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2015 年 4 月 20 日

买入

首次覆盖

清洁能源新龙头

顺风清洁能源 (1165:HK)

Market Data: 17 April

Closing Price (HK$)	6.61
Price Target (HK$)	8.6
HSCEI	14536
HSCCI	5358
52-week High/Low (HK$)	12.08/3.88
Market Cap (US Bn)	19.5
Market Cap (HK$ Bn)	2.52
Shares Outstanding (Mn)	2956
Exchange Rate (US$-HK$)	0.129

Price Performance Chart:

Source: Bloomberg

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	1,530	5,746	16,423	18,706	21,058
YoY (%)	44.38	275.63	185.82	13.90	12.58
Net income (Rmbm)	(1816)	1308	2086	2018	2559
YoY (%)	874.33	(172.03)	59.51	(3.29)	26.82
EPS (Rmb)	(1.10)	0.57	0.71	0.68	0.87
Diluted EPS (Rmb)	(1.10)	0.10	0.34	0.33	0.41
ROE (%)	(164.29)	32.98	31.95	25.34	25.23
Debt/asset (%)	81.52	71.01	81.25	81.04	79.72
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
PE (x)	(4.8)	9.3	7.5	7.8	6.2
PB (x)	4.9	2.0	2.1	1.7	1.3
EV/Ebitda (x)	17.6	4.1	5.4	5.8	5.5

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

搭建一体化清洁能源平台。2012 年顺风还仅仅是一个专注于太阳能电池的生产商，而现在顺风的业务已经渗透到光伏的整个产业链中，从上游多元化光伏材料的生产到下游地面式和分布式电站的运营，和专业化的全生命周期维护。除了纵向的扩展，顺风正通过横向收购致力于成为低碳能源综合解决方案的领导者，其业务拓展至地热发电，海水发电，储能技术产品，LED 产业和电动汽车等领域。公司实际控制人郑建明成功完成了无锡尚德的收购重组，德国光伏运营和运维商 S.A.G.的收购和飞利浦旗下照明公司 Lumileds 收购等。我们估计 2015 年顺风或将有更多的资产注入。

光伏产业链完善带来毛利率显著提升。我们预计无锡尚德在 2015 年全面投产，光伏组件出货量达 2GW 左右，引领光伏产品制造板块毛利率进一步提升。此外，我们认为 2015 年顺风将有 1.3GW 新增投产的太阳能电站。太阳能电站毛利率可高达 60%左右，因此光伏发电板块 2015 年预估净利润占比将高达 52%左右。加上毛利更高的运维板块利润贡献，我们预计公司整体毛利水平将从 2014 年的 22.1%在 2015 年进一步提升至 26%，2016 年升至 29%，2017 年将达 31%。

技术跨越。当大多数国内竞争对手仅处于能源互联网开发的初期阶段，顺风跨越式地收购了具有全球领先运维技术，全球最大独立光伏电站监控和运维服务提供商，德国 Meteocontrol，并同时获得了其 10 多年的运维监控数据。我们预测该服务将在 2015 年贡献 4 千万左右的净利。另外，郑建明旗下控股的金威资源（109:HK），于 2015 年 3 月完成了飞利浦旗下照明公司 Lumileds 的收购，顺风（1165:HK）于同月完成了对晶能光电的收购。飞利浦 Lumileds 拥有全球近 20%的 LED 专利技术，为中国打开了 LED 上游被外资技术垄断的市场，我们期待 Lumileds 和晶能光电在 LED 领域的进一步合作。

公司含大量可转债。公司可转换债券对股价有稀释可能。顺风含有 63 亿港币的可转换债券，转换价格从 0.214 港币到 10 港币不等，转股数量可达 36 亿，远超于当下流通股股数 29.6 亿。

首次覆盖，买入评级。我们预计顺风经常性净利润将从 2014 年的 312 百万人民币翻五倍左右至 2015 年的 15.5 亿人民币（同比上升 397%），16 年预计达 21 亿元（同比上升 27%），17 年达 27 亿元（同比上升 36%）。剔除一次性收益，我们预测 15 年摊薄每股收益为 0.23 元人民币（同比上升 306%），16 年为 0.31 元（同比上升 36%），17 年为 0.39 元（同比上升 27%）的 17E。基于顺风综合清洁能源解决方案的全面覆盖和作为沪港通标的催化影响，我们给出 15 年 20x 摊薄每股收益的目标价，8.6 港币，相当于 15E 2.8x PB。股价有 30%的上涨空间，我们首次覆盖给予买入评级。

Investment Highlights：

Broadening portfolio. Shunfeng in 2012 was focused on the low-margin upstream solar cell market. Today, the company has expanded into almost every link in the solar value chain, from polysilicon to solar farm construction and post-installation services. In addition, the company is building out a broader portfolio of energy-saving services including geothermal power, seawater batteries, light-emitting diodes (LEDs) and electric vehicles (EVs). This has been possible with an aggressive programme of acquisitions – of advanced solar technology from bankrupt Suntech and LDK, of German solar plant operator S.A.G., and of LED giant Philips Lumileds, among others – driven by controlling shareholder Cheng Kin-ming, who we expect will order injections of energy saving assets into Shunfeng from other investments in the coming year.

Margin expansion. With Wuxi Suntech (acquired in 2014 for Rmb3bn) becoming fully operational in 2015, we expect the company's PV products segment margins to rise as the company sells more high-value-added modules; furthermore, by keeping production in-house, the company can keep tabs on costs in its growing solar installations business. However, while PV products are likely to still make up the majority of revenue in 15E (we forecast 56%), we believe solar power generation will contribute the bulk of net profit for the year (52%), as the power generation carries a c.60% gross margin and services income margin is c.90%; we expect blended gross margin to rise from 22.1% in 2014 to 26% in 15E, 29% in 16E and 31% in 17E.

Technical leapfrogging. While most domestic competitors are only at nascent stages of developing energy-saving solutions, the acquisition of German-based Meteocontrol, the world's largest independent photovoltaic(PV) plant monitoring service provider, should provide Shunfeng a competitive edge. **W**e forecast a c.Rmb40m net profit contribution in 15E, however, the true value of the acquisition lies in Meteocontrol's 10-year database. Meanwhile, we expect Cheng Kin-ming-controlled Good Fellow Resource Holdings (109:HK), to transfer patented technology from its investment in Lumileds to Shunfeng.

CB overhang. In our view, the stock's most significant overhang stems from HK$6.3bn of convertible bonds that can be converted into 3.6bn shares with prices ranging from HK$0.214-10. The size of the CB is larger than total shares outstanding of 2.96bn.

Initiate with a BUY. We forecast recurring net profit to quadruple from Rmb312m in 2014 to Rmb1.55bn (+397% YoY) in 15E and reach Rmb2.1bn (+36% YoY) in 16E and Rmb2.7bn (+27% YoY) in 17E as. Stripping out one-off gains, we forecast diluted EPS of Rmb0.23 (+306% YoY) in 15E, Rmb0.31 (+36% YoY) in 16E and Rmb0.39 (+27%YoY) in 17E. Due to the integrated clean energy solution Shunfeng provides and the upside from being included within the Shanghai-Hong Kong Stock Connect, we derive a target price of HK$8.6 based on 20x 15E PE and 2.8x 15E PB. With 30.1% upside, we initiate coverage of the stock with a BUY rating.

Shunfeng at a glance

In 2012, Shunfeng was a solar products manufacturer with a focus on low-margin solar cells. Within the following two years, it had created a full line of services that linked the entire solar value chain from polysilicon to solar farm construction, operation and post-installation services. Among the company's upstream products are polysilicon, silicon ingots and wafers, solar modules, solar inverters, solar brackets and integrated PV systems. In 2015E, we expect solar power generation and engineering, procurement and construction (EPC) services will become the company's core sources of net profit. Plant operation services and energy storage management will begin contributing to the company's top line in 2015E.

Figure 1: Revenue breakdown 2012 (net profit negative)

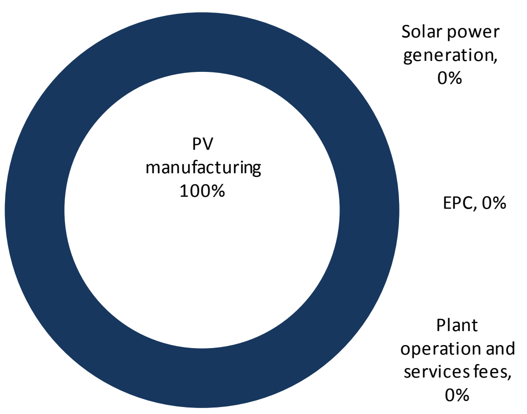
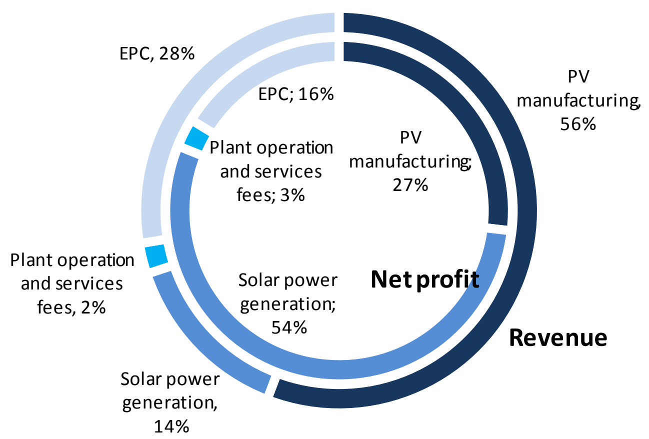


Figure 2: Revenue and net profit breakdown 15E



Source: Company, SWS Research

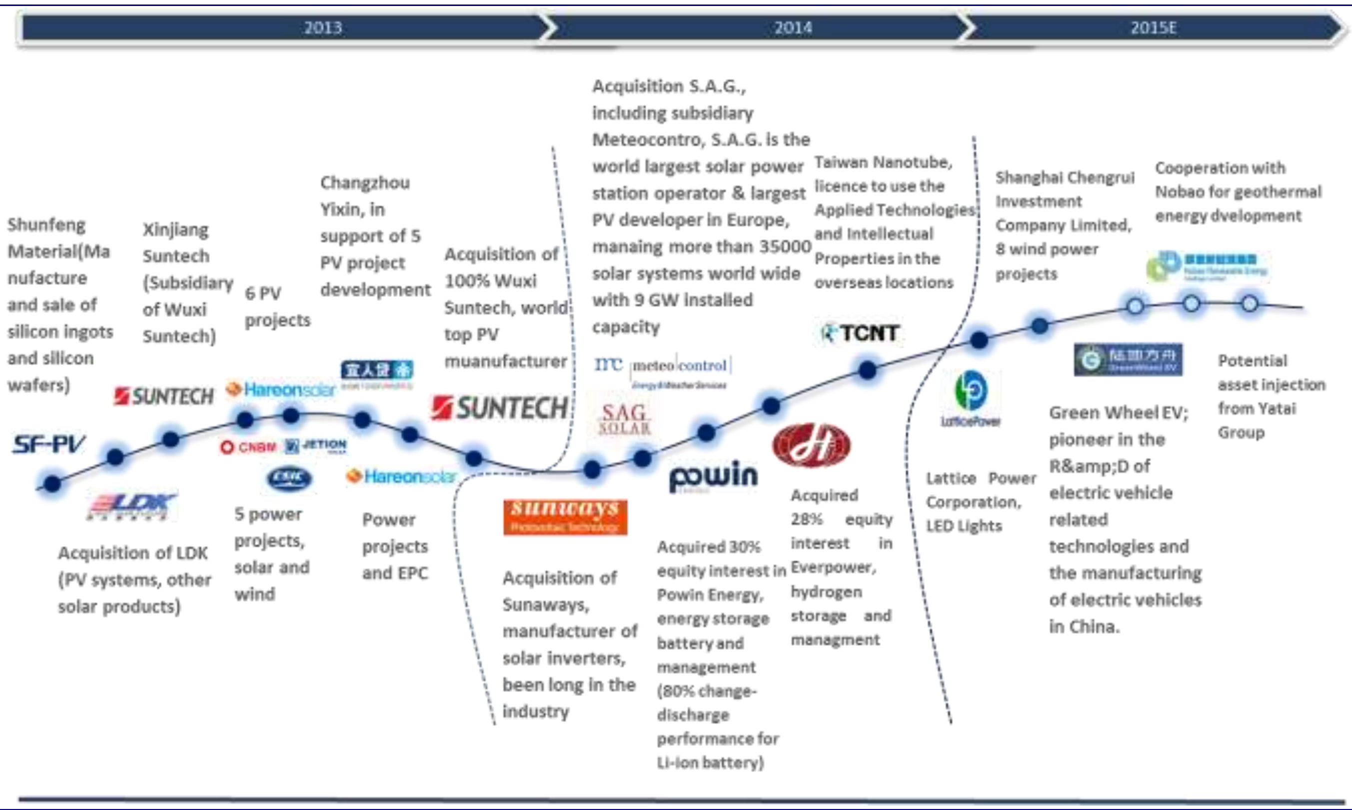
Figure 3: Financials for Shunfeng's involvement across the solar value chain

		2011	2012	2013	2014	2015E
PV manufacturing(Polysilicon materials, wafers, cells, modules, PV systems, other solar products)	Revenue	1,972	1,059	1,530	5,230	9,075
	Gross margin	11%	6%	10%	18%	18%
	Net profit	24	(271)	(1)	183	399
Solar power generation	Revenue				503	2,300
	Gross margin				63%	60%
	Net profit				133	805
Plant operation and services fee	Revenue				13	400
	Gross margin					92%
	Net profit					40
EPC	Revenue					4,492
	Gross margin					20%
	Net profit					241

Source: Company, SWS Research

Much of this transformation was achieved through an aggressive series of acquisitions during a downturn for the global solar power industry as the industry struggled to digest a supply glut. When the former Suntech Power Holdings (STP:US), a first-tier solar module manufacturer since delisted, went bankrupt in 2013 Shunfeng spent Rmb3bn to pay off its debts and obtained c.Rmb5bn of high-quality assets in April 2014. Shunfeng also broadened its PV product mix via a series of acquisitions, including Sunways' solar inverter and building integrated photovoltaic (BIPV) businesses in May 2014. Shunfeng also expanded downstream into solar power generation through acquisitions of solar farms from Hareon Solar Technology (600401:CH), as well as plant operation and monitoring services through its acquisition of S.A.G Solarstrom (S.A.G).

Figure 4: Shunfeng's acquisition roadmap



Source: Company, SWS Research

Figure 5: Historical acquisition information for Shunfeng by March, 2015

Company	Time	Price	Business
Shunfeng Material	January 2013	Rmb72m	Acquired 45% equity interest in its subsidiary; manufacture and sale of silicon ingots and silicon wafers
LDK	May 2013	US$72.22m	PV components
Xinjiang Suntech	May 2013	Rmb93.1m	Subsidiary of Wuxi Suntech, mainly produce solar modules and other solar products
Hareon Solar	July 2013	Rmb9.45m	Six PV projects as well as Rmb4.19bn worth of contracts
Jetion Solar & China Shipbuilding Industry Corporation	July 2013	Rmb5.1m	Five power projects
Changzhou Yixin	July 2013	Rmb1.26m	Five PV projects
Hareon	July 2013	Rmb1.1bn	Power projects and EPC
Wuxi Suntech	October 2013	Rmb3bn	100% company equity
Sunways	May 2014	€2m	Solar inverter and BIPV
S.A.G. Solar	August 2014	€5m	Plant operation and service
Powin	August 2014	Rmb153.8m	30% equity, energy storage battery and management technology
Everpower		Rmb48.5m	28% equity, energy storage battery management technology
Taiwan Nanotube	August 2014		License to use applied technologies and intellectual property in overseas markets
Shanghai Chengrui	February 2015		Eight wind power projects with a total designed

Investment Company			capacity of 723.5MW
Lattice Power Corporation	March 2015	Value of 51% equity interest not yet disclosed, to be paid in shares	LED

Source: Company, SWS Research

Cheng Kin-ming, controlling shareholder in Shunfeng, began investing in the PV industry in 2011. By the end of November 2012, Cheng had acquired a 29.65% stake in Faithsmart, which holds 100% equity interest in 27% Shunfeng stakeholder Peace Link for HK$199m, replacing chairman Tang Guoqiang and becoming the largest shareholder in Shunfeng. At the time, Shunfeng was chiefly a solar cell producer with output capacity of just 100MW, although it had one of the highest conversion efficiencies in the industry at the time.

After taking control of Shunfeng in 2012, Cheng made a number of acquisitions through this platform, acquiring cell and module production capacity. In January 2013, Shunfeng spent Rmb72m to buy back the remaining 45.45% stake in Shunfeng Material, which was mainly engaged in the manufacturing and sale of silicon ingots and silicon wafers. After that, Cheng invested in a 25.15% stake in troubled solar manufacturer LDK Solar for US$72.22m to become the third largest shareholder in the company. An attempt to acquire related assets in Hefei Qianjiang Industrial LDK was called off due to unfavourable pricing. However, in October the same year, another NYSE-listed firm in distress, Suntech, filed for bankruptcy and Cheng acquired 100% of Wuxi Suntech's globally recognised high-end solar modules manufacturing technology and brand for Rmb3bn, allowing him to expand production of components.

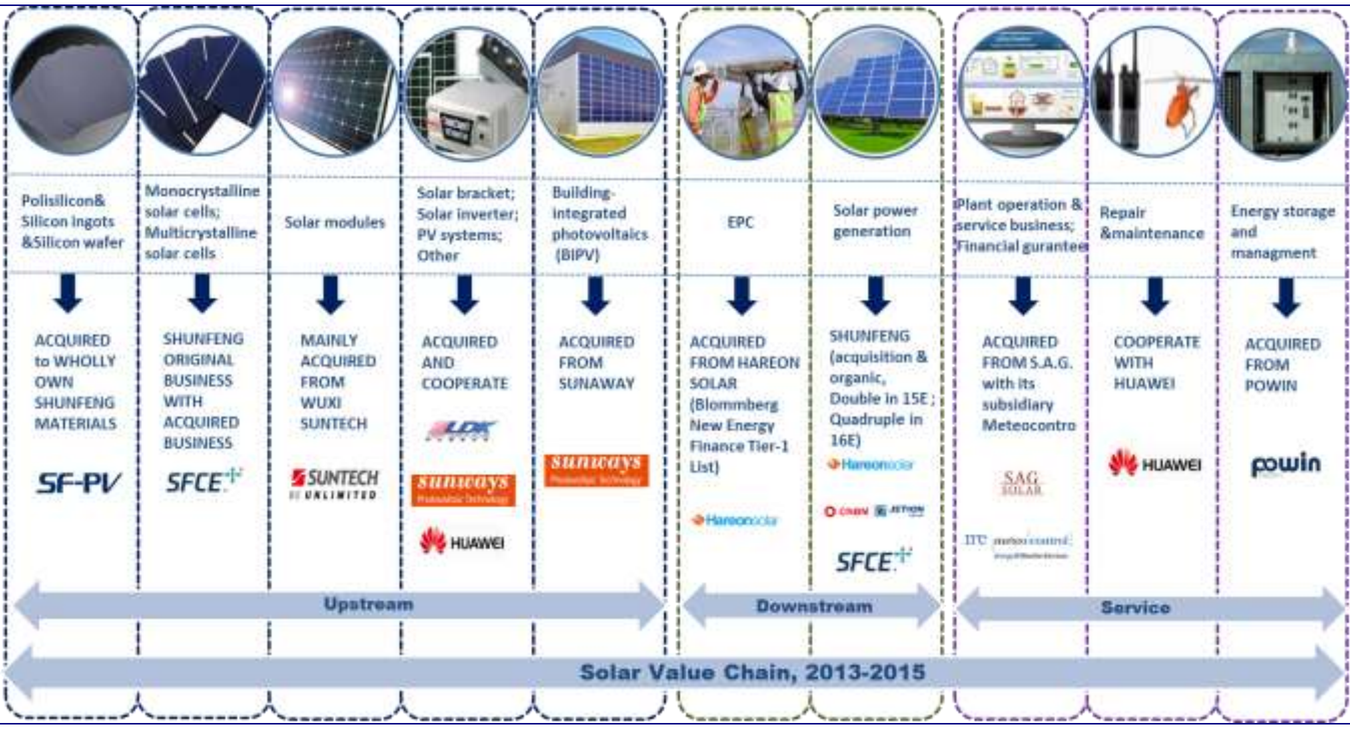
At the same time, Shunfeng shifted focus downstream from components to installation and power generation. On 04 July, 2013, Shunfeng acquired six photovoltaic power plant projects from Hareon Solar for Rmb9.45m and signed PV power plant construction contracts for projects with combined capacity of 499MW, worth Rmb4.19bn. The contracts are expected to last 18 months. On 05 July, 2013, Zheng signed a contract with Jetion Solar & China Shipbuilding Industry Corporation to spend Rmb5.1m in Xinjiang to acquire 90% stakes in five power plants with a combined capacity of 110MW. On 12 July, 2013, Shunfeng spent Rmb1.26m for 90% stakes in five PV plant projects from Changzhou Yixin, with a total capacity of 120MW. In early September 2013, Shunfeng signed power project and equipment, procurement and construction (EPC) contracts worth c.Rmb1.1b with Hareon.

In addition to the direct shareholding through Faithsmart, Cheng Kin-ming also holds all of the company's convertible bonds, which, if fully exercised, would give him a c.65% total stake in Shunfeng. Nevertheless, Cheng has no formal position on either the board or as part of the executive team in Shunfeng. Cheng is also the majority shareholder (with a c.85% holding) in Good Fellow Resource Holdings (109:HK), and controls the privately held Yatai Group.

In November 2014, Shunfeng changed its company name from Shunfeng Photovoltaic International to Shunfeng International Clean Energy, marking its transition away from an exclusive focus on low-end solar products to an integrated clean energy player.

Shunfeng aims to build an energy-saving solutions platform, offering to reduce energy consumption by c.70% through packaged services. Since 2014, the company has extended horizontally into wind power, geothermal power, seawater batteries, light-emitting diode (LED) lighting and electric vehicles (EV). The recent acquisition of Lattice Power, a private producer of LED chips used in lighting, monitors and liquid crystal display (LCD) backlighting, represents Shunfeng's first foray into the LED industry, a key link for its low-carbon solutions. Shunfeng affiliate Good Fellow said its acquisition fund had secured an agreement to acquire 80.1% of Philips Lumileds Lighting Company (owner of a substantial proportion of upstream LED technology patents). We expect the technology gained from core upstream patents will be transferred to LED chip manufacturer Lattice Power (51% held by Shunfeng).

Figure 6: Shunfeng's involvement across the solar value chain

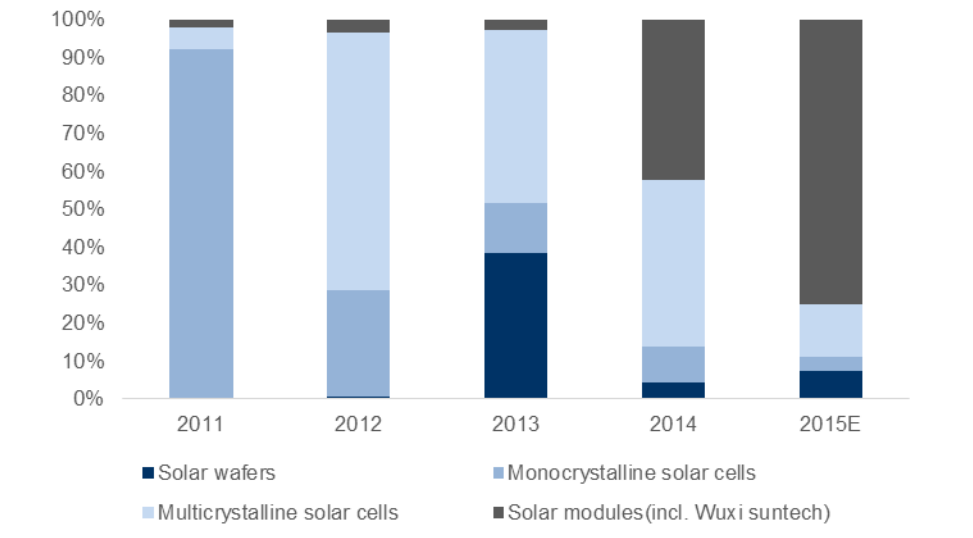


Source: Company, SWS Research

PV manufacturing

Prior to 2012, Shunfeng's business primarily consisted of PV cell manufacturing, with annual shipments of 300MW. However, following the acquisition and consolidation of Suntech results with Shunfeng's, the company's PV manufacturing portfolio shifted in emphasis towards higher-margin modules. We expect solar module shipment volume to reach 2.0GW in 15E.

Figure 7: Shipment mix shifting to modules



Source: Company, SWS Research

In addition to the company's existing product lines consisting of solar wafers, cells and modules, in 2014 Shunfeng expanded its product mix to include polysilicon, PV systems and other solar products, which accounted for c.6% of full-year sales.

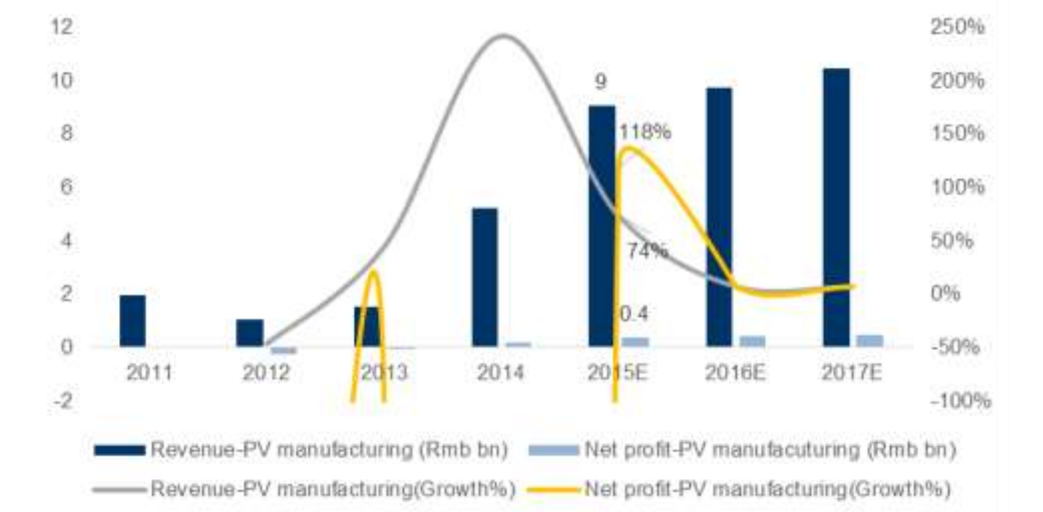
Figure 8: PV shipment forecasts

	2011	2012	2013	2014	2015E
Solar wafers (MW)	0	3	315	67	200
Monocrystalline solar cells (MW)	695	107	108	144	100
Polysilicon solar cells (MW)	44	258	373	670	380
Solar modules (incl. Wuxi Suntech) (MW)	14	14	22	645	2,045
Total Shipment Volume (MW)	753	390	871	1,526	2,725

Source: Company, SWS Research

We expect the PV manufacturing segment to generate revenue of Rmb9.1bn (+73.5% YoY) in 15E, and under our forecast, the company may book c.Rmb399bn (+118% YoY) in recurring profit from this business segment in 15E.

Figure 9: PV manufacturing revenue and profit



Source: Company, SWS Research

Founded in 2001, Wuxi Suntech was established to develop, manufacture and deliver reliable, cost-effective solar energy solutions. The company supplied c.9GW of PV panels to more than a thousand customers in more than 80 countries and became a market leader worldwide. When it filed for bankruptcy, Shunfeng paid Rmb3bn to Suntech creditors in exchange for assets worth c.Rmb5bn. In October 2013, Shunfeng paid Rmb500m and the remaining Rmb2.5bn was funded by Peace Link (Shunfeng's largest stakeholder) to Suntech on 19 December 2013.

Figure 10: Wuxi Suntech's core competence

Source: Company, SWS Research

In May 2014, Shunfeng acquired a 100% equity interest in Sunways' solar inverter and BIPV businesses. The acquisition included the purchase of the brand, its patents, design, know-how, equipment, inventories, etc.

Alongside components for standard applications (solar cells, solar modules and inverters) and complete systems, Sunways also offers customer-specific, design-oriented solutions for BIPV to customers.

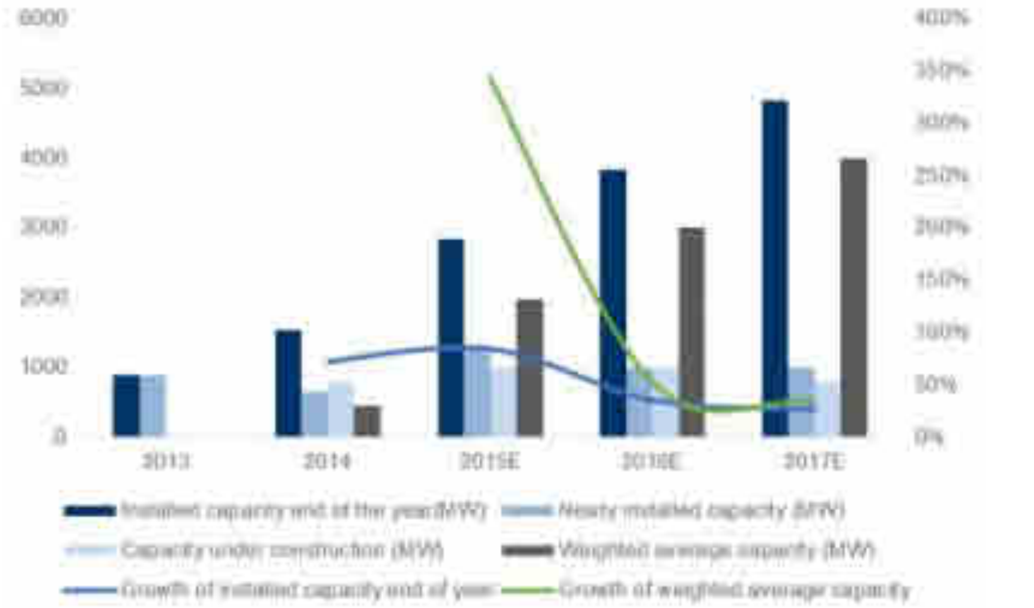
Sunways offers a series of high performing and highly efficient solar inverters with maximum efficiency up to 98%. These reliable and durable solar inverters can match various solar systems' designs and offer maximum flexibility. At the same time, some products are also equipped with a maximum power point (MPP) multi-tracking feature. The products are designed to meet the needs of European and North American markets and are very popular in various regions around the world.

Solar power generation

Solar power generation in China typically generates a >50% gross margin and is eligible for preferential tax treatment. Shunfeng completed installation of 840MW of solar power in 2013, but only began to record contributions from June 2014. In 2014, the company started construction on 1.44GW, connecting approximately half to the grid by year-end. Our channel checks suggest the company will build a further 1.5GW in 2015 and by year-end, we expect the company's total installed capacity of c.3GW.

For the solar power sector, 2014 was a challenging year due to the combination of US antidumping investigations, tightening lines of credit, President Xi Jinping's anticorruption drive and a later-than-expected roll-out of simplified approvals process. The c.3GW installation that we expect to be completed by end-15E was originally scheduled for completion by end-2014.

Figure 11: Solar capacity growth



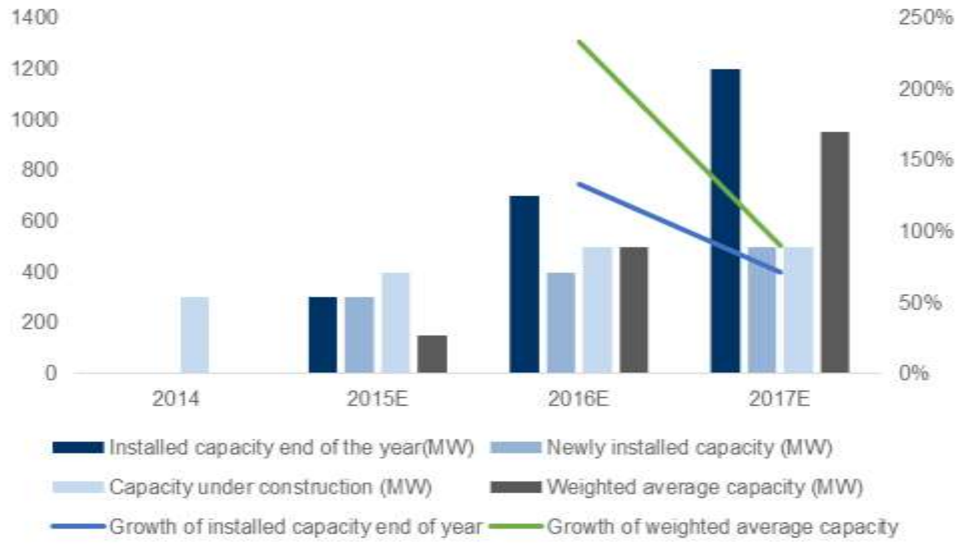
Source: Company, SWS Research

However, we see a number of signals suggesting an improving business environment for power generation in 2015. China Merchants Bank (3968:HK) provided a credit line of up to Rmb2.6bn to Shunfeng in September 2014, following long delays. The company also expects it will receive Rmb20bn each in loans from Industrial and Commercial Bank of China (ICBC, 1398:HK) and China Minsheng Banking Corporation (1988:HK) in 2015. We do not see any limitations that may hinder Shunfeng from reaching its target in 2015.

Wind power generation

Wind power is a new segment that we expect to start contributing to Shunfeng's revenue in 15E. We expect the company will connect 300MW of capacity to the grid in 2015, while another c.400MW is under construction. Due to high margins for power generation and the availability of tax breaks for wind power generators, we expect the company's wind segment to contribute Rmb45m in 15E net profit.

Figure 12: Wind segment contribution

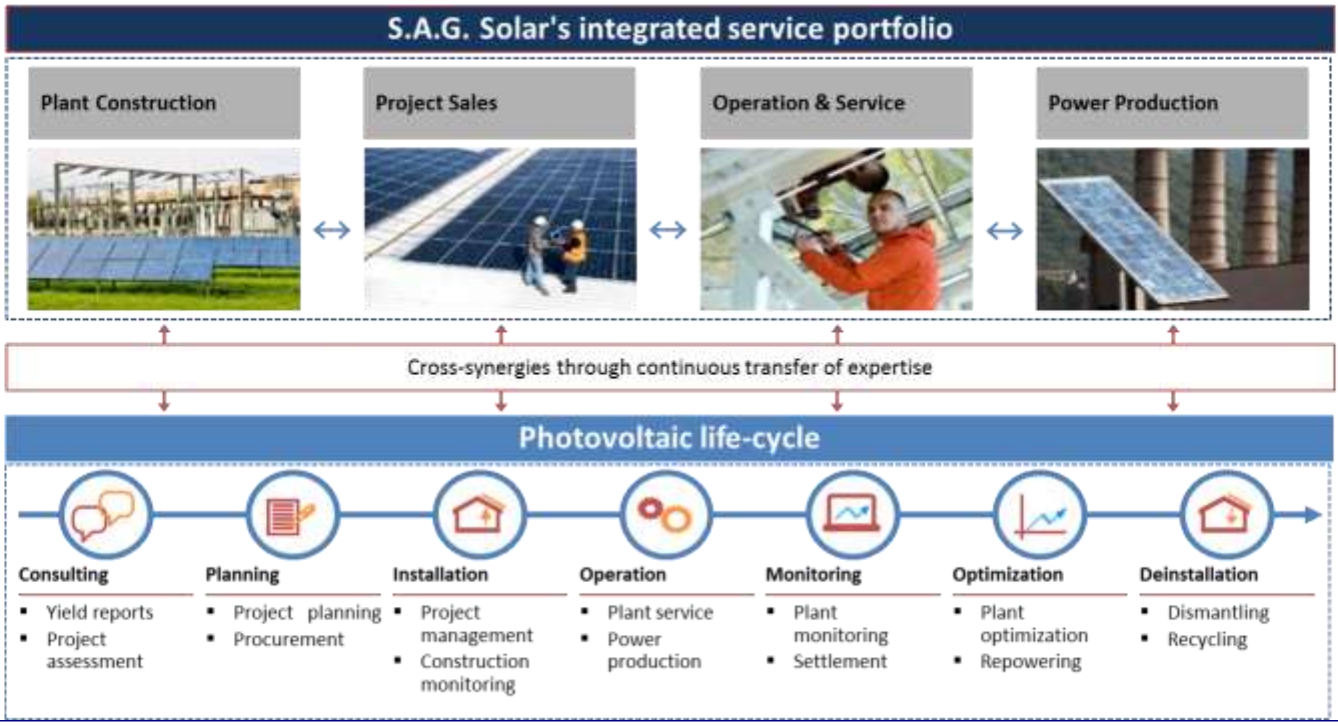


Source: Company, SWS Research

EPC and plant operations

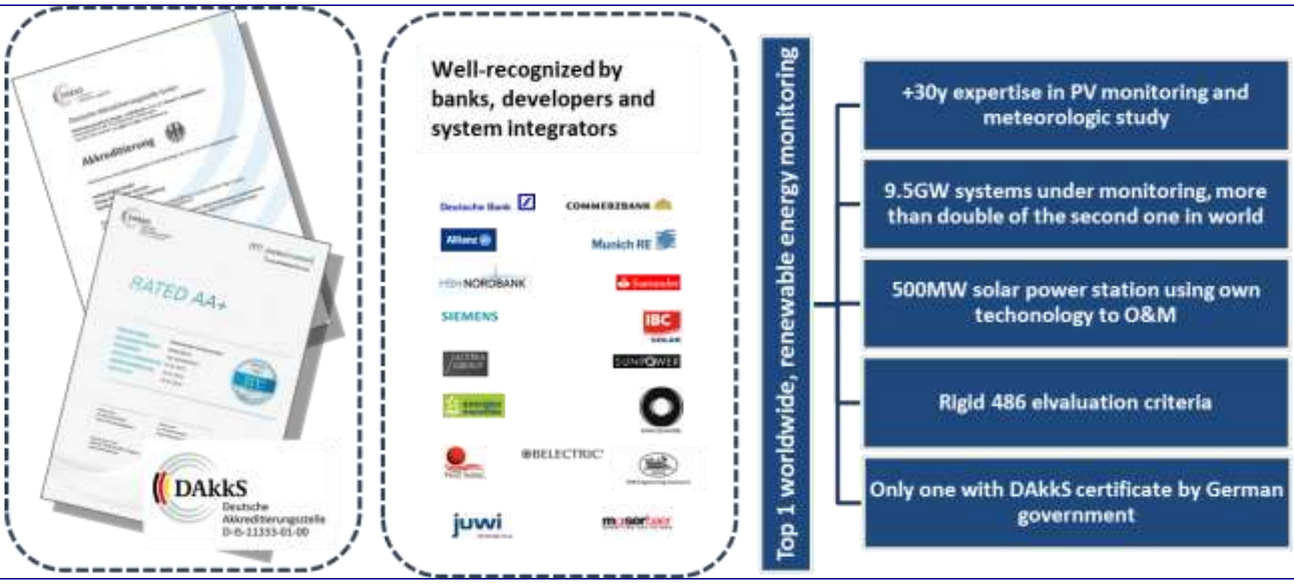
S.A.G. Solarstrom (S.A.G.) is a German-based solar company, as well as the world's largest independent PV plant operator and Europe's biggest solar developer. The acquisition is key step for Shunfeng's global prospect. The company spent €65m in mid-2014 to acquire S.A.G., in a move we expect will enhance Shunfeng's solar project development capacity and EPC services, PV plant monitoring and O&M businesses in both Europe and North America.

Figure 13: Value chain and business areas of S.A.G.



Source: S.A.G

Figure 14: Meteocontrol core competence



Source: Company, SWS Research

Meteocontrol, a wholly owned subsidiary of S.A.G., is the world's largest independent PV plant monitoring service providers, operating 116 PV plants in Europe, connecting with more than 100-brand solar inverters worldwide and monitoring over 37,000 solar systems globally with a total output of over 9.8GW, which is expected to reach 12GW by end of 2015. Meteocontrol has extensive PV plant monitoring and O&M experience in the residential, commercial & utility sectors and has one of the world's largest PV plant performance databases (10-plus years). Meteocontrol is also the only certified power plant rating agency approved by Deutsche Akkreditierungsstelle (DAkkS), national accreditation body for the Federal Republic of Germany.

The acquisition of S.A.G. has brought in two business segments that we believe will contribute to Shunfeng's 2015 results; namely, EPC contracts and plant operation and services fees. The company is currently constructing a total of 350MW under EPC contracts and based on the company's publicly disclosed unit prices of its EPC contracts, we expect this to result in revenue of c.Rmb241m. We make a conservative assumption of a c.5% net margin, based on sector average margins.

Figure 15: EPC segment key assumptions 2015E

EPC	2015E
Capacity installed (MW)	350
Unit price - Europe (US$/W)	1.8
Unit price - Japan (US$/W)	2.3

Source: Company, SWS Research

Rapid growth in solar installations is likely to provide for continued expansion in demand for monitoring services and we see the acquisition as likely to provide a steady source of cash flow for Shunfeng. Management expects the company to expand monitoring to a total output of 12GW by end-2015. S.A.G. had a historical operating margin of 17% on this business in 2012 and we do not expect much deviation from this level.

Figure 16: Systems under monitoring

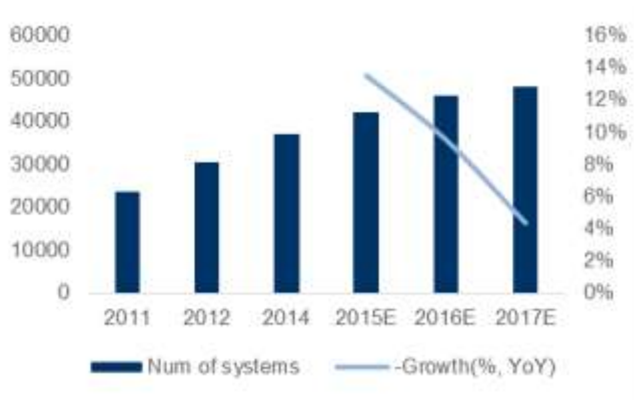
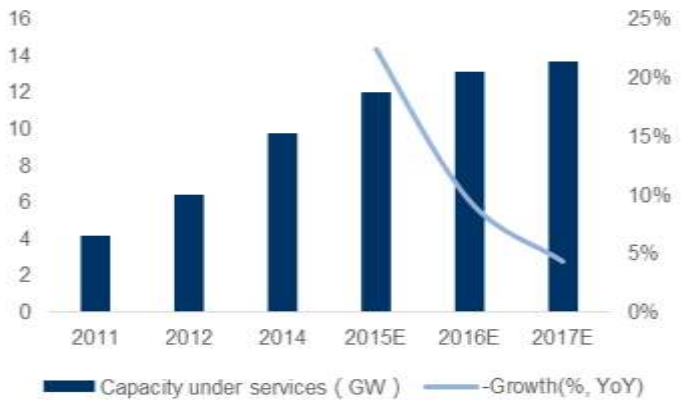


Figure 17: Capacity under monitoring



Source: Company, SWS Research

LED technology

On March, 2015, Shunfeng entered into a memorandum of understanding (MoU) with Lattice Power to acquire a 51% equity interest. Lattice Power is the world-wide leader in GaN-on-Silicon EPI chip technology, with over 50 Chinese and international patents. As the first company in the world that commercialized high performance, high power LED chips based on this technology, the company has gained a market in general lighting, smartphone and automobile lighting. LED lighting, which is 50–80% more energy efficient compared to ordinary lighting, will replace numerous traditional lighting functions. GaN-on-silicon LED technology can significantly reduce production costs compared to traditional GaN-on-sapphire LEDs, which will result in an additional contribution to the profit of the company.

Shunfeng's largest shareholder (effectively holding 65%) Cheng Kin-ming is also the majority shareholder (85%) of Good Fellow Resource Holdings, which acquired an 80.1% stake in LED giant Philips Lumileds on 31 March 2015. We expect the technology gained from core upstream patents will be transferred to LED chip manufacturer Lattice Power (51% held by Shunfeng).

Lumileds is the market leader in the LED industry having a market share of more than 10% in the global general lighting market, a market share of more than 30% in the automotive lighting market and a market share of more than 50% in the mobile phone lighting market. Core LED patents have long been dominated by five international giants including Philips (PHG:US), Osram (OSR:GR), Nichia, Toyoda Gosei (7282:JP) and Cree (CREE:US), through a cross-licensing monopoly. This has caused difficulties for the development of domestic LED manufacturers. Lumileds' customer base includes global automakers such as BMW (BMW:GR), Land Rover (owned by Tata Motors (TTM:US) and General Motors (GM:US), as well as electronics giants Apple (AAPL:US), Samsung Electronics (005930:KS), Lenovo Group (992:HK), Huawei and Mi. Lumileds is also a technically innovative leader in the LED industry owning 20% of the total global LED patents and has created the 6-inch sapphire epitaxial technology. The company is financially sound with sales of US$2bn and growing sales volumes and a significantly higher profit margin than the broader industry.

Energy-saving solutions

Since 2014, Shunfeng has accelerated the pace of horizontal expansion with the intention to form a platform for low-carbon energy-saving integrated solutions. Solutions range from solar to wind, geothermal, seawater power generation, as well as energy management and storage technology, plant operation and monitoring technology. The company has also indicated interest in expanding its product mix to LED lighting and EVs. In addition, we believe that major shareholder Cheng Kin-ming, in looking to consolidate his low-carbon assets, may inject some ground source heat pump, seawater power generation and EV assets from his investments in the private company Yatai Group.

Figure 18: Horizontal expansion to form low-carbon energy-saving integrated solutions

Source: Company, SWS Research

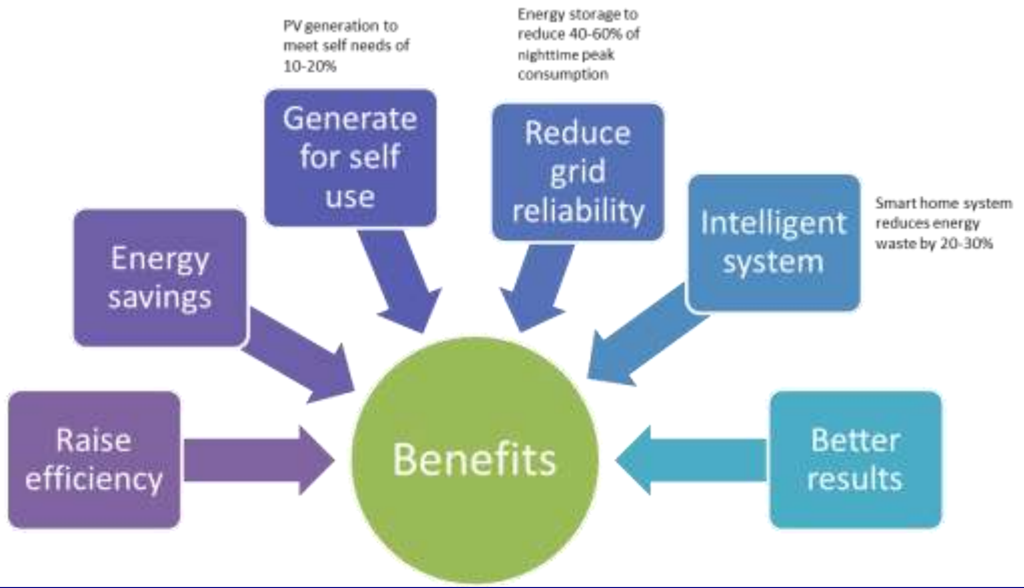
Figure 19: Illustration of solution for low-carbon households

Source: Company

Management believes that Shunfeng's low-carbon energy-saving integrated solutions could lower electricity consumption by 70%. However, we note the difficulties in realising synergy across business units with such divergent technologies.

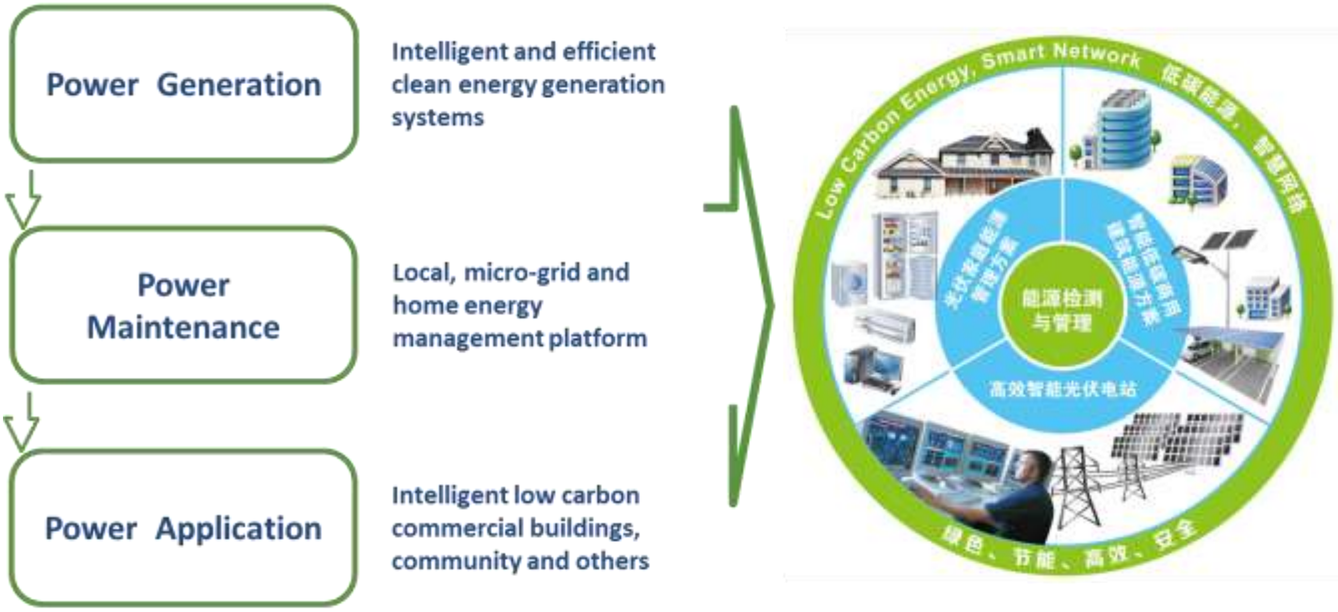
The first low-carbon solution project for Shunfeng, the new Hongqiao International School, is near completion stage and will become the world's first low-carbon school upon its completion. In this campus, Shunfeng has provided a package of services and products from the solar-powered LED lighting, new heating and cooling, hot water supply, heated pool to the overall usage of energy storage and smart management systems, which management expects to result in 50-70% saving in energy bills under total operation.

Figure 20: Low-carbon energy-saving integrated solutions generate 70% energy savings



Source: Company

Figure 21: Technical level integration to form low-carbon energy-saving integrated solutions



Source: Company

Policy support

By the end of 2014, total installed capacity in China reached 28.05GW (+60% YoY) of which utility-scale PV farms accounted for 23.38GW and distributed PV projects accounted for 4.67GW. Total electricity generation reached 25,000GWh, an increase of over 200% YoY. Despite the rapid growth in installations in 2014 (10.6GW completed during the year), China still failed to meet its 2014 installations target of 14GW. Of the target, distributed projects were to account for 8GW but only 2.05GW were completed. The core problem for the weak distributed PV project installation demand was a lack of clarity in government policies over grid connection and the difficulties for developers to secure property rights for their projects.

Figure 22: 2014 solar power installed capacity fell short of the target by a great extent

Newly installed capacity (GW)	2013	2014	2014 Target	2014 Discrepancy	2015 Target
China	12.92	10.60	14.00	(3.40)	17.8
Distributed Generation	0.80	4.67	8.00	(3.33)	not specific
Utility Scale (Ground-mounted)	12.12	5.93	6.00	(0.07)	not specific

Source: NEA, SWS Research

The central government has released a number of policies since late-2014 to provide additional incentives for solar industry development, particularly distributed-scale PV projects. In September 2014, the National Energy Association (NEA) released its *Policies for Further Implementation of Distributed Solar Generation*, in which it called for full grid-connection for distributed PV projects, for distributed PV to be eligible for benchmark tariff rates, for raised power generation quota for such projects, for preferential loans for developers of distributed projects, and for permission to sell power directly to users.

Figure 23: Distributed PV subsidy policies

Area	State subsidies	Provincial subsidies	Municipal subsidies	Total	Comments
Wenzhou	0.42	0.1	0.1-0.2	0.62-0.72	Commercial plants
Wenzhou	0.42	0.1	0.3	0.82	Residential plants
Hangzhou	0.42	0.1	0.1	0.62	
Tongxiang	0.42	0.1	0.3	0.82	First two years, one-time subsidy Rmb1.5/W
Tongxiang,	0.42	0.1	0.2	0.72	Three-five years
Hefei	0.42	-	0.25	0.67	One-time subsidy Rmb2/W
Jiangsu	0.42	-	-	-	2012-15 for new projects, tariff is set at Rmb1.2 in 2015 and 1.15 in 2015
Shanghai	0.42	-	0.4	0.82	Personal
Shanghai	0.42	-	0.25	0.67	Enterprises
Jiaxing	Subsidies of Rmb2.8/W in 2013, Rmb2.75/W in 2014 and Rmb2.7/W in 2015				
Jiangxi	Subsidies of phase I Rmb4/W and phase II Rmb3/W				
Luoyang	Reward of Rmb0.1/W for three years.				

Source: Industry information, SWS Research

On March, 2015, the NEA released an official solar PV installation target for 2015 of 17.8GW, representing 68% YoY growth, replacing the 15GW target communicated via a draft circular in late-January. Of the 17.8GW, the government no longer stipulates specific targets for either utility-scale or distributed generation and there is no quota limit for either rooftop installations or for large-scale on-site generation and consumption PV projects.

The 17.8GW is not only 20% higher than the tentative target of 15GW, but also 27% higher than the 2014 target of 14GW. This rather aggressive target of 17.8GW demonstrates the regulator's determination to deploy solar power across the country. If the target is achieved, it will also exceed the 35GW target set in the current 12th Five-Year-Plan for Solar Development (2011-2015) by 30% and would see China overtake Germany as the country with the largest solar installed capacity.

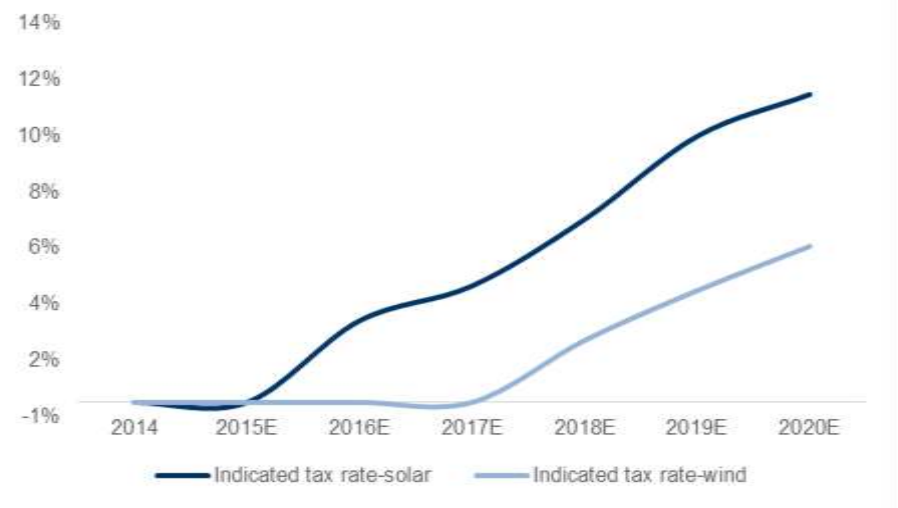
Figure 24: Official PV newly installed capacity target in 2015 breakdown by Province

Province	Officially newly installed target (GW)	Poverty alleviation pilot project quota (GW)	Draft proposed in January (GW)
Hebei	**1.20**	**0.30**	1.00
Shanxi	**0.65**	**0.30**	0.50
Inner Mongolia	**0.80**		0.80
Liaoning	**0.30**		0.30
Jilin	**0.30**		0.30
Heilongjiang	**0.30**		0.30
Jiangsu	**1.00**		1.00
Zhejiang	**1.00**		1.00
Anhui	**1.00**	**0.40**	0.50
Fujian	**0.40**		0.30
Jiangxi	**0.60**		0.40
Shandong	**0.80**		0.80
Henan	**0.60**		0.40
Hubei	**0.50**		0.40
Hunan	**0.40**		0.40
Guangdong	**0.90**		0.80
Guangxi	**0.35**		0.20
Hainan	**0.20**		0.20
Sichuan	**0.60**		0.30
Guizhou	**0.20**		0.20
Yunnan	**0.60**		0.40
Shaanxi	**0.80**		0.50
Gansu	**0.50**	**0.25**	0.50
Qinghai	**1.00**	**0.15**	1.00
Ningxia	**1.00**	**0.20**	0.80
Xinjiang	**1.30**		1.20
Army	**0.50**		0.50
Total	**17.80**	**1.60**	**15.00**

Source: NEA, SWS Research

We forecast total installed solar capacity will reach 44GW in 15E, generating 57TWh of electricity to the grid and requiring total investment over the year of Rmb160bn. Under this scenario we expect Shunfeng to install c.1.3GW in 15E, accounting for 7.3% of the national targeted installations. We expect the company to be one of the largest beneficiaries of government support.

Figure 25: Wind, solar power blended tax rate forecasts for Shunfeng, 2014-20E



Source: Company, SWS Research

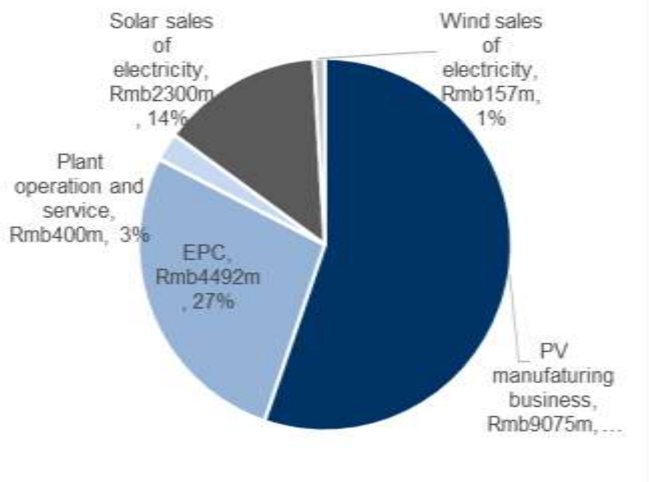
Chinese policymakers have exempted profits from renewable energy projects approved on or after 01 January 2008 from corporate income taxation for a period of three years starting from the first year that the project begins to record sales of electricity. After the first three-year period, the same project will be eligible to pay only 50% of the general corporate income tax rate for the subsequent three years. Both solar and wind power projects are eligible for these policies.

Earnings forecasts

The company recorded a surge in revenue in 2014 of 276% YoY as new businesses came on stream and began to contribute. We expect revenue to more than double again in 15E, from Rmb5.7bn in 14A to Rmb16.4bn in 15E. The company's PV manufacturing segment still accounts for the majority of the company's revenue, but with rising solar power capacity, we expect sales of electricity from solar to consume much of the company's PV manufacturing output and rapidly account for more revenue than other business segments in the near future.

Figure 26: Revenue growth,2011-17E

Figure 27: Revenue breakdown, 15E



Source: Company, SWS Research

As the company has moved into downstream businesses with higher margins, so the company has recorded an improvement in overall margin. Gross margin in the PV manufacturing segment is generally c.12%, while EPC can gross over 20%, power generation can record 60% and services may result in gross margins of up to 90%. We see much of the shift in profit mix as likely to take place over the coming three years and consequently expect substantial change in the company's margins.

Figure 28: Approximate gross margin, by segment

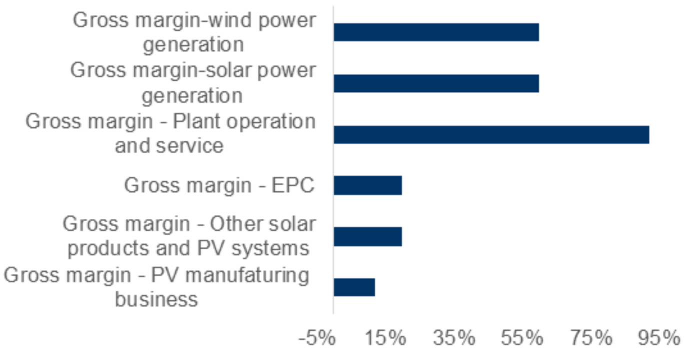


Figure 29: Margin trend

Source: Company, SWS Research

The majority of the company's recurring net profit is generated by sales of electricity from the company's solar power segment, followed by PV manufacturing and EPC. In addition to the company's ordinary business operations, Shunfeng regularly records significant non-recurring net profits, largely from gains in the fair value of investments and the release of provisions by Wuxi Suntech after successfully collecting doubtful accounts receivables.

We forecast a 5x YoY growth in 15E net profit from Rmb321m in 14A to Rmb1.55bn in 15E, due to a combination of a low base in 14A following several years of restricted or negative profitability, a likely rapid ramp-up in contribution from new businesses and the increase in overall gross margin resulting from the expansion into new businesses.

Wuxi Suntech had c.Rmb700m in accounts receivable left on its book at the time of its filing for bankruptcy, which the company wrote off during the process of winding up its businesses due to the length of time it expected to collect the payments. Since then, the company has successfully collected the majority of the balance of these receivables, which we expect will boost net profit for Shunfeng by c.Rmb600m (-39.5% YoY), bringing net profit to Rmb2.2bn (+65% YoY).

Figure 30: Profit growth for Shunfeng

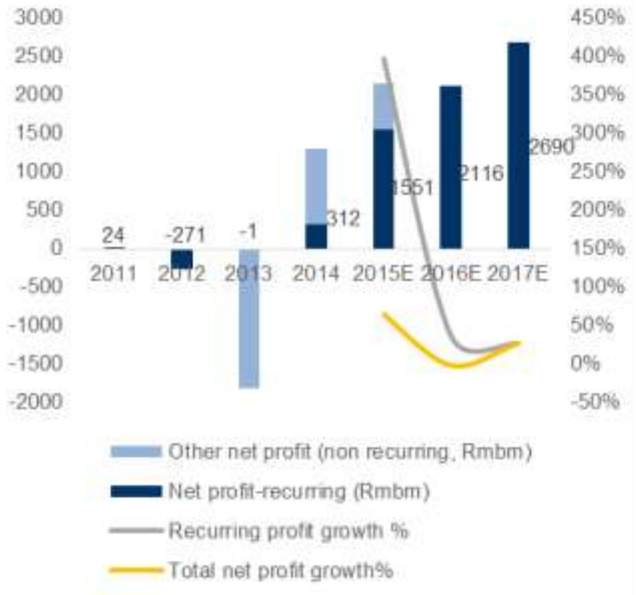
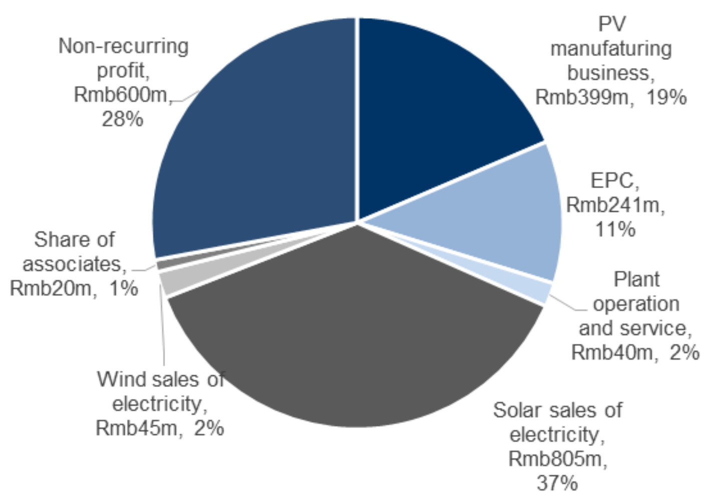


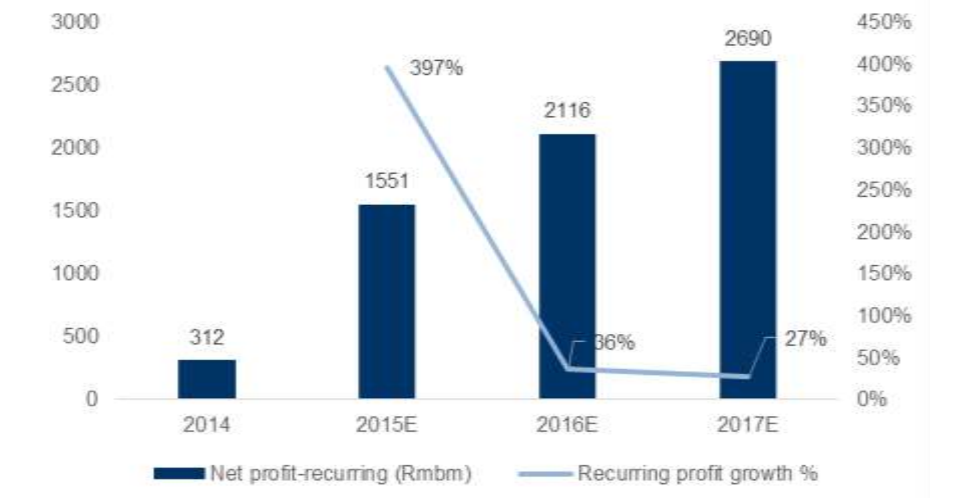
Figure 31: 2015E Net profit breakdown



Source: Company, SWS Research

Looking further ahead, we expect the dramatic growth in 15E net profit to moderate in following years as a result of the higher base for comparison and and a slower pace of introduction of new capacity and business lines. We anticipate net profit growth in the vicinity of 30% in the following two years.

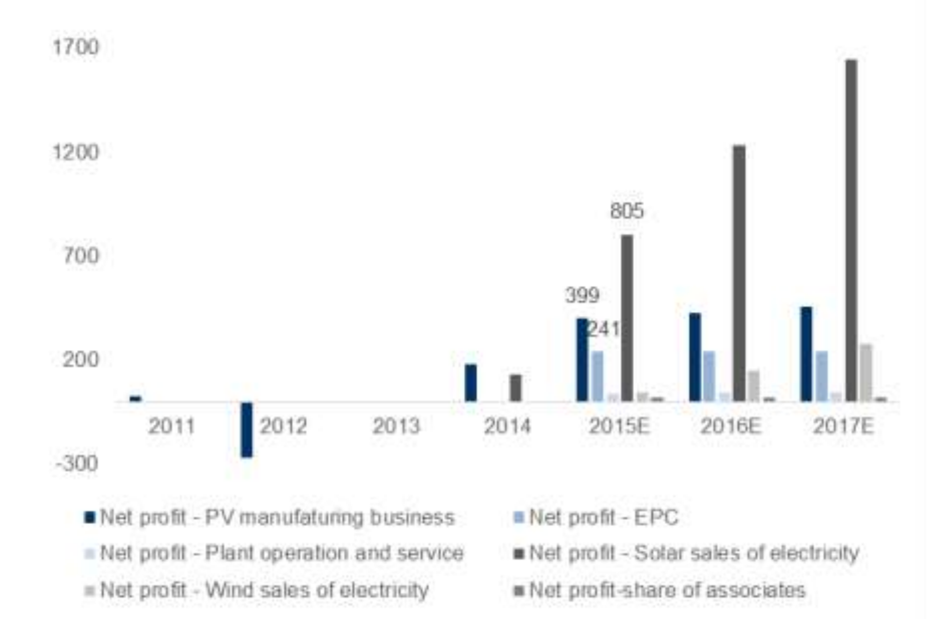
Figure 32: Recurring profit forecast



Source: Company, SWS Research

Of our forecast Rmb1.55bn net profit for 15E, we anticipate solar power generation profit contribution of Rmb805m, c.Rmb399m from PV manufacturing, Rmb241m from EPC, Rmb40m from plant operation and services and Rmb45m from wind power generation. We expect solar power generation to continue to contribute the bulk of recurring profit through 17E.

Figure 33: Recurring profit forecast breakdown by segments

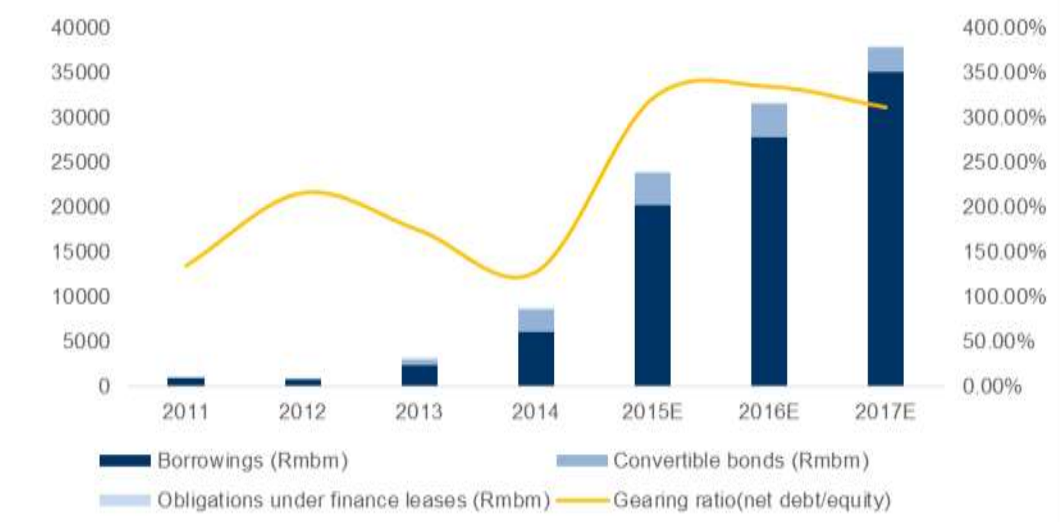


Source: Company, SWS Research

Financing support

Shunfeng's rapid pace of expansion and integration requires access to substantial financing options. To date, much of the recent spate of acquisitions has been financed by debt, and within our forecasts, in the absence of clear signals from the company to the contrary, we have assumed no upcoming fundraising from equity markets. However, given the company's relatively high gearing ratio (c.322% if funded all by debt) we see it as likely that the company may be compelled to fund future acquisitions through equity financing.

Figure 34: Debt components and gearing ratio under pressure



Source: Company, SWS Research

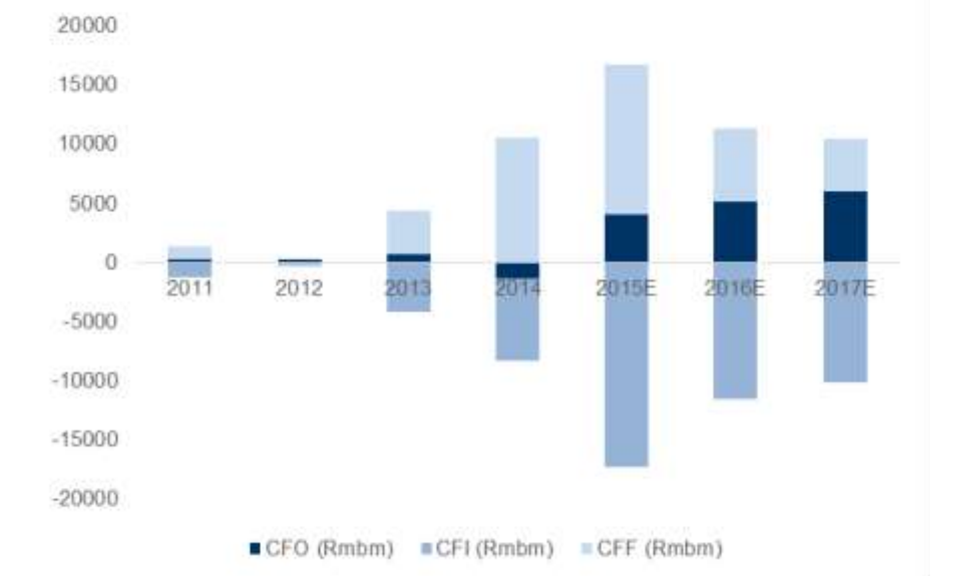
The rapid increase in Shunfeng's borrowings is likely to push up its interest expenses, although a broadly-expected series of further interest rate cuts over the coming year should help offset some of this expense.

Figure 35: Interest expense pump up along with debt

Source: Company, SWS Research

We expect growth in cash flows from operations will lag the company's need for funds to construct power stations.

Figure 36: Cash flow analysis



Source: Company, SWS Research

We believe Shunfeng continues to have access to financing from banks in 2015 such as a Rmb20bn credit line from both ICBC and China Minsheng Bank. In 2014, commercial banks, under pressure to reduce risk exposure withdrew credit to struggling sectors such as solar, but with the government demonstrating its determination to support PV industry development with the ambitious installation target of 17.8GW in 2015, we expect the main commercial banks to be more willing to back solar power projects. In addition to the company's equity and debt market fundraising options, the company may also be able to arrange financing deals with trusts and funds.

Convertible bonds

Shunfeng issued convertible bonds in several rounds at different conversion prices since 2013, all of which were acquired by the company's largest shareholder. Once converted, the bonds are likely to dilute the stock price and squeeze the public float from over 60% to just 32%, assuming that Peace Link decides not to sell any of the shares on the secondary market after conversion.

Overall, we believe in fundamental upsides and weight more on its current high growth trend than the potential impact from the conversion of bonds, but we will analyse the impact here in detail as a key aspect for investment consideration.

Currently, six convertible bonds are outstanding, each with a different conversion price, ranging from HK$0.214-10, representing a total of 3.6bn unconverted shares – which compares with the 2.96bn shares currently outstanding. At the current stock price of HK$6.61, the instruments represent 1.6bn potential shares with a price of HK$0.214 and 600m shares with a price of HK$3.58, which may significantly dilute stock price.

Figure 37: Convertible bonds outstanding

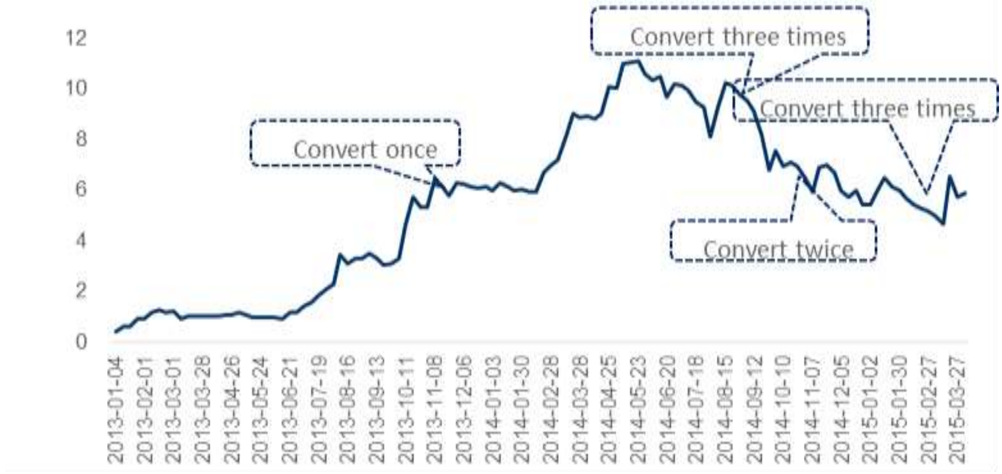
Convertible Bonds	Year	Month	HK$m	Rmbm	Convert price (HK$)	Shares (m)	Interest rate	Duration
CB1	2013	Feb-13	449	357	0.214	2100	0%	20
convert	2013	Dec-13	36	29	0.214	170		
convert	2014	Jul-14	47	37	0.214	220		
convert	2015	Jan-15	22	17	0.214	103		
Subtotal(current)			**344**	273	**0.214**	**1607**		
CB2	2013	Jul-13	931	738	0.922	1009	8%	10
CB3	2014	Apr-14	3580	2841	3.58	1000	0%	10
convert	2014	Oct-14	179	142	3.58	50		
convert	2014	Nov-14	1253	994	3.58	350		
Subtotal(current)			**2148**	1705	**3.58**	**600**		
CB4	2014	Jun-14	2137	1696	10	214	4%	5
convert	2014	Jun-14	327	259	10	33		
convert	2014	Jul-14	100	79	10	10		
convert	2015	Feb-15	500	397	10	50		
	2015	Mar-15	112	89	10	11		
Subtotal(current)			**1099**	872	**10**	**110**		
CB5	2014	Nov-14	1386	1100	7	198	5%	3
CB6	2015	Jan-15	350	278	7	50	5%	3
Total			**6257**			**3575**		

*Exchange rate 1.26

Source: Company, SWS Research

There have been eight conversions since June 2014. The downturn of prices could be attributable to either the drop in oil prices, conversion dilution or market overreaction to the company's acquisition of Wuxi Suntech.

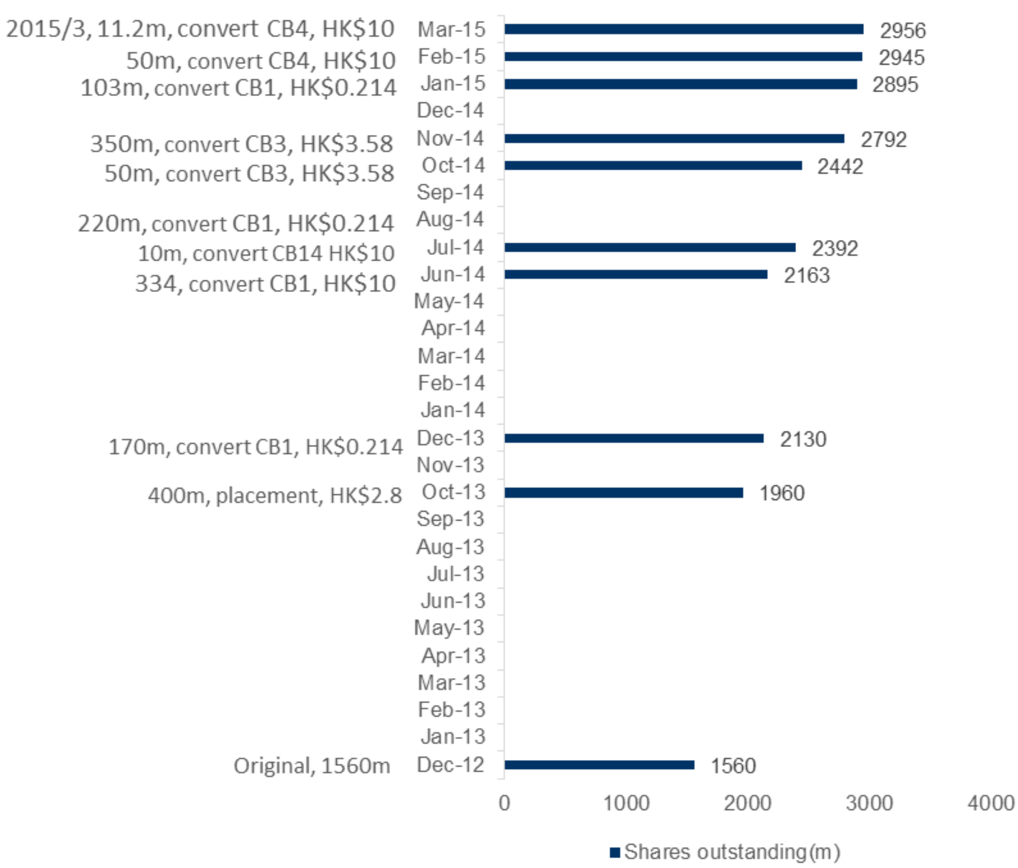
Figure 38: Conversion period on historical stock price change



Source: Company, SWS Research

Nine conversions and one placement of new shares since the beginning of 2013 have increased the number of shares outstanding from 1.56bn to 2.96bn by end-March 2015.

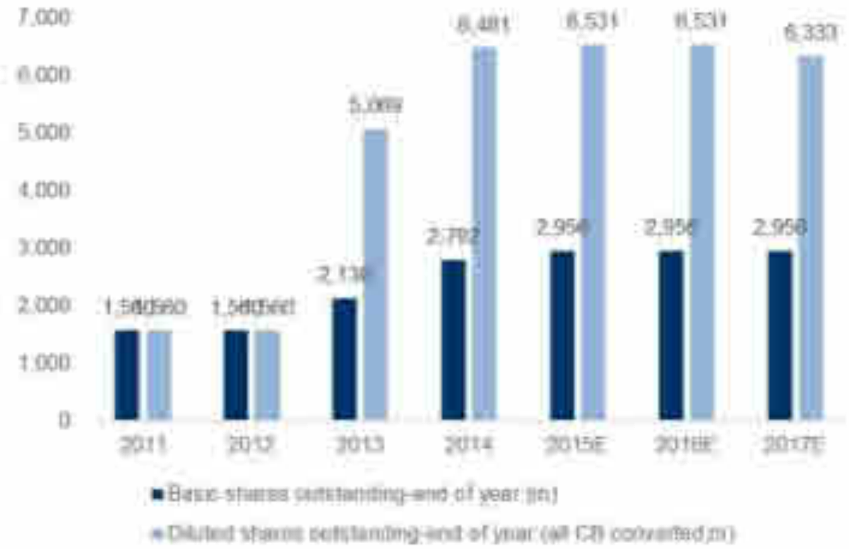
Figure 39: Shares outstanding with influence of placement and conversion



Source: Company, SWS Research

Diluted shares are more than double of basic shares, based on immediate full conversion of all convertible bonds.

Figure 40: Basic shares and diluted shares



Source: Company, SWS Research

Another side effect from the convertible bonds is the change of shareholding structure. All convertible bonds are held by the company's largest shareholder, Peace Link. In the event of full and immediate conversion of all convertible bonds, other common shareholders' holdings will be reduced from 63% to 32.33%. We see it as unlikely that Peace Link would sell part of the stock to the public once converted.

Figure 41: Shareholding structure, as at December 2014

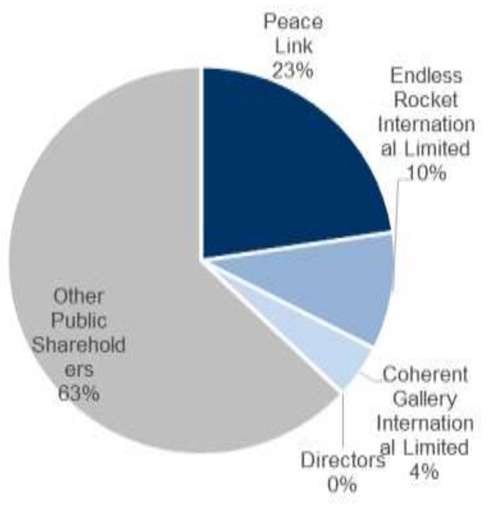
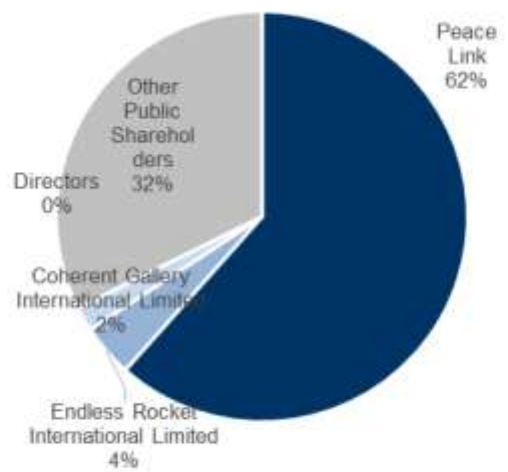


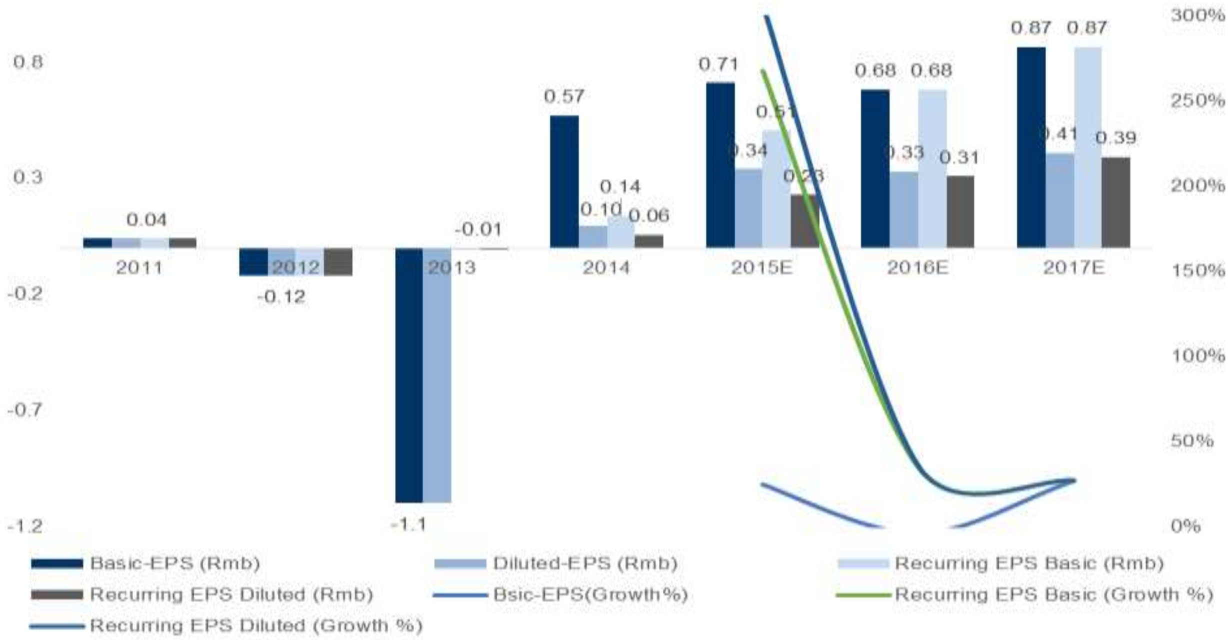
Figure 42: Shareholding structure as at Dec 2014, assuming full conversion of convertible bonds



Source: Company, SWS Research

Based on our 15E forecast earnings of Rmb1.55bn, we expect basic EPS to grow from Rmb0.57 in 14A to Rmb0.71 (+25% YoY) in 15E, while fully-diluted EPS from Rmb0.10 to Rmb0.34 (+249% YoY). Striping of one-off gains, basic EPS is projected to grow from Rmb0.14 to Rmb0.51 (+268%YoY), and diluted EPS is projected to grow from Rmb0.06 to Rmb0.23 (+306% YoY).

Figure 43: Basic and diluted EPS, and recurring basic and diluted EPS, 2011-17E



Source: Company, SWS Research

The current price of HK$6.61, represents a 7.5x 15E basic PE, but 23.4x 15E diluted PE if strips off one-off gains.

Figure 44: Basic and diluted PEmultiples based on stock price close on 17 April

	2014	2015E	2016E	2017E
PE-basic	9.3	7.5	7.8	6.2
PE-diluted	**54.7**	**15.6**	**16.1**	**13.0**
Price-recurring EPS-basic	38.7	10.5	7.8	6.2
Price-recurring EPS-diluted	**95.0**	**23.4**	**17.2**	**13.6**
PB	2.0	2.1	1.7	1.3

Source: Company, SWS Research

Valuation & recommendation

We employ the discounted cash flow (DCF) model to base our valuation of the firm. Within the model, we calculate an equity value of Rmb30bn for 15E and a Rmb54bn enterprise value. We employ a mid-term growth assumption (after seven years) of 7% YoY a perpetual growth rate for revenue of 2% YoY. We derive a weighted cost of capital (WACC) using 3.0% as the risk-free rate with reference to current government debt, and a 6.82% market risk premium as well as a 4.71% cost of debt. We use a beta of 1.08 from China Longyuan Power Group Corporation (916:HK) as a reference for Shunfeng. Using these assumptions, we find a present value of HK$8.35 per share for Shunfeng in 15E.

Figure 45: Key assumptions for DCF calculation

Item	Assumption
Midterm revenue growth rate (YoY)	7%
Midterm tax rate	15%
Perpetual revenue growth rate (YoY)	2%

Source: Company, SWS Research

Figure 46: WACC assumptions

WACC	Assumption	Source
Risk-free rate	3.00%	*SWS Research*
Equity risk premium	6.82%	*SWS Research*
Beta	1.08	*SWS Research, Bloomberg*
Cost of equity	10.37%	*SWS Research*
Nominal cost of debt	4.71%	*Historical average*
Debt-to-equity	150%	*SWS Research forecasts*
Effective tax rate	20.00%	*Based on current tax rate*
WACC	6.41%	

Source: Company, SWS Research

Figure 47: DCF derivation

DCF model	14A	15E	16E	17E	18E	19E	20E	21E	22E	23E	24E	25E
Revenue	5,746	16,423	18,706	21,058	23,458	25,702	27,990	29,950	32,046	34,289	36,690	39,258
EBIT	1,776	3,498	3,730	4,734	5,743	6,544	7,290	7,801	8,347	8,931	9,556	10,225
Tax paid	183	579	428	499	637	815	979	1,170	1,252	1,340	1,433	1,534
NOPAT	1,593	2,919	3,302	4,235	5,106	5,729	6,312	6,631	7,095	7,591	8,123	8,691
Changes in WC	(3,110)	(834)	(753)	(1,531)	885	(551)	(447)	(38)	(345)	(276)	(220)	(280)
Cash NOPAT	(1,517)	2,085	2,549	2,704	5,991	5,178	5,865	6,593	6,750	7,315	7,903	8,411
Plus: D&A	555	1,787	2,433	3,111	3,798	4,414	5,034	5,386	5,763	6,167	6,599	7,060
Less: CAPEX	(6,761)	(17,072)	(11,519)	(10,107)	(10,080)	(10,089)	(10,092)	(10,092)	(10,092)	(10,092)	(10,092)	(10,092)
FCFF	(7,723)	(13,200)	(6,537)	(4,291)	(291)	(497)	807	1,887	2,421	3,390	4,409	5,379
TV												124,448
Total	(7,723)	(13,200)	(6,537)	(4,291)	(291)	(497)	807	1,887	2,421	3,390	4,409	129,827
2015 PV	**53,999**											
2016 PV	**71,518**											

Source: Company, SWS Research

Figure 48: Target price derived by DCF

	2015E	2016E
EV (Rmbm)	53,999	71,518
Cash (Rmbm)	433	307
Debt (Rmbm)	(24,055)	(31,713)
Minority shares (Rmbm)	70	168
Equity value (Rmbm)	30,447	40,280
Equity value (HK$m) *	24,528	32,449
Outstanding shares	2,937	2,956
Share price (HK$)	8.35	10.98

*Rmb:HK$ exchange rate = 0.8056

Source: SWS Research

Figure 49: DCF price sensitivity analysis

2015 Share Price		Perpetual Growth Rate				
	7.19	**1.90%**	**1.95%**	**2.00%**	**2.05%**	**2.10%**
WACC	**5.41%**	15.51	15.89	16.28	16.68	17.09
	5.91%	11.23	11.51	11.79	12.08	12.38
	6.41%	7.93	8.14	8.35	8.57	8.80
	6.91%	5.31	5.47	5.64	5.81	5.98
	7.41%	3.19	3.32	3.45	3.58	3.72

Source: SWS Research

Based on our peer comparison, we see the company's current fully diluted 15E PE multiple of 15.6x are roughly in line with other wind and solar peers listed in Hong Kong. However, we believe Shunfeng's share price deserves a valuation premium over these companies, based on its likely sharp improvement in profitability in 15E and longer-term for its integrated clean energy platform strategy and proven financial and managerial track record.

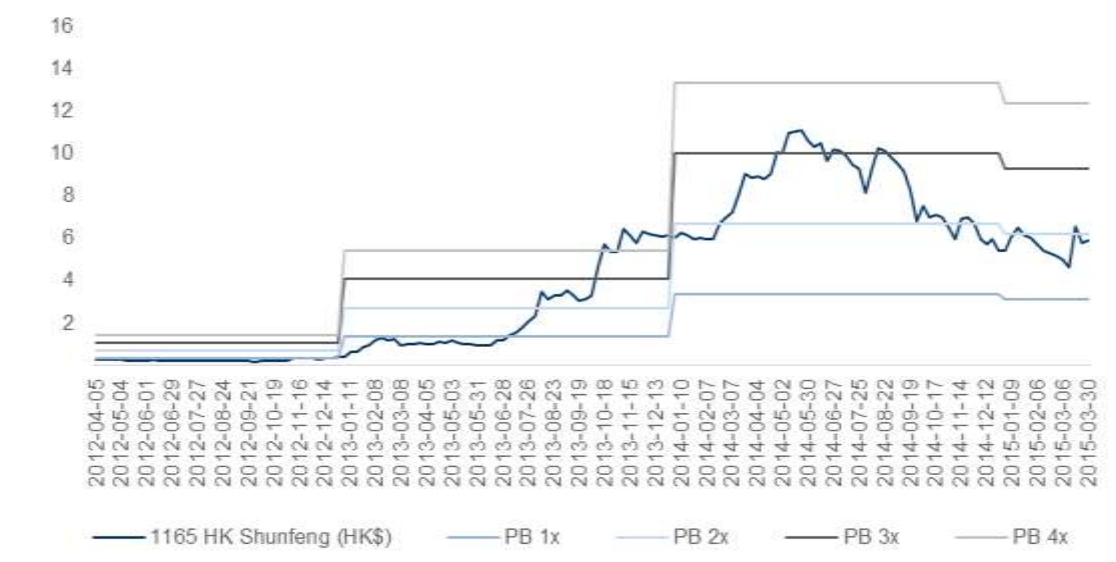
Figure 50: Peer valuation multiple comparison

Peer table analysis	Code	Basic PE (15E)	Basic PE (16E)	Diluted PE (15E)	Diluted PE (16E)	PB (15E)	PB (16E)
Wind							
Huaneng Renewable	958:HK	12.35	9.81	-	-	1.21	1.09
Concord New Energy	182:HK	7.08	6.3	-	-	0.74	0.68
China Suntien	956:HK	10.51	8.28	-	-	0.62	0.59
Longyuan	916:HK	14.57	12.71	-	-	1.46	1.34
Solar							
China Singyes	750:HK	7.56	6.47	-	-	1.61	1.29
GCL-Poly Energy	3800:HK	10.84	8.96	-	-	1.53	1.32
United PV	686:HK	22.45	11.9	-	-	1.34	0.85
Comparable companies with Convertible bonds							
Hanergy	566:HK	60.18	44.13	50.52	36.42	12.26	9.46
Shunfeng	1165:HK	6.64	6.10	15.6	16.1	1.91	1.46

Source: Bloomberg, SWS Research

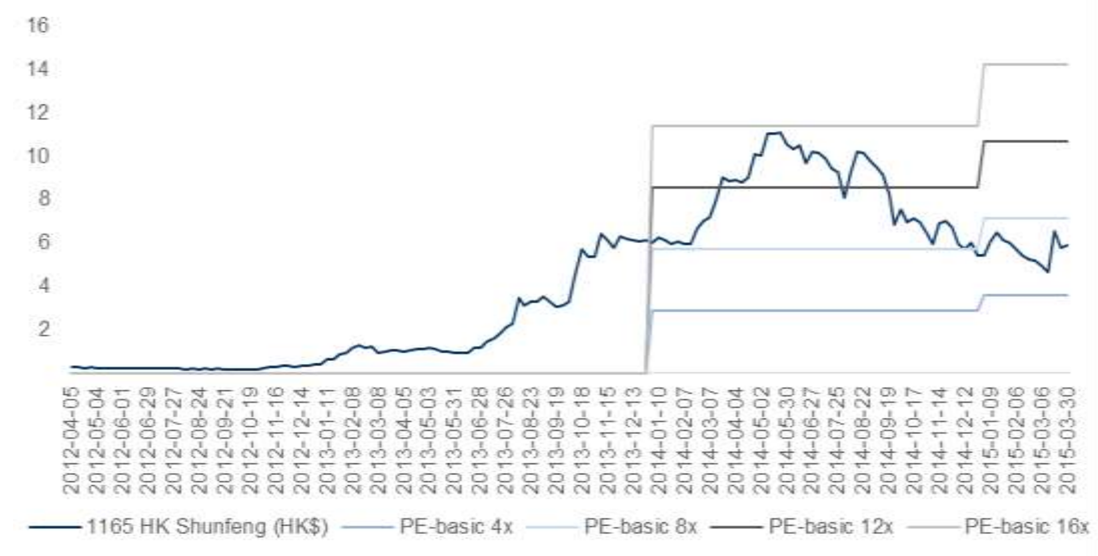
Since Shunfeng did not generate positive earnings in the two years prior to 14A, we examine the company's historical stock price from the perspective of its PB multiple. The drop in the company's forward PB valuation from the start of 2015 was due to a hike in the number of shares outstanding from conversion of the company's convertible debt.

Figure 51: Forward PB



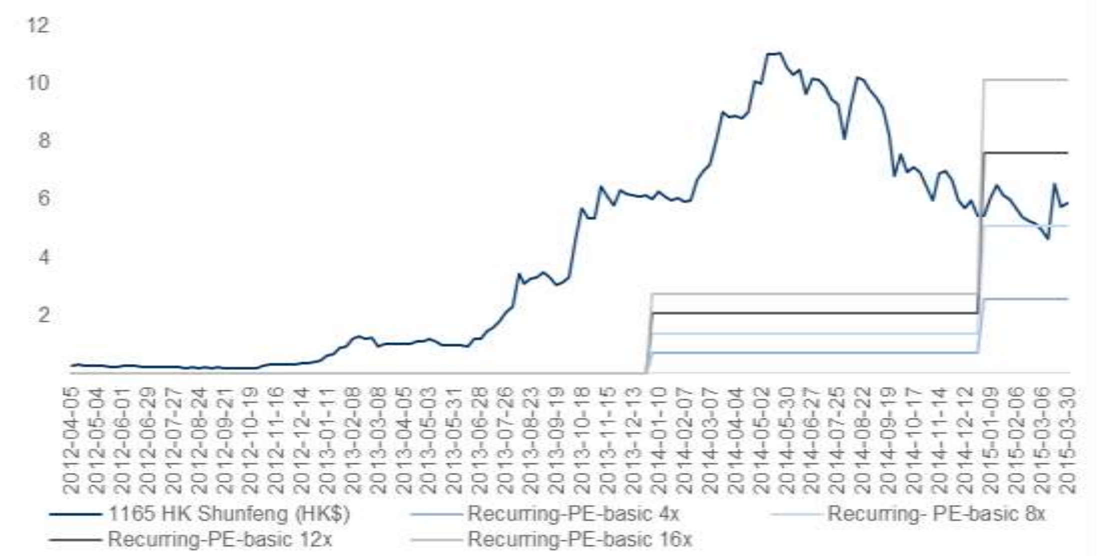
Source: SWS Research

Figure 52: Forward basic PE



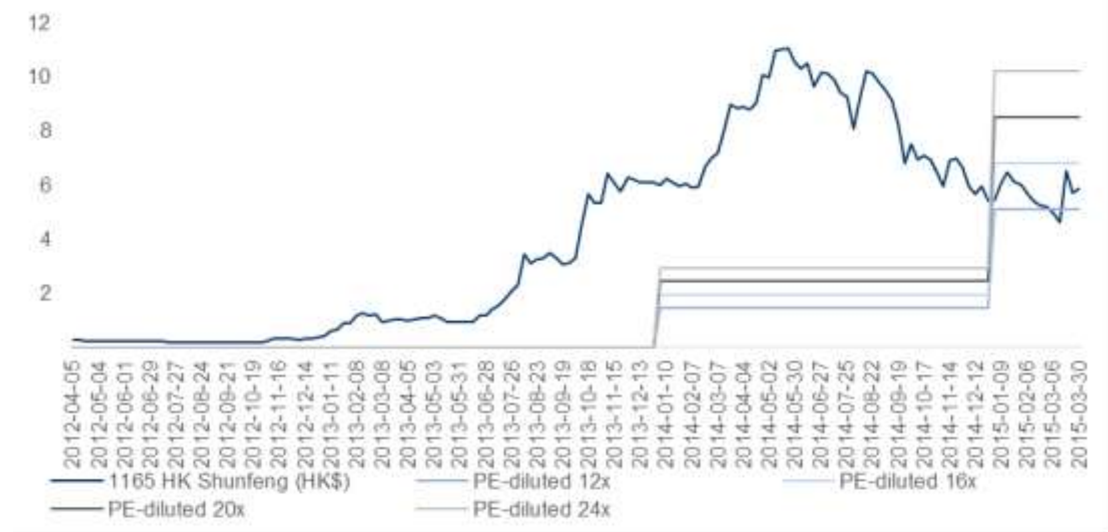
Source: SWS Research

Figure 53: Forward basic PE, stripping off one-off gains



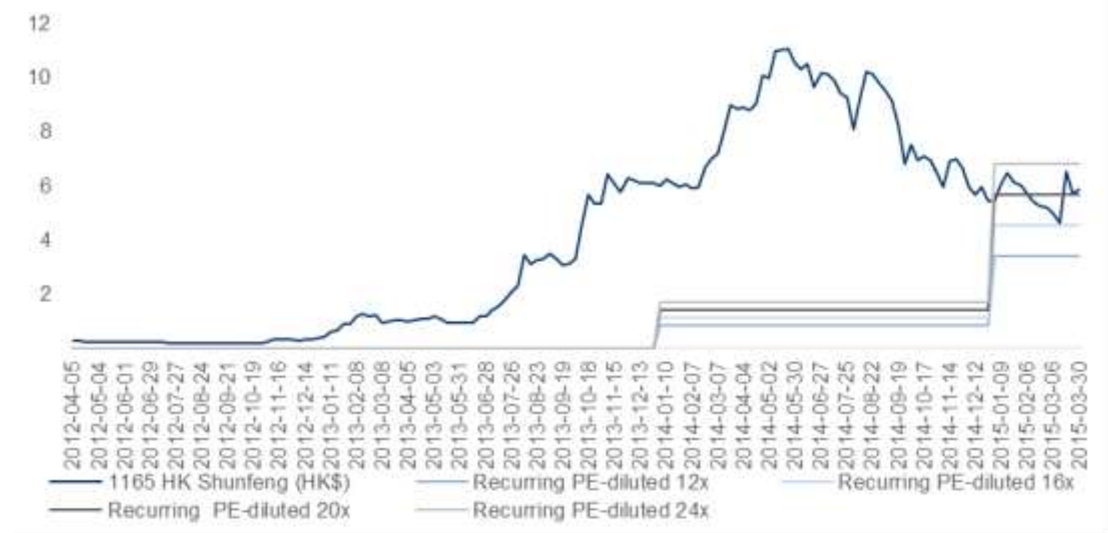
Source: SWS Research

Figure 54: Forward diluted PE



Source: SWS Research

Figure 55: Forward diluted PE, stripping off one-off gains



Source: SWS Research

Our discounted cash flow model generates a price of HK$8.35, representing a 19.8x 15E PE or 2.7x 15E PB. Stripping out one-off gains, the price represents 29.5x 15E PE. However, we set a higher price target, HK$8.6, at 20x 15E PE-diluted, as we see the company's integrated clean energy solutions strategy as generating more value, and the upside from being included within the Shanghai-Hong Kong Stock Connect. With 30% upside, we initiate coverage of the company with a BUY rating.

APPENDIX

Figure 56: Management team

Name	Position	Profile
Zhang Yi	Chairman of the Board	Over 32 years of working experience, obtained a master degree in money and banking from Shanghai University of Finance and Economics in July 1995 and Mr. Zhang is qualified as a senior economist in the PRC.
Shi Jianmin	Executive Director	Appointed on 1 September 2011,Shi is responsible for financial management of the Company. Mr. Shi has over 26 years of working experience, over 10 years of which is management experience.
Luo Xin	Executive Director	Mr. Luo has been the Chief Executive Officer of Wuxi Suntech Power Co., Ltd. since February 2014. Mr. Luo has over 20 years of management experience. Mr. Luo was appointed Executive Director on 16 July 2014 and was appointed as the Chief Executive Officer on 1 January 2015.
Wang Yu	Executive Director	Over 17 years of management experience. Yu obtained an EMBA degree from Hong Kong University of Science and Technology in 2003. Mr. Wang was appointed Executive Director on 28 November 2012.
Lei Ting	Executive Director, Vice President	Committee member of China Photovoltaic Society, a director of China Solar Energy Society, and a committee member of National Standardization Technical Committee of Photovoltaic Solar Energy Systems. He has over 14 years of working experience in the photovoltaic industry in China. Mr. Lei was appointed Executive Director on 16 July 2014.
Lu Bin	Executive Director	Mr. Lu Bin has over 17 years of working experience. Mr. Lu worked as a teacher of Shanghai International Studies University, an investigator of Inland Revenue Department of New Zealand and as a director of China Energy Oil Investment Limited. Mr. Lu is a chartered accountant of New Zealand Institute of Chartered Accountants and a member of the Hong Kong Institute of Certified Public Accountants, reappointed as the Executive Director on 16 July 2014.
Qu Hui	Deputy General Manager	He has over 8 years of working experience, over 5 years of which is management experience in the solar power industry. Hi is responsible for production quality and technological management
Tong Caixia	Head of Technological Department	Ms. Tong is responsible for technology and research and development of our Company. She has over 9 years of working experience, over 5 years of which is management and research and development experience in the solar power industry.
Tse Man Kit, Keith,	CFO, Company Secretary	Mr. Tse has been a member of Certified Practicing Accountant of CPA Australia since July 2001 and a member of Hong Kong Institute of Certified Public Accountants since February 2002.
Mo Ji Cai,	Vice President	He is responsible for finance, procurement and information technology of our Company. Mr. Mo obtained an MBA degree from the Fudan University.
Kong Yuan	Vice President	He is responsible for photovoltaic power plants operations, and development and construction of projects in Eastern and Northern parts of China. Mr. Kong obtained a Master degree in Engineering Management from Wu Han University.

Source: Company,SWS Research

Consolidated Income Statement

Rmbm	2013	2014	2015E	2016E	2017E
Revenue	1,530	5,746	16,423	18,706	21,058
Cost of Sales	-1,378	-4,474	-12,049	-13,226	-14,457
Gross Profit	151	1,272	4,374	5,480	6,601
Other Income	45	236	207	212	216
Repairs and maintenance	-16	-190	-328	-374	-421
Administrative expenses	-94	-449	-1,220	-1,321	-1,412
EBITDA	676	4,887	7,296	8,144	9,768
EBIT	-1,758	1,776	3,498	3,730	4,734
Finance Costs	-44	-322	-920	-1,339	-1,727
Profit before tax	-1,802	1,454	2,577	2,391	3,007
Income tax expense	-16	-150	-427	-275	-317
Minority interests	-2	-4	64	99	132
Profit for the year	-1,816	1,308	2,086	2,018	2,559

Source: SWS Research

Consolidated Cash Flow Statement

Rmbm	2013	2014	2015E	2016E	2017E
Profit before taxation	-1,802	1,454	2,577	2,391	3,007
Plus：Depr. and amortisation	92	555	1,787	2,433	3,111
Finance cost	44	322	920	1,339	1,727
Losses from investments	1,826	0	0	0	0
Change in working capital	558	-3,110	-834	-753	-1,531
Others	-1	-536	-427	-275	-317
CF from operating activities	717	-1,315	4,024	5,136	5,998
CAPEX	-4,026	-7,030	-17,255	-11,500	-10,089
Other CF from investing activities	-164	84	0	0	0
CF from investing activities	-4,190	-6,946	-17,255	-11,500	-10,089
Equity financing	887	903	0	0	0
Net change in liabilities	2,564	9,025	13,663	7,577	6,210
Dividend and interest paid	-100	-322	-920	-1,339	-1,727
Other CF from financing activities	315	999	0	0	0
CF from financing activities	3,667	10,605	12,743	6,238	4,484
Net cash flow	194	2,344	-488	-126	393

Source： SWS Research

Consolidated Balance Sheet

Rmbm	2013	2014	2015E	2016E	2017E
Current Assets	1,098	5,892	7,740	8,984	11,555
Bank balances and cash	208	921	433	307	699
Trade and other receivables	211	2,264	4,160	4,897	6,381
Inventories	54	915	1,113	1,484	1,972
Other current assets	625	1,792	2,034	2,297	2,502
Long-term investment	5,847	10,010	25,148	34,750	42,282

PP&E	1,441	3,467	4,258	3,723	3,168
Intangible and other assets	1,252	1762.34	1964.64	1964.64	1964.64
Total Assets	9,639	21,132	39,111	49,422	58,970
Current Liabilities	7,070	7,749	9,596	11,380	16,184
Borrowings	2,068	1,349	1,617	2,781	7,027
Trade and other payables	4,249	4,824	6,326	6,944	7,590
Other current liabilities	753	1,576	1,654	1,656	1,567
Long-term liabilities	787	7,255	22,179	28,672	30,829
Total Liabilities	7,857	15,005	31,776	40,052	47,013
Minority Interests	4	5	70	168	300
Shareholder Equity	1,777	6,122	7,266	9,202	11,657
Share Capital	17	23	28	30	30
Reserves	1,760	6,099	7,238	9,173	11,628
Equity attributable	1,777	6,122	7,266	9,202	11,657
Total Liabilities and equity	9,639	21,132	39,111	49,422	58,970

Source: SWS Research

Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (RMB)					
Earnings per share	(1.10)	0.57	0.71	0.68	0.87
Diluted earnings per share	(1.10)	0.10	0.34	0.33	0.41
Operating CF per share	0.44	-0.57	1.37	1.74	2.03
Dividend per share	0.00	0.00	0.00	0.00	0.00
Net assets per share	1.08	2.67	2.50	3.17	4.04
Key Operating Ratios(%)					
ROIC	(48.00)	15.88	13.43	9.01	9.00
ROE	(164.29)	32.98	31.95	25.34	25.23
Gross profit margin	9.89	22.13	26.63	29.30	31.35
EBITDA Margin	44.17	85.06	44.42	43.54	46.38
EBIT Margin	(114.91)	30.91	21.30	19.94	22.48
Growth rate of Revenue(YoY)	44.38	275.63	185.82	13.90	12.58
Growth rate of Profit(YoY)	874.33	(172.03)	59.51	(3.29)	26.82
Debt-to-asset ratio	81.52	71.01	81.25	81.04	79.72
Turnover rate of net assets	1.4	1.5	2.4	2.2	2.0
Turnover rate of total assets	0.3	0.4	0.5	0.4	0.4
Effective tax rate (%)	0.86	10.30	16.56	11.48	10.53
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Valuation Ratios (X)					
P/E	(4.8)	9.3	7.5	7.8	6.2
P/B	4.9	2.0	2.1	1.7	1.3
EV/Sale	7.8	3.5	2.4	2.5	2.5
EV/EBITDA	17.6	4.1	5.4	5.8	5.5

Source: SWS Research

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