



Rating
Sell

Asia
China

Utilities
Utilities

Company
CGN Power Alert

Reuters 1816.HK Bloomberg 1816 HK Exchange HKG Ticker 1816

Date
19 March 2015

Results

Price at 19 Mar 2015 (HKD)	3.21
Price target - 12mth (HKD)	2.90
52-week range (HKD)	3.62 - 3.07
HANG SENG INDEX	24,120

Michael Tong **Yingying Dong, CFA**
 Research Analyst Research Associate
 (+852) 2203 6167 (+852) 2203 6207
 michael.tong@db.com yingying.dong@db.com

Yuxiao Peng, CFA
 Research Analyst
 (+852) 2203 6235
 yuxiao.peng@db.com

Reiterate Sell after results briefing update

CGN's 2014 results came as no surprise - recurring net profit of Rmb5,387m is in line with our forecasts of Rmb5,352m. Key takeaways from the briefing confirm our concerns including (i) guidance of Taishan operation is too aggressive and tariff remains uncertain (ii) utilization downtrend due to power oversupply and (iii) tariff downside from thermal tariff cut. We reiterate Sell on CGN with a target price of HK\$2.9 given its expensive valuation (19.2x 15E PE). Please refer to our F.I.T.T report "Risk Reality Check" on 1 January for more details. In China's clean energy space, we prefer 1) Huadian Fuxin (0816.HK, Buy, current price 3.54HKD), a diversified power play with rising nuclear exposure but at cheaper valuation (8.0x 15E PE) despite stronger earnings growth, and 2) Huaneng Renewable (958 HK, Buy, current price 2.73HKD), a pure wind play on strong earnings growth due to improvement in wind conditions and faster capacity growth.

In-line overall recurring earnings; Ningde/Hongyanhe fell below expectation

Reported earnings increased up by 36% yoy to Rmb5,713m. Stripping out the net FX gains (Rmb609m), fair value loss (Rmb371m) and disposal gain (Rmb116m), recurring earnings was up by 33% to Rmb5,387m, in line with our forecasts of Rmb5,352m. While the generation of Daya Bay is slight above, profit from Ningde and Hongyanhe fell below even after excluding the impact of unplanned outage for Ningde and low utilization for Hongyanhe.

Tariff downside for new units due to potential thermal tariff cut

Although nuclear tariff of operating units should not be changed in the event of thermal tariff change, potential thermal tariff cut in mid 2015 suggests tariff downside for their new units to be commissioned from 2H15, e.g. Ningde 3-4 and Hongyanhe 4. Currently, thermal tariff of Liaoning (Rmb404.4/MWh) and Fujian (Rmb437.9/MWh) are already below or close to the nuclear benchmark tariff of Rmb430/MWh. A likely tariff cut of Rmb2cents/KWh will suggest similar downside to nuclear tariff of new units, as the government set the nuclear tariff using the lower between Rmb430/MWh and provincial on-grid thermal tariff when the unit enters into operation.

Taishan timeline remains challenging; limited NPV upside from HYH 5/6

For Taishan unit 1-2, the guidance of start-up time is maintained at 1H16 and 2H16. Management targets to start cold testing for unit 1 after the completion of system testing (in Mar to April). Based on prior experiences from GII+ units, we found normally it needs 12-17 months from cold testing to operation. Assuming the cold testing starts in May 2015, CGN could barely fulfill the 1H16 start-up timeline for unit 1. Moreover, we think operation of unit 2 in 2H16 is even more difficult to achieve given the longer interval between unit 1 and 2 than 10 months designed. On 10 Mar 2015, Hongyanhe unit 5-6 (38.2% owned) was approved by the NDRC. Based on 1) Rmb27.98bn investment cost disclosed in its EIA report (Rmb12.6m/MW); 2) c.6500hrs of utilization (vs. 5,881-6,558hrs recorded by unit 1-2 in 2014) and 3) Rmb404/MWh tariff, we estimated NPV upside as only 1.4% to our current target price.

Stock data	
Market cap (HKDm)	145,890
Market cap (USDm)	18,805
Shares outstanding (m)	45,448.8
Major shareholders	-
Free float (%)	26.5
Avg daily value traded (USDm)	26.1

Source: Deutsche Bank

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	17,365	19,448	21,642
Net Profit (CNYm)	4,194.5	5,352.4	6,181.2
DB EPS (CNY)	0.153	0.118	0.136
PER (x)	-	21.9	19.0
Yield (net) (%)	-	2.4	1.7

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Deutsche Bank does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. FOR OTHER IMPORTANT DISCLOSURES PLEASE VISIT <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=1816.HK> MCI (P) 148/04/2014.