

First look

Huadian Power's 1H07 net profit of RMB543mn (+1.4% y-y) is in line with our estimate, and accounts for 40.3% of our full-year forecast as we expect a stronger second half on capacity expansion. Output expansion and a tariff increment more than offset higher fuel costs, lifting operating profit by 13.5%. Tax benefits helped to offset higher finance costs. With no major surprises, plus a bright FY08F outlook and potential upside from a group listing, we retain our STRONG BUY rating.

Earnings vs our forecast	ABOVE	IN LINE	BELOW
Likely impact:			
Earnings estimates	UP	NO CHANGE	DOWN
Dividend estimates	UP	NO CHANGE	DOWN
Recommendation	UPGRADE	NO CHANGE	DOWNGRADE
Fair value	UP	NO CHANGE	DOWN
Long term view	STRONGER	CONFIRMED	WEAKER

FIRST LOOK

1H07 Results

First Look is the analyst's preliminary interpretation of the results announcement. Our recommendation and earnings estimates are not being changed in this report. Any formal changes to our recommendation or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed in this report.

Closing price on 23 Aug HK\$3.82
Fair value estimate **HK\$4.30**

Deferred tax at work

- We estimate the 1H07 weighted average tariff at RMB310.4/MWh (+1.8% y-y, as reported). The reported unit fuel cost rose by 6.0% y-y to RMB173.3/MWh, below our full-year forecast of +7.5% y-y. We believe the base for year-on-year comparison was adjusted for 50%-owned Zhongning plant (moved to associate income from FY07F). To recap, output expanded by 22% to 28,900GWh.
- Operating margin fell to 14.0%, from 15.2% in 1H06. Due to the commissioning of new capacity, depreciation costs rose by 44.2% y-y and net finance cost surged 146.6% y-y. Labour costs (-15.2% y-y) and administrative costs (+9.6% y-y) were well contained.
- Pre-tax profit fell by 18.7% y-y to RMB712.4mn. The bottom line, however, was helped by a deferred tax writeback of RMB137.9mn in preparation for the tax rate unification (see our short report titled *Group therapy*, 8 August 2007). As a result, income tax was only RMB2.0mn in 1H07, versus RMB275.0mn in 1H06.

Huadian Power: 1H07 results

(RMBmn)	1H07	1H06	Change y-y (%)
Revenue	8,539	6,911	23.5
Operating profit	1,192	1,051	13.5
Reported net profit	543	536	1.4
Reported EPS (RMB)	0.09	0.09	1.4

Source: Nomura International (HK) Limited

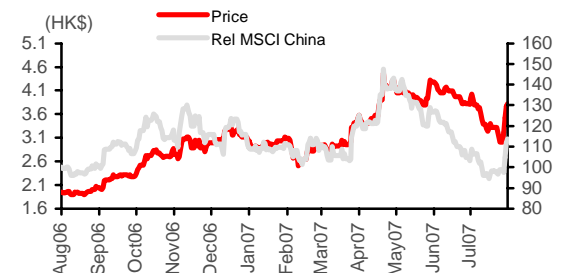
- Total equity capacity of 2,766MW started operations in April-July, and a further 2,148MW will start before year-end. These will boost the company's equity capacity by 41.8% from the end-FY06 level.
- Despite a 27.3% rebound since 17 August, the stock is attractive at 11.1x FY08F P/E. Given a bright FY08F outlook and potential upside from asset injections, we are reviewing our fair value. We would see any negative reaction to the results as a chance to buy.

Key financials & valuations

31 Dec (RMBmn)	FY06	FY07F	FY08F	FY09F
Revenue	15,131	21,299	29,003	31,919
Reported net profit	1,201	1,346	1,893	2,150
Normalised net profit	1,201	1,346	1,893	2,150
Normalised EPS (RMB)	0.20	0.22	0.31	0.36
Norm. EPS growth (%)	12.6	12.1	40.6	13.6
Norm. P/E (x)	19.6	16.6	11.1	9.3
EV/EBITDA (x)	43.3	33.9	23.2	20.2
Price/book (x)	1.7	1.5	1.3	1.1
Dividend yield (%)	1.6	1.9	2.8	3.4
ROE (%)	9.2	9.6	12.3	12.7
Net debt/equity (%)	228.4	309.6	270.9	223.4
Earnings revisions				
Previous norm. net profit		1,346	1,893	2,150
Change from previous (%)		-	-	-
Previous norm. EPS (RMB)		0.22	0.31	0.36

Source: Company, Nomura estimates

Share price relative to MSCI China



	1m	3m	6m
Absolute (HK\$)	0.5	(8.2)	23.6
Absolute (US\$)	0.7	(8.0)	23.6
Relative to Index	9.2	(19.6)	2.8
Market cap (US\$mn)			19,292
Estimated free float (%)			36.0
52-week range (HK\$)			4.47/1.90
3-mth avg daily turnover (US\$mn)			10.07
Major shareholders (%)			
China Huadian Corporation			50.0
Shandong International Trust and Investment			15.0

Source: Company, Nomura estimates

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Issuer	Ticker	Price (as at last close)	Closing Price Date	Rating	Disclosures
Huadian Power International Corporation	1071 HK	3.82 HKD	23 Aug 2007	Strong Buy	

Previous Ratings

Issuer	Previous Rating	Date of change
Huadian Power International Corporation	Buy	31 Jan 2007

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	% for which IB services (d) have been provided	8	3	0
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Sources: Nomura Securities International, Inc. and Nomura International plc as of 30 June 2007.

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A rating of "3", or **"Neutral"**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.

A rating of "4", or **"Reduce"**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.

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Nomura International (Hong Kong) Limited

30/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

Tel: +852 2536 1111

Fax: +852 2536 1820
