



Rating
Buy

Asia
China

Utilities
Utilities

Company
**China Power Int'l
Alert**

Reuters 2380.HK	Bloomberg 2380 HK	Exchange HKG	Ticker 2380
ADR Ticker CPWIY	ISIN US16945S1024		

Date
19 March 2015

Results

Price at 19 Mar 2015 (HKD)	3.96
Price target - 12mth (HKD)	4.70
52-week range (HKD)	4.41 - 2.63
HANG SENG INDEX	24,120

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Stock data	
Market cap (HKDm)	26,598
Market cap (USDm)	3,428
Shares outstanding (m)	7,287.4
Major shareholders	CPI Holding (64.1%)
Free float (%)	35.9
Avg daily value traded (USDm)	11.8

Source: Deutsche Bank

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	18,827	19,997	21,217
Net Profit (CNYm)	2,289.9	2,619.2	2,867.5
DB EPS (CNY)	0.282	0.359	0.393
PER (x)	7.9	8.9	8.1
Yield (net) (%)	7.2	4.9	5.4

Source: Deutsche Bank

FY14 results beats; re-rating to continue after 10 years of listing

CPI's 2014 recurring NP was up by 44% and 19% above DBE on higher than expected UFC decline. During results briefing, management guided an over 5% unit fuel cost (UFC) decline in 2015 and sustainable dark spread even under potential tariff cut. In addition to a strong pipeline of highly profitable large-scale units, there is substantial upside from parentco asset injection (eligible assets 3x the current size of listco). We reiterate Buy on the stock for its attractive valuation (8.0x 15E PE and 0.9x P/B), lucrative dividend yield (5.4%), strong organic growth and near-term catalysts from asset injection.

FY14 recurring NP up by 44% yoy; beat

CPI's FY14 net profit was up by 14% yoy to Rmb2,766m, with 68% contributed by coal-fired and 32% from hydro/wind. Excluding one-off disposal loss of Rmb209m and asset impairment of Rmb258m (vs. Rmb772m disposal gain and Rmb607m impairment in 2013), recurring net profit was up by 44% yoy to Rmb3,116m, or 19% higher than our estimate of Rmb2,619m. CPI declared a dividend of Rmb0.168/share, implied a 5.4% dividend yield. Net gearing (net debt/total equity) recorded a 28ppt improvement to 158%.

>5% UFC decline in 2015 to sustain dark spread even with potential tariff cut

In 2014, the 16.2% unit fuel cost decline is likely the highest among the peers, (CR Power 12.6%), which improved its dark spread margin to Rmb177/MWh (from Rmb147.5/MWh in 2013). Looking into 2015, management is confident to achieve over 5% yoy decline based on the current contract coal signed (c.80% volume). While confirming a potential tariff cut is being reviewed by the government, management advises the timing may be postponed (from 1 April) and believes the 2015 dark spread will be similar to 2014. For utilization, thermal retreated by 567hrs in 2014 to 4,431hrs while hydro increased by 298hrs to 3,734hrs on good rainfall condition last year. CPI expects a flat or a mild decline in 2015's thermal utilization. For hydro, the commission of Baishi and Tuokou plants in the upstream of river has enhanced the stability of utilization on better dispatch coordination with units in the downstream.

Capacity to double by 2020E: strong pipeline and asset injection potential

In 2015, CPI guides attributable capacity of 16.3GW (+1.3GW or 9%), thanks to the addition from 1) Anhui Pingwei III (2x1000MW, 60% owned), scheduled to start-up in Jun and Sept 2014 and 2) 160MW wind and hydro. The company targets to reach 30GW of attributable capacity by 2020E, indicating another 13% CAGR during 2015-2020E. Key projects in 2016-17 including Guizhou Pu'an (2x660MW, just approved); and Shanxi Shentou expansion II (2x1000MW, likely to receive approval in 2015). Besides, management reiterated their strong asset injection potential as parentco has a strong asset portfolio. We have identified 44GW of eligible conventional thermal and hydro assets, which is three times the current listco capacity of 15GW. For more details, please refer to our note "China IPPs - Multiple catalysts in 2015, Maintaining Buy" published on 11 Nov 2014.

Deutsche Bank AG/Hong Kong

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