



August 12, 2016
Company Report
Rating: BUY
TP: HK\$ 8.20

H-Share price (HK\$)	6.62
Est. share price return	23.9%
Est. dividend yield	1.6%
Est. total return	25.4%

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Key Data

Market share (HK\$m)	54,005
3-mth avg. daily turnover (HK\$ mn)	104
52-week high/low (HK\$)	9.22/3.60
Issued shares (mn)	8,036
Major shareholder(s) (%):	
Guodian Corp	57.3

Source(s): Company, Bloomberg, ABCI Securities

1H16 Revenue breakdown (%)

Wind power	63.9
Coal-fire power	12.6
Other	23.5

Source(s): Company, ABCI Securities

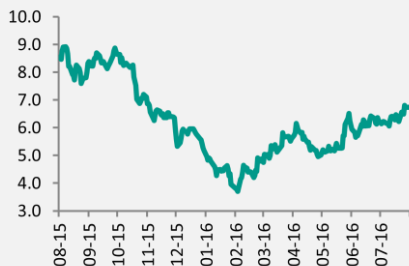
Share performance (%)

	Absolute	Relative*
1-mth	8.04%	1.52%
3-mth	31.17%	16.00%
6-mth	81.52%	57.55%

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

Longyuan Power (916 HK)

1H16 results in line with forecasts; maintain BUY

- Net income was up 4% YoY to RMB 2.2bn, equivalent to 64% of the Bloomberg consensus and 62% of our FY16E estimate.
- Installed wind capacity was up 14%YoY to 17GW; wind power generation rose 9% YoY to 15,409GWh
- We continue to like Longyuan's prime asset mix and low unit all-in capacity cost among peers, which in turn should facilitate future earnings growth. **Maintain BUY**

1H16 earnings are in line with expectations. Longyuan Power (Longyuan) announced its 1H16 results on Aug 9. Net income was RMB 2,248mn (+4% YoY), equivalent to 64%/62% of the Bloomberg consensus and our full-year estimates. Considering the high base effect in 1H15, we believe the modest earnings growth in 1H16 is in line with our expectations and its full-year earnings growth is likely to reach 23%YoY.

Capacity growth of 13%/13%YoY in 2016E/17E is achievable. Management said capacity expanded by 0.78GW in 1H16 while another 0.8GW~1GW will be added in 2H16. Based on its track record, we believe capacity in 2016E will grow by 13%YoY. In addition, management target to add 1.6GW~1.8GW of new wind capacity over the next few years. With adequate cash on hand, wind capacity is likely to increase by 13%YoY in 2017E.

All-in unit capacity cost at RMB 7/W- a boon to future growth. Longyuan's all-in wind power unit capacity cost in 1H16 was RMB 7/W, similar to that in 2015 and is ~22% lower than the industry average of RMB 9/W. Longyuan's low all-in unit cost presents a significant advantage over its peers as the Group can expand capacity with less capex.

Long-term utilization hour would stay at 1,900. Longyuan reported 980hr of utilization in 1H16 (-10%YoY), but management is confident that the figure would reach 1,900hr in 2016/17 on the back of supportive new policies by the government. With a diversified asset mix, the Group usually attain a higher utilization hour than peers. Nonetheless, we do not expect a significant jump in utilization hour as the issue of power curtailment is unlikely to be resolved in the short term.

TP at HK\$ 8.20; maintain BUY Longyuan's 1H16 results are broadly in line with our expectations. We adjust our operating assumptions and expect 23%/14% YoY earnings growth in 2016E/17E. We roll over our valuation from 2016 to 2017 and our DCF-derived TP is HK\$ 8.20 (previously at HK\$ 8.00), implying 16x/14x 2016E/17E P/E and 1.5x/1.3x 2016E/17E P/B. We believe Longyuan would achieve a 17% EPS CAGR in 2015-18E and our TP is equivalent to 2017E PEG of 0.8, which we deem as inexpensive. To reiterate, Longyuan's low unit all-in capacity cost should help expand business at a lower cost and its diversified asset mix should support a higher utilization hour despite power curtailment. **Maintain BUY.**

Risk factors: (1) Power curtailment risk; (2) Wind resources risk; (3) Tariff risk; (4) Construction risks; (5) Potential fundraising activities to finance upcoming projects.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	18,228	19,649	22,041	24,561	27,002
Chg (% YoY)	-4.8	7.8	12.2	11.4	9.9
Net Income (RMB mn)	2,555	2,881	3,539	4,029	4,635
Chg (% YoY)	24.5	12.8	22.8	13.8	15.1
EPS (RMB)	0.318	0.358	0.440	0.501	0.577
Chg (% YoY)	24.7	12.7	22.9	13.8	15.1
BVPS (RMB)	4.120	4.369	4.749	5.150	5.611
Chg (% YoY)	7.0	6.0	8.7	8.4	9.0
P/E (x)	17.83	15.82	12.87	11.31	9.83
P/B (x)	1.38	1.30	1.19	1.10	1.01
ROE (%)	7.72	8.20	9.27	9.73	10.28
ROA (%)	2.06	2.16	2.43	2.55	2.77
DPS (RMB)	0.060	0.072	0.088	0.100	0.115
Dividend yield (%)	1.05	1.26	1.55	1.77	2.04
Net gearing* (%)	203.0	203.3	201.6	196.4	188.6

Source(s): Company data, ABCI Securities estimates

* Total debt minus total cash on hand divided by Shareholders equity



1H16 results highlight

1H16 earnings in line with consensus. Longyuan announced its 1H16 results on Aug 9. Net income was RMB 2,248mn (+4% YoY), equivalent to 64%/62% of Bloomberg and our full-year estimates. Considering the high base effect in 1H15, we believe the modest earnings growth in 1H16 is in line with our expectations and its full-year earnings growth is likely to reach 23%YoY.

1H16 key earning driver: Robust growth in wind capacity. Installed wind power capacity expanded by 14%YoY in 1H16, driving up wind power output by 9%YoY during the period. This was the key driver of the 4%YoY earnings growth in 1H16.

10% YoY decline in utilization hour was caused by poor wind resource and power curtailment. Utilization hour was 980hr in 1H16, down 10%YoY (1H15: 1,085hr). This indicates wind power curtailment remains a threat to wind power operators and investors should stay cautious on players whose facilities have a high exposure in the “3-North” regions (Inner Mongolia, northeast and northwest China) such as Datang Renewable (1798 HK, HOLD, HK\$ 1.00).

Results summary		1H15	1H16	YoY
Income Statement				
Revenue	RMB mn	10,551	11,209	6%
Wind power	RMB mn	6,713	7,162	7%
Coal-fire power	RMB mn	1,648	1,412	-14%
Sales of coal	RMB mn	1,120	1,793	60%
Others	RMB mn	1,070	842	-21%
Op. profit	RMB mn	4,426	4,544	3%
Net income	RMB mn	2,206	2,284	4%
Basic EPS	RMB	0.27	0.28	4%
Ratios				
Op. margin	%	41.9%	40.5%	-1ppt
Net margin	%	20.9%	20.4%	-1ppt
Net gearing/(Net cash)	%	194%	198%	3ppt
Wind op. data				
Installed capacity	MW	14,568	16,547	14%
Gross generation	GWh	14,191	15,409	9%
Utilization hour	Hours	1,085	980	-10%
Tariff	RMB/kWh, incl. VAT	0.59	0.58	-2%
Coal-fire op. data				
Installed capacity	MW	1,875	1,875	0%
Gross generation	GWh	4,908	4,688	-4%
Utilization hour	Hours	2,618	2,500	-5%
Tariff	RMB/kWh, incl. VAT	0.42	0.38	-10%

Source(s): Company data

2017 outlook

Full-year earnings growth of 23%YoY in 2016E. Despite a modest 4%YoY earnings growth in 1H16, Longyuan's results are in line with expectations, reaching 64% of the Bloomberg consensus and 62% of our full-year earnings forecasts. Historically, Longyuan's 1H earnings contributed to 59% of its full-year earnings on average. The 1H16 results indicate the Group will likely achieve our full-year estimates of a 23%YoY earnings growth by end-year.

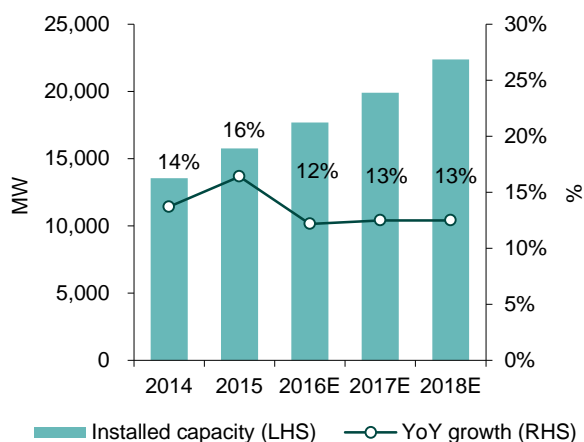
Wind power capacity growth of 13%/13%YoY in 2016E/17E is achievable. Newly added capacity was 0.78GW in 1H16, and management have great confidence to add another 0.8GW~1GW in 2H16. We believe the Group's capacity will increase by 13% YoY in 2016. In addition, the Group targets to expand its wind capacity 1.6GW~1.8GW over the next few years. With adequate cash on hand, we believe the Group is likely to raise its wind capacity by 13% YoY in 2017E.

Wind power tariff should continue to trend down. In 1H16, Longyuan recorded a 2% YoY decline in wind power tariff as the China government attempts to alleviate financial pressure of the industrial enterprises. A lower tariff is going to be a long-term trend for wind power operators and investors should focus on players with higher utilization hour and faster capacity growth.

All-in unit capacity cost at RMB 7/W- a boon to future growth. Longyuan's all-in wind power unit capacity cost in 1H16 was RMB 7/W, similar to that in 2015 and is ~22% lower than the industry average of RMB 9/W. A low all-in unit cost presents a significant advantage over peers as the Group can expand its capacity with less capex.

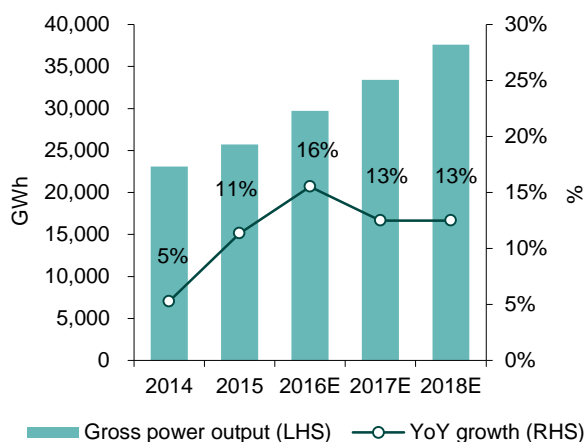
Long-term utilization hour would stay at 1,900. Longyuan reported 980hr of utilization in 1H16 (-10%YoY), but management is confident that the figure would reach 1,900hr in 2016/17 on the back of supportive new policies by the government. Moreover, with a diversified asset mix, the Group usually attain a higher utilization hour than peers. Nonetheless, we do not expect a significant jump in utilization as the issue of power curtailment is unlikely to be resolved in the short term.

Exhibit 1: Longyuan's future capacity growth should remain robust

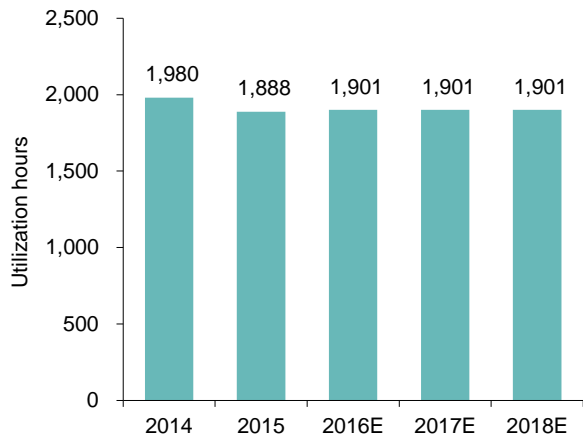


Source(s): Company data, ABCI Securities estimates

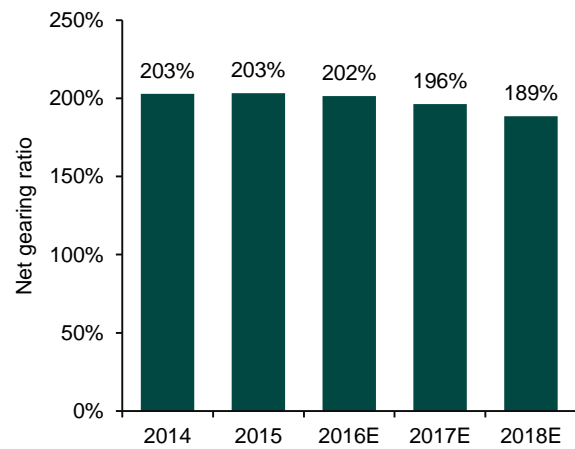
Exhibit 2: Longyuan's gross wind power output will rise



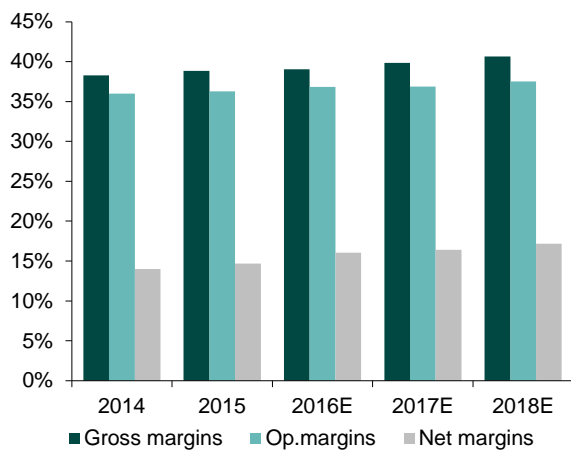
Source(s): Company data, ABCI Securities estimates

Exhibit 3: Longyuan's utilization hours


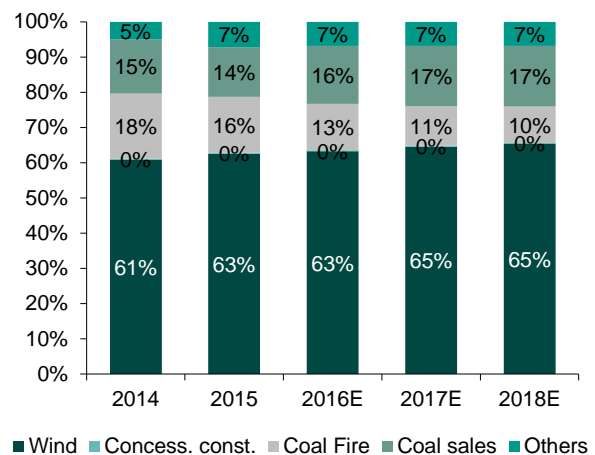
Source(s): Company data, ABCI Securities estimates

Exhibit 4: Longyuan's net gearing ratio


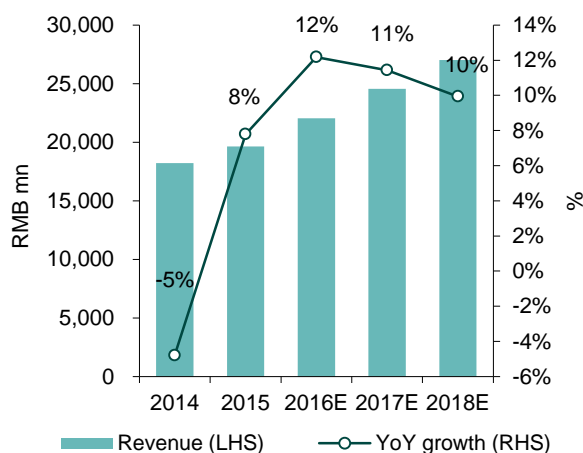
Source(s): Company data, ABCI Securities estimates

Exhibit 5: Longyuan's margin trend


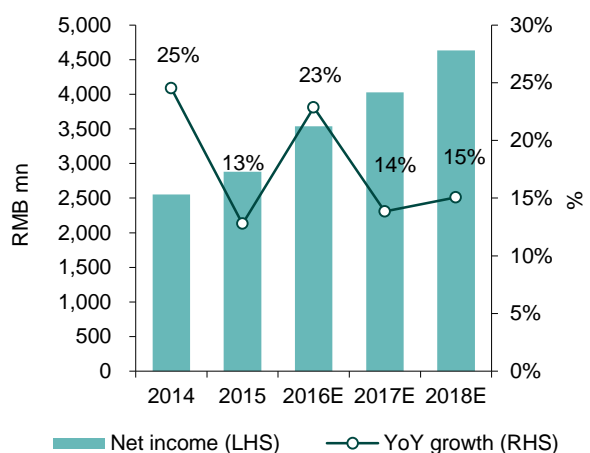
Source(s): Company data, ABCI Securities estimates

Exhibit 6: Breakdown of Longyuan's revenue


Source(s): Company data, ABCI Securities estimates

Exhibit 7: Longyuan's revenue


Source(s): Company data, ABCI Securities estimates

Exhibit 8: Longyuan's net income


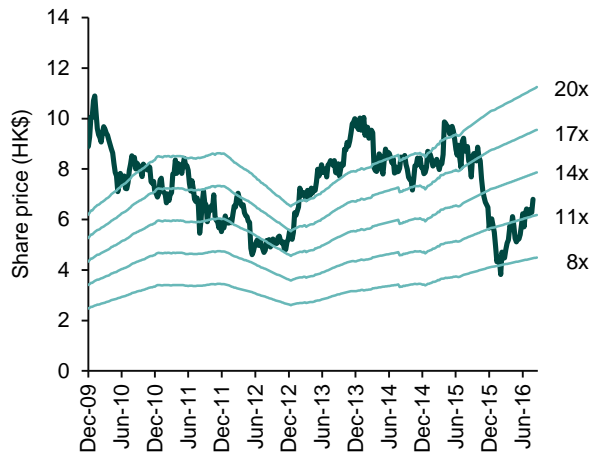
Source(s): Company data, ABCI Securities estimates

Valuation

TP at HK\$ 8.20; maintain BUY. Longyuan's 1H16 results are broadly in line with our expectations. We adjust our operating assumptions and expect Longyuan to deliver 23%/14%YoY earnings growth in 2016E/17E. We roll over our valuation basis from 2016 to 2017 and our DCF-derived TP is HK\$8.20 (previously at HK\$8.00), implying 16x/14x 2016E/17E PE and 1.5x/1.3x 2016E/17E P/B.

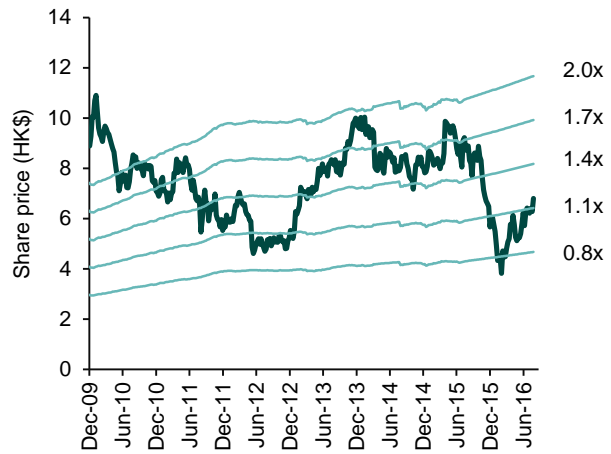
We believe Longyuan would achieve a 17% EPS CAGR in 2015-18E. Our TP is equivalent to 2017E PEG of 0.8, which we deem as inexpensive. To reiterate, Longyuan's low unit all-in capacity cost should help the Group to expand business at a lower cost and its diversified asset mix should help support a higher utilization hour despite power curtailment. Maintain **BUY**.

Exhibit 7: Longyuan's fwd P/E



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 8: Longyuan's fwd P/B



Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2014A-2018E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Revenue	18,228	19,649	22,041	24,561	27,002
Wind power	11,154	12,331	13,992	15,916	17,729
Coal-fire power	6,156	5,896	6,531	6,968	7,434
Other	919	1,422	1,517	1,677	1,839
COGS	-11,249	-12,017	-13,435	-14,776	-16,026
Gross profit	6,980	7,632	8,606	9,785	10,976
SG&A	-378	-370	-441	-491	-540
Net financial income (cost)	-2,960	-3,025	-3,196	-3,441	-3,626
Other income and gains	413	439	616	506	506
Pre-tax profit	4,055	4,676	5,585	6,358	7,315
Income tax	-510	-600	-670	-763	-878
Net profit	3,545	4,076	4,915	5,595	6,438
Profit attributable to:					
Minority interests	-990	-1,196	-1,229	-1,399	-1,609
Equity shareholders of the Company	2,555	2,881	3,539	4,029	4,635
Basic EPS (RMB)	0.318	0.358	0.440	0.501	0.577
DPS (RMB)	0.060	0.072	0.088	0.100	0.115

Source(s): Company data, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

As of Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Current assets	14,795	12,697	15,909	19,432	20,003
Cash and equivalent	2,396	2,887	3,720	6,028	5,427
Pledged and restricted bank deposits	440	387	387	387	387
Trade and bill receivables	6,416	4,238	6,039	6,729	7,398
Other receivables and prepayments	4,102	3,069	3,623	4,037	4,439
Inventories	1,017	1,081	1,104	1,214	1,317
Other current assets	425	1,036	1,036	1,036	1,036
Non-current assets	109,018	120,776	129,560	138,542	147,595
Property, plant and equipment	88,555	98,609	106,081	113,859	121,548
Lease prepayment	5	5	5	5	5
Intangible assets	8,542	8,699	8,919	9,145	9,376
Investment in JV and associates	3,602	4,822	5,483	6,220	7,030
Other receivables and deposits	155	155	155	155	155
Other non-current assets	8,159	8,486	8,917	9,158	9,480
Total assets	123,813	133,473	145,469	157,974	167,597
Current liabilities	46,328	55,647	60,919	66,134	69,170
Trade and bill payables	1,021	1,902	1,840	2,024	2,195
Other payables	9,188	9,057	10,462	11,491	12,450
Short term borrowings	36,114	44,688	48,617	52,619	54,525
Other current liabilities	6	0	0	0	0
Non-current liabilities	36,581	33,293	35,734	38,402	39,673
Deferred tax liabilities	107	106	106	106	106
Long-term borrowings	33,922	29,970	32,411	35,079	36,350
Other non-current liabilities	2,552	3,217	3,217	3,217	3,217
Total liabilities	82,909	88,940	96,653	104,536	108,843
Minority interests	7,797	6,433	7,662	9,060	10,670
Perpetual medium-term note	0	2,991	2,991	2,991	2,991
Shareholders' equities	33,107	35,109	38,163	41,386	45,094

Source(s): Company data, ABCI Securities estimates



Consolidated cash flow statement (2014A-2018E)

FY ended Dec 31 (RMB mn)	2014A	2015E	2016E	2017E	2018E
Profit before tax	4,055	4,676	5,585	6,358	7,315
Change in depreciation and amortization	5,011	5,554	6,454	7,102	7,774
Change in working capital	1,973	4,175	-1,036	-2	-43
Net financial cost (income)	2,895	2,671	3,065	3,154	3,325
Income tax paid	-522	-525	-1,196	-1,229	-1,399
Net interest received	0	0	0	0	0
Others	-531	-227	-661	-737	-810
CF Operating	12,881	16,325	12,211	14,646	16,164
Capex	-18,273	-15,264	-13,446	-14,370	-14,922
Increase in intangible assets	0	0	-701	-736	-772
Others	-2,591	-1,055	204	164	205
CF Investing	-20,864	-16,319	-13,943	-14,942	-15,490
Net Capital raise	0	0	0	0	0
Net debt financing	12,035	4,837	6,370	6,670	3,176
Dividend payout	-1,042	-1,174	-576	-708	-806
Interest paid	-3,385	-3,368	-3,228	-3,360	-3,646
Others	45	212	0	0	0
CF Financing	7,653	507	2,565	2,603	-1,276
Net change in cash	-330	513	834	2,308	-601
Cash at the beginning	2,732	2,396	2,887	3,720	6,028
Adjustment (Time deposit & FX effect)	-6	-22	0	0	0
Cash at the end	2,396	2,887	3,720	6,028	5,427

Source(s): Company data, ABCI Securities estimates

Key Ratio (2014A-2018E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016E	2017E	2018E
Sales mixed (%)					
Wind power	61.19	62.76	63.48	64.80	65.66
Coal-fire power	33.77	30.01	29.63	28.37	27.53
Other	5.04	7.24	6.88	6.83	6.81
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	38.29	38.84	39.05	39.84	40.65
Operating profit margin	35.99	36.26	36.84	36.90	37.52
Pre-tax margin	22.25	23.80	25.34	25.89	27.09
Net profit margin	19.45	20.75	22.30	22.78	23.84
Selling & administrative expenses/revenue	2.07	1.88	2.00	2.00	2.00
Effective tax rate	12.59	12.83	12.00	12.00	12.00
Growth (%)					
Revenue	-4.80	7.79	12.18	11.43	9.94
Gross profit	0.31	9.34	12.77	13.70	12.17
Operating profit	9.15	8.61	13.96	11.61	11.79
Net profit	19.25	15.01	20.57	13.84	15.05
Balance sheet ratios					
Current ratio (x)	0.32	0.23	0.26	0.29	0.29
Quick ratio (x)	0.20	0.13	0.17	0.20	0.19
Cash ratio (x)	0.06	0.06	0.07	0.10	0.08
Trade and bill receivables days	128.36	78.72	100.00	100.00	100.00
Trade and bill payables turnover days	33.12	57.78	50.00	50.00	50.00
Inventory turnover days	33.00	32.82	30.00	30.00	30.00
Total debt / equity ratio (%)	211.54	195.95	196.89	197.62	188.99
Net debt / equity ratio (%)	202.98	203.32	201.56	196.40	188.63
Returns (%)					
ROAA	2.2	2.2	2.5	2.7	2.8
ROAE	8.0	8.4	9.7	10.1	10.7
Payout ratio	18.78	20.00	20.00	20.00	20.00

Source(s): Company data, ABCI Securities estimates

Disclosures

Analyst Certification

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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 2010-2014

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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