



October 28, 2013
Company Report
Rating: BUY
TP: HK\$ 10.77

H-Share price (HK\$)	8.98
Est. share price return	19.93%
Est. dividend yield	1.06%
Est. total return	20.99%

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Key Data

52Wk H/L(HK\$)	9.50/4.77
Issued shares (mn)	8,036
H-Shares (mn)	3,340
Domestic (mn)	4,696
H-share Market cap	29,993
3-mth avg daily turnover (HK\$ mn)	136.31
Major shareholder(s) (%):	
Guodian Group	58.44
% of H-share:	
FIL Limited	8.04
Social Security Fund	8.00
JP Morgan	7.84
China Life Insurance	7.64
China Investment Corp	7.29

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Wind power	58.19
Sales of electricity	53.02
Service concession construction	5.17
Coal power	38.99
Sales of electricity and steam	23.24
Coal sales	15.74
Others	2.82

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	9.48	11.51
3-mth	10.01	6.06
6-mth	25.31	23.99

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

Longyuan Power (916 HK)

Market leader with proven track record

- With its diversified wind portfolio, Longyuan achieved the highest utilization hour among peers
- Longyuan has a huge project pipeline but its capacity growth will slow on its large base
- We expect maintenance costs to increase, but it will be partly offset by lowering cost of debt as increase in renewable subsidy surcharge is likely to improve working capital of wind power operators
- We initiate coverage on Longyuan with a BUY rating. Based on our DCF model with a WACC of 8.3%, we set our TP at HK\$10.77, which represent 17.8x FY14E P/E and 1.94x FY14E P/B

Achieved highest utilization hours among major peers. Longyuan's utilization hour in 1H13 was 1,104, which was 4.7% and 0.7% higher than DT Renew and HN Renew, respectively. As the Group has a diversified wind power portfolio, its utilization hour has been higher than its two major peers as the issue of wind curtailment became severe in 2H11. However, its location advantage is diminishing as DT Renew and HN Renew have constructed most of their new capacities in non-curtailment regions since 2011.

Huge expansion pipeline. Longyuan is the largest wind power operator that accounted for 14.0% of China total wind power capacity in 2012. The Group also has the highest capacity growth among peers. As at end-2012, Longyuan's consolidated installed capacity reached 10.5GW, up 22.6% YoY compared to the industry average (20.8%), DT Renew (8.5%) and HN Renew (11.3%). As of 1H13, the Group's approved wind power projects have a total capacity of 3,596MW pending operation. Based on management guidance, the Group will add another 1,600-2,000MW of capacity in 2013, representing a YoY growth of 15.1%-19.0%. Going forward, we expect the Group to post slower growth than the industry average due to its already large base. In terms of capacity, Longyuan accounted for 7.7% (~ 2,200MW) of the total capacity of the third batch of approved wind power projects announced by NEA in Mar 2013, compared to 14.0% installed capacity share in the market in 2012.

Increasing maintenance costs offset partly by lower cost of debts. As warranty periods of wind turbine start to expire, R&M expenses of Longyuan surged 156%YoY in 1H2013 to RMB 221mn. We expect the uptrend to continue but the amount will be partly offset by a slower growth in financing costs resulted from lower gearing. In addition, we believe the increase in renewable energy subsidy will improve cash flow of wind power operators and help lower their debt levels. As at 1H13, Longyuan had RMB3.6bn of overdue subsidy receivables.

Recommend BUY with TP at HK\$ 10.77. Based on our DCF model with a WACC of 8.3%, we set our TP at HK\$10.77, reflecting 17.8x FY14E PE and 1.94x FY14E PB. Based on diversified wind portfolio, fast capacity expansion and lower finance costs, we initiate BUY.

Risks: (1) Sooner-than-expected interest rate hikes; (2) Surge in maintenance costs; (3) Policy risks.

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	16,585	17,288	19,204	21,471	23,310
Chg (% YoY)	16.65	4.24	11.08	11.81	8.56
Net Income (RMB mn)	2,578	2,593	3,024	3,828	4,564
EBITDA (RMB mn)	6,865	8,586	11,641	13,624	15,322
Chg (% YoY)	23.67	25.07	35.59	17.03	12.46
EPS (RMB)	0.3454	0.3466	0.3763	0.4764	0.5679
Chg (% YoY)	28.05	0.34	8.56	26.60	19.22
BVPS (RMB)	3.47	3.66	3.97	4.38	4.85
Chg (% YoY)	11.28	5.50	8.54	10.09	10.80
P/E (x)	-	20.44	18.83	14.87	12.48
P/B (x)	-	1.93	1.78	1.62	1.46
ROE (%)	10.48	9.37	9.85	11.41	12.31
ROA (%)	3.05	2.56	2.67	3.10	3.44
DPS (RMB)	0.0690	0.0637	0.0753	0.0953	0.1136
Yield (%)	-	0.90	1.06	1.34	1.60
Net gearing* (%)	155.64	146.93	145.99	138.02	127.46

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
Revenue	16,584.5	17,288.2	19,203.6	21,471.0	23,309.9
Other net income	1,295.9	1,295.8	300.0	250.0	250.0
Total revenue	17,880.4	18,584.0	19,503.6	21,721.0	23,559.9
D&A	(2,997.6)	(3,696.8)	(4,326.9)	(4,806.9)	(5,246.9)
Coal consumption	(2,877.3)	(2,627.2)	(2,043.2)	(2,044.4)	(2,095.5)
Coal sales cost	(3,896.6)	(3,197.2)	(3,118.5)	(3,118.5)	(3,118.5)
Service concession construction costs	(793.1)	(518.5)			
Personnel costs	(804.9)	(924.8)	(883.4)	(987.7)	(1,072.3)
Material costs	(477.9)	(478.5)	(384.1)	(429.4)	(349.6)
Maintenance	(257.5)	(304.8)	(441.7)	(493.8)	(512.8)
Admin	(308.2)	(401.6)	(249.6)	(279.1)	(303.0)
Other expenses	(364.3)	(389.7)	(441.7)	(493.8)	(536.1)
Share of profits less losses of associates and jointly controlled entities	60.2	140.1	0.0	0.0	0.0
EBIT	5,163.3	6,185.1	7,614.6	9,067.4	10,325.1
Finance income	400.7	142.8	0.0	0.0	0.0
Finance expenses	(2,038.4)	(2,660.4)	(2,999.3)	(3,224.3)	(3,359.3)
EBT	3,525.6	3,667.4	4,615.2	5,843.0	6,965.8
Tax	(305.0)	(342.1)	(738.4)	(934.9)	(1,114.5)
MI	(642.3)	(732.1)	(852.9)	(1,079.8)	(1,287.3)
Net profit	2,578.3	2,593.2	3,023.9	3,828.3	4,564.0
D&A	(2,997.6)	(3,696.8)	(4,326.9)	(4,806.9)	(5,246.9)
Adjusted EBITDA	6,865.0	8,586.0	11,641.5	13,624.3	15,322.0
Dividends	515.2	511.9	604.8	765.7	912.8
No. of issued shares at end of period (mn)	7,464.3	8,036.4	8,036.4	8,036.4	8,036.4
H-shares	2,710.7	3,340.0	3,340.0	3,340.0	3,340.0
Domestic shares	4,753.6	4,696.4	4,696.4	4,696.4	4,696.4
Per share value (RMB)					
FD EPS	0.3454	0.3466	0.3763	0.4764	0.5679
NBV	3.47	3.66	3.97	4.38	4.85
DPS	0.0690	0.0637	0.0753	0.0953	0.1136

Source(s): Company, ABCI Securities estimates

Key Ratio (2011A-2015E)

FY ended Dec 31	2011A	2012A	2013A	2014E	2015E
Profitability ratio (%)					
Adjusted EBITDA margin	41.39	49.66	60.62	63.45	65.73
Adjusted EBIT margin	23.32	28.28	38.09	41.07	43.22
EBT margin	21.26	21.21	24.03	27.21	29.88
Net profit margin	15.55	15.00	15.75	17.83	19.58
ROAA	3.05	2.56	2.67	3.10	3.44
ROAE	10.48	9.37	9.85	11.41	12.31
Cost ratio (%)					
Personnel costs/Sales	-4.9	-5.3	-4.6	-4.6	-4.6
Material costs/Sales	-2.9	-2.8	-2.0	-2.0	-1.5
Maintenance/Sales	-1.6	-1.8	-2.3	-2.3	-2.2
Admin/Sales	-1.9	-2.3	-1.3	-1.3	-1.3
Effective tax rate	-8.7	-9.3	-16.0	-16.0	-16.0
Leverage (x)					
Current ratio	0.45	0.49	0.54	0.56	0.60
Quick ratio	0.42	0.47	0.52	0.54	0.58
Net debt/total equity (%)	155.6	146.9	146.0	138.0	127.5
Working capital cycle (days)					
Inventory turnover days	78.9	93.2	100.0	100.0	100.0
Receivables turnover days	98.2	141.7	150.0	135.0	135.0
Payables turnover days	157.2	152.9	130.0	130.0	150.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013A	2014E	2015E
PPE	64,967.1	73,352.4	81,410.3	88,988.1	95,126.0
Investment properties	98.1	76.2	73.0	69.8	66.6
Lease prepayments	1,214.6	1,417.4	1,430.8	1,387.7	1,344.7
Intangible assets	8,162.8	8,321.8	7,983.3	7,644.8	7,306.3
Goodwill	11.5	11.5	11.5	11.5	11.5
Investments in associates and jointly controlled entities	1,554.5	2,127.2	2,127.2	2,127.2	2,127.2
Other financial assets	4,961.9	4,553.0	4,553.0	4,553.0	4,553.0
Deferred tax assets	180.8	194.2	194.2	194.2	194.2
Total non-current assets	81,151.3	90,053.7	97,783.2	104,976.3	110,729.4
Trading securities	406.0	301.7	301.7	301.7	301.7
Inventories	925.8	816.4	755.6	870.5	750.3
Trade debtors and bill receivable	5,429.9	7,997.5	7,786.2	8,096.4	9,146.5
Prepayments and other current assets	2,898.7	3,155.4	3,155.4	3,155.4	3,155.4
Tax recoverable	72.3	145.9	145.9	145.9	145.9
Assets held for sale	0.0	0.0	0.0	0.0	0.0
Restricted deposits	31.7	231.5	231.5	231.5	231.5
Cash at bank and on hand	3,708.2	5,137.6	8,566.7	10,800.5	11,971.7
Total current assets	13,472.7	17,786.1	20,943.1	23,602.1	25,703.1
Total assets	94,624.0	107,839.9	118,726.3	128,578.4	136,432.5
Borrowings	19,078.2	26,170.0	29,660.2	31,885.2	33,220.2
Obligations under finance leases	0.0	0.0	0.0	0.0	0.0
Trade creditors and bills payable	1,597.0	1,261.0	782.6	1,331.3	1,099.9
Other payables	9,003.6	8,525.1	8,525.1	8,525.1	8,525.1
Tax payable	157.6	118.9	118.9	118.9	118.9
Total current liabilities	29,836.3	36,074.9	39,086.8	41,860.5	42,964.0
Net current liabilities	(16,363.6)	(18,288.8)	(18,143.7)	(18,258.4)	(17,260.9)
Total assets less current liabilities	64,787.7	71,764.9	79,639.5	86,717.9	93,468.5
Borrowings	31,828.1	32,482.1	36,991.9	39,766.9	41,431.9
Deferred income	1,992.7	1,903.2	1,903.2	1,903.2	1,903.2
Deferred tax liabilities	100.6	97.7	97.7	97.7	97.7
Other non-current liabilities	541.1	860.0	860.0	860.0	860.0
Total non-current liabilities	34,462.5	35,343.0	39,852.8	42,627.8	44,292.8
Net assets	30,325.2	36,421.9	39,786.8	44,090.1	49,175.7
Capital and reserves					
Paid-in capital	7,464.3	8,036.4	8,036.4	8,036.4	8,036.4
Reserves	18,444.3	21,393.0	23,905.0	27,128.6	30,926.9
Total equity attributable to the equity owner of the company	25,908.6	29,429.4	31,941.4	35,165.0	38,963.3
Non-controlling interests	4,416.6	6,992.5	7,845.4	8,925.2	10,212.4
Total equity	30,325.2	36,421.9	39,786.8	44,090.1	49,175.7

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	8,160.9	9,881.8	11,941.5	13,874.3	15,572.0
Change in working capital	(1,831.5)	(2,161.1)	(206.3)	123.6	(1,161.3)
Others	(316.6)	(252.2)	(0.0)	(0.0)	0.0
Cash (used in)/generated from operations	6,012.8	7,468.6	11,735.2	13,997.8	14,410.8
Income tax paid	(370.6)	(471.0)	(738.4)	(934.9)	(1,114.5)
CF from operating activities	5,642.2	6,997.6	10,996.8	13,063.0	13,296.2
CAPEX	(13,782.5)	(13,744.7)	(12,000.0)	(12,000.0)	(11,000.0)
Others	(983.7)	(372.8)	0.0	0.0	0.0
Cash flows from investing activities	(14,766.2)	(14,117.5)	(12,000.0)	(12,000.0)	(11,000.0)
Net borrowing	11,058.0	8,067.0	8,000.0	5,000.0	3,000.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Dividends paid	(403.1)	(515.2)	(511.9)	(604.8)	(765.7)
Interest paid	(2,222.6)	(3,025.1)	(2,999.3)	(3,224.3)	(3,359.3)
Others	(110.3)	4,328.9	0.5	0.0	0.0
Cash flows from financing activities	8,322.0	8,855.6	4,489.2	1,170.9	(1,125.0)
Net (decrease)/increase in cash and cash equivalents	(802.6)	1,735.8	3,486.0	2,233.8	1,171.2
Cash and cash equivalents at beginning of year/period	4,173.5	3,358.2	5,080.7	8,566.7	10,800.5
Effect of foreign exchange rate changes	(12.7)	(13.2)	0.0	0.0	0.0
Cash and cash equivalents at end of year/period	3,358.2	5,080.7	8,566.7	10,800.5	11,971.7

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 from 2007-2011

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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