

JPM-pp1

Asia Pacific Equity Research

19 March 2015

CGN Meiya Power Holdings Co., Ltd. (1811 HK)

Neutral

Price: HK\$2.22

18 Mar 2015

Price Target: HK\$2.50

PT End Date: 30 Jun 2015

FY14 results slightly ahead

- **FY14 results slightly ahead:** CGN Meiya announced its 2014 net profits of US\$85MM, up 54% Y/Y, ~5% ahead of market estimates. The growth was mainly attributable to: 1) improved profits from gas-fired business (+79% Y/Y) thanks to the contributions from the new Yulchon II Power project, 2) falling coal prices (down 10% Y/Y), which benefited the company's coal-fired/co-generation plants in China.
- **Net power generation** improved by 33.2% to 9,479GWh mainly due to the commissioning of Yulcheon II Power project.
- **Utilization hours:** PRC coal-fired utilization dropped 15% Y/Y to 4,340 hours in 2014 due to weak power demand. PRC hydro utilization remained largely flattish Y/Y at 4,862 hours in 2014. Gas-fired utilization improved in Korea by 5% Y/Y to 4,488 hours in 2014, but suffered a 14% Y/Y decline in China to 1,716 hours as Hexie Power ceased operations in May-14.
- **Net gearing declined** to 156% as of Dec-14 from 321% in Dec-13 following the IPO last October.
- **All eyes on asset injection:** The stock is now trading at 12x/10x 2015E/16E PER, already very close to listed renewable peers (Longyuan / Huaneng Renewable) at 12-15x. Any further re-rating will likely be dependent on more concrete development on asset injections from SOE parent. As stated in the prospectus, CGN Meiya Power has first priority to acquire from SOE parent 3-5GW of assets over the next four years.
- **Analyst briefing** will be held on 19 March 2015 (Thursday) at 2:30 PM. Venue: Salon 6, JW Marriott, Pacific Place, 88 Queensway, Hong Kong.

Table 1: Summary of 2014 results (in US\$MM)

US\$ in millions, year-end December	2011	2012	2013	2014	Y/Y
Turnover	755	932	1,037	1,370	32
Gas-fired	436	507	660	1,080	64
Hydro	33	37	38	39	1
Oil-fired	91	174	125	40	(68)
Coal-fired, cogen and steam	195	214	214	202	(6)
Asset Injection	-	-	-	-	-
Management fee	-	-	-	-	-
Corporate	-	-	-	9	-
Operating expenses	(676)	(852)	(922)	(1,220)	32
Fuel costs (Coal, oil and gas)	(523)	(682)	(737)	(990)	34
Depreciation of PPE	(54)	(59)	(69)	(93)	36
R&M	(25)	(23)	(22)	(23)	5
Staff costs	(34)	(39)	(43)	(59)	36
Others	(40)	(49)	(51)	(54)	5
Operating profit	78	80	115	150	30
Gas-fired	58	51	72	105	46
Hydro	16	17	18	19	2
Oil-fired	14	12	12	15	22

Coal-fired, cogen and steam	10	24	40	43	9
Asset Injection	-	-	-	-	-
Management fee	-	-	-	-	-
Corporate	(19)	(25)	(26)	(31)	19
Other income	9	14	12	13	6
Other gains and losses	(5)	0	3	2	(43)
Finance costs	(44)	(40)	(51)	(63)	23
Share of results of associates	(5)	11	37	41	9
Listing expenses	0	0	(7)	(4)	(41)
PBT	33	65	110	138	26
Income tax	(14)	(27)	(40)	(37)	(7)
PAT	19	38	70	101	45
Minorities	(8)	(9)	(14)	(16)	10
Net profit attributable to owner of the company	11	29	55	85	54
Gas-fired	36	30	30	54	79
Hydro	12	12	12	14	15
Oil-fired	4	6	7	7	10
Coal-fired, cogen and steam	4	25	57	64	13
Asset Injection	-	-	-	-	-
Management fee	-	-	-	-	-
Corporate	(45)	(45)	(50)	(54)	8
EPS - basic (US\$ / share)	0.003	0.007	0.018	0.025	41

Margin analysis

Operating margin	10.4%	8.6%	11.1%	10.9%	(0.2)
Gas-fired	13.3%	10.0%	10.9%	9.7%	(1.2)
Hydro	46.4%	46.0%	47.6%	48.1%	0.4
Oil-fired	15.7%	7.1%	9.7%	36.7%	27.1
Coal-fired, cogen and steam	5.0%	11.4%	18.5%	21.3%	2.8
PBT margin	4.4%	7.0%	10.6%	10.1%	(0.5)
Net margin	1.5%	3.1%	5.3%	6.2%	0.9
Gas-fired	8.2%	6.0%	4.5%	5.0%	0.4
Hydro	36.5%	31.0%	32.4%	36.9%	4.5
Oil-fired	4.8%	3.6%	5.3%	18.4%	13.0
Coal-fired, cogen and steam	2.0%	11.9%	26.5%	31.8%	5.3

Source: Company data, J.P. Morgan estimates.

Table 2: Summary of 2014 operation data

	2011	2012	2013	2014	Y/Y
Operational data					
Attributable Capacity breakdown (MW) by fuel source					
Clean and renewable energy					
- Gas-fired	824	824	1,459	1,771	
- Hydro (PRC)	119	119	119	119	
Subtotal	944	944	1,578	1,890	
Conventional energy portfolio					
- Coal-fired (PRC)	854	854	854	1,188	
- Oil-fired (Korea)	507	507	507	507	
- Cogen (PRC)	78	75	75	75	
Subtotal	1,439	1,436	1,436	1,770	
Total attributable installed capacity	2,383	2,380	3,014	3,659	
Gas-fired average tariff					
- PRC (Rmb/kWh)	0.59	0.58	0.63	0.60	(4.5)
- Korea (KRW/kWh)	149	167	169	166	(1.9)

Weighted average gas price (excl.VAT)

- PRC (Rmb/Nm3)	1.8	1.9	1.9	2.1	15.0
- Korea (KRW/Nm3)	723	802	797	823	3.2

Hydro Average tariff

- PRC (Rmb/kWh)	0.35	0.35	0.33	0.33	(0.7)
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Oil-fired Average tariff

- Korea (KRW/kWh)	453	496	459	445	(3.1)
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Average oil price for Daesan I (KRW per liter)

	1,345	1,640	1,499	1,456	(2.9)
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Coal-fired Average tariff

PRC (Rmb/kWh)	0.48	0.52	0.51	0.50	(3.1)
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Cogen Average tariff

PRC (Rmb/kWh)	0.51	0.53	0.53	0.51	(4.2)
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**PRC weighted average standard coal price (Rmb/ton)
exclu. VAT**

	992	905	757	680	(10.1)
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Source: Company data.

Investment Thesis

The sole platform for CGN's global non-nuclear clean and renewable energy assets, CGN Meiya Power is a diversified IPP with a portfolio of gas-fired, coal-fired/co-generation, oil-fired and hydropower generation projects in the PRC (44% as of 30 April 2014 capacity) and Korea (56% as of 30 April 2014 capacity). The company had a total installed capacity of 3.66GW as of 30 Apr 2014. Going forward, we expect CGN Meiya Power to continue to deliver secured long-term growth thanks to further capacity additions from CGN, but we remain cautious on power demand conditions in Korea and margin for Yulcheon II.

Valuation

Our Jun-15 PT of HK\$2.50 is based on a DCF valuation with a WACC of 8% and a terminal value growth of 2%.

Risks to Rating and Price Target

Upside risks mainly include: 1) higher-than-expected margin for Yulchon II and 2) capacity expansion (high quality asset injection from parent company).

Downside risks mainly include: 1) lower-than-expected utilization hours and 2) higher-than-expected finance costs.

Utilities

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Date	Rating	Share Price (HK\$)	Price Target (HK\$)
25-Nov-14	N	2.64	2.50

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