

Huaneng Renewables Corporation [0958.HK]

2014 earnings in line; Expect positive guidance from analyst meeting

Huaneng Renewables (HNR)'s reported net profit in 2014 came in at RMB1,121m. Excluding RMB100m one-off items (reversal of impairment loss and penalty income from suppliers), core net profit was RMB1,021m (+5% YoY), in line with our estimate of RMB1,007m. The result implied a 27% earnings growth YoY in 2H14, driven by a recovery of wind power utilization in Q4 14 and increased contribution from solar power generation. HNR declared dividend of RMB0.02 per share, suggesting a 17% pay-out ratio. We continue to like HNR's fast growing installation and we are expecting more positive guidance during the analyst meeting tomorrow. Maintain **BUY**.

- 2014 operating highlights.** Wind power utilization hours in 2014 dropped 8% YoY to 1,875 hours but have been well expected. Wind power installation addition of 1.3GW in 2014, though below the company target of 1.8GW, is within our expectation. For solar power, HNR added 155MW new capacity during the year (versus target of 200MW). Wind power on-grid tariff increased slightly to RMB0.598/kWh in 2014 from RMB0.594 in 2013.
- Recovery in 2H14.** HNR's total power generation in 2H14 increased by 18% YoY, driven by a strong rebound of wind speed in Q4 14 as well as significant increase in solar power generation. Revenue from electricity sales increased by 22% YoY. The higher revenue growth was mainly due to the much higher on-grid tariff for solar power than that for wind power.
- Analyst briefing on March 19 (tomorrow) at 3:00 p.m. HK time.** Venue: Tian Shan & Lu Shan Room, 5/F, Island Shangri-la, Pacific Place, Supreme Court Road, Central, Hong Kong.
- Risks:** (1) Capacity ramp-up risk; (2) unexpected decline in wind speed; (3) high gearing; (4) delay in power transmission line construction.

Wind Power Sector

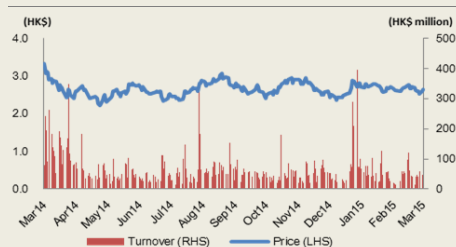
BUY

(Unchanged)

Close: HK\$2.64 (Mar 17, 2015)

Target Price: HK\$3.30 (+25%)

Share Price Performance



Market Cap	US\$3,320m
Shares Outstanding	9,728m
Auditor	KPMG
Free Float	43%
52W range	HK\$2.16-3.84
3M average daily T/O	US\$7m
Major Shareholding	Huaneng Group (56.9%)

Wayne Fung, CFA —Analyst

(852) 3698-6319

waynefung@chinastock.com.hk

Wong Chi Man, CFA—Head of Research

(852) 3698-6317

cmwong@chinastock.com.hk

Figure 1: 2014 results highlights

Results Highlights	1H13	1H14	YoY chg	2H13	2H14	YoY chg	2013	2014	YoY chg	Comment
Income Statement (RMB m)										
Revenue	2,867	2,996	5%	2,931	3,155	8%	5,798	6,151	6%	Revenue is in line with expectation.
Sales of electricity	2,865	2,979	4%	2,574	3,135	22%	5,440	6,114	12%	Power generation increased by 9.3% YoY in 2014. The higher revenue growth was due to higher tariff of solar power generation. Strong growth is reported in 2H14.
Service concession construction revenue	0	16	n/a	355	17	-95%	355	33	-91%	
Others	1	1	-58%	1	3	178%	2	4	50%	
Other net income	44	40	-11%	35	128	271%	79	168	112%	
Income from CDM projects	0	0	n/a	0	0	n/a	0	0	n/a	
Government grants	44	39	-11%	35	76	119%	78	115	47%	
Others	1	1	1%	(0)	52	n/a	0	53	11509%	This included RMB44m of penalty income from suppliers (one-off).
Operating expenses	(290)	(244)	-16%	(928)	(459)	-51%	(1,217)	(703)	-42%	
Service concession construction costs	0	(16)	n/a	(355)	(17)	-95%	(355)	(33)	-91%	
Labour costs	(73)	(93)	27%	(132)	(167)	27%	(205)	(260)	27%	
Admin expenses	(59)	(56)	-4%	(88)	(131)	49%	(146)	(187)	28%	
Repairs & maintenance	(18)	(21)	11%	(72)	(66)	-9%	(91)	(86)	-5%	
Others	(139)	(58)	-58%	(280)	(77)	-72%	(420)	(136)	-68%	The substantial decline in other cost was due to impairment loss on CDM in 2013.
EBITDA	2,621	2,792	6%	2,038	2,824	39%	4,659	5,616	21%	
Adjusted EBITDA	2,577	2,752	7%	2,003	2,696	35%	4,580	5,448	19%	
D&A	(962)	(1,090)	13%	(970)	(1,180)	22%	(1,931)	(2,270)	18%	
EBIT	1,659	1,702	3%	1,068	1,644	54%	2,728	3,346	23%	
Adjusted EBIT	1,615	1,662	3%	1,034	1,516	47%	2,649	3,178	20%	
Net finance expenses	(946)	(945)	0%	(794)	(1,166)	47%	(1,740)	(2,112)	21%	
Finance income	50	64	30%	162	13	-92%	211	78	-63%	Finance income in 2013 included RMB151m gains on equity securities.
Finance expenses	(996)	(1,010)	1%	(956)	(1,180)	23%	(1,951)	(2,189)	12%	
Share of profit/(loss) of JV and associates	0	0	n/a	(3)	(2)	-44%	(3)	(2)	-44%	
Pretax profit	713	756	6%	271	476	76%	984	1,232	25%	
Income tax	(44)	(47)	6%	(23)	(38)	69%	(67)	(86)	28%	Effective tax rate at 6.9% (largely the same as that in 2013)
After tax profit	669	709	6%	248	438	76%	917	1,147	25%	
Profit from discontinued operation	0	0	n/a	0	0	n/a	0	0	n/a	
After tax profit	669	709	6%	248	438	76%	917	1,147	25%	
Minority interest	(23)	(23)	0%	(7)	(3)	-57%	(29)	(26)	-13%	
Net profit	646	686	6%	242	435	80%	888	1,121	26%	
Exceptional item	(47)	18	n/a	(36)	37	n/a	(83)	100	n/a	
Recurring net profit	693	668	-4%	278	353	27%	971	1,021	5%	Recurring net profit is adjusted for impairment and one-off items
Recurring EPS (RMB)	0.082	0.074	-10%	0.033	0.039	19%	0.113	0.113	0%	
EPS (RMB)	0.076	0.076	-1%	0.029	0.048	68%	0.104	0.124	20%	

Note: Figures for 2013 are not restated here

Sources: Company, CGIHK Research

Figure 2: HNR quarterly power generation

Power generation (GWh)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Wind power								
Inner Mongolia	727	718	879	772	539	744	572	942
Liaoning	539	625	393	558	398	533	340	786
Shandong	405	533	256	485	441	478	215	553
Yunnan	467	293	99	268	475	412	123	537
Shanxi	254	242	117	275	270	291	143	396
Hebei	130	151	83	159	124	140	73	167
Guizhou	183	136	178	96	178	143	182	173
Guangdong	121	111	80	172	143	104	53	177
Xinjiang	66	120	112	72	117	174	120	123
Shanghai	33	31	31	35	37	25	23	31
Jilin	21	32	24	31	20	29	20	35
Shaanxi	7	8	7	6	9	8	8	10
Sichuan	0	0	0	0	0	0	8	35
Wind total	2,954	2,999	2,259	2,929	2,751	3,082	1,878	3,963
Solar								
Solar total	-	-	-	1	64	165	144	130
Total	2,954	2,999	2,259	2,929	2,816	3,247	2,022	4,093
(Change YoY)								
Wind power								
Inner Mongolia	87%	67%	89%	27%	-26%	4%	-35%	22%
Liaoning	26%	24%	12%	-12%	-26%	-15%	-14%	41%
Shandong	53%	25%	8%	2%	9%	-10%	-16%	14%
Yunnan	39%	40%	57%	-17%	2%	41%	24%	100%
Shanxi	209%	75%	32%	8%	6%	21%	22%	44%
Hebei	56%	46%	22%	10%	-5%	-7%	-13%	5%
Guizhou	598%	277%	67%	-43%	-2%	5%	2%	79%
Guangdong	31%	50%	31%	5%	18%	-6%	-33%	3%
Xinjiang	39%	12%	11%	-16%	76%	45%	7%	70%
Shanghai	8%	24%	-4%	-1%	13%	-17%	-26%	-9%
Jilin	111%	4%	-1%	24%	-2%	-9%	-20%	11%
Shaanxi	4309%	249%	80%	-3%	35%	0%	17%	62%
Sichuan	-	-	-	-	-	-	-	-
Wind average	65%	44%	41%	0%	-7%	3%	-17%	35%
Solar								
Solar average	-	-	-	-	-	-	-	10755%
Average	65%	44%	41%	0%	-5%	8%	-11%	40%

Sources: Company, CGIHK Research

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BUY : share price will increase by >20% within 12 months in absolute terms

SELL : share price will decrease by >20% within 12 months in absolute terms

HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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Room 3501-3507, 35/F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.