



Jan. 30, 2015
Company Report
Rating: BUY
TP: HK\$ 3.55

H-Share price (HK\$) 3.29
Est. share price return 7.9%
Est. dividend yield 1.6%
Est. total return 9.5%

Previous Rating & TP BUY, HK\$3.55
Previous Report Date Jan 19, 2015

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Key Data

52Wk H/L(HK\$) 3.66/2.78
Issued shares (mn) 45,448.7
H-shares (mn) 11,163.6
Unlisted shares (mn) 34,285.1
H-share mkt cap (HK\$mn) 36,728
Major shareholder(s):
CGNPC 64.2%

Source(s): Company, Bloomberg, ABCI Securities

Comparison	CGN Pwr	CNN Pwr
FY13		
Net power generation (GWh)	44,157	47,932
Average on-grid tariff excluding VAT (RMB / KWh)	0.3684	0.3226
Average utilization hours	7,586	N/A
Total Assets (RMB mn)	127,675	189,023
Total Equities (RMB mn)	31,692	41,352
Net gearing (%)	220.74	277.12
ROAA (%)	4.06	3.42
ROAE (%)	21.32	13.37

CNN Power is nuclear power generation platform of CNNC and is a major competitor of CGN Power
Source (s): CGN Power, CNN Power

CGN Power (1816 HK)

Market competition to intensify

- The market remains oligopolistic; technical aspect one of the weaker players, CPIC, will strengthen substantially after its merge with SNPTC
- The Merged Group (CPIC+SNPTC) will have sufficient technical capacity to compete with CGNP and CNNC for new 3rd-gen nuclear plants projects in the domestic market
- Differences in geographical focus among the 3 nuclear players will limit competition in short term despite the government's desire for more market rivalry
- The Merged Group needs a solid financing platform for nuclear business expansion. We will not be surprised if CPIC's controlled China Power Int'l (2380 HK) or China Power New Energy (735 HK) becomes CPIC's nuclear financing platform

Implications on competitive landscape in the nuclear industry:

A major alliance arises. News of the proposed merger of China Power Investment Corporation (CPIC) and State Nuclear Power Technology Corp Ltd (SNPTC) has been in the market since mid-2014. We believe it is a matter of time before the merger concretizes. The competitive landscape of nuclear power generation industry will change substantially after the merger of CPIC and SNPTC. In particular, strength of the Merged Group will increase substantially and rival with the 2 major nuclear power groups (CGNPC and CNNC) for new domestic and overseas nuclear projects in the long term. As the construction cycle (from feasibility study to construction start and commencement of operation) typically takes ~8-10 years, the short-term impacts on the industry will be minimal. As CGN Power is the listed platform of CGNPC to conduct nuclear power generation business, the Merged Group will compete with CGN Power in nuclear power industry.

More reactors in existing plants. The Merged Group will actively seek for the government's approval to increase the number of reactors in Haiyang NPP (2x1250MW) in Shandong Province; the project is currently under-constructed by CPIC at present. The Haiyang NPP uses the 3rd-gen AP1000 technology developed by the U.S. Two other 3rd-gen NPPs, namely, the Taishan NPP (France-based EPR, owned by CGNPC) and Sanmen NPP (US-based AP1000, owned by CNNC), are under construction in China. Since none of the three plants are in operation, the government would be hesitant in granting approval for new 3rd-gen NPP at this stage in view of the political and economic risks.

HK-listed companies as financing platform. In Hong Kong, CPIC beneficially owns 2 HK-listed companies—China Power International Development Co Ltd (2380 HK; 69% stake) and China Power New Energy Development Co Ltd (735HK; 36.05%). As the nuclear power industry is capital-intensive in nature, CPIC will need a solid financing platform for development of its nuclear business expansion plan in the future. The 2 HK-listed platforms will be considered as feasible choices in our view.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Net power generation (GWh)	45,113	44,156	52,175	56,215	73,759
Growth (%YoY)	11.34	(2.12)	18.16	7.74	31.21
Revenue (RMB mn)	17,575	17,365	20,993	22,361	28,807
Chg (%YoY)	10.67	(1.20)	20.89	6.52	28.82
Net Income (RMB mn)	4,145	4,195	5,504	5,904	6,925
Chg (%YoY)	(12.33)	1.20	31.23	7.26	17.28
EPS (RMB)	-	0.1219	0.1211	0.1299	0.1524
P/E (x)	-	-	21.90	20.41	17.41
BVPS (RMB)	-	0.6698	1.0964	1.2264	1.3358
P/B (x)	-	-	2.42	2.16	1.99
DPS(RMB)	-	0.0480	0.0400	0.0429	0.0503
Yield (%)	-	-	1.51	1.62	1.90
ROAE (%)	24.56	21.32	15.10	11.19	11.89
Net gearing (%)	294.83	220.74	90.24	157.78	165.47

Remark: Net power generation refers to amount of electricity sold to grid companies by consolidated subsidiaries. The reported revenue is including VAT. Forex: RMB0.8060/HK\$
Source(s): The Company, ABCI Securities estimates

Impact on CGN Power H-share (1816 HK)

Direct competition unlikely for now. CGN Power's NPPs are mainly located in Guangdong, Fujian and Liaoning. Unless the Merged Group diversifies its NPP geographical coverage beyond Shandong, direct competition is unlikely in the short-term.

Common interests to secure additional reactors in the Hongyanhe NPP. We believe the Merged Group will be a major competitor of CGNPC or CGN Power in the long term. In the short-term, however, the Merged Group is an ideal business partner of CGN Power. CPIC and CGN Power have a 45% and a 38.15% stake in the Hongyanhe NPP in Liaoning Province respectively. Currently, the NPP has 2 reactors in operation and 2 other reactors under construction. We believe CGN Power and CPIC are waiting for the government to give green light to adding 2 more reactors in the Hongyanhe NPP. The Merged Group will bring in the 3rd-gen AP1000 reactors to the Hongyanhe NPP. If the State Council approves to expand the number of reactors from 4 to 6 in the Hongyanhe NPP, this will expand the presence of CGN Power and CPIC in northeast China.

Government prefers more reactors in existing plants. We expect the State Council to grant approvals for construction of new nuclear reactors soon. In our view, the authority would prefer to increase the number of reactors in existing NPPs instead of building new NPPs, especially given the political risks involved in erecting NPPs at new sites.

Upcoming new NPPs and stake acquisition by CGN Power. Organic growth will come from the 4 new reactors (3 in Guangdong Province and 1 in Fujian Province) commencing operation this year, bringing the total number of operating reactors to 15 by end-2015. Organic growth will arise from stake acquisitions. More specifically, CGN Power may acquire a 41% stake in Taishan NPP and a 61% stake in Fangchenggang NPP from its parent group in 2015-16. Initially, the market expects the acquisition to take place in Taishan NPP before Fangchenggang. We will not be surprised if the M&A schedule deviates from this expectation as one of reactors in Fangchenggang NPP will commence operation later this year. For details, please refer to company report published on Jan 19, 2015.

Background of SNPTC

SNPTC was established in May 2007 to import the 3rd-gen nuclear technology from the U.S. SNPTC aims to absorb the U.S. 3rd-gen-nuclear power technology and modify it for local uses. Major shareholders of SNPTX include SASAC (国资委, 66%), CGNP (i.e. parent of HK-listed CGN Power; 10%), CNNC (10%), CPIC (10%), China Technology I/E Co (4%). Legally, the local 3rd-gen nuclear power technology is held by SNPTC.

Exhibit 1: Comparison of financial strength among nuclear plays in China

(RMB mn)	30/9/2014 Total assets	30/9/2014 Total equity	30/9/2014 Equity (ex-MI)	FY2013 Net profit (ex MI)	9M2014 Net profit (ex MI)	FY2013 ROAE	9M2014 ROAE	30/9/2014 Equity/assets
CGNPC	349,762	100,608	63,729	6,845	5,307	10.94%	11.90%	28.8%
CNNC	368,407	94,855	67,220	5,438	3,212	6.85%	6.56%	25.7%
CPIC	656,655	101,993	42,200	2,813	148	7.35%	0.47%	15.5%
SNPTC	38,453	13,835	12,361	584	484	4.11%	5.32%	36.0%
CPIC+SNPTC	695,108	115,829	54,562	3,398	632	6.61%	1.18%	16.7%

CGNPC: China General Nuclear Power Corporation (i.e. parent group of CGN Power)

CGN Power: CGN Power Co Ltd (H share ticker: 1816)

CNNC: China National Nuclear Corporation (i.e. parent group of CNN Power)

CNN Power: China National Nuclear Power Co Ltd

CPIC: China Power Investment Corporation

SNPTC: State Nuclear Power Technology Corporation

Source: annual and interim reports of companies



Exhibit 2: Financial Summary of Major Nuclear Power Group in China

	CPIC				SNPTC			
(RMB mn)	31/12/2012	31/12/2013		30/9/2014	31/12/2012	31/12/2013		30/9/2014
Total assets	574,882	618,047		656,655	23,554	28,107		38,453
Total equity	86,309	95,919		101,993	12,530	13,045		13,835
Equity (ex-MI)	36,705	41,161		42,200	11,436	11,901		12,361
	FY12	FY13	9M2013	9M2014	FY12	FY13	9M2013	9M2014
Revenue	180,664	191,010	139,070	137,470	8,387	9,964	7,371	8,687
Net profit	2,312	7,491	5,431	2,813	483	571	491	584
Net profit (ex-MI)	638	2,863	1,755	148	372	479	410	484
Chg (YoY)	-	349.0%	-	-91.6%	-	28.8%	-	18.0%
Ratios								
Revenue/assets	0.31	0.31		0.28	0.36	0.35		0.30
ROAA	-	1.26%		0.59%	-	2.2%		2.34%
ROAE	-	7.35%		0.47%	-	4.1%		5.32%
Equity/assets	15.0%	15.5%		15.5%	53.2%	46.4%		36.0%
	CNNC				CGNPC			
(RMB mn)	31/12/2012	31/12/2013		30/9/2014	31/12/2012	31/12/2013		30/9/2014
Total assets	292,560	334,402		368,407	269,612	315,623		349,762
Total equity	76,435	89,271		94,855	73,474	86,167		100,608
Equity (ex-MI)	56,616	63,421		67,220	47,538	55,201		63,729
	FY12	FY13	9M2013	9M2014	FY12	FY13	9M2013	9M2014
Revenue	51,971	54,026	35,423	38,392	34,910	35,330	25,272	30,512
Net profit	6,407	6,949	4,850	5,438	4,492	6,701	6,434	6,845
Net profit (ex-MI)	3,749	4,109	2,853	3,212	3,495	5,621	5,615	5,307
Chg (YoY)	-	9.6%		12.6%	-	60.9%	-	-5.5%
Ratios								
Revenue/assets	0.18	0.16		0.14	0.13	0.11		0.12
ROAA	-	2.22%		2.06%	-	2.3%		2.74%
ROAE	-	6.85%		6.56%	-	10.9%		11.90%
Equity/assets	26.1%	26.7%		25.7%	27.3%	27.3%		28.8%
	CNN Power				CGN Power			
(RMB mn)	31/12/2012	31/12/2013		30/9/2014	31/12/2012	31/12/2013		30/6/2014
Total assets	167,374	189,023		212,462	122,263	127,675		131,923
Total equity	35,300	41,352		43,759	24,150	31,692		38,712
Equity (ex-MI)	18,292	20,016		20,993	16,304	23,052		29,832
	FY12	FY13	9M2013	9M2014	FY12	FY13	6M2013	6M2014
Revenue	17,750	18,081	13,008	13,310	17,575	17,365	8,171	9,754
Net profit	4,556	5,122	3,533	3,706	4,977	5,071	3,147	3,090
Net profit (ex-MI)	2,094	2,477	1,696	1,766	4,145	4,195	2,653	2,572
Chg (YoY)	-	18.3%		4.1%	-	1.2%		-3.1%
Ratios								
Revenue/assets	0.11	0.10		0.08	0.14	0.14		0.15
ROAA	-	2.87%		2.46%	-	4.1%		4.76%
ROAE	-	12.93%		11.49%	-	21.3%		19.45%
Equity/assets	21.1%	21.9%		20.6%	19.8%	24.8%		29.3%

CGNPC: China General Nuclear Power Corporation (i.e. parent group of CGN Power)

CGN Power: CGN Power Co Ltd (H share ticker: 1816)

CNNC: China National Nuclear Corporation (i.e. parent group of CNN Power)

CNN Power: China National Nuclear Power Co Ltd

CPIC: China Power Investment Corporation

SNPTC: State Nuclear Power Technology Corporation

Source: annual and interim reports of companies

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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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