



Rating
Buy

Asia
China

Utilities
Utilities

Company
**Datang Int'l Power
Alert**

Reuters 0991.HK	Bloomberg 991 HK	Exchange HKG	Ticker 0991
ADR Ticker DIPGY	ISIN US238080Q2075		

Date
18 March 2015

Results

Price at 18 Mar 2015 (HKD)	3.76
Price target - 12mth (HKD)	4.30
52-week range (HKD)	4.57 - 2.76
HANG SENG INDEX	23,901

Taking big bath ahead of disposal

Datang's 2014 net profit of Rmb1,767m was distorted by a large amount of impairment and coal-to-chemical losses, while the core power segment recorded a 31% yoy increase in PBT. Stripping out the net impairment impact of Rmb1.86bn, recurring net profit after minorities was down 8.4% to Rmb3,630m, 18% below our estimate of Rmb4,432m, due to larger-than-expected Duolun coal-to-chemical losses on likely acceleration of depreciation. On a simple calculation, the core-power net profit was c.Rmb6.3bn in 2014. We maintain our Buy rating on the stock as we believe that the disposal of the coal chemistry business will go through despite delays and that the value of the power business will be unlocked thereafter. By applying a peer multiple of 7.5x P/E, Datang's power business should be worth HKD4.5/share. The company declared a dividend of Rmb0.13/sh, up from Rmb0.12/sh in 2013, implying a 4.3% dividend yield.

Recurring net profit 18% below due to larger-than-expected loss in Duolun

Datang's 2014 reported net profit was down 48% to Rmb1,767m. The company booked Rmb3,236m impairment mainly reflecting Rmb2,203m for fixed asset/CIP write-down and Rmb766m for bad debt. By segment, Coal Mine booked Rmb1,468m and Coal Chemistry booked Rmb1,765m. Stripping out the net of minority impact of Rmb1.93bn, recurring net profit was down 8.4% to Rmb3,696m, 18% below our estimate of Rmb4,432m mainly on worse-than-expected performance of Duolun Coal Chemical. After analyzing the performance details, we note the key reason for the variance was higher depreciation charges in 2014 of Rmb1,662m, vs. Rmb988m in 2013. As Duolun was entering into full depreciation in early 2013, we suspect the company lifted the depreciation rate in 2014.

Segment breakdown: power in sweet spot

The power segment posted a robust 31% yoy increase in PBT to Rmb12.4bn despite the Sep 2014 tariff cut and slight drop in power output (-1.6% yoy), which we believe is mainly attributable to the 9% decline in total fuel cost. We highlight a few high net profit-generation plants: Tuoketuo (Rmb1,493m), Chaozhou (Rmb1,413m), Wushashan (Rmb776m), Ningde (Rmb644m), Lvsigang (Rmb528m), Pengshui Hydro (Rmb523m), Panshan (Rmb518m), Tuoketuo II (Rmb511m), Shentou (Rmb396m) and Wangtan (Rmb369m). Nevertheless, the Coal Mine segment recorded a loss of Rmb1.52bn after booking an impairment of Rmb1.47bn, and Yunnan Power recorded a loss of Rmb536m.

10% capacity CAGR in 2014-16E; likely 3GW asset injection by Oct 2015

In 2014, the company received approval for total capacity of 2,746MW. Based on the latest project progress, we expect the company to see a 10% capacity CAGR in 2014-16, with further upside from asset injection as the parentco plans to inject the Hebei assets into Datang by Oct 2015 (DBe: 3GW eligible assets or 7% of its capacity at end-2014).

Datang will hold an analyst briefing at 9:30am, 20 Mar (5F, Island Shangri-La).

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Stock data	
Market cap (HKDm)	50,046
Market cap (USDm)	6,446
Shares outstanding (m)	13,310.0
Major shareholders	Datang Group (35.43%)
Free float (%)	27.7
Avg daily value traded (USDm)	11.6

Source: Deutsche Bank

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	75,227	70,737	67,371
Net Profit (CNYm)	3,528.8	2,502.8	5,680.8
DB EPS (CNY)	0.336	0.333	0.485
PER (x)	8.0	9.1	6.2
Yield (net) (%)	4.5	4.4	6.4

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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