



Huaneng Renewables (958 HK)

Oct wind power output dropped 4%YoY; 10M17 up 13%YoY

- Huaneng Renewables (HNR) announced Oct operation data on Nov 13. Monthly gross output of wind power was 1,630GWh (-4.4% YoY) mainly due to 27%/4%YoY decline in northern/southern regions; in contrast, 67%/7%YoY growth was seen in eastern region and Inner Mongolia
- Total wind power output in 10M17 reached 77% of our 2017E full-year estimate, running behind its historical run rate of 80%
- The stock is now trading at 7.0x/6.2x 2017E/18E P/E and 0.9x/0.8x 2017/18E P/B based on Bloomberg consensus, which we deem attractive.
- Maintain **BUY** with TP of HK\$ 3.00, implying 8x/7x 2017E/18E P/E and 1.1x/0.9x 2017E/18E P/B

67%YoY growth in eastern region is the bright spot. Oct wind power output in eastern region jumped 67% YoY but contributed to only 3% of HNR's Oct output. Output in the region has been trending up in 2017, suggesting strong demand. Output in Inner Mongolia grew steadily by 7% YoY, contributing to 23% (the highest proportion) of the month's output.

27%/4%YoY decline in northern/southern regions was the key drag. Oct wind power output in northern/southern regions declined by 27%/4%YoY, contributing to 16%/22% of HNR's Oct power output. The poor performance can be attributed to output in Shanxi and Yunnan provinces that fell by 41%/28% YoY.

High single-digit growth expected for Nov and Dec. We have originally expected HNR to deliver mid-teens growth in Oct due to its strong performance in Sep 2017 (+48%); however, the results were dragged by poor performance in southern and northeast regions. Given the high base in Nov/Dec 2016 (+32%/+35%YoY), we expect a high single-digit growth in the last two months of 2017.

Current valuation is attractive, maintain BUY with TP at HK\$3.00. Although HNR's 10M17 power output was behind its historical run rate, we believe the Group would be able to achieve a double-digit growth in annual output and EPS would increase by 20% YoY in 2017. The stock is now trading at 7.0x/6.2x 2017/18E P/E and 0.9x/0.8x 2017/18E P/B based on the Bloomberg consensus, which we deem attractive. Our DCF-derived TP at HK\$ 3.00 implies 7.6x/6.9x 2017/18E P/E and 1.1x/0.9x 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; (7) New share issued in May dilutes EPS growth in 2017-18.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	7,357	9,239	10,580	11,489	12,842
Chg (% YoY)	19.6	25.6	14.5	8.6	11.8
Net profit (RMB mn)	1,860	2,659	3,416	3,892	4,394
Chg (% YoY)	65.9	43.0	28.5	14.0	12.9
EPS (RMB)	0.191	0.273	0.334	0.368	0.416
Chg (% YoY)	54.3	42.9	22.4	10.2	12.9
BVPS (RMB)	1.830	2.070	2.433	2.699	3.081
Chg (% YoY)	2.8	13.1	17.6	10.9	14.2
P/E (x)	11.13	7.78	6.36	5.77	5.11
P/B (x)	1.16	1.03	0.87	0.79	0.69
ROE (%)	10.45	13.20	13.74	13.65	13.50
ROA (%)	2.25	3.11	3.84	3.98	4.12
DPS (RMB)	0.030	0.041	0.050	0.055	0.062
Yield (%)	1.41	1.93	2.36	2.60	2.93
Net gearing (%)	252.1	240.0	181.2	166.6	150.4

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Nov 13, 2017

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

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Share price (HK\$)	2.50
Est. share price return	20.0%
Est. dividend yield	2.4%
Est. total return	22.4%
Previous Rating	BUY
Previous Report Date	Oct 12, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.9/2.3
Issued shares (mn)	9,728
Issued H-shares (mn)	5,031
Market cap (HK\$ mn)	26,416
H-share Market cap (HK\$ mn)	12,578
3-mth avg daily turnover(HK\$ mn)	69
Major shareholder(s) (%)	
Huaneng Group.	54.0%

Source(s): Company, ABCI Securities

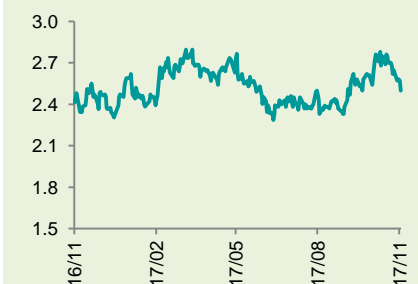
Share Performance (%)

	Absolute	Relative*
1-mth	(9.42)	(11.38)
3-mth	5.93	(3.45)
6-mth	(3.44)	(15.83)

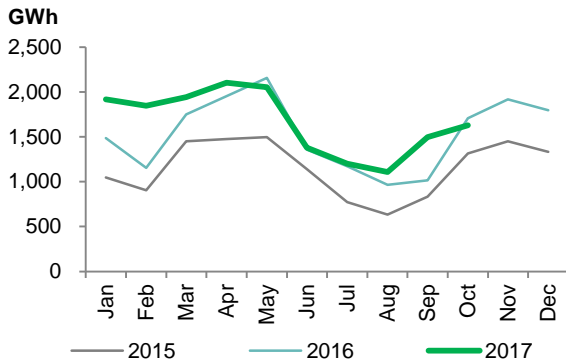
*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

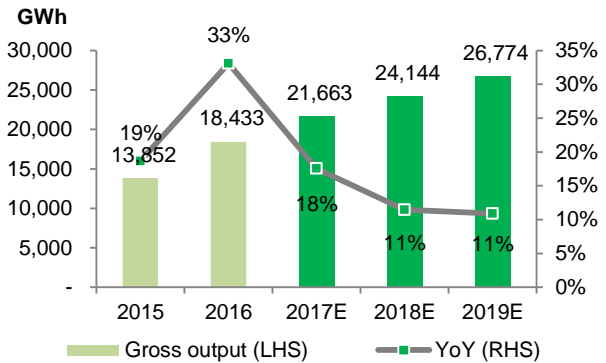
1-Year share price performance(HK\$)



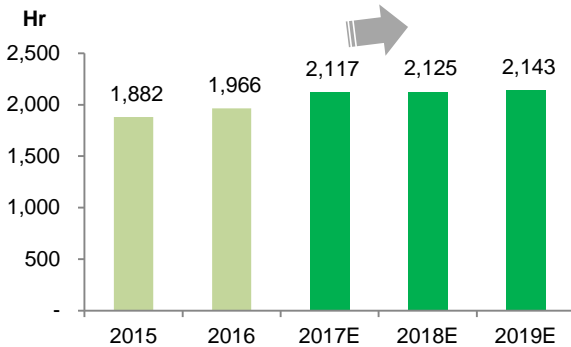
Source(s): Bloomberg, ABCI Securities

Exhibit 1: HNR's monthly operation data


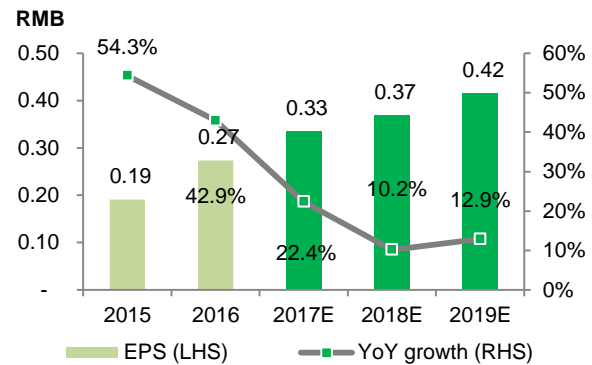
Source(s): Company, ABCI Securities estimates

Exhibit 2: HNR's wind power output would remain robust in 2017


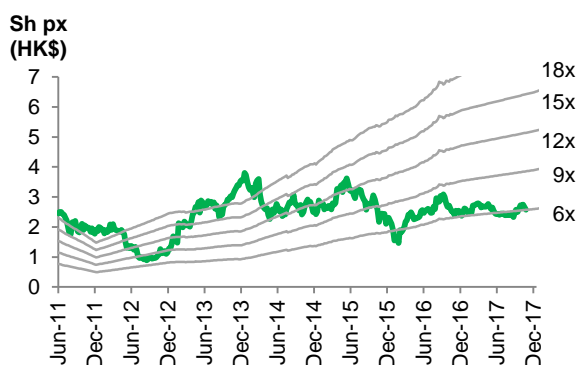
Source(s): Company, ABCI Securities estimates

Exhibit 3: HNR's utilization hour would stay above 2,000 in next few years


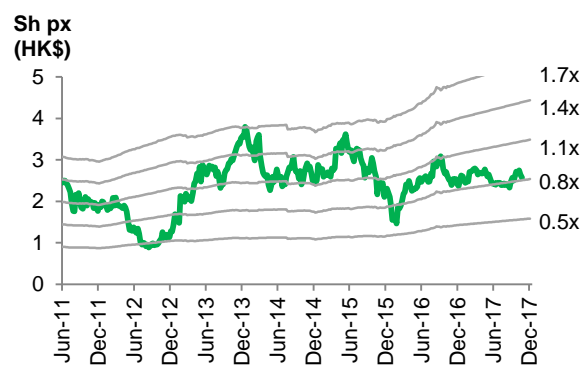
Source(s): Company, ABCI Securities estimates

Exhibit 4: HNR's EPS growth would see double-digit growth in coming years


Source(s): Company, ABCI Securities estimates

Exhibit 5: HNR's fwd. P/E chart


Source(s): Company, ABCI Securities estimates

Exhibit 6: HNR'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	7,357	9,239	10,580	11,489	12,842
Wind power	6,892	8,515	9,907	10,600	11,755
Solar power	462	718	666	883	1,081
Other	3	6	6	6	6
Cost of sales	-3,214	-4,054	-4,102	-4,525	-5,022
Gross Profit	4,143	5,184	6,477	6,963	7,820
SG&A expenses	-189	-223	-264	-287	-321
Net financial income (cost)	-2,073	-1,995	-2,240	-2,129	-2,278
Other income/ (expenses)	160	-56	-123	-160	-214
Profit before tax	2,041	2,910	3,850	4,387	5,008
Tax	-141	-202	-346	-395	-501
Net profit	1,899	2,708	3,503	3,992	4,507
Profit attributable to:					
Minority interest	40	49	88	100	113
Equity shareholders of the Company	1,860	2,659	3,416	3,892	4,394
Basic EPS (RMB)	0.191	0.273	0.334	0.368	0.416
DPS (RMB)	0.030	0.041	0.050	0.055	0.062

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Current assets	7,652	8,696	12,097	13,189	15,081
Cash	4,504	2,570	4,093	5,598	7,299
Pledged and restricted bank deposits	27	34	0	0	0
Trade and bill receivables	2,900	4,635	6,667	6,295	6,333
Other receivables and prepayments	122	1,415	1,304	1,259	1,407
Inventories	43	33	34	37	41
Other current assets	56	8	0	0	0
Non-current assets	74,901	76,749	76,905	84,711	91,474
Property, plant & equipment	68,658	72,107	73,814	80,657	87,432
Investment properties	0	0	0	0	0
Intangible assets	682	654	627	601	574
Investment in JV and associates	109	106	77	77	77
Deferred tax assets	4	3	3	3	3
Other non-current assets	5,448	3,879	2,384	3,373	3,388
Total Assets	82,553	85,445	89,003	97,900	106,555
Current Liabilities	28,533	30,517	28,106	30,214	32,089
Trade and bill payables	0	0	0	0	0
Other payables	9,311	7,520	8,450	8,972	9,584
Short term borrowings	18,727	22,563	19,656	21,242	22,504
Other current assets	496	435	0	0	0
Non-current liabilities	35,395	33,933	35,098	38,130	40,762
Deferred tax liabilities	20	20	20	20	20
Long-term borrowings	30,677	28,372	29,484	31,862	33,756
Other non-current assets	4,698	5,542	5,595	6,248	6,986
Total Liabilities	63,928	64,451	63,204	68,344	72,851
Minority interests	827	857	944	1,044	1,157
Shareholders' equities	17,798	20,137	24,854	28,512	32,547

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (RMB mn)	2015A	2016A	2017E	2018E	2019E
Profit before tax	1,899	2,708	3,503	3,992	4,507
Change in depreciation and amortization	2,720	3,447	3,512	3,920	4,341
Change in Working Capital	967	-844	-743	395	678
Net financial cost (income)	2,197	2,090	2,240	2,129	2,278
Income tax paid	-126	-179	-346	-395	-501
Net interest received	141	202	0	0	0
Others	-116	-85	0	0	0
Operating cash flow	7,682	7,338	8,166	10,042	11,303
Capex	-12,644	-7,877	-5,180	-10,724	-11,077
Increase in intangible assets	0	0	-12	-12	-13
Others	130	507	52	82	112
Investing cash flow	-12,514	-7,370	-5,140	-10,655	-10,978
Net Capital raise	0	0	2,167	0	0
Net debt financing	5,285	1,312	-1,795	3,964	3,156
Dividend payout	-214	-316	-512	-584	-659
Interest paid	-2,440	-2,205	-2,133	-2,292	-2,211
Others	-853	-650	-134	125	185
Financing cash flow	1,778	-1,858	-2,408	1,213	471
Net change in cash	-3,054	-1,889	618	600	797
Cash at the beginning	6,385	3,470	2,570	4,093	5,598
Adjustment (Time deposit & FX effect)	1,173	990	905	905	905
Cash at the end	4,504	2,570	4,093	5,598	7,299

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Wind power	93.68	92.17	93.64	92.27	91.53
Solar power	6.29	7.77	6.30	7.68	8.42
Other	0.04	0.07	0.06	0.05	0.05
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	56.31	56.12	61.23	60.61	60.89
Operating profit margin	55.95	53.13	57.56	56.72	56.73
Pre-tax margin	27.74	31.49	36.39	38.19	38.99
Net profit margin	25.82	29.31	33.11	34.75	35.10
Selling & administrative expenses/revenue	2.57	2.42	2.50	2.50	2.50
Effective tax rate	6.93	6.93	9.00	9.00	10.00
Growth (%)					
Revenue	19.60	25.58	14.52	8.59	11.78
Gross profit	18.33	25.14	24.94	7.50	12.31
Operating profit	23.03	19.24	24.08	7.01	11.80
Net profit	65.61	42.59	29.37	13.96	12.89
Balance sheet ratios					
Current ratio (x)	0.27	0.28	0.43	0.44	0.47
Quick ratio (x)	0.26	0.24	0.38	0.39	0.42
Cash ratio (x)	0.16	0.09	0.15	0.19	0.23
Trade and bill receivables days	143.88	183.14	230.00	200.00	180.00
Trade and bill payables turnover days	0.00	0.00	0.00	0.00	0.00
Inventory turnover days	4.88	2.95	3.00	3.00	3.00
Total debt / equity ratio (%)	277.59	252.94	197.71	186.25	172.86
Net debt / equity ratio (%)	252.13	240.01	181.25	166.62	150.43
Returns (%)					
ROAA	2.4	3.2	3.9	4.2	4.3
ROAE	11.0	14.0	15.2	14.6	14.4
Payout ratio	15.69	15.00	15.00	15.00	15.00

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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