



Huaneng Renewables (958 HK)

Feb wind power output soared 60%YoY

- Huaneng Renewables (HNR) announced Feb operation data on Mar 10, 2017
- Gross output of wind power was 1,846GWh (+60% YoY) in Feb mainly due to strong growth in northeast and northwest regions
- Total wind power output in Jan and Feb reached 17% of our 2017E full-year estimate, slightly ahead of the 14% run rate in 2016. Based on the current development, our full-year output growth estimate at 18%YoY should be achievable
- Maintain **BUY** with TP of HK\$ 3.40 implies 10x 2017 P/E and 1.3x 2017 P/B

Strong performance in southern and northeast regions. HNR's Feb wind power output in southern and northeast regions increased 49%/168% YoY, contributing to 31%/15% of the Group's overall wind power output in Feb. Such strong performance was mainly due to 1) increase in direct sales of electricity to customers, which has minimized the negative impact of power curtailment on northeast region; 2) strong energy demand in eastern and southern China has boosted HNR's output in both regions.

Based on government policy announced in 2016, HNR's wind and solar capacity growth should expand robustly at 14% CAGR in 2016-20E. New government policy announced in Mar 2016 stated non-hydro renewable energy (e.g. wind and solar) in each IPP will need to account for no less than 9% of total power o by end-2020. Given HNR is the key renewable energy arm of Huaneng Group (China's largest IPP) controlling 67% of renewable energy capacity in the latter, the new policy suggests HNR would need to boost its total capacity (wind and solar) from 10GW by end-2015 to no less than 20GW by end-2020, implying a 14% CAGR during 2016-20E. We see high visibility in capacity growth should trigger rerating of the stock.

HNR will continue to record robust wind power output growth in the near future. HNR's solid capacity growth, driven by strong demand from its parent company and its relatively low capacity base, would help boost its future output. It would deliver relatively high wind power output when compare to market leader Longyuan Power (916 HK, BUY, TP HK\$7.30) – HNR is likely to achieve strong 18%YoY growth in 2017 while Longyuan should see 13%YoY growth during the same period.

TP at HK\$ 3.40; maintain BUY. We continue to favor HNR's strong power output growth and high visibility in capacity growth. Our TP at HK\$ 3.40 implies an undemanding valuation of 10x 2017 P/E and 1.3x 2017 P/B. HNR remains our top pick in wind power operation sector. 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.

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)	19.76	12.81	9.38	8.18	7.14
P/B (x)	1.38	1.34	1.20	1.07	0.96
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 (%)	0.88	1.23	2.13	2.45	2.80
Net gearing (%)	225.8	252.1	256.2	244.5	233.3

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 13, 2017

Rating: BUY

TP: HK\$ 3.40

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kelvinng@abci.com.hk

Share price (HK\$)	2.75
Est. share price return	23.6%
Est. dividend yield	2.1%
Est. total return	25.8%
Previous Rating & TP	BUY
Previous Report Date	Mar 3, 2017

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)	27,238
H-share Market cap (HK\$ mn)	11,740
3-mth avg daily turnover(HK\$ mn)	70
Major shareholder(s) (%)	
Huaneng Group.	54.0%

Source(s): Company, ABCI Securities

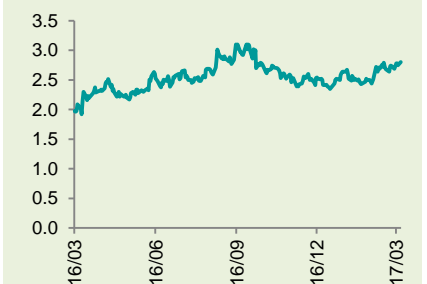
Share Performance

	Absolute	Relative*
1-mth	11.55	10.65
3-mth	11.11	5.14
6-mth	(5.72)	(7.86)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

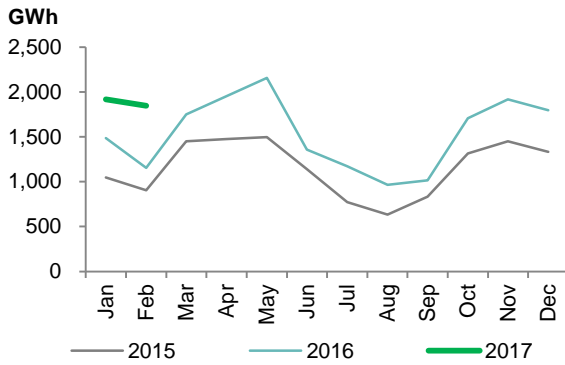
1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

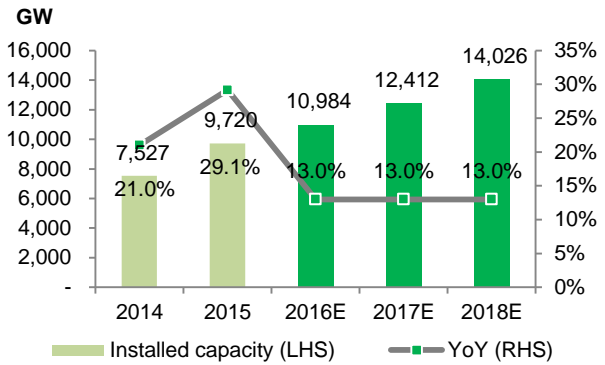


Exhibit 1: HNR's monthly operation data



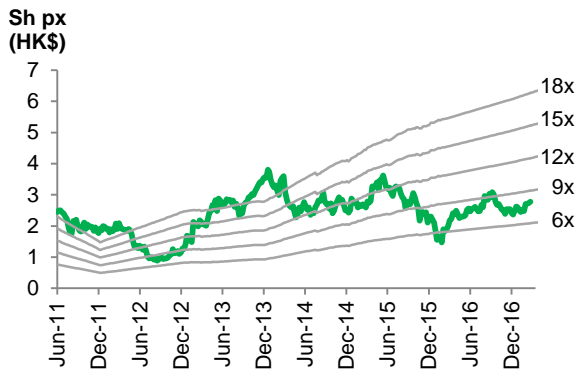
Source(s): Company, ABCI Securities estimates

Exhibit 2: HNR's wind power capacity is likely to see strong growth



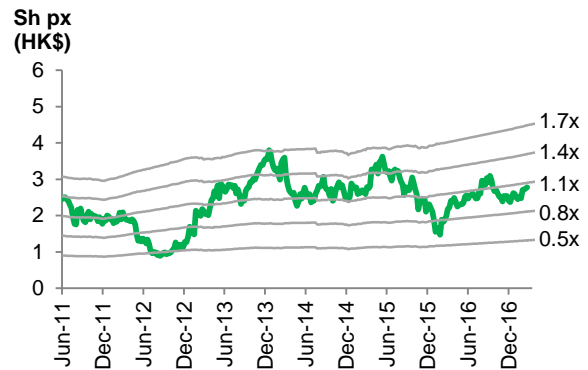
Source(s): Company, ABCI Securities estimates

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
Revenue	6,151	7,357	9,191	10,435	11,661
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
Cost of sales	-2,650	-3,214	-4,014	-4,543	-5,061
Gross Profit	3,501	4,143	5,178	5,892	6,600
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
Profit before tax	1,232	2,041	2,786	3,196	3,661
Tax	-86	-141	-195	-224	-256
Net profit	1,147	1,899	2,591	2,972	3,405
Profit attributable to:					
Minority interest	26	40	52	59	68
Equity shareholders of the Company	1,121	1,860	2,539	2,913	3,337
Basic EPS (RMB)	0.124	0.191	0.261	0.300	0.343
DPS (RMB)	0.022	0.030	0.052	0.060	0.069

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Current assets	11,141	7,652	7,998	9,787	10,607
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
Non-current assets	62,997	74,901	81,456	89,350	96,890
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
Total Assets	74,138	82,553	89,454	99,137	107,497
Current Liabilities	25,741	28,533	30,712	34,400	36,835
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
Non-current liabilities	31,512	35,395	38,016	41,621	44,807
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
Total Liabilities	57,253	63,928	68,728	76,021	81,643
Minority interests	784	827	878	938	1,006
Shareholders' equities	16,101	17,798	19,848	22,178	24,848

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
Operating cash flow	6,125	7,682	6,216	10,406	10,358
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
Investing cash flow	-12,961	-12,514	-10,177	-11,350	-11,363
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
Financing cash flow	8,889	1,778	2,890	2,115	1,217
Net change in cash	2,053	-3,054	-1,071	1,171	211
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
Cash at the end	7,786	4,504	3,433	4,603	4,815

Source(s): Company, ABCI Securities estimates

Key ratio (2014A-2018E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Sales mixed (%)					
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
Total	100	100	100	100	100
Profit & loss ratios (%)					
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
Growth (%)					
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
Balance sheet ratios					
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
Returns (%)					
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

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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183