



## Huaneng Renewables (958 HK) 2016 results preview

- Huaneng Renewables's 2016E net profit would rise by 37%YoY (vs. Bloomberg consensus 42%YoY).
- Under the government's new policy, HNR should have a better earnings visibility than peers
- HNR's strong capacity growth should deliver a strong boost to the Group 's net profit over the next few years
- Reiterate **BUY** with TP of HK\$3.4, which implies 10x 2017 P/E and 1.3x 2017 P/B.

**HNR's net profit would increase by 37% YoY for 2016E.** Huaneng Renewables (HNR, 958 HK)'s 2016E net profit would grow substantially, thanks to 1). 13%YoY growth in wind power capacity during the year; 2).increased wind power direct sales alleviated wind curtailment and raised utilization hour. HNR is likely to record a 33%YoY growth in gross wind power generation for 2016E. HNR's 2016E net profit therefore would grow by 37% YoY.

**High earnings visibility with robust capacity growth.** Under the new policy approved in the National People's Congress, non-hydro renewable energy (e.g. wind and solar) in each IPP will need to account for no less than 9% of total power generation by end-2020. Given HNR is the key renewable energy arm of Huaneng Group (China's largest IPP) that controls 67% of renewable energy capacity in the latter, the new policy suggests HNR would expand its total capacity (wind and solar) from the current 10GW by end-2015 to no less than 20GW by end-2020, implying a 14% CAGR during 2016E-20E. Promising growth in capacity (13%/13% in 2017E/18E) should improve HNR earnings visibility over the few years.

<b>2016 net profit estimates:</b>	<b>RMB 2,539mn (+37%YoY)</b>
<b>Est. announcement date:</b>	<b>Mar 15, 2017</b>

**Reiterate BUY.** We maintain our TP at HK\$3.40, which implies 10x 2017 P/E and 1.3x 2017 P/B based on the expectation that HNR would deliver a double-digit net profit growth in years to come due to capacity growth and its higher wind power output growth than peers. HNR remains our top-pick in China's wind power sector. Reiterate **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.

### Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	6,151	7,357	9,191	10,435	11,661
Chg (% YoY)	4.1	19.6	24.9	13.5	11.7
Net profit (RMB mn)	1,121	1,860	2,539	2,913	3,337
Chg (% YoY)	22.8	65.9	36.5	14.7	14.6
EPS (RMB)	0.124	0.191	0.261	0.300	0.343
Chg (% YoY)	16.2	54.3	36.5	14.7	14.6
BVPS (RMB)	1.780	1.830	2.041	2.281	2.555
Chg (% YoY)	8.6	2.8	11.5	11.7	12.0
P/E (x)	17.70	11.47	8.40	7.32	6.39
P/B (x)	1.23	1.20	1.07	0.96	0.86
ROE (%)	6.96	10.45	12.79	13.13	13.43
ROA (%)	1.51	2.25	2.84	2.94	3.10
DPS (RMB)	0.022	0.030	0.052	0.060	0.069
Yield (%)	0.98	1.37	2.38	2.73	3.13
<b>Net gearing (%)</b>	<b>225.8</b>	<b>252.1</b>	<b>256.2</b>	<b>244.5</b>	<b>233.3</b>

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Mar 3, 2017

Rating: **BUY**

TP: HK\$ 3.40

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Share price (HK\$)	2.74
Est. share price return	24.1%
Est. dividend yield	2.2%
Est. total return	26.2%
Previous Rating & TP	BUY
Previous Report Date	Nov 16, 2016

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	3.2/1.9
Issued shares (mn)	9,728
Issued H-shares (mn)	4,193
Market cap (HK\$ mn)	26,655
H-share Market cap (HK\$ mn)	11,488
3-mth avg daily turnover(HK\$ mn)	69
Major shareholder(s) (%)	
Huaneng Group	54.0%

Source(s): Company, ABCI Securities

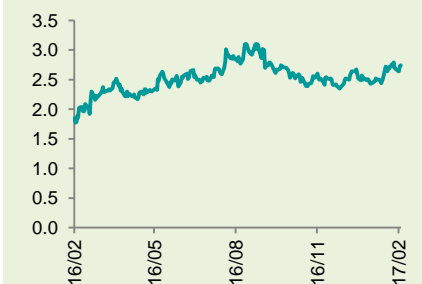
### Share Performance

	Absolute	Relative*
1-mth	12.76	10.29
3-mth	9.16	3.08
6-mth	(3.52)	(6.87)

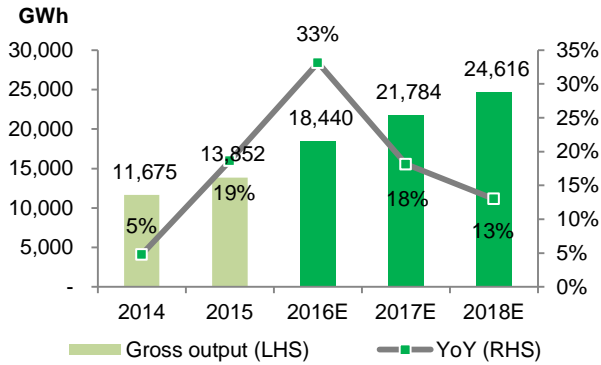
\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

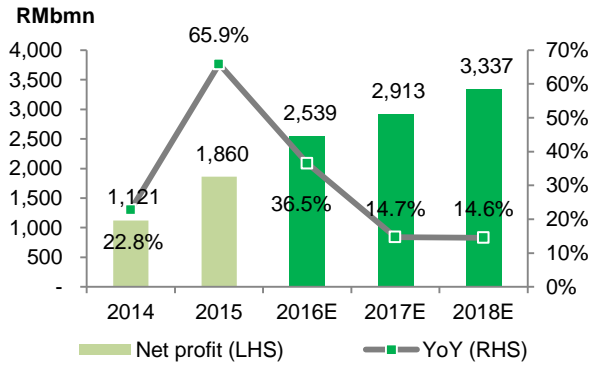
### 1-Year share performance (HK\$)



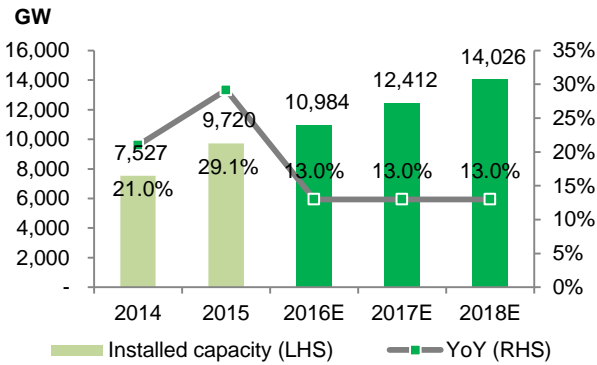
Source(s): Bloomberg, ABCI Securities

**Exhibit 1: HNR would record robust growth in wind power output in 2016**


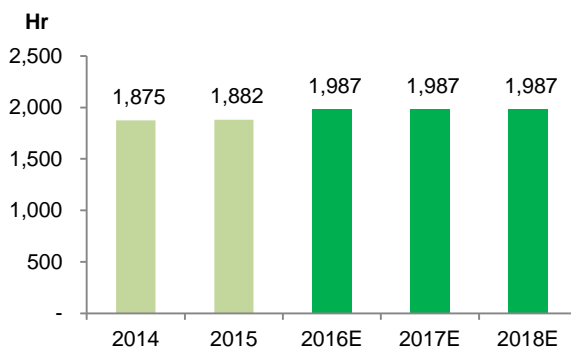
Source(s): Company, ABCI Securities estimates

**Exhibit 2: HNR's net profit growth outlook**


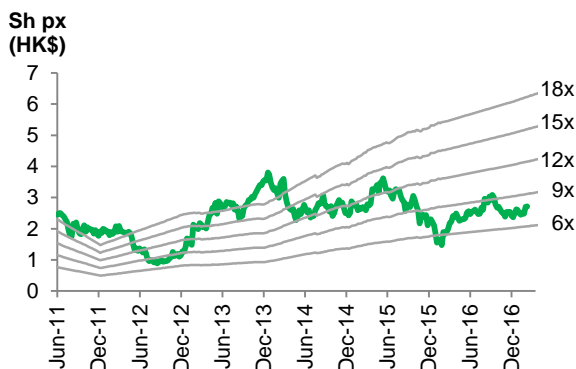
Source(s): Company, ABCI Securities estimates

**Exhibit 3: HNR's wind power capacity growth would remain solid**


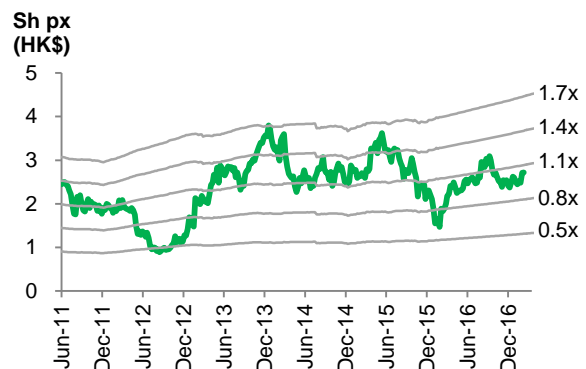
Source(s): Company, ABCI Securities estimates

**Exhibit 4: HNR's utilization hour would stay high at ~2,000hr going forward**


Source(s): Company, ABCI Securities estimates

**Exhibit 3: HNR's fwd P/E chart**


Source(s): Company, ABCI Securities estimates

**Exhibit 4: HNR's fwd P/B chart**


Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2014A-2018E)**

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Revenue</b>	<b>6,151</b>	<b>7,357</b>	<b>9,191</b>	<b>10,435</b>	<b>11,661</b>
Wind power	5,728	6,730	8,513	9,856	10,914
Solar power	386	604	676	576	744
Other	37	23	3	3	3
<b>Cost of sales</b>	<b>-2,650</b>	<b>-3,214</b>	<b>-4,014</b>	<b>-4,543</b>	<b>-5,061</b>
<b>Gross Profit</b>	<b>3,501</b>	<b>4,143</b>	<b>5,178</b>	<b>5,892</b>	<b>6,600</b>
SG&A expenses	-187	-189	-184	-209	-233
Net financial income (cost)	-2,112	-2,073	-2,133	-2,375	-2,556
Other income/ (expenses)	30	160	-76	-113	-150
<b>Profit before tax</b>	<b>1,232</b>	<b>2,041</b>	<b>2,786</b>	<b>3,196</b>	<b>3,661</b>
Tax	-86	-141	-195	-224	-256
<b>Net profit</b>	<b>1,147</b>	<b>1,899</b>	<b>2,591</b>	<b>2,972</b>	<b>3,405</b>
Profit attributable to:					
Minority interest	26	40	52	59	68
<b>Equity shareholders of the Company</b>	<b>1,121</b>	<b>1,860</b>	<b>2,539</b>	<b>2,913</b>	<b>3,337</b>
<b>Basic EPS (RMB)</b>	<b>0.124</b>	<b>0.191</b>	<b>0.261</b>	<b>0.300</b>	<b>0.343</b>
<b>DPS (RMB)</b>	<b>0.022</b>	<b>0.030</b>	<b>0.052</b>	<b>0.060</b>	<b>0.069</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2014A-2018E)**

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Current assets</b>	<b>11,141</b>	<b>7,652</b>	<b>7,998</b>	<b>9,787</b>	<b>10,607</b>
Cash	7,786	4,504	3,433	4,603	4,815
Pledged and restricted bank deposits	2	27	0	0	0
Trade and bill receivables	3,160	2,900	4,281	4,860	5,431
Other receivables and prepayments	176	122	252	286	319
Inventories	13	43	33	37	42
Other current assets	4	56	0	0	0
<b>Non-current assets</b>	<b>62,997</b>	<b>74,901</b>	<b>81,456</b>	<b>89,350</b>	<b>96,890</b>
Property, plant & equipment	57,873	68,658	75,499	83,057	90,216
Investment properties	0	0	0	0	0
Intangible assets	696	682	674	666	659
Investment in JV and associates	112	109	79	79	79
Deferred tax assets	5	4	4	4	4
Other non-current assets	4,310	5,448	5,200	5,545	5,932
<b>Total Assets</b>	<b>74,138</b>	<b>82,553</b>	<b>89,454</b>	<b>99,137</b>	<b>107,497</b>
<b>Current Liabilities</b>	<b>25,741</b>	<b>28,533</b>	<b>30,712</b>	<b>34,400</b>	<b>36,835</b>
Trade and bill payables	0	0	0	0	0
Other payables	8,001	9,311	8,995	10,865	11,717
Short term borrowings	17,306	18,727	21,717	23,535	25,118
Other current assets	434	496	0	0	0
<b>Non-current liabilities</b>	<b>31,512</b>	<b>35,395</b>	<b>38,016</b>	<b>41,621</b>	<b>44,807</b>
Deferred tax liabilities	19	20	20	20	20
Long-term borrowings	26,842	30,677	32,575	35,303	37,678
Other non-current assets	4,651	4,698	5,420	6,298	7,110
<b>Total Liabilities</b>	<b>57,253</b>	<b>63,928</b>	<b>68,728</b>	<b>76,021</b>	<b>81,643</b>
Minority interests	784	827	878	938	1,006
<b>Shareholders' equities</b>	<b>16,101</b>	<b>17,798</b>	<b>19,848</b>	<b>22,178</b>	<b>24,848</b>

Source(s): Company, ABCI Securities estimates

**Consolidated cash flow statement (2014A-2018E)**

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Profit before tax	1,147	1,899	2,591	2,972	3,405
Change in depreciation and amortization	2,254	2,720	3,435	3,869	4,304
Change in Working Capital	689	967	-1,747	1,414	350
Net financial cost (income)	2,088	2,197	2,133	2,375	2,556
Income tax paid	-77	-126	-195	-224	-256
Net interest received	86	141	0	0	0
Others	-62	-116	0	0	0
<b>Operating cash flow</b>	<b>6,125</b>	<b>7,682</b>	<b>6,216</b>	<b>10,406</b>	<b>10,358</b>
Capex	-13,394	-12,644	-10,246	-11,395	-11,431
Increase in intangible assets	0	0	-22	-23	-24
Others	433	130	91	69	92
<b>Investing cash flow</b>	<b>-12,961</b>	<b>-12,514</b>	<b>-10,177</b>	<b>-11,350</b>	<b>-11,363</b>
Net Capital raise	1,358	0	0	0	0
Net debt financing	10,489	5,285	4,888	4,546	3,958
Dividend payout	-213	-214	-508	-583	-667
Interest paid	-2,228	-2,440	-2,242	-2,223	-2,443
Others	-517	-853	752	375	369
<b>Financing cash flow</b>	<b>8,889</b>	<b>1,778</b>	<b>2,890</b>	<b>2,115</b>	<b>1,217</b>
<b>Net change in cash</b>	<b>2,053</b>	<b>-3,054</b>	<b>-1,071</b>	<b>1,171</b>	<b>211</b>
Cash at the beginning	4,322	6,385	4,504	3,433	4,603
Adjustment (Time deposit & FX effect)	1,412	1,173	0	0	0
<b>Cash at the end</b>	<b>7,786</b>	<b>4,504</b>	<b>3,433</b>	<b>4,603</b>	<b>4,815</b>

Source(s): Company, ABCI Securities estimates

**Key ratio (2014A-2018E)**

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
<b>Sales mixed (%)</b>					
Wind power	93.12	91.48	92.62	94.45	93.60
Solar power	6.28	8.21	7.35	5.52	6.38
Other	0.60	0.31	0.03	0.03	0.02
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	56.92	56.31	56.33	56.47	56.60
Operating profit margin	54.39	55.95	53.51	53.38	53.31
Pre-tax margin	20.04	27.74	30.31	30.63	31.40
Net profit margin	18.64	25.82	28.19	28.48	29.20
Selling & administrative expenses/revenue	3.04	2.57	2.00	2.00	2.00
Effective tax rate	6.95	6.93	7.00	7.00	7.00
<b>Growth (%)</b>					
Revenue	4.10	19.60	24.94	13.53	11.75
Gross profit	6.50	18.33	24.98	13.80	12.01
Operating profit	19.80	23.03	19.49	13.26	11.60
Net profit	21.69	65.61	36.41	14.73	14.56
<b>Balance sheet ratios</b>					
Current ratio (x)	0.43	0.27	0.26	0.28	0.29
Quick ratio (x)	0.43	0.26	0.25	0.28	0.28
Cash ratio (x)	0.30	0.16	0.11	0.13	0.13
Trade and bill receivables days	187.53	143.88	170.00	170.00	170.00
Trade and bill payables turnover days	0.00	0.00	0.00	0.00	0.00
Inventory turnover days	1.81	4.88	3.00	3.00	3.00
Total debt / equity ratio (%)	274.19	277.59	273.54	265.29	252.72
Net debt / equity ratio (%)	225.82	252.13	256.24	244.54	233.34
<b>Returns (%)</b>					
ROAA	1.7	2.4	3.0	3.1	3.2
ROAE	7.4	11.0	13.5	13.9	14.2
Payout ratio	17.36	15.69	20.00	20.00	20.00

Source(s): Company, ABCI Securities estimates



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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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