

Natural Resources & Energy
 Electric Utilities
 Equity – China

Huaneng Renewables (958 HK)

Overweight (V)

Target price (HKD)	4.00
Share price (HKD)	2.60
Potential return (%)	53.8

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	-2.6	4.0	-29.5
Relative ^A (%)	-0.6	2.5	-41.2

^A Index	HSCEI
RIC	0958.HK
Bloomberg	958 HK
Market cap (USDm)	3,258
Market cap (HKDm)	25,293
Enterprise value (RMBm)	59,382
Free float (%)	43

Note: (V) = volatile (please see disclosure appendix)

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OW(V): FY14 first impression: almost in line

- ▶ **FY14 normalised net profit of RMB1,046m, up 5.7% y-o-y, 6.7% below HSBCe and 2.1% below consensus**
- ▶ **Operating cost under control**
- ▶ **Reiterate OW(V) with unchanged TP of HKD4.00 based on the average of our DCF and RoE implied PB valuations – an HSBC Asia Super Ten and GEMs Super 15 portfolio stock**

Investment thesis: Huaneng Renewables (HNR) stands to benefit from the long-term renewable theme in China. We foresee strong earnings growth from wind utilisation normalising and continued capacity expansion. HNR has superior earnings growth potential, in our view, together with a valuation discount to industry leader Longyuan (916 HK – HKD7.89; OW, TP HKD9.50).

FY14 results: HNR reported revenue of RMB6,151m, up 4%, for the full year 2014, in line with wind power generation growth of 4.8%. Net profit of RMB1,121m was up 23% in 2014; normalised net profit of RMB1,046m (excluding a RMB233.9m provision for impairment loss in 2013, a reverse impairment loss of RMB55.4m in 2014, and other one-off items) was up 5.7%, 6.7% below HSBCe and 2.1% below consensus.

Operating cost under control. Operation cost came in at RMB3,028m (after excluding impairment loss/reverse) for the full year, up 2% and below 2013 capacity growth of 14%. Repairs and maintenance cost fell 8%. **New-builds:** HNR completed a total of 1.46GW new-builds in 2014 (1.3GW wind /0.15GW solar) compared with previous guidance of 2GW (1.8GW wind and 0.2GW solar). **Net gearing** (net debt to equity) declined slightly, to 2.15x (from 2.2x at the end-1H14).

Key focuses for analyst briefing at 3pm on 19 March: Guidance on 2015 new-builds, utilisation hours, wind conditions, curtailment improvement; any possibility of a further wind tariff cut in 2015 given upcoming coal power tariff cut; outlook for post-warranty maintenance cost; time frame for implementation of Renewable Portfolio Standards.

Reiterate Overweight (V). Our unchanged target price of HKD4.00 is based on a premium to the average of DCF- and PB-derived values. Our DCF value of HKD3.66 per share uses an unchanged WACC of 5.3% (risk-free rate 3.0%, equity risk premium 6.5%, equity beta 0.6) and no terminal value. Our RoE-implied PB of 1.54x (applied to our 2015e BVPS estimate of RMB1.86), gives us a value of HKD3.62 per share (using HSBC's FX team's exchange rate forecast at the time we set our target). We average these two values and apply a 10% premium (reflecting the long-term carbon benefit). **Downside risks** to our view include lower generation output; fewer wind new-builds, and higher operation costs.

Summary of results

Huaneng Renewables						
RMBm	1H2014	2H2014	2014	HSBC 2014e	vs HSBCe	1H/FY14
Revenue (excluding other income)	2,996	3,155	6,151	6,437	-4%	49%
Y-o-y change	2.4%	6%	4%	11%		
Other net income and other gains	40	128	168	112	49%	24%
Service concession construction costs	-16	-17	-33	-355	-91%	49%
Labour costs	-93	-167	-260	-217	20%	36%
Repairs and maintenance	-21	-66	-86	-172	-50%	24%
Administration expenses	-56	-131	-187	-184	2%	30%
Other expenses	-58	-77	-136	-164	-17%	43%
Total Operating expenses	-244	-459	-703	-1,092	-36%	35%
EBITDA	2,792	2,824	5,616	5,457	3%	50%
Margin	92%	-3%	89%	83%		
Y-o-y change		18%	18%	17%		
Depreciation and amortization	-1,090	-1,180	-2,270	-2,351	-3%	48%
Y-o-y change	12%	20%	16%	22%		
EBIT	1,702	1,644	3,346	3,106	8%	51%
Margin	56.1%	-3.1%	53.0%	47.4%		
Finance income	64	13	78	113	-31%	83%
Finance costs	-1,010	-1,180	-2,189	-2,003	9%	46%
Net finance expenses	-945	-1,166	-2,112	-1,890	12%	45%
Share of profit/(loss) of an associate		-2	-2	-2	12%	
Profit before tax	756	476	1,232	1,214	1%	61%
Income tax	-47	-38	-86	-85	1%	55%
Profit for the period	709	438	1,147	1,129	2%	62%
Y-o-y change	3%	73%	22%	23%		
Profit attributable to:						
Non-controlling interests	23	3	26	35	-27%	89%
Equity holders of the company	686	435	1,121	1,094	2%	61%
Y-o-y change	2.9%	77%	23%	23%		
Normalised attributable Profit	669	377	1,046	1,094	-4%	64%
Y-o-y change	-6%	35%	5.7%			
Gross generation (GWh)	6,062	6,080	12,142	12,142		50%
Installed capacity (MW)	6,720	7,527	7,527	7,721		

Source: Company data, HSBC estimates

Disclosure appendix

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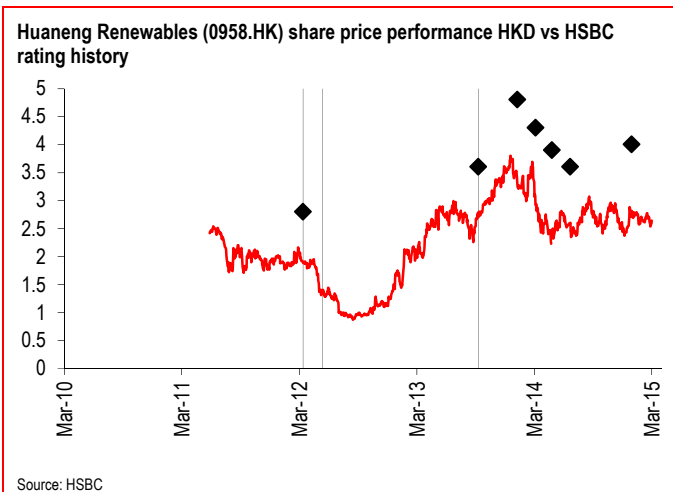
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Share price and rating changes for long-term investment opportunities



Recommendation & target price history

From	To	Date
N/A	Overweight (V)	29 March 2012
Overweight (V)	N/A	28 May 2012
N/A	Overweight (V)	24 September 2013
Target price	Value	Date
Price 1	2.80	29 March 2012
Price 2	N/A	28 May 2012
Price 3	3.60	24 September 2013
Price 4	4.80	24 January 2014
Price 5	4.30	21 March 2014
Price 6	3.90	11 May 2014
Price 7	3.60	7 July 2014
Price 8	4.00	14 January 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
HUANENG RENEWABLES	0958.HK	2.64	17-Mar-2015	4

Source: HSBC

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