

JPM-pp1

Asia Pacific Equity Research

19 March 2015

China Power International (2380 HK)

Overweight

Price: HK\$3.96

18 Mar 2015

Price Target: HK\$4.60

PT End Date: 31 Dec 2015

Core FY14 profits in line

- **Strong 2014 results, in line:** China Power International (CPI) announced 2014 results overnight. Stripping away non-core items of – Rmb247MM (mostly provision for impairment of assets and disposal loss on PPE), core pre-tax profits of Rmb 4.55Bln represented a 23% Y/Y increase, in line with consensus and the strong momentum in 1H2014 (core pre-tax profits up 25% Y/Y). The strong result was driven by improved profits from coal-fired power segments (+41% Y/Y) thanks to falling coal price, but partly offset by: (1) profit decline in hydropower segment (down 19% Y/Y) due to higher interest expenses, and (2) lower coal-fired on-grid tariffs (down 2% Y/Y).
- **Unit fuel cost decreased by 16% Y/Y** to Rmb189.5/MWh in 2014 (vs.-14.7% Y/Y in 1H14) due to falling coal prices. In particular, 2H14 unit fuel costs declined to Rmb 180 / MWh (down 18.6% Y/Y and 9% H/H).
- **Hydropower segment** suffered a 19% Y/Y decline in after-tax profits (before minority interest) to Rmb1,315MM despite a rebound in utilization hours to 3,734 hours (+9% Y/Y) and higher on-grid tariff (+3% Y/Y), mainly due to higher finance costs (Rmb1.4Bn vs. Rmb704MM in 2013) as the company further ramped up new capacities (attributable capacity increased by 434MW (or +18% Y/Y). Utilization hours recovered by 21% Y/Y in 2H2014.
- **DPS of Rmb0.17** represents a 40% payout ratio (2013: 40%) and a 5.4% dividend yield based on the current share price.
- **Our preferred pick in the space:** Share price has been relatively stagnant YTD amidst market fears of potential tariff cut in the NT. But on a relative basis, CPI is our top pick in the IPP spaces thanks to its significant exposure to hydropower (no tariff cut risks) & inland coal-fired plants (less utilization downside).
- **Analyst briefing** will be held at 3:30p.m.-4:30 p.m. on 19 Mar 2015(Thursday) Salon 5, Level 3, JW Marriott Hotel, Pacific Place, 88 Queensway, Hongkong.

Table 1: Summary of 2014 results (In RMB\$MM unless otherwise specified)

	1H12	1H13	1H14	2H12	2H13	2H14	Y/Y	2012	2013	2014	Y/Y
Turnover	9,101	9,642	10,864	8,396	9,184	9,583	4	17,497	18,827	20,447	9
Coal-fired electricity	7,406	6,966	8,380	6,639	7,919	6,987	(12)	14,046	14,885	15,367	3
Hydropower electricity	1,695	2,676	2,484	1,756	1,266	2,596	105	3,452	3,942	5,080	29
Fuel Cost	(5,231)	(4,240)	(4,474)	(4,239)	(4,767)	(3,468)	(27)	(9,470)	(9,007)	(7,942)	(12)
Repair & Maintenance	(225)	(303)	(331)	(324)	(268)	(374)	40	(549)	(571)	(705)	23
Other income/ expenses	(832)	(1,059)	(1,376)	(1,005)	(800)	(1,714)	114	(1,836)	(1,859)	(3,091)	66
Total Cash Costs	(6,288)	(5,601)	(6,181)	(5,568)	(5,835)	(5,557)	(5)	(11,856)	(11,436)	(11,738)	3
EBITDA	2,814	4,041	4,683	2,828	3,349	4,026	20	5,641	7,390	8,710	18
Depreciation	(1,007)	(1,092)	(1,349)	(1,075)	(1,117)	(1,471)	32	(2,082)	(2,209)	(2,820)	28
EBIT	1,807	2,949	3,334	1,753	2,232	2,556	14	3,560	5,182	5,890	14
Coal-fired electricity	802	1,135	1,800	986	1,232	1,087	(12)	1,788	2,368	2,888	22
Hydropower electricity	1,032	1,809	1,528	827	1,062	1,539	45	1,859	2,872	3,068	7
Others	(27)	5	6	(60)	(63)	(71)	14	(87)	(58)	(66)	14
Finance Costs	(804)	(710)	(1,319)	(768)	(737)	(995)	35	(1,571)	(1,447)	(2,314)	60
Associate/JCE Results	24	227	347	116	273	380	39	140	500	727	45
EBT	1,028	2,466	2,362	1,101	1,768	1,940	10	2,129	4,234	4,303	2
Taxation	(247)	(383)	(248)	(200)	(576)	(412)	(28)	(447)	(959)	(660)	(31)
Profit for the year	780	2,083	2,114	901	1,192	1,528	28	1,681	3,275	3,643	11
Coal-fired electricity	368	836	1,499	658	863	894	4	1,027	1,699	2,394	41
Hydropower electricity	442	1,234	611	328	397	705	77	769	1,631	1,316	(19)
Others	(30)	13	4	(85)	(68)	(71)	5	(115)	(55)	(67)	21
Minority interests	(233)	(682)	(496)	(268)	(303)	(381)	25	(500)	(986)	(877)	(11)
Net profit	548	1,401	1,618	633	889	1,148	29	1,181	2,290	2,766	21
EPS (Basic)	0.11	0.25	0.25	0.11	0.15	0.17	13	0.22	0.40	0.42	5
DPS	-	-	-	0.09	0.16	0.17	5	0.09	0.16	0.17	5
Margins											
EBITDA margin	31%	42%	43%	34%	36%	42%	5.5	32%	39%	43%	3.3

EBIT margin	20%	31%	31%	21%	24%	27%	2.4	20%	28%	29%	1.3
Net margin	6%	15%	15%	8%	10%	12%	2.3	7%	12%	14%	1.4
Effective tax rate	24%	16%	11%	18%	33%	21%	(11.3)	21%	23%	15%	(7.3)
Dividend Payout ratio	0%	0%	0%	82%	107%	99%	(7.8)	41%	40%	40%	0.0

Operational data

Net power generation (GWh)	25,616	27,008	31,314	23,587	25,787	27,643	7	49,203	52,795	58,957	12
Net coal-fired generation (GWh)	19,679	18,281	22,628	17,517	21,571	19,282	(11)	37,196	39,852	41,910	5
Net hydro-power generation (GWh)	5,937	8,727	8,589	6,069	4,216	8,260	96	12,006	12,943	16,850	30
Unit fuel cost (RMB/MWh)	266	232	198	242	221	180	(19)	255	226	190	(16)
Coal-fired power tariff (RMB/MWh)	376	381	370	379	367	362	(1)	377.61	374	367	(2)
Hydro power tariff (RMB/MWh)	277	281	286	289	300	314	5	278.87	289	296	3

Source: Company data, J.P. Morgan estimates.

Investment Thesis

CPI's principal business is to develop, construct, own, operate and manage large power plants. As of the end of 2013, the Group's total attributable installed capacity was approximately 14,822MW, of which the hydro power installed capacity is approximately 2,479MW (including minor wind power). Our bullish view rests on its high exposure to inland regions and upside on hydro utilization.

Valuation

Our Dec-15 PT of HK\$4.60 is based on a 10-year DCF assuming a WACC of 6.9%, plus a 10% discount in light of the potential regulatory risks of IPP tariff cuts and contract coal elimination. Our DCF assumes long-term average power demand growth of 3% pa.

Risk-free rate: 5.2%

Market risk premium: 6.8%

Beta: 0.7

Debt/equity: 1.5

Cost of debt: 6.5%

Terminal "g": 2.0%

Risks to Rating and Price Target

Downside risks include potential tariff cuts and contract coal elimination.

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
06-Aug-10	N	1.70	1.86
15-Feb-11	N	1.55	1.60
22-Feb-12	N	2.06	2.10
24-Mar-12	N	1.68	2.00
20-May-12	N	1.66	2.10
20-Aug-12	N	2.18	2.10
07-Feb-13	N	2.84	2.70
21-Mar-13	N	2.48	2.70
12-Jul-13	OW	2.73	3.40
18-Aug-13	OW	2.87	3.90
16-Oct-13	OW	3.01	4.00
15-Aug-14	OW	3.24	4.20
19-Dec-14	OW	3.55	4.80
11-Feb-15	OW	3.72	4.60

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