

Wind - China

Longyuan conference call takeaways

Industry Overview

Key takeaways from Longyuan conference call

We hosted a call with Ms Wang Yuan, IR at Longyuan Power. 4Q23 operations look to be stable versus 3Q23 while management does not see impairments from wind turbine replacement. We think the uncertain outlook in near-term renewable power tariff remain a dent in valuations, especially as the green premium remains small in size and the benefits from input costs in doubt. Asset injection from parent will need to slow down, while thermal asset disposal will be on hold.

Power tariff: More clarity post 1Q tariff contract

Longyuan's market power sales accounted for about 46% of power output in 9M23 and will continue to go up. Most of this is under contract which is 1 year or less with the contract price negotiation still ongoing (slower than thermal contract). Result is expected sometime in 1Q24. Ms Wang thinks the drag from capacity tariff will not be high as it is only a small share of thermal power tariff. Capacity tariff will give more room for renewable energy to grow in the future. On the other hand, fees paid to grid for capacity management may decrease in the future.

Spot trading: Potential ways to mitigate impact

Ms Wang said the exposure to spot market trading is about 15-20% of market sales. Projects with subsidies participating in this market with a power tariff about RMB15c lower. But a larger spot market requires other mechanism including longer-term tariff contracts. More provinces are also announcing hourly power tariffs, which have a bigger impact to solar than wind given more concentrated power output during daytime. Ms Wang thinks there are ways, including better output and cost control, that can maintain the project returns much better than the smaller peers.

Green premium: Still small in scale to help

Green power trading accounted for only ~5% of market sales in 9M23 with about RMB6c/W premium. This market remains small without an adequate policy push, in Ms. Wang's view, lest potential higher costs to the end users. 1mn+ green certificates issued were also mainly for the parent group's internal use to meet certain green targets.

Strategy: Slower asset injection pace

Major acquisitions from parent will be tough to push through under current A-share financing. Longyuan may look for smaller projects first. Approval time for offshore wind projects took longer than expected without update in Jiangsu and Guangdong. With thermal power being more important in the power system, Longyuan will also de-prioritize its thermal asset disposal plan to be more favorable in getting projects. Equity IRR hurdle remains at not below 7%. While lower wind/solar input costs helped project returns, Longyuan thinks it is unrealistic to benefit solely from this without extra fees.

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