

First Read

Huaneng Renewable Corporation

Result ahead; Buy on attractive valuations

Event: 2014 reported earnings up 23% to Rmb1,121m

Excluding exchange gains, penalty payments received and the reversal of impairment provisions, recurring earnings were Rmb1,061m, which was largely flat YoY. The earnings were primarily driven by an 8% decline in wind utilisation hours in 2014, which was offset by earnings contribution from newly commissioned solar farms and a lower operating expense as well as lower repair and maintenance expense. Analyst briefing will be held on 19 March at 3:00 PM HKT.

Impact: Results ahead of UBS estimates on lower costs and new solar projects

The 2014 full year results were ahead of our estimates of Rmb839m but in line with consensus. Utilisation rate for the wind segment was in-line. The earnings beat mainly came from higher-than-expected contribution from newly commissioned solar farms and lower-than-expected operating expense, which was partly offset by higher finance costs.

Action: Reiterate Buy

The underperformance of the company's share price since 2014 has provided a good entry point, in our view. We believe investors need to look through the cyclical nature of wind speeds. We think the fundamentals of the company remain strong; capacity growth should continue to be strong and grid congestion should ease further. We are expecting the company's ROE to improve to 15% in 2017E as congestion eases, but shares are still trading at 1.3x 2015E P/B.

Valuation: DCF-based price target of HK\$4.30

We use a WACC of 6.9%, explicit cash flow to 2020E, a 5% terminal growth rate, and a 7.3% ROIC.

Equities

 China
 Electric Utilities

12-month rating **Buy**
12m price target **HK\$4.30**
Price **HK\$2.64**
RIC: 0958.HK **BBG:** 958 HK

Trading data and key metrics
52-wk range HK\$3.11-2.23

Market cap. HK\$23.8bn/US\$3.07bn

Shares o/s 9,029m (ORD)

Free float 90%

Avg. daily volume ('000) 23,610

Avg. daily value (m) HK\$63.6

Common s/h equity (12/14E) Rmb14.4bn

P/BV (12/14E) 1.3x

Net debt / EBITDA (12/14E) 7.0x

EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	0.09	0.12
12/15E	0.20	0.18
12/16E	0.25	0.23

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Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	3,196	4,027	5,798	5,876	8,091	9,900	11,484	13,124
EBIT (UBS)	2,351	2,172	2,727	2,670	4,307	5,410	6,238	7,201
Net earnings (UBS)	1,170	566	1,009	839	1,801	2,400	2,811	3,354
EPS (UBS, diluted) (Rmb)	0.16	0.07	0.12	0.09	0.20	0.25	0.29	0.34
DPS (Rmb)	0.00	0.01	0.02	0.02	0.04	0.05	0.06	0.07
Net (debt) / cash	(21,165)	(27,431)	(28,998)	(34,940)	(43,943)	(51,803)	(57,130)	(61,211)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	73.6	53.9	47.0	45.4	53.2	54.6	54.3	54.9
ROIC (EBIT) %	8.1	5.9	6.5	5.7	7.8	8.3	8.4	8.8
EV/EBITDA (core) x	-	9.1	9.9	10.4	8.2	7.6	7.3	6.8
P/E (UBS, diluted) x	-	17.0	17.4	22.7	10.9	8.6	7.4	6.2
Equity FCF (UBS) yield %	-	(36.5)	(7.2)	(20.2)	(35.0)	(22.4)	(6.2)	1.5
Net dividend yield %	-	1.3	1.0	0.9	1.8	2.4	2.8	3.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$2.64 on 17 Mar 2015 22:26 HKT

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Forecast returns

Forecast price appreciation	+62.9%
Forecast dividend yield	0.9%
Forecast stock return	+63.8%
Market return assumption	9.3%
Forecast excess return	+54.5%

Statement of Risk

The company could face higher than expected turbine maintenance costs as generation equipment age and additional maintenance work needs to be carried out. Lower than expected utilisation rate of wind turbines will also reduce the company's earnings. Grid congestion will prevent the company despatching its power onto the grid, which could cause fluctuations to the company's earnings.

Adverse policy changes such as tariff cuts for new wind farms, reduction in VAT privileges, concessionary income tax treatment and special feed-in-tariffs could significantly impact the company's earnings. Lower than expected prices for the sale of carbon certified emission reduction credits (CERs), or the inability of projects to be able to register for the sale of CERs under the Clean Development Mechanism of the Kyoto Protocol (or its successors) could also change the earnings prospect of the company.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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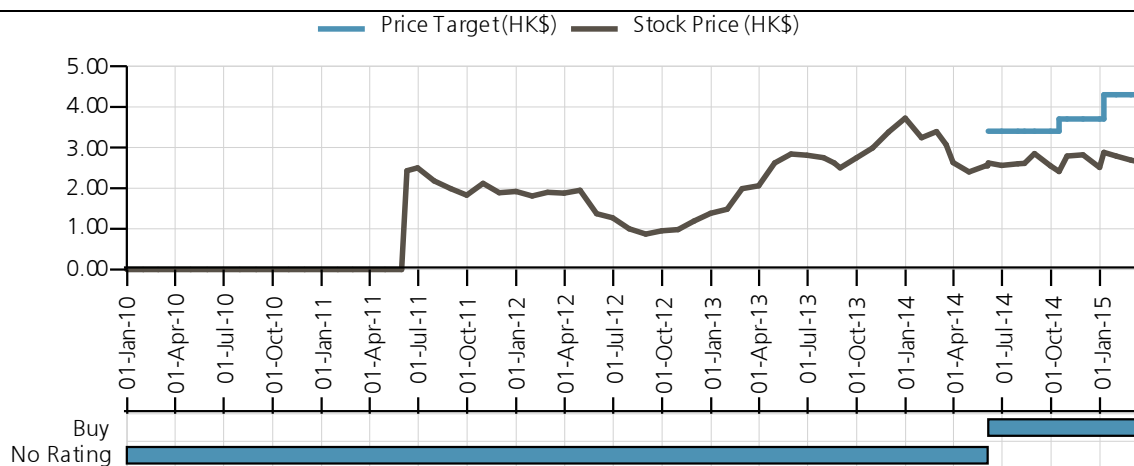
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Huaneng Renewable Corporation	0958.HK	Buy	N/A	HK\$2.64	17 Mar 2015

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Huaneng Renewable Corporation (HK\$)



Source: UBS; as of 17 Mar 2015

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