 1H2012.

Concerns on CERs income: Most of the major questions raised during the analyst presentation were about CERs income. CERs income, which accounted for 21% of EBIT in 1H2011 and 45% in 2011, declined significantly by 70.8% YoY/75.1% HoH to Rmb65mn in 1H2012. We expect the continue downtrend in the CERs price are a results of rapid development of green energy companies which lead to a larger supply in CERs and the trend is unlikely to change in a short period of time

Valuation: We lower our FY2012 EPS by 7.9% to Rmb0.0883. Our DCF model with a WACC of 7.3% gives a fair value of HK\$1.02/share, representing FY12 PE of 9.4x and PB of 0.60x. Maintain Hold.

Risk factors: Change in government subsidy policy, under-performances risks of wind turbines, high gearing

Results and valuation

(FY ended Dec 31)	FY09A	FY10A	FY11A	FY12F	FY13F
Revenue (Rmb mn)	918.5	1,768.5	3,195.9	3,866.1	5,193.5
YoY Chg (%)		92.6%	80.7%	21.0%	34.3%
Net Income (Rmb mn)	264.4	528.3	1,023.0	745.7	1,111.3
YoY Chg (%)		99.8%	93.7%	-27.1%	49.0%
FD EPS (Rmb)	0.0456	0.0911	0.1211	0.0883	0.1316
YoY Chg (%)		99.8%	32.9%	-27.1%	49.0%
NBV (Rmb/share)	0.4454	0.9110	1.3415	1.3923	1.5107
PE (x)	-	-	6.30	8.65	5.80
PB (x)	-	-	0.57	0.55	0.51
ROAA (%)	-	2.06%	2.41%	1.37%	1.83%
ROAE (%)	-	13.43%	12.31%	6.46%	9.06%
Net D/E (%)	389.7%	316.2%	163.2%	200.1%	244.3%

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



Key takeaways

Poor results as expected: The group posted revenue of Rmb1,809.7mn in 1H2012, up 11.6% YoY due to a 7% increase in consolidated gross power generation and 1.6% increase in weighted average on-grid tariffs. However, due to a decline in CDM income, net profit of the group dropped 63.4% YoY to Rmb246.2mn, which is widely expected after the group announced a profit warning in 17 Jul.

Grid curtailment issues lingered: The curtailment problem, especially in the northern part of China, has been affecting the whole wind power industry since last year. Due to a faster expansion in installed wind capacity than grid construction, the problem is becoming more severe in 1H2012. Overall curtailment rate of the group reached 24% in 1H2012. In particular, curtailment rate in Inner Mongolia, which accounted for 34% of the group's consolidated installed capacity, was over 50%. Due to the small wind phenomenon in 1Q2012 and the grid curtailment issues, utilization hours of the group dropped 24% YoY to 861 hours. Therefore, power generation only increased by 7% YoY despite a 36% YoY increase in installed capacity in 1H2012.

The group has been reacting to the issue proactively by developing wind power projects in Yunnan, Shanxi, Guangdong and Guizhou, which have no curtailment issues and the group has decided not to have any newly installed capacity built in Inner Mongolia in 2012. The 4 regions mentioned have achieved utilization hours that are higher than the group's average of 861 hours in 1H2012.

Exhibit 2: Group: Utilization hours in different provinces (hours)

Provinces	1H2011	1H2012	Chg
Inner Mongolia	878	490	-44.2%
Liaoning	1,429	974	-31.8%
Shandong	1,183	974	-17.7%
Yunnan	1,597	1,681	5.3%
Shanxi	1,248	1,004	-19.6%
Hebei	1,123	909	-19.1%
Guizhou	0	1,056	-
Guangdong	1,348	1,296	-3.9%
Xinjiang	1,601	1,564	-2.3%
Shanghai	0	925	-
Jilin	0	1,227	-
Total	1,123	861	-23.3%

Source: Company

Although only 148MW of newly capacity is added in 1H2012, 1,700MW of capacity is under construction, and the group is confident that newly installed capacity target of 1,000MW this year is still achievable. But since 85% of the annual newly installed capacity will be completed in 2H2012, installed capacity in Inner Mongolia and Liaoning will remain a large proportion of the total installed capacity of the group in 2012. Hence, we expect the positive effect of the group's strategy of investing in non-Inner Mongolia areas will only be realized after 2012. We assume utilization hours to be 939 hours in 2H2012 (vs 816 hours in 1H2011) or 1,800 hours in 2012, down 8.3% YoY.



In our view, the curtailment issue can only be solved after a comprehensive grid infrastructure is built, which should take at least one to two years times. Moreover, the issue is further complicated by grid investment incentive of grid companies. The relatively higher on-grid tariff of wind power than to coal-fired power has reduced the incentive for grid companies to invest especially when electricity consumption is slowing down due to weaker economic growth. The grid curtailment issues may last for longer than 1-2 years unless we see a high enough economic growth and electricity consumption which can motivate a faster investment in grid constructions. Even though the “Quotation System”, which is expected to be announced by the end of this year, may ease the problem, implementation and enforcement of the policy can take time.

Concerns on CERs income: Most of the major questions raised during the analyst presentation were about CERs income. CERs income, which accounted for 21% of EBIT in 1H2011 and 45% in 2011, declined significantly by 70.8% YoY/75.1% HoH to Rmb65mn in 1H2012. The decline was due to change in contract terms and a drop in CERs price.

Price of CERs dropped from Eur10/ton in 2011 to as low as Eur2.94/ton up to date. As a result of the large volatility in CERs price, most of the CERs contracts, in which prices were agreed when the contracts were signed, were now changed to floating price. Currently, 90% of the registered capacity of the group were under floating price contracts. Under IFRS, CERs income under floating price contracts will only be recognized in P&L when the price is known, that is when the contracts are settled. Therefore, it will take 7-8 months more for the CERs income to be recognized, as compared to CERs income from fixed price contracts. The change in contract terms and the drop in CERs price have therefore caused a delay in income recognition as well as a drop in CERs income.

We expect the continue downtrend in the CERs price are a results of rapid development of green energy companies which lead to a larger supply in CERs and the trend is unlikely to change in a short period of time.

Exhibit 1: CERs price (EUR/ton)



Source: Bloomberg

Valuation: Due to slower capacity expansion in 1H2012 and a delay in income recognition from CERs sales, we lower our FY2012 FD EPS 7.9% to Rmb0.0883. Our DCF model with a WACC of 7.3% gives a fair value of HK\$1.02/share, representing FY12 PE of 9.4x and PB of 0.60x. Maintain Hold.

Exhibit 4: Our revisions to revenue and earnings forecasts

FY ended Dec 31 (Rmbmn)	New Forecast		Previous Forecast		Difference	
	2012F	2013F	2012F	2013F	2012F	2013F
Revenue	3,866.1	5,193.5	3,883	5,099	-0.43%	1.85%
Adjusted EBITDA	3,495.0	4,617.0	3,510	4,600	-0.43%	0.38%
Net profit	745.7	1,111.3	810	1,236	-7.90%	-10.06%
FD EPS (Rmb/share)	0.0883	0.1316	0.0959	0.1463	-7.90%	-10.06%

Exhibit 5: Consensus

FY ended Dec 31 (Rmbmn)	New Forecast		Consensus		Difference	
	2012F	2013F	2012F	2013F	2012F	2013F
Revenue	3,866.1	5,193.5	4,516	5,851	-14.39%	-11.24%
Adjusted EBITDA	3,495.0	4,617.0	4,368	5,656	-19.99%	-18.37%
Net profit	745.7	1,111.3	1,032	1,440	-27.74%	-22.83%
FD EPS (Rmb/share)	0.0883	0.1316	0.1300	0.1710	-32.09%	-23.06%

Source: Bloomberg, ABCI Securities estimates

Major Assumptions

FY ended Dec 31	2009	2010	2011	2012F	2013F
Consolidated installed capacity (MW)	1,550	3,522	4,904	5,904	7,084
<i>YoY growth (%)</i>	285.2%	127.3%	39.2%	20.4%	20.0%
Gross power generation (GWh)	1,885	3,789	6,844	8,280	11,123
<i>YoY growth (%)</i>	294.7%	101.1%	80.6%	21.0%	34.3%
Net power generation (GWh)	1,607	3,405	6,206	7,452	10,011
<i>YoY growth (%)</i>	275.9%	111.9%	82.3%	20.1%	34.3%
Av utilization hours	2,365	2,265	1,962	1,800	1,950
<i>YoY growth (%)</i>	-0.6%	-4.2%	-13.4%	-8.3%	8.3%
Wtg av on-grid tariff (incl VAT) (Rmb/kwh)	0.617	0.604	0.596	0.607	0.607
Wtg av on-grid tariff (excl VAT) (Rmb/kwh)	0.527	0.516	0.509	0.519	0.519
<i>YoY growth (%)</i>	-9.3%	-2.1%	-1.3%	1.8%	0.0%

Source: Company, ABCI Securities estimates



Profit Forecast

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Revenue	918.5	1,768.5	3,195.9	3,866.1	5,193.5
Other net income	85.3	249.8	682.5	226.0	233.6
Total income	1,003.8	2,018.4	3,878.5	4,092.1	5,427.1
Service concession construction costs	(66.6)	0.0	0.0	0.0	0.0
D&A	(296.8)	(633.7)	(1,169.3)	(1,449.0)	(2,055.2)
Personnel costs	(45.2)	(79.2)	(118.0)	(123.7)	(166.2)
Repairs and maintenance	(15.2)	(27.7)	(29.9)	(38.7)	(129.8)
Admin	(20.0)	(96.0)	(117.8)	(116.0)	(155.8)
Other operating expenses	(20.5)	(47.3)	(92.1)	(92.8)	(124.6)
EBIT	539.5	1,134.3	2,351.5	2,272.0	2,795.4
Finance income	12.2	22.2	47.8	100.0	80.0
Finance expenses	(251.4)	(515.2)	(1,260.1)	(1,480.0)	(1,546.1)
Share of profit of a jointly controlled entity	3.1	0.0	0.0	0.0	0.0
EBT	303.5	641.4	1,139.1	892.0	1,329.3
Income tax	(22.2)	(32.0)	(32.3)	(44.6)	(66.5)
Profit from continuing operations	281.3	609.4	1,106.8	847.4	1,262.8
Profit from discontinued operation (net of income tax)	39.4	0.0	0.0	0.0	0.0
MI	56.2	81.1	83.8	101.7	151.5
NP	264.4	528.3	1,023.0	745.7	1,111.3
Adjusted EBIT	454.2	884.5	1,668.9	2,046.0	2,561.9
Adjusted EBITDA	751.0	1,518.2	2,838.2	3,495.0	4,617.0
Dividends (post-listing)	-	-	-	111.9	166.7
Dividends (pre-listing)	-	-	316.2	0.0	0.0
No. of issued shares at end of period (mn)					
Domestic shares (mn shares)	5,800.0	5,800.0	8,446.9	8,446.9	8,446.9
H-shares (mn shares)	-	-	2,911.6	2,911.6	2,911.6
	-	-	5,535.3	5,535.3	5,535.3
Per share value (Rmb)					
DPS (post-listing)	-	-	-	0.0132	0.0197
Basic EPS	0.0456	0.0911	0.1211	0.0883	0.1316
NBV	0.4454	0.9110	1.3415	1.3923	1.5107
Net debt per share	1.7356	2.8809	2.1899	2.7857	3.6906

Financial Ratio Analysis

FY ended Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
Profitability					
Adjusted EBIT margin	53.6%	50.3%	52.8%	52.9%	49.3%
Adjusted EBITDA margin	88.7%	86.3%	89.8%	90.4%	88.9%
Net profit margin	28.8%	29.9%	32.0%	19.3%	21.4%
ROAA	1.84%	2.06%	2.41%	1.37%	1.83%
ROAE	12.42%	13.43%	12.31%	6.46%	9.06%
Leverage					
Current ratio	0.37	0.22	0.64	0.53	0.40
Quick ratio	0.37	0.22	0.64	0.53	0.40
Interest coverage (EBITDA/ Finance cost)	3.14	3.08	2.34	2.53	3.15
Net debt/Equity	389.7%	316.2%	163.2%	200.1%	244.3%

Source: The group (for historical figures only), ABCI Securities estimates



Balance Sheet Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
PPE	14,335.9	27,802.9	36,956.4	44,021.0	52,501.5
Lease prepayments	22.7	65.1	102.2	100.0	97.8
Intangible assets	411.6	394.8	381.4	363.3	345.2
Others	1,180.9	2,702.9	3,916.4	3,916.4	3,916.4
Total non-current assets	15,951.0	30,965.7	41,356.4	48,400.7	56,860.9
Inventories	0.1	0.7	2.1	2.2	3.5
Trade debtors and bills receivable	390.9	959.7	2,010.5	1,590.8	3,246.9
Prepayment and other current assets	596.7	207.7	584.3	369.0	911.6
Tax recoverable	6.9	0.5	0.0	0.0	0.0
Restricted deposits	15.8	0.8	59.5	59.5	59.5
Cash at bank and on hand	819.2	1,309.5	7,518.0	6,828.4	3,184.8
Total current assets	1,829.7	2,479.0	10,174.3	8,849.9	7,406.3
Borrowings	2,798.5	4,817.6	6,758.8	6,758.8	6,758.8
Obligations under finance leases	119.2	232.2	283.1	283.1	283.1
Other payables	2,081.6	6,255.2	8,838.9	9,684.6	11,550.3
Tax payable	12.7	6.3	18.0	18.0	18.0
Total current liabilities	5,011.9	11,311.3	15,898.8	16,744.5	18,610.2
Borrowings	8,087.2	13,201.3	19,257.1	23,600.0	27,600.0
Obligations under finance leases	805.8	1,768.4	2,384.1	2,384.1	2,384.1
Retention payables	324.4	761.8	1,546.6	1,546.6	1,546.6
Deferred income	234.1	248.7	257.8	257.8	257.8
Deferred tax liabilities	20.8	34.3	26.8	26.8	26.8
Total non-current liabilities	9,472.3	16,014.5	23,472.5	27,815.4	31,815.4
Total assets	17,780.7	33,444.6	51,530.7	57,250.6	64,267.2
Net assets	3,296.5	6,118.8	12,159.4	12,690.6	13,841.6
Capital and Reserves					
Share capital	451.5	5,800.0	8,446.9	8,446.9	8,446.9
Reserves	2,131.7	(516.1)	2,884.6	3,314.1	4,313.6
MI	713.3	834.9	827.9	929.6	1,081.1
Total Equity	3,296.5	6,118.8	12,159.4	12,690.6	13,841.6
Net debt	10,066.5	16,709.5	18,497.9	23,530.4	31,174.1
Gross debt	10,885.7	18,018.9	26,015.9	30,358.8	34,358.8

Cash Flow Forecast

As of Dec 31 (Rmbmn)	2009	2010	2011	2012F	2013F
EBITDA	836.3	1,768.0	3,520.7	3,721.0	4,850.6
Change in working capital	(114.1)	(485.3)	(921.0)	1,480.6	(334.4)
Others	(28.4)	(7.8)	(16.0)	100.0	80.0
Cash (used in)/generated from operations	693.8	1,275.0	2,583.7	5,301.6	4,596.2
Income tax paid	(19.6)	(15.0)	(21.9)	(44.6)	(66.5)
CF from operating activities	674.3	1,260.0	2,561.8	5,257.0	4,529.8
CAPEX	(7,164.1)	(10,418.5)	(7,699.4)	(8,493.3)	(10,515.4)
Others	7.8	699.0	(88.0)	0.0	0.0
Cash flows from investing activities	(7,156.3)	(9,719.5)	(7,787.3)	(8,493.3)	(10,515.4)
Net borrowing	4,614.9	7,134.1	7,998.2	4,342.9	4,000.0
Proceeds from issue of shares	0.0	0.0	5,402.7	0.0	0.0
Dividends paid	0.0	0.0	0.0	(316.2)	(111.9)
Interest paid	(484.3)	(704.7)	(1,315.9)	(1,480.0)	(1,546.1)
Others	1,496.9	2,538.8	(504.7)	11.8	(1.0)
Cash flows from financing activities	5,627.4	8,968.2	11,580.3	2,558.5	2,341.0
Net (decrease)/increase in cash and cash equivalents	(854.6)	508.7	6,354.9	(677.8)	(3,644.6)
Cash and cash equivalents at beginning of year/period	1,643.8	789.2	1,297.8	7,506.2	6,828.4
Effect of foreign exchange rates, net	0.0	(0.1)	(146.4)	0.0	1.0
Cash and cash equivalents at end of year/period	789.2	1,297.8	7,506.2	6,828.4	3,184.8

Source: The group (for historical figures only), ABCI Securities estimates



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

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