



Rating
Buy

Asia
China

Utilities
Utilities

Company CR Power Alert

Reuters 0836.HK	Bloomberg 836 HK	Exchange HKG	Ticker 0836
ADR Ticker CRPJY	ISIN US16943S1042		

Date
19 March 2015

Results

Price at 19 Mar 2015 (HKD)	19.70
Price target - 12mth (HKD)	23.10
52-week range (HKD)	24.50 - 18.22
HANG SENG INDEX	24,120

Deserve a re-rating with large coal impairment behind; Buy

CR Power's FY14 recurring earnings were up by 9% and in line with DBE. After booking a HKD5.8bn impairment on coal-mines, management said they do not expect any further "significant" impairment in the next two years. Blaming overpaying for acquisition of coal mines and arising corporate governance issues, the stock has been significantly de-rated despite strongest balance sheet and capacity pipeline among peers. As we see the coal mine impairment as largely behind us with coal price stabilizing relative to sharp fall over the last two years, the stock should re-rate from the basis of a historically lowest PE and highest dividend yield. Although it lacks asset injection upside, CR Power is best positioned for the forthcoming liberalization of power retail market, thanks to its more market-oriented corporate culture and potential cooperation with CR Gas – an established national gas retailer. Buy.

FY14: impairment reduced earnings by HKD4.4bn; recurring was in line

CR Power reported its FY14 results with net profit down 16.3% to HKD9,215m on HKD6,094m of impairment in 2014 including HKD5,807m for subsidiary coal mines and HKD287m for power assets, reducing NP by HKD3,273m. Besides, its impairment on associates level caused another HKD1,093m deduction. By stripping out other one-offs including fair value gain (HKD576m), equity investment sales gain (HKD276m) and FX loss (HKD114m), recurring net profit was up by 9% to HKD12.9bn, in line with our recurring earnings estimates of HKD12.7bn. By segment, coal-fired contributed HKD18.7bn of operating profit (+29% yoy); renewable HKD2.47bn (+21%) while coal mining dragged HKD6.4bn loss (vs. HKD0.3bn profit in 2013). The company declared a HKD0.7/share dividend, up from HKD0.67/share in 2013.

Conservative 2015 guidance – learning lessons from the past

CR Power saw 12.6% yoy unit fuel cost (UFC) drop in 2014. Management guided for only 1% decline in 2015 UFC based on a flat coal price assumption and 1% improvement in coal consumption rate. We reckon this is extremely conservative given the spot coal price is already 8% below 2014 average, and management was conservative last year with guided 3-4% decline. In our view, management's conservative guidance on coal is a result of the continued miss of coal production in 2011-13. On the utilization front, CR Power projects 5,050hrs for thermal (vs. 5,325hrs in 2014). Direct power supply will still account for a limited 5.8% of CR Power's total volume in 2015 (4.7% in 2014).

9.4% capacity CAGR in 2014-17E; 2015 capex down 11% to HKD22.4bn

In 2015/16/17E, CR Power targets to achieve 35.5GW/37.6GW/41.0GW of attributable capacity, indicating a 9.4% capacity CAGR in 2014-17E. New capacity will mainly come from 1) 7.1GW of coal-fired projects: Henan Jiaozuo (660MW), Hebei Bohai(700MW), Guangdong Haifeng (2000MW), Guizhou Liuzhi (1320MW), Hebei Caoheidian (1800MW, 90% stake) and Liaoning Jinzhou (660MW, 50% stake); 2) 0.8-1.0GW wind capacity addition p.a. and 3) 20MW of solar in 2015. 2015 capex budget was HKD22.4bn (-11% yoy).

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

Stock data	
Market cap (HKDm)	94,392
Market cap (USDm)	12,167
Shares outstanding (m)	4,791.5
Major shareholders	C R Holdings (72.2%)
Free float (%)	27.8
Avg daily value traded (USDm)	17.2

Source: Deutsche Bank

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	69,582	70,696	78,053
Net Profit (HKDm)	11,015.5	11,597.4	13,184.5
DB EPS (HKD)	2.486	2.631	2.740
PER (x)	8.0	7.5	7.2
Yield (net) (%)	3.8	4.0	4.5

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=0836.HK> MCI (P) 148/04/2014.