



CGN Power (1816 HK)

9M17 results beat expectation; maintain BUY

- CGN Power (CGN) announced 9M17 operating data and financial results on Oct 18
- 9M17 nuclear power output was up 22%YoY; adjusted net profit was up 11% YoY. Both figures beat our expectation
- We forecast attributable capacity to grow by 7%/13%YoY in 2017/18E; adjusted net profit would increase by 10%/9%YoY in 2017E/18E.
- CGN is a market leader would benefit much from swift development in nuclear power industry. Maintain **BUY** with TP of HK\$3.00, which implies 13x/12x 2017/18E P/E and 1.8x/1.6x 2017/18E P/B

Results beat our estimates. 9M17 nuclear power gross generation was 101,328GWh (+22% YoY), equivalent to 73% of our full-year estimate and was ahead of the historical run rate of 72%. 9M17 adjusted net profit was RMB 7.3bn (IFRS), corresponding to 85% of our 2017E estimate and was higher than the historical rate of 84%. These figures are better than expected.

New power plant and improved utilization hour boosted performance. Capacity growth was supported by the Yangjiang unit 4 that commenced operation in Mar 2017; utilization hour rose 2% YoY in 9M17 and elevated growth in power output.

Attributable capacity to grow by 7%/13%YoY in 2017E/18E. The delay of Taishan unit 1 means Yangjiang unit 4 will become the only new power plant added in 2017. CGN's attributable capacity growth would reach 7%YoY for 2017E. For 2018E, Yangjiang unit 5 and Taishan unit 1 would commence operation – we expect attributable capacity to expand by 13%YoY.

Adjusted net profit to increase by 10%/9%YoY for 2017E/18E. CGN should benefit from the recovery in China's power demand and we expect utilization hour to increase. This would bring about a 10%YoY growth in the Group's 2017 adjusted net profit. For 2018E, commencement of Taishan unit 1 would provide only limited support to CGN's power output growth (new power plant usually ramps up capacity gradually); therefore, adjusted net profit growth would grow by 9%YoY.

A leader in a China's growing nuclear market - maintain BUY with TP at HK\$3.00. The Chinese government has reiterated its commitment in pursuing a clean energy structure during the recent Party Congress. In 9M17, nuclear power output in China grew 18%YoY. CGN, as a market leader, would benefit much from the swift development in the nuclear power industry. Our DCF-derived TP at HK\$3.00 implies 13x/12x 2017E/18E P/E and 1.8x/1.6x 2017E/18E P/B. Maintain **BUY**.

Risks: (1) Operation safety risk; (2) Construction risk; (3) Fuel cost risk; (4) Tariff risk; (5) Currency and interest rate risks; (6) Fundraising activities to finance future M&A .

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	26,796	32,890	46,835	53,723	59,099
Chg (% YoY)	29.3	22.7	42.4	14.7	10.0
Net profit (RMB mn)	6,673	7,821	8,617	9,417	10,441
Chg (% YoY)	47.1	17.2	10.2	9.3	10.9
EPS (RMB)	0.147	0.172	0.190	0.207	0.230
Chg (% YoY)	8.0	17.0	10.2	9.3	10.9
BVPS (RMB)	1.342	1.244	1.407	1.553	1.682
Chg (% YoY)	-29.0	-7.3	13.1	10.4	8.3
P/E (x)	12.71	10.87	9.87	9.03	8.14
P/B (x)	1.39	1.50	1.33	1.20	1.11
ROE (%)	11.55	12.89	13.55	13.42	13.74
ROA (%)	2.59	2.53	2.66	2.71	2.90
DPS (RMB)	0.042	0.051	0.057	0.063	0.069
Yield (%)	2.25	2.73	3.06	3.34	3.71
Net gearing (%)	213.3	262.4	254.2	243.8	222.1

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 20, 2017

Rating: **BUY**
TP: **HK\$ 3.00**

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Share price (HK\$)	2.23
Est. share price return	34.5%
Est. dividend yield	3.0%
Est. total return	37.6%
Previous Rating	BUY
Previous Report Date	May 18, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.5/2.0
Issued shares (mn)	45,449
Issued H-shares (mn)	11,164
Market cap (HK\$ mn)	101,351
H-share Market cap (HK\$ mn)	24,895
3-mth avg daily turnover(HK\$ mn)	96
Major shareholder(s) (%)	
CGNPC.	64.2%

Source(s): Company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	0.45	(1.63)
3-mth	(2.19)	(7.48)
6-mth	(2.24)	(15.18)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities



9M17 results and operation data highlight

9M17 power output growth is better than expected

CGN announced 9M17 operation data and PRC GAAP 9M17 results on Oct 18. 9M17 nuclear power gross generation was 101,328GWh (+22% YoY), equivalent to 73% of our full-year estimate and was ahead of the historical run rate of 72%. 3Q17 nuclear power gross generation was 37,851GWh (+19% YoY), driven by robust output jump in Yangjiang (+58% YoY)/Ningde (+16% YoY) due to the new power units. These results are better than expected.

Adjusted net profit grew 11%YoY, exceeding our expectation

9M17 net profit was RMB 8.8bn (PRC GAAP) or RMB 8.6bn (IFRS GAAP). If we net out the one-off RMB1,304mn gain on remeasurement of a subsidiary and other disposal gain on fixed assets, adjusted net profit was RMB7.3bn (IFRS), up 11% YoY, corresponding to 85% of our 2017 full-year estimate and was higher than the historical rate of 84%. These results are better than expected.

New commencement of power plants - the key driver behind nuclear power output growth

CGN's nuclear power output growth jumped 19% YoY in 3Q17 and 22%YoY in 9M17, mainly attributable to new commencement of power plants. Yangjiang unit 4 has commenced commercial operation since Mar 2017, boosting output in the Yangjiang power plant by 58%YoY in 3Q17. Yangjiang power plant contributed to 21% of CGN's total power output in 3Q17. Ningde's power output rose 16%YoY in 3Q17, contributing to 20% of CGN's 3Q17 total power output. The growth was partially elevated by the low base in 3Q16 since Ningde unit 4 only commenced commercial operation in July 2016.

Recovering power demand to support utilization hour

According to management, CGN recorded an average utilization hour of 5,100 in 1H17, 2.2% higher than the 4,986hr in 1H16, mainly due to improvement in China's power demand. Management said recovering power demand nationwide should support utilization without providing a concise guidance on the hour estimate. Nonetheless, we believe utilization hour for 2017 would be higher than that in 2016.

Taishan unit 1 is unlikely to commence operation in 2017

Management revealed that Taishan unit 1 is now under conditioning and all planned processes are on schedule. However, we believe the unit is unlikely to commence operation in 2017. Delayed operation of Taishan unit 1 power plant may defer commencement of Taishan unit 2 (originally scheduled to start operating in 1H18) and affect 2017/18E net profit growth.

2018 outlook

Attributable capacity to grow by 7%/13% YoY for 2017E/18E

Delay in Taishan unit 1 means Yangjiang unit 4 would be the only new power plant added in 2017. We estimate CGN's attributable capacity growth would increase by 7%YoY. For 2018E, Yangjiang unit 5 and Taishan unit 1 would commence operation, resulting in a 13% YoY growth in attributable capacity.

Utilization hour to stay at above 7,000.

China's improving power demand and the government's push to promote clean energy would help raise utilization hour in nuclear power plants. CGN, as a leader in the nuclear power operation industry with a 61% market share in installed capacity by end-2016, would benefit enormously from the positive business environment. We expect CGN's utilization hour to exceed 7,000 over in 2017E-19E.

Recovery in China's power demand is positive

China's Sep power consumption rose 7.2% YoY and 9M17 power consumption increased by 6.9%YoY, driven by robust growth in tertiary industry (9M17: +11%YoY) and recovery in secondary industry growth (9M17: +6%YoY). Stronger power demand nationwide would boost CGN's output growth.

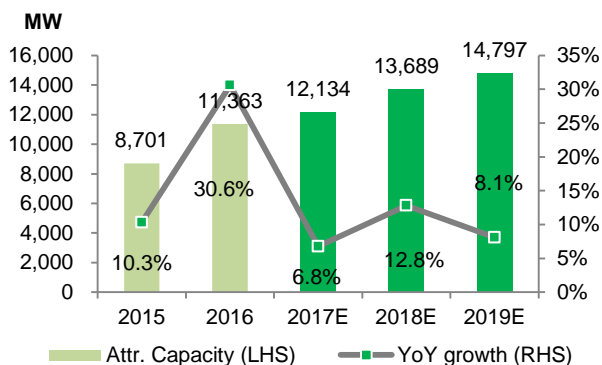
Government's push for clean energy provides long-term support

In the 19th National Congress of the Communist Party of China, president Xi Jinping announced the country would cultivate clean energy operators and construct a clean, safe, and highly efficient energy structure. This indicates China's resolution to alter the existing energy structure remains unchanged and that the government would continue to push for the development of clean energy (include nuclear, wind, hydro, solar, etc.).

Adjusted net profit to increase by 10%/9%YoY for 2017E/18E

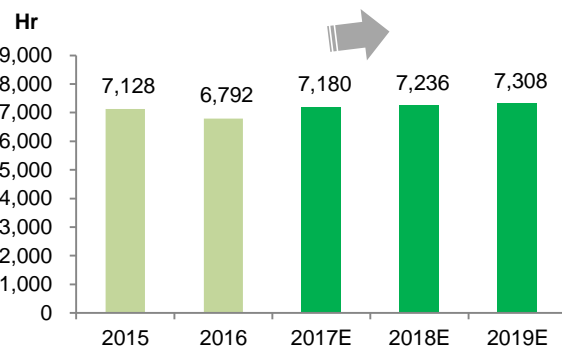
CGN would benefit from the recovery in China's power demand and record a higher utilization hour. Hence, we expect 2017E adjusted net profit to expand by 10% YoY. For 2018E, the commencement of Taishan unit 1 would provide limited support to CGN's power output growth (new power plant usually ramps up capacity gradually). Hence, adjusted net profit growth would be 9% YoY.

Exhibit 1: CGN's attributable capacity growth outlook



Source(s): Company, ABCI Securities estimates

Exhibit 2: CGN's utilization hour would exceed 7,000 going forward



Source(s): Company, ABCI Securities estimates

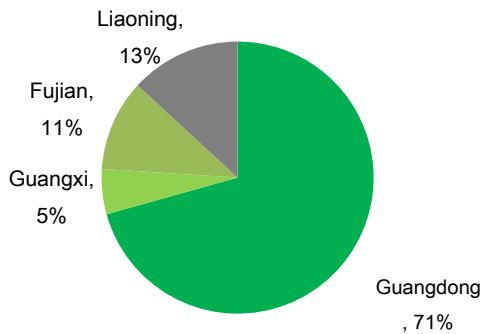
Valuation

TP at HK\$3.00; maintain BUY

CGN's 9M17 operation data and financial results are better than expected on improving power demand nationwide that resulted in a higher utilization hour. We revise up 2017E utilization hour by 0.7% and net profit by 3%. Taking into account of the delay in Taishan unit 1, we revise down our attributable capacity estimate by 6% and consequently slashing our adjusted net profit forecast by 15% for 2018E.

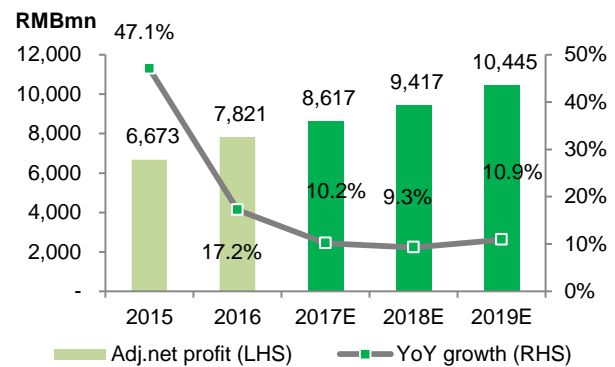
We roll over our valuation basis from 2017 to 2018 and our new DCF-derived TP was HK\$3.00 (unchanged), which implies 13x/12x 2017/18E P/E and 1.8x/1.6x 2017/18E P/B. Delayed commencement of Taishan power plant will have short-term negative impacts on CGN, but we still believe the Group will win out in the long run because China's commitment in switching to a clean-energy structure, and this intention has been recently reiterated in the 19th National Congress of Communist Party. As a market leader in nuclear power, CGN would have ample room to expand its operation scale. Maintain **BUY**.

Exhibit 3: CGN's key assets were mostly located in wealthier regions (by attributable capacity, 2016)



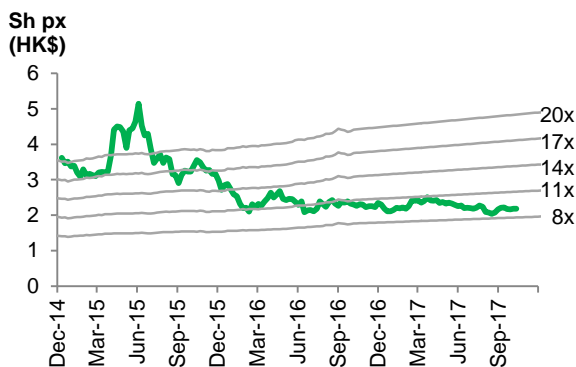
Source(s): Company, ABCI Securities estimates

Exhibit 4: CGN's adjusted net profit growth outlook



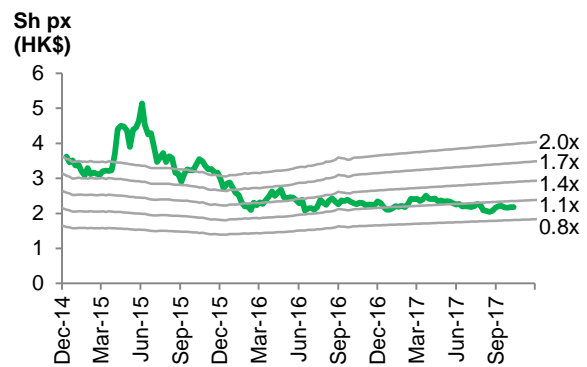
Source(s): Company, ABCI Securities estimates

Exhibit 5: CGN's fwd P/E chart



Source(s): Company, ABCI Securities estimates

Exhibit 6: CGN'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	26,796	32,890	46,835	53,723	59,099
Electricity	21,542	28,115	41,919	48,510	53,561
Service revenue	3,223	2,820	2,961	3,257	3,583
Sales of other goods	970	926	926	926	926
Cost of sales	-14,775	-18,533	-26,783	-30,529	-33,593
Gross Profit	12,021	14,357	20,052	23,194	25,506
SG&A expenses	-2,213	-2,358	-3,419	-3,922	-4,314
Net financial income (cost)	-2,549	-3,857	-4,609	-5,132	-5,402
Other income/ (expenses)	2,379	1,436	2,040	2,303	2,440
Profit before tax	9,638	9,577	14,064	16,442	18,230
Tax	-1,099	-653	-1,688	-1,644	-1,823
Net profit	8,539	8,925	12,376	14,798	16,407
Profit attributable to:					
Minority interest	1,510	1,638	3,713	5,327	5,907
Equity shareholders of the Company	7,029	7,287	8,663	9,471	10,500
Adj. equity shareholders of the Company	6,673	7,821	8,617	9,417	10,441
Basic EPS (RMB)	0.155	0.160	0.191	0.208	0.231
Adj. basic EPS (RMB)	0.147	0.172	0.190	0.207	0.230
DPS (RMB)	0.042	0.051	0.057	0.063	0.069

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Current assets	45,298	43,825	63,731	68,037	71,950
Cash	11,381	8,457	15,027	13,897	13,450
Pledged and restricted bank deposits	2,914	2,053	2,050	2,050	2,050
Trade and bill receivables	6,364	5,735	7,057	8,095	8,905
Other receivables and prepayments	10,196	12,662	15,982	17,303	18,334
Inventories	12,940	13,138	22,014	25,092	27,611
Other current assets	1,503	1,779	1,600	1,600	1,600
Non-current assets	226,067	243,809	262,194	281,664	289,519
Property, plant & equipment	199,177	216,509	234,420	253,514	262,421
Investment properties	659	320	320	320	320
Intangible assets	2,991	3,066	3,365	3,657	3,941
Investment in JV and associates	11,157	12,037	8,710	9,616	10,520
Deferred tax assets	1,501	1,687	1,687	1,687	1,687
Other non-current assets	10,582	10,190	13,691	12,870	10,630
Total Assets	271,366	287,634	325,924	349,702	361,469
Current Liabilities	43,947	65,168	74,965	79,616	81,972
Trade and bill payables	17,759	19,295	24,215	27,602	30,372
Other payables	3,325	1,486	631	631	631
Short term borrowings	14,134	26,407	30,503	31,768	31,354
Other current assets	8,729	17,980	19,616	19,616	19,616
Non-current liabilities	142,099	140,567	157,932	165,101	162,756
Deferred tax liabilities	1,912	1,615	1,620	1,620	1,620
Long-term borrowings	129,952	132,476	149,112	156,281	153,936
Other non-current assets	10,235	6,477	7,200	7,200	7,200
Total Liabilities	186,046	205,735	232,897	244,717	244,728
Minority interests	24,464	25,364	29,077	34,404	40,311
Shareholders' equities	60,855	56,535	63,951	70,580	76,430

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Profit before tax	9,638	9,577	14,064	16,442	18,230
Change in depreciation and amortization	3,540	4,727	6,996	7,640	8,059
Change in Working Capital	-4,644	778	-6,906	-2,051	-1,589
Net financial cost (income)	2,549	3,857	4,609	5,132	5,402
Income tax paid	-898	-1,358	-653	-1,688	-1,644
Net interest received	0	0	0	0	0
Others	-1,882	-829	-822	-906	-904
Operating cash flow	8,303	16,753	17,288	24,570	27,554
Capex	-17,450	-17,297	-24,644	-26,434	-16,631
Increase in intangible assets	-534	-536	-563	-591	-620
Others	-8,725	-1,410	158	256	239
Investing cash flow	-26,709	-19,243	-25,049	-26,769	-17,012
Net Capital raise	0	0	0	0	0
Net debt financing	6,688	10,985	20,733	8,434	-2,759
Dividend payout	-4,792	-4,684	-2,318	-2,599	-2,841
Interest paid	-8,327	-8,031	-4,083	-4,766	-5,388
Others	2,789	1,142	0	0	0
Financing cash flow	-3,642	-588	14,332	1,068	-10,989
Net change in cash	-22,048	-3,078	6,571	-1,131	-446
Cash at the beginning	33,279	11,381	8,457	15,027	13,897
Adjustment (Time deposit & FX effect)	150	154	0	0	0
Cash at the end	11,381	8,457	15,027	13,897	13,450

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Electricity	80.39	85.48	89.50	90.30	90.63
Service revenue	12.03	8.57	6.32	6.06	6.06
Sales of other goods	3.62	2.81	1.98	1.72	1.57
Total	96	97	98	98	98
Profit & loss ratios (%)					
Gross margin	44.86	43.65	42.81	43.17	43.16
Operating profit margin	40.29	38.55	38.01	38.37	38.36
Pre-tax margin	35.97	29.12	30.03	30.61	30.85
Net profit margin	31.87	27.13	26.43	27.54	27.76
Selling & administrative expenses/revenue	8.26	7.17	7.30	7.30	7.30
Effective tax rate	11.40	6.82	12.00	10.00	10.00
Growth (%)					
Revenue	29.33	22.74	42.40	14.71	10.01
Gross profit	19.30	19.44	39.66	15.67	9.97
Operating profit	8.29	17.43	40.42	15.79	9.97
Net profit	9.11	4.52	38.67	19.57	10.87
Balance sheet ratios					
Current ratio (x)	1.03	0.67	0.85	0.85	0.88
Quick ratio (x)	0.47	0.25	0.32	0.30	0.30
Cash ratio (x)	0.33	0.16	0.23	0.20	0.19
Trade and bill receivables days	86.69	63.65	55.00	55.00	55.00
Trade and bill payables turnover days	438.71	380.00	330.00	330.00	330.00
Inventory turnover days	319.67	258.74	300.00	300.00	300.00
Total debt / equity ratio (%)	236.77	281.04	280.87	266.43	242.43
Net debt / equity ratio (%)	213.28	262.44	254.16	243.84	222.15
Returns (%)					
ROAA	2.6	2.6	2.8	2.8	3.0
ROAE	11.4	12.4	14.4	14.1	14.3
Payout ratio	27.16	31.81	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates

Disclosures

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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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