Huaneng Power (902 HK) – Unrated

Independent Power Production Industry

Key Data

Share price (HK$)	5.47
52Wk H/L(HK$)	5.85 / 3.01
Issued shares (mn)	14,055
H-shares	3,555
A-shares	10,500
H-share market cap (HK$mn)	19,446
30-day avg vol (HK$mn)	150.33
Major shareholder of H-shares(%):	
Huaneng group	13.96
Blackrock	5.64

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Sales of power and heat	98.4%
Sales of coal	0.7%
Port Service	0.2%
Transportation service	0.1%
Others	0.6%

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	1.9	(3.2)
3-mth	16.4	11.0
6-mth	7.0	13.6

Source: Bloomberg
**Relative to Hang Seng Index*

1 year price performance

Source: Bloomberg

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Most sensitive to falling coal prices among H-share IPPs

We see limited upside on coal price in 3Q12 due to slowing economic growth and substitution of thermal power with hydropower this year. With the largest exposure to spot coal, Huaneng's earnings are relatively sensitive to falling coal price. The counter is trading at 1.23x PB compared to 1.39x of industry weighted average.

Falling coal price. Qinhuangdao (QHD) coal price has dropped by 12.1% during beginning of Jan to end of Jun. Moreover, coal price dropped further by 4.7% during beginning of Jul till present, which is considered as the peak season of electricity consumption. Weak coal price is partly caused by slowdown in electricity consumption and a substitution of thermal power with hydropower this year due to high precipitation which has led to a weaker demand for coal. According to NEA, coal inventory level of power plants in China increased by 39.5%YoY to 91mn tons or 27 days by the end of June this year. The high coal inventory level implies that coal price upside is limited in coming months especially after the peak summer season.

Who benefit the most from falling spot coal prices. In 2011, contract coal accounted for 28%, 37%, 35%, 35% and 76% for total coal purchase of Huaneng (902), Datang (991), Huadian (1071) , CRP(836) and CPI (2380). Out of the five largest IPPs, its largest exposure in spot coal makes Huaneng one of the biggest beneficiary from falling coal price.

Valuation. Huaneng (902) is currently trading at 1.23x PB which is still below its 6-yr historical mean of 1.53x. As variable factors including coal prices and interest rates are moving into favourable direction of the stock, further upside is possible.

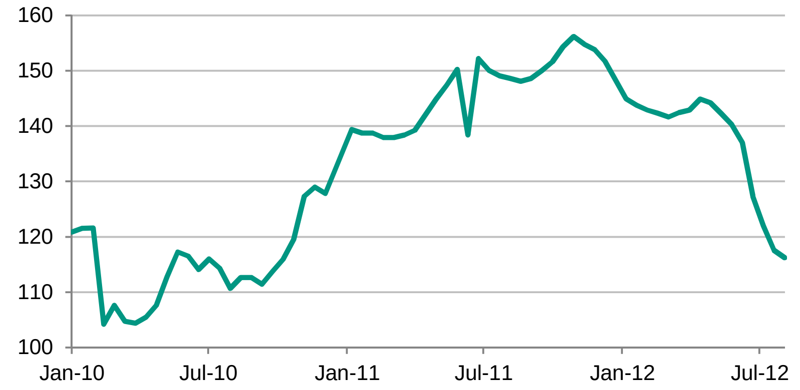
Risk factors: Slowing electricity consumption growth, high gearing, possible equity funds raising leading to dilution effect

Forecast and Valuation

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Net Income (Rmb mn)	4,930	3,348	1,181	5,870	7,074
YoY Chg (%)	(225.2)	(32.1)	(64.7)	397.2	20.5
FD EPS (Rmb)	0.410	0.280	0.080	0.417	0.500
YoY Chg (%)	(224.2)	(31.7)	(71.4)	421.3	19.9
NBV (Rmb)	3.494	3.827	3.620	3.987	4.256
PER (x)	--	--	55.6	10.7	8.9
P/B (x)	--	--	1.2	1.1	1.0
ROAA (%)	2.7	1.6	0.5	2.5	2.9
ROAE (%)	12.5	7.0	2.3	10.4	12.0
Net debt/equity	244.2	212.0	265.8	268.2	251.6

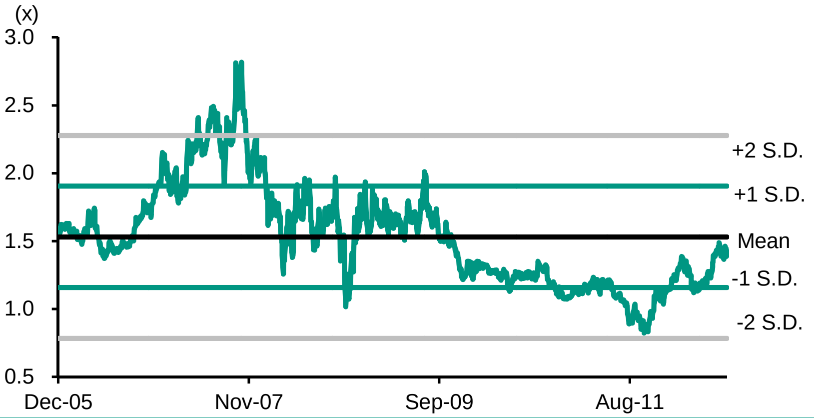
*We assume Rmb1 = HK$1.23; Source: Company, Bloomberg, ABCI Securities

Exhibit 1: Coal price in Qinhuangdao 6000 kc (US$/ton)



Source: Bloomberg

Exhibit 2: Deviation from historical PB



Source: Bloomberg

Disclosures

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