

## Utilities - HK/China

# Watt's Up #8: Carbon emission trading regulation, EU on Chinese solar imports

Industry Overview

## Power: New regulations on carbon emission trading

On Feb 5<sup>th</sup>, China's State Council announced an updated regulation on national emission trading system effective from May 1, 2024. Compared to the previous version, one highlight is the stricter penalties. The fine will be up to RMB2mn (US\$278,000) and participants will also face deduction of their future pollution quota allocation. The regulation will give the Ministry of Ecology and Environment more power as China plans to expand the system to more sectors, adding about 80 electrolytic aluminium companies. The trading currently covers about 2,200 utility companies that are responsible for about 4.5bn tons of greenhouse emissions every year.

We published an overview of the national carbon emission trading, see [Carbon Watch: An overview of China National Emission Trading Scheme](#). Like the thermal power companies, the quota allocations for other sectors will likely be free for the initial years.

## Power: New support on green certificate consumption

On Feb 2<sup>nd</sup>, the NDRC, the NEA, and the NBS jointly released the Notice on "Strengthening the Connection Between Green Certificate and Energy Saving & Carbon Reduction Policies and Vigorously Promoting Non-Fossil Energy Consumption", stating that 1) the amount of green certificate used is included in the evaluation of energy-saving targeted of the provincial governments. 2) accelerating the establishment of consumption mechanism of renewable energy for energy intensive companies. 3) eliminating carbon footprint with green certificate.

## Solar: EU addressing dependence on Chinese solar imports

EU Finance Commissioner, Mairead McGuinness gave a statement in the European Parliament on Feb 5<sup>th</sup> on the European solar industry. The commissioner said trade measures must be "weighed against" the energy transition targets. She believes the dependence on Chinese imports could strengthen further as over 97% of solar panels installed in the EU are imported and mostly come from China. She stated EU is working on a ban on equipment produced with forced labor. In the long-awaited Net-Zero Industry Act, on which EU lawmakers are nearing a deal with member states, the quota for domestic manufacturing could be set at over 30% (as per SolarPower Europe).

## Solar: Red Sea disruptions limited impact so far

PV-Tech reported the Red Sea attacks could drive up shipping costs and impact renewable energy and solar products heading to Europe and the US. This is because of China's dominance of the solar supply chain. While there is no material impact today, an ongoing or worsening situation in the Red Sea could lead to more considerations of shifting global energy supply chains. See more here [Red Sea conflicts impact on China solar and utilities](#) for our assessment of the Red Sea conflicts. (More on the next page...)

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NDRC: National Development and Reform Commission

NBS: National Development and Reform Commission

NEA: National Energy Administration

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## LONGi: RMB300-600mn share buyback

Chairman of LONGi Green Energy, Zhong Baoshen, proposed on Feb 5<sup>th</sup> to buy back RMB300-600 mn of shares (c.0.2-0.4% of market cap) for employees incentive scheme using the company's funds. Mr. Zhong previously announced to personally purchase RMB100-150mn of shares on Jan 29<sup>th</sup> and currently owns a 1.3% stake of the company.

## Solar: 10GW TOPCon cell expansion suspended

Zhejiang Sunflower Great Health (SUNFLOWER) announce on Feb 2<sup>nd</sup> that it intended to terminate the expansion plan of building 10GW TOPCon solar cell production line in Zhejiang, due to the delay in the delivery of the factory building, and the prices of major products slumped in the solar industry recently. The original investment plan was at RMB1.5bn for Phase 1 with 5GW solar cell production.

## Solar: Chinese solar giants building in the US

Wall Street Journal reported China's solar manufacturers are building plants in the US. As per the article, China-based companies are behind nearly a quarter of the roughly 80GW in new solar-panel capacity that has been announced since the Inflation Reduction Act — that positions them to be big beneficiaries of government subsidies as well -- as much as \$1.4 billion a year collectively if the panel factories announced so far are built. An increasingly group of people are questioning whether the government subsidies could undermine efforts to build a local supply chain, according to the article.

## BofA Utilities events takeaways

We highlight our takeaways notes from our recent events below:

[Solar - China: New norm with low price, no turnaround before 2025/26 – expert call takeaways](#)

[Solar - China: Capacity exit could drive a recovery in solar module prices in 2H24E](#)

[Solar - China: Wood Mackenzie solar expert call takeaways](#)

[Solar - China: European solar channel checks with Huasun Energy](#)

[Solar - China: Key takeaways from solar expert call with Rystad Energy](#)

[Wind - China: Longyuan conference call takeaways](#)

[Wind - China: Key takeaways from expert call with China Wind Energy Association](#)

[Gas - CR Gas call takeaways: gas cost is lower YoY and connection volume is well supported](#)

[Power - China: Key takeaways from call with Oxford Institute for Energy Studies](#)

[Power - China: Key takeaways from power tariffs & reforms expert call with Ms Peng](#)

[Power - China: Takeaways from power expert call with former Director at China Electricity Council](#)

[Water - Beijing Enterprises Water: Call takeaways: saw better cash collection rate and water supply tariff](#)

**Exhibit 2: Valuation comparison table for China Utilities and Renewable companies**

Selected valuation metrics for utility and renewable sector companies in 2023-25E

		Prices (LCY)	PE			PB			EPS Growth			ROE			Dividend yield		
			2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Wind																	
Longyuan -H	916 HK	4.8	5.5	4.1	3.1	0.5	0.5	0.4	38%	32%	33%	10%	12%	14%	3.7%	4.8%	6.4%
Datang Renewables	1798 HK	1.7	4.7	4.9	4.3	0.3	0.3	0.3	-16%	-5%	15%	8%	7%	7%	2.7%	2.5%	2.9%
Goldwind-H	2208 HK	2.9	4.6	4.4	3.5	0.3	0.3	0.3	10%	4%	28%	8%	8%	10%	6.5%	6.8%	8.6%
IPPs																	
China Resources Power	836 HK	15.9	7.1	5.7	5.2	0.9	0.8	0.7	53%	24%	9%	13%	15%	15%	5.6%	10.1%	7.6%
Huaneng-H	902 HK	4.0	5.4	5.2	4.7	0.9	0.8	0.7	n.a.	4%	11%	18%	16%	15%	9.2%	9.6%	10.7%
Huadian-H	1071 HK	3.6	6.8	6.2	5.6	0.8	0.7	0.6	n.a.	9%	11%	12%	12%	11%	7.4%	8.1%	9.0%
CPID	2380 HK	3.0	10.4	6.6	5.9	0.8	0.8	0.7	20%	58%	12%	8%	12%	13%	5.2%	8.1%	9.0%
Gas																	
ENN Energy	2688 HK	59.4	9.0	9.8	9.5	1.4	1.3	1.2	17%	-9%	4%	18%	14%	13%	4.9%	4.3%	4.6%
China Resources Gas	1193 HK	23.0	8.6	8.7	7.9	1.2	1.1	1.1	27%	-1%	11%	15%	13%	14%	5.8%	5.9%	6.6%
China Gas	384 HK	7.1	9.8	7.5	7.0	0.6	0.6	0.6	-10%	31%	7%	7%	8%	9%	7.1%	8.0%	8.7%
Beijing Enterprises Hdq	392 HK	28.5	5.1	4.8	4.3	0.4	0.4	0.3	-7%	6%	12%	8%	8%	8%	5.3%	6.8%	8.2%
Enviro. protection																	
Everbright Environment	257 HK	2.8	4.0	4.0	4.1	0.3	0.3	0.3	-5%	-2%	0%	9%	8%	8%	8.1%	7.9%	7.9%
Beijing Enterprises Water	371 HK	1.9	8.4	8.4	7.9	0.6	0.6	0.5	70%	0%	7%	7%	7%	7%	8.4%	8.4%	8.4%
HK Utilities																	
CK Infrastructure	1038 HK	46.8	16.1	14.8	14.3	1.0	1.0	1.0	-6%	9%	3%	6%	7%	7%	5.5%	5.6%	5.7%
CLP Holdings	2 HK	67.4	15.3	13.4	12.9	1.6	1.5	1.4	1103%	14%	4%	10%	11%	11%	4.8%	4.9%	5.0%
Guangdong Investment	270 HK	4.4	7.1	6.5	5.4	0.7	0.7	0.6	-15%	9%	21%	9%	10%	12%	14.0%	14.0%	14.0%

Source: BofA Global Research

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