

Nat Resources & Energy
Electric Utilities
Equity – China

Buy

Target price (HKD)	11.00
Share price (HKD)	8.98
Upside/Downside (%)	22.5

Performance	1M	3M	12M
Absolute (%)	-1.1	-6.6	2.7
Relative ^A (%)	8.8	20.8	5.6

Index^A HSCEI

RIC 0916.HK
Bloomberg 916 HK

Market cap (USDm) 9,372
Market cap (HKDm) 72,690

Enterprise value (CNYm) 136818
Free float (%) 33

19 August 2015

Evan Li*

Head of Utility & Alternative Energy
Research, Asia-Pacific
The Hongkong and Shanghai Banking
Corporation Limited
+852 2996 6619
evan.m.li@hsbc.com.hk

Summer Huang*

Analyst
The Hongkong and Shanghai Banking
Corporation Limited
+852 2996 6976
summeryhuang@hsbc.co.hk

Simon Fang*

Associate
The Hongkong and Shanghai Banking
Corporation Limited
+852 2914 9973
simon.w.fang@hsbc.com.hk

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China Longyuan Power (916 HK)

Buy: More solid targets revealed at analyst briefing

- ▶ **At the analyst briefing hosted on 19 August, Longyuan revealed more solid targets for 2015 and beyond**
- ▶ **Better capacity targets for 2015-20; maintenance costs and curtailment rates should be under control**
- ▶ **Reiterate Buy and HKD11 TP; guidance provides better clarity**

Key takeaways from analyst briefing in Hong Kong (19 August)

Wind capacity increased, to grow 2.0-2.6GW in 2015 (previous: 1.8-2.2GW): With wind capacity growing 0.9GW in 1H15, management has lifted its target to add 2.0-2.6GW for the full year 2015, from its previous 1.8-2.2GW.

Capacity to grow at least 2.0GW pa until 2020: Longyuan expects to add at least 2.0GW pa during the 13th Five Year Plan (2016-20), with cumulative capacity reaching c26GW by 2020. This excludes off-shore wind farms of 0.3GW scheduled to be developed in 2016, and 0.5-0.6GW pa in 2017-18.

China might raise wind target for 2020: Management says it is aware of press speculation that China will raise its 2020 target for wind capacity to 250-280GW, from 200GW. Longyuan sees upside to the current target, but did not provide an absolute figure.

Maintenance costs could rise but are under control: Repairs and maintenance came in at RMB1.2cents/kWh (ie RMB0.012/kWh) during 1H15, accounting for 3.1-3.2% of total operating costs. For 2015, management expects to control this at around RMB1.5cents/kWh, accounting for 3-4% of operating costs.

Curtailment to be controlled at c10% in 2015 (1H15: 11.92%; 1H14: 11.27%): In 1H15, Longyuan's curtailment edged up to 11.92% (1H14: 11.27%), due to issues relating to power distribution in Gansu and Xinjiang. Curtailment rates in both places had jumped to 34% (from 18%) and 22% (18%) during the same period, vs China's average of 15.2%. Management believes such issues are mainly related to the grid's unwillingness to despatch renewable energy, but such executive issues could be resolved soon after the scheduled tariff cut in January 2016. Management expects to control curtailment at around 10% for 2015, implying an improvement ahead. Longyuan's utilisation improved by 49 hours in 1H15, attributed to better wind conditions (+89 hours), but offset by more serious curtailment at the grid (-40 hours).

(See also, [China Longyuan Power: Buy: Strong 1H15 results underline our positive story](#), 19 August 2015.)

Operating leverage is realized: Due to increased generation and scale, operating costs per kWh came in at RMB0.326/kWh (2014: RMB0.358/kWh).

FCF to turn positive in 2-3 years: On renewed capacity targets, Longyuan expects its FCF to turn positive in 2-3 years.

Dividend policy and business strategy unchanged: Management says it will continue its existing 20% dividend payout. Even when Longyuan has achieved positive FCF and accumulated extra cash in the future, wind energy should remain its focus until 2020.

Valuation and risks

Reiterate Buy rating with TP at HKD11.00

Our target price is based on the average of our DCF and RoE implied PB valuations. Our DCF fair value is HKD11.12 per share based on a WACC of 5.3% (using a risk free rate of 3.5%, equity risk premium of 5.5% and equity beta of 0.6). Our RoE-implied PB fair value is HKD8.79 per share based on FY15e book value and RoE/CoE PB multiple of 1.59 (using 6.8% cost of equity, sustainable RoE (2015-16e of 10.8%). We apply a 10% premium for the long-term carbon benefit.

Downside risks: lower generation; fewer new-builds and higher operation costs.

China Longyuan Power 1H15 results

(RMBm)	1H15	1H14	yoy
Revenue	10,541	9,008	17%
Other net income	210	218	-4%
Depreciation and amortisation	-2,683	-2,416	11%
Coal consumption	-761	-893	-15%
Coal sales costs	-1,060	-1,077	-1%
Service concession construction costs	-381	-20	18x
Personnel costs	-548	-496	11%
Material costs	-188	-180	4%
Repairs and maintenance	-206	-191	8%
Administration expenses	-134	-115	17%
Other operating expenses	-366	-239	53%
Total operating expenses	-6,327	-5,627	12%
Operating profit	4,424	3,599	23%
Net finance expenses	-1,409	-1,588	-11%
Share of profits less losses of associates and joint ventures	224	167	34%
Profit before taxation	3,238	2,178	49%
Income tax	-363	-287	27%
Profit for the period	2,875	1,892	52%
Profit for the period attributable to:			
Shareholders of the Company	2,207	1,366	61%
Non-controlling interests	668	525	27%
Normalised net profit	2,207	1,366	61%
EPS (RMB cent)	27.46	17.00	62%

Source: Company data

Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (CNYm)				
Revenue	18,645	21,151	23,511	25,666
EBITDA	11,559	13,702	15,684	17,450
Depreciation & amortisation	-5,001	-5,345	-6,197	-6,845
Operating profit/EBIT	6,559	8,357	9,487	10,605
Net interest	-2,951	-3,298	-3,574	-3,862
PBT	4,062	5,480	6,287	7,117
Taxation	-510	-822	-943	-1,068
Net profit	2,558	3,640	4,176	4,727

Cash flow summary (CNYm)

Cash flow from operations	9,597	12,207	11,698	12,999
Capex	-18,233	-16,275	-15,805	-15,805
Cash flow from investment	-18,233	-16,275	-15,805	-15,805
Dividends	-382	-480	-683	-783
Change in net debt	12,261	4,671	4,942	3,769
FCF pre dividends	-8,304	-4,004	-4,044	-2,743

Balance sheet summary (CNYm)

Intangible fixed assets	8,541	8,453	8,336	8,205
Tangible fixed assets	87,875	98,568	107,993	116,799
Current assets	14,314	19,708	26,511	34,427
Cash & others	2,389	9,110	15,232	22,526
Total assets	122,647	139,340	156,079	173,286
Operating liabilities	12,730	14,092	15,366	16,530
Financial liabilities	69,832	81,224	92,288	103,351
Total liabilities	82,668	95,423	107,761	119,988
Net debt	67,443	72,114	77,056	80,825
Shareholders funds	33,057	36,030	39,309	43,010

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	-4.8	13.4	11.2	9.2
EBITDA	11.0	18.5	14.5	11.3
Operating profit	9.1	27.4	13.5	11.8
PBT	15.0	34.9	14.7	13.2
HSBC EPS	17.9	52.7	14.7	13.2

Ratios (%)

ROE	7.4	10.5	11.1	11.5
ROCE	6.1	6.4	6.5	6.6
EBITDA margin	62.0	64.8	66.7	68.0
Operating profit margin	35.2	39.5	40.4	41.3
Net debt/equity	165.1	160.8	156.3	148.8
CF from operations/net debt	14.2	16.9	15.2	16.1

Per share data (CNY)

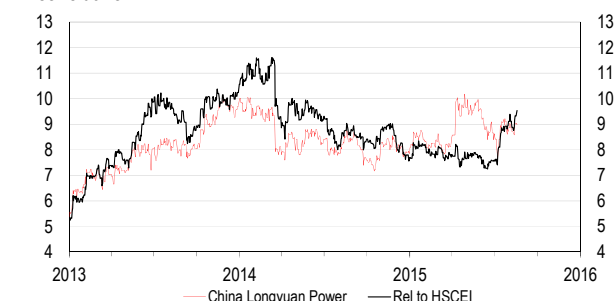
EPS reported (fully diluted)	0.32	0.45	0.52	0.59
HSBC EPS (fully diluted)	0.30	0.45	0.52	0.59
DPS	0.06	0.08	0.10	0.11
Gross CFPS	0.97	1.18	1.38	1.55

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	7.1	6.5	6.1	5.7
EV/EBITDA	11.4	10.0	9.1	8.4
P/CF	7.7	6.2	5.4	4.8
PE*	25.0	16.3	14.2	12.6
FCF yield (pre div) (%)	-13.0	-6.2	-6.2	-4.1
Dividend yield (%)	0.8	1.1	1.3	1.5

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Note: price at close of 18 Aug 2015

Disclosure appendix

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The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

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Rating distribution for long-term investment opportunities

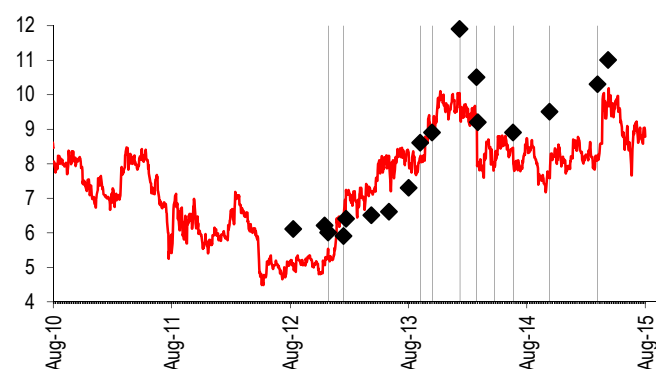
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Share price and rating changes for long-term investment opportunities

China Longyuan Power (0916.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Neutral	14 December 2012
Neutral	Underweight	30 January 2013
Underweight	Neutral	24 September 2013
Neutral	Underweight	31 October 2013
Underweight	Overweight	24 January 2014
Overweight	Neutral	17 March 2014
Neutral	Overweight	11 May 2014
Overweight	Neutral	07 July 2014
Neutral	Overweight	28 October 2014
Overweight	Buy	25 March 2015
Target Price	Value	Date
Price 1	6.10	28 August 2012
Price 2	6.20	03 December 2012
Price 3	6.00	14 December 2012
Price 4	5.90	30 January 2013
Price 5	6.40	07 February 2013
Price 6	6.50	26 April 2013
Price 7	6.60	19 June 2013
Price 8	7.30	20 August 2013
Price 9	8.60	24 September 2013
Price 10	8.90	31 October 2013
Price 11	11.90	24 January 2014
Price 12	10.50	17 March 2014
Price 13	9.20	21 March 2014
Price 14	8.90	07 July 2014
Price 15	9.50	28 October 2014
Price 16	10.30	25 March 2015
Price 17	11.00	27 April 2015

Source: HSBC

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Company	Ticker	Recent price	Price Date	Disclosure
CHINA LONGYUAN POWER	0916.HK	8.78	19-Aug-2015	4

Source: HSBC

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Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Level 19, 1 Queen's Road Central
Hong Kong SAR
Telephone: +852 2843 9111
Fax: +852 2596 0200
Website: www.research.hsbc.com

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