

Industrials  
 Electric Utilities  
 Equity – China

## Neutral (V)

Target price (HKD)	3.70
Share price (HKD)	3.23
Potential return (%)	14.6

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	3.2	-6.6	
Relative <sup>A</sup> (%)	5.2	-10.6	

Index <sup>A</sup>	HSCEI
RIC	1816.HK
Bloomberg	1816 HK
Market cap (USDm)	18,907
Market cap (HKDm)	146,799
Enterprise value (CNYm)	162956
Free float (%)	22

Note: (V) = volatile (please see disclosure appendix)

## 19 March 2015

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# CGN Power Co Ltd (1816 HK)

N(V): FY14 results in line with consensus

- ▶ **FY14 normalised attributable net profit of RMB5,408m, up 35% y-o-y, in line with consensus and 6% below HSBCe**
- ▶ **Unchanged guidance for four projects' commission time; expects Taishan acquisition to complete by March 2015**
- ▶ **Remain N(V) with unchanged target price of HKD3.70 based on the average of DCF and RoE-implied PB valuations**

**Investment case:** CGN Power is a rare defensive stock in the China market and unique as a pure nuclear power owner and operator. We expect progress on new plant commissioning to be the key stock driver. We think government support and industry growth justify premium-to-peer multiples, but we see the stock as fully valued.

**FY14 result:** CGN reported FY14 attributable net profit of RMB5,713m, up 36% y-o-y; normalised attributable net profit was RMB5,408m (after excluding derivative loss and other gain and loss), up 35% y-o-y, in line with consensus and 6% below HSBCe. **Net gearing** (net debt/ (net debt + equity) is at reasonable level at 46.8% by the end of FY14 after the IPO.

**Key takeaways from the analyst briefing:** 1) Unchanged guidance for the **commissioning time** for four new projects in 2015 (Hongyanhe 3# in 1H15; and Yangjiang 2#, Ningde 3# / 4#, Hongyanhe 4# in 2H15) ; 2) **Taishan project** is on track approaching the end of installation (85% completed) and ready for trial process. Tariff for Taishan project is not confirmed and still in discussion with the NDRC; 3) **Utilisation hours** for newly commissioned projects in 2014 is 6,939, which is lower than those of matured units of 7,793, mainly due to major outages; 4) **Nuclear tariffs** for the existing operational units are unlikely to be adjusted down with the linking of nuclear tariffs to lower coal tariffs. This may have an impact on future new project, i.e. Fangchengang nuclear project developing under CGN's parent.

**Valuation:** Our TP of HKD3.70 is based on the average of two methodologies: DCF valuation of HKD3.81 (using a WACC of 4.84%) and RoE-implied PB valuation of HKD3.41 based on FY15e BVPS and a 2.1x multiple derived from FY16e RoE of 13.4% divided by CoE of 6.5%. **Upside / downside risks** in the short term are on-time / on-budget completion of new units; and in the long term, the adequacy of provisioning for spent fuel and decommissioning. A major nuclear accident could have a material impact on earnings and valuation. **Catalysts** could include setting the tariff level for generation III projects; removing the linking of nuclear tariffs to coal tariffs; refinancing debt; completion milestones for new plants; further nuclear project acquisitions from the parent and project life extension.

Consolidated profit and loss

	1H2014	2H2014	FY14	yoy	HSBC FY14e	vs HSBCe	2H / FY14
<b>Revenue</b>	<b>9,754</b>	<b>11,039</b>	<b>20,793</b>	<b>20%</b>	<b>19,791</b>	<b>5%</b>	<b>53%</b>
Less: Tax surcharge	(121)	(183)	(304)	19%	(291)	4%	60%
Cost of sales and services	(4,496)	(5,903)	(10,399)	16%	(10,076)	3%	57%
<b>Gross profit</b>	<b>5,137</b>	<b>4,953</b>	<b>10,090</b>	<b>24%</b>	<b>9,424</b>	<b>7%</b>	<b>49%</b>
% margin	53%	-4%	49%		48%		
Other income	989	811	1,799	19%	1,644	9%	45%
(Loss) gain arising from changes in fair value of derivative financial instruments	(109)	(262)	(371)	-336%	(280)	32%	
Selling and distribution expenses	(2)		(4)	-1%	(5)	-13%	62%
Other expenses	(38)	(185)	(223)	27%	(99)	126%	83%
Administrative expenses	(584)	(880)	(1,465)	43%	(1,171)	25%	60%
Other gains and losses	(57)	773	716	-3075%	-		
Share of results of associates	(39)	272	233	56%	280	-17%	117%
Share of results of JVs	(155)	383	228	59%	245	-7%	168%
Finance costs	(1,515)	(1,689)	(3,204)	14%	(2,265)	41%	53%
<b>Profit before taxation</b>	<b>3,626</b>	<b>4,174</b>	<b>7,800</b>	<b>29%</b>	<b>7,774</b>	<b>0%</b>	<b>54%</b>
% margin	37%	38%	38%		39%		
Taxation	(537)	(388)	(925)	-7%	(1,289)	-28%	42%
<b>Profit for the period</b>	<b>3,090</b>	<b>3,785</b>	<b>6,875</b>	<b>36%</b>	<b>6,485</b>	<b>6%</b>	<b>55%</b>
% margin	32%	34%	33%		33%		
Non-controlling interests	(518)		(1,162)	33%	(997)	17%	
<b>Profit for the period attributable to owners of the company</b>	<b>2,572</b>	<b>3,141</b>	<b>5,713</b>	<b>36%</b>	<b>5,489</b>	<b>4%</b>	<b>55%</b>
% margin	26%	28%	27%		28%		
<b>Recurring Profit for the period attributable to owners of the company</b>	<b>2,700</b>	<b>2,709</b>	<b>5,408</b>	<b>35%</b>	<b>5,729</b>	<b>-6%</b>	<b>50%</b>
% margin	28%	25%	26%		29%		
Earnings per share- basic and diluted	0.09	0.08	0.17	12%	0.16	4%	48%
Recurring Earnings per share- basic and diluted	0.09	0.07	0.16	11%	0.17	-6%	42%

Source: Company data, HSBC estimates

# Disclosure appendix

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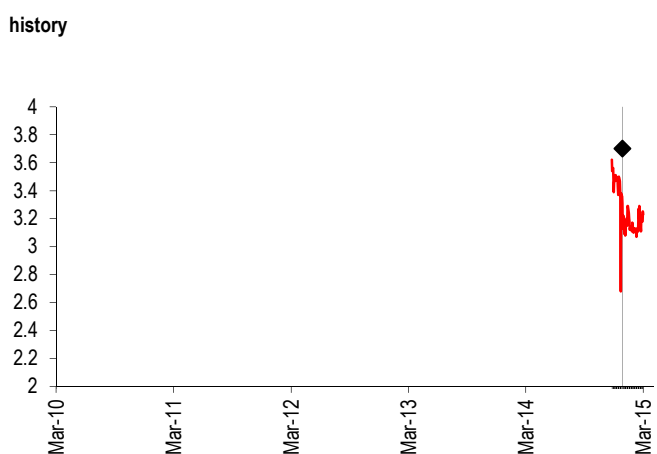
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## Share price and rating changes for long-term investment opportunities

CGN Power Co Ltd (1816.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Neutral (V)	13 January 2015
Target Price	Value	Date
Price 1	3.70	13 January 2015

Source: HSBC

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