Deutsche Bank
Markets Research

Rating
Sell

Asia
China

Industrials
Manufacturing

Company
Shanghai Electric Alert

Reuters	Bloomberg	Exchange	Ticker
2727.HK	2727 HK	HKG	2727
ADR Ticker	ISIN		
SIELY	US81943J1088		

Date
17 March 2015

Results

Price at 17 Mar 2015 (HKD)	4.47
Price target - 12mth (HKD)	3.20
52-week range (HKD)	4.93 - 2.70
HANG SENG INDEX	23,950

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In line FY14 results; Maintain Sell

Shanghai Electric's FY14 net profit was up by 4.9% yoy, largely in line with DBe/consensus and company guidance ("flat earnings" in 2014). It declared a cash dividend of Rmb0.059/sh, implying 30% payout, down from 40% in 2013. Looking into 2015/16, the ramp up in nuclear/wind revenue will be offset by weak performance for coal/gas/heavy machinery/exports. In particular, margin of Modern Services in 2014, will normalize after an abnormal high level. With a flat earnings outlook amid power oversupply and weak industry activities, the fundamental cannot justify a hefty valuation at 19x FY15E PE, even its A share is more expensive. Maintain Sell.

FY14 results largely in line with DBe/consensus

Shanghai Electric reported its FY14 results with revenue down 2.6% yoy (dragged by 12% decline in HECE and 11% decline in Modern services). Net profit was up 4.9% yoy to Rmb2.5bn on slight margin expansion. The results are largely in line with DBe/consensus estimates/ company guidance.

Segment performance recap

By segment, New Energy's EBIT loss narrowed to Rmb317mn from a loss of Rmb491m in 2013 due to recovery of wind turbine delivery. However, forging business still made a loss of Rmb840m (2013: Rmb1bn loss). HECE slumped by 32% in EBIT to Rmb1.3bn from Rmb1.9bn in 2013 amid the ASP decline of coal-fired equipment. Industrial equipment's EBIT increased by 4% yoy to Rmb1.7bn. Modern Services increased by 38% yoy to Rmb2bn on higher margin booked for certain overseas projects.

Overall GPM expanded by 1.3ppt to 18.7% in 2014. By segment, HECE saw margin contraction of 0.7ppt while New energy/Industrial equipment/Modern services saw 3.6ppt/0.4ppt/5.9ppt margin expansion. Looking forward, we believe margin of New energy will further improve on wind while margin of HECE will not pick up before 2016. Also, margin of Modern services may normalize in 2015 since the high margin in 2014 (16.4% vs. average of 8.6% for 2010-13) was mainly due to the completion of one power plant engineering project in Iraq as disclosed in 1Q14 results as well as some provision write-back, which may not be recurring.

Receivables still high; OCF worsened

Trade receivables stood high at Rmb27bn by end-14, up 3% yoy with receivable turnover days slowed to 124 days from 117 days in 2013. Net operating cash flow contracted to Rmb4.4bn in FY14 from Rmb7.2bn in FY13 mainly due to deteriorating accounts receivables and inventory stocking.

Limited parentco asset injection upside

Referring to the company's recent clarification on its parentco's whole group listing plan, although the parentco is likely undertaking some restructuring activities as part of SOE reform, the earnings upside from potential asset injection is limited based on our knowledge of financial and operating performance of those assets retained at parentco level.

Stock data

Market cap (HKDm)	57,322
Market cap (USDm)	7,383
Shares outstanding (m)	12,665.7
Major shareholders	Shanghai Electric Corp (59.2%)
Free float (%)	29
Avg daily value traded (USDm)	22.3

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	78,795	78,808	81,008
Net Profit (CNYm)	2,393.2	2,406.7	2,441.8
DB EPS (CNY)	0.19	0.19	0.19
PER (x)	12.2	19.0	18.7
Yield (net) (%)	3.2	2.1	2.1

Source: Deutsche Bank