



Rating  
**Buy**

Asia  
China

Utilities  
Utilities

Company  
**Huadian Fuxin**

Reuters 0816.HK    Bloomberg 816 HK    Exchange HSI    Ticker 0816

Date  
24 March 2015

### Forecast Change

Price at 23 Mar 2015 (HKD)	3.29
Price target - 12mth (HKD)	5.50
52-week range (HKD)	4.84 - 3.16
HANG SENG INDEX	24,375

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## Top pick for 2015; Buy with 67% upside to target price

### Still 23% EPS CAGR 14-17E after factor in coal tariff/utilization cut/placement

Fuxin's weak share price over past months might be explained by concerns over potential thermal tariff cut and utilization downside. By factoring in a 5% tariff cut from 2Q15, 6-7% utilization drop p.a. through 2017, and two placements in 2015-16, we still see 23% EPS CAGR in 2014-17E, thanks to strong wind capacity growth and a ramp up of nuclear contribution. 2015 will be a critical year for re-rating as recurring earnings growth accelerates to 47% yoy (vs. 12% in 2014), along with multiple supporting catalysts. Compared with CGN Power (1816.HK, Sell) which trades at 18.7x PE vs. 17% EPS CAGR, Fuxin's valuation of 8.2x 15E PE is much more attractive. Buy.

### Fujian demand/supply revision; Earnings change

Taking into consideration the frequent coal-fired project approval in Fujian and likely limited power export to Zhejiang, we have revised our Fujian demand/supply forecast and cut Fuxin's coal utilization assumption to as low as 4,124hrs in 2017E. Nevertheless, the 1-2M demand growth of 8% suggests potential upside vs. our current forecast of 7.0% p.a. After incorporating the 2014 results and other key changes including tariff cut/rate cut, our 2015/16E earnings were lowered by 2.8%/7.4%.

### 2015 – a critical year of re-rating

We forecast a 47% yoy earnings growth in 2015 with several milestones to be crossed: 1) the first full-year operation of Fuqing Unit 1; 2) earnings contribution from 1.4GW wind capacity added in 2014 and continued strong capacity delivery in 2015 (guided 1.5-2.0GW); 3) thermal profit trend under potential tariff cut and utilization downside. We also see further catalysts in the coming months including 1) strong 1Q15 results, 2) final approval for Fuqing Unit 5-6, 3) start-up of Fuqing Unit 2 in mid-2015; 4) approval of Kemen III.

### Target price of HKD5.5 (from HKD6.1); risks

Our target price is based on an SOTP-based valuation by applying DCF to the main business and a PE multiple to associates. Key risks include nuclear delay or capex overrun and low wind speed.

#### Key changes

Price target	6.10 to 5.50	↓	-9.8%
Sales (FYE)	15,448 to 15,657	↑	1.4%
Op prof margin (FYE)	38.3 to 36.3	↓	-5.1%
Net profit (FYE)	2,833.6 to 2,754.5	↓	-2.8%

Source: Deutsche Bank

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-9.1	4.1	-13.4
HANG SENG INDEX	-1.9	4.5	13.7

Source: Deutsche Bank

#### Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	13,242	13,895	15,657	16,709	18,130
EBITDA (CNYm)	6,510	7,372	9,192	10,200	11,315
Reported NPAT (CNYm)	1,468	1,867	2,754	3,492	4,042
DB EPS FD (CNY)	0.219	0.235	0.320	0.386	0.436
DB EPS growth (%)	50.8	7.3	35.9	20.7	13.0
PER (x)	8.0	13.6	8.2	6.8	6.0
Price/BV (x)	1.7	1.6	1.2	1.0	0.9
DPS (net) (CNY)	0.038	0.044	0.064	0.077	0.087
Yield (net) (%)	2.2	1.4	2.4	2.9	3.3
ROE (%)	13.5	14.2	16.1	16.1	15.7

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

Deutsche Bank AG/Hong Kong

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Model updated: 23 March 2015

## Running the numbers

Asia

China

Utilities

## Huadian Fuxin

Reuters: 0816.HK

Bloomberg: 816 HK

## Buy

Price (23 Mar 15) HKD 3.29

Target Price HKD 5.50

52 Week range HKD 3.16 - 4.84

Market Cap (m) HKDm 29,045  
USDm 3,744

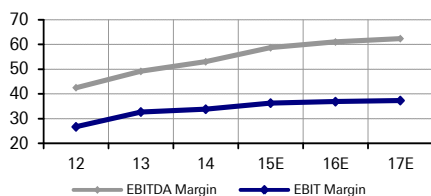
## Company Profile

Huadian Fuxin is a leading diversified clean energy player in China with a balanced capacity portfolio of hydro, wind, coal-fired and other renewable energy. Besides, it also holds 39% interest in Fuqing nuclear. Its total consolidated capacity reached 9,510MW as of 1H13. China Huadian Corporation is its controlling shareholder with 65.7% interest as of 1H13.

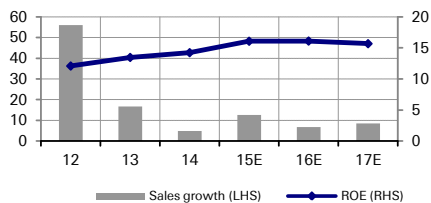
## Price Performance



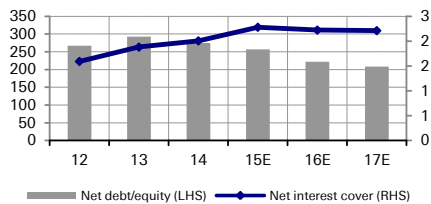
## Margin Trends



## Growth &amp; Profitability



## Solvency



Fiscal year end 31-Dec

## Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (CNY)	0.15	0.22	0.24	0.32	0.39	0.44
Reported EPS (CNY)	0.16	0.19	0.23	0.32	0.39	0.44
DPS (CNY)	0.03	0.04	0.04	0.06	0.08	0.09
BVPS (CNY)	1.4	1.5	1.8	2.2	2.6	3.0
Weighted average shares (m)	6,820	7,623	7,979	8,618	9,049	9,270
Average market cap (CNYm)	8,235	13,402	25,449	23,204	23,204	23,204
Enterprise value (CNYm)	39,272	49,669	68,375	73,867	79,227	84,017

## Valuation Metrics

P/E (DB) (x)	8.3	8.0	13.6	8.2	6.8	6.0
P/E (Reported) (x)	7.5	9.1	13.6	8.2	6.8	6.0
P/BV (x)	0.85	1.65	1.62	1.21	1.01	0.89
FCF Yield (%)	nm	nm	nm	nm	nm	1.4
Dividend Yield (%)	2.4	2.2	1.4	2.4	2.9	3.3
EV/Sales (x)	3.5	3.8	4.9	4.7	4.7	4.6
EV/EBITDA (x)	8.1	7.6	9.3	8.0	7.8	7.4
EV/EBIT (x)	12.9	11.5	14.5	13.0	12.8	12.4

## Income Statement (CNYm)

Sales revenue	11,352	13,242	13,895	15,657	16,709	18,130
Gross profit	6,972	8,740	9,623	11,623	12,810	14,190
EBITDA	4,833	6,510	7,372	9,192	10,200	11,315
Depreciation	1,798	2,175	2,667	3,505	4,032	4,541
Amortisation	0	0	0	0	0	0
EBIT	3,035	4,335	4,705	5,688	6,169	6,773
Net interest income/(expense)	-1,905	-2,305	-2,344	-2,494	-2,775	-3,062
Associates/affiliates	43	94	84	427	936	1,231
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	443	61	237	70	70	35
Profit before tax	1,616	2,185	2,681	3,691	4,400	4,978
Income tax expense	261	484	534	619	624	658
Minorities	262	233	280	317	284	278
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,093	1,468	1,867	2,754	3,492	4,042
DB adjustments (including dilution)	-102	203	10	0	0	0
DB Net profit	991	1,670	1,877	2,754	3,492	4,042

## Cash Flow (CNYm)

Cash flow from operations	4,677	6,622	10,651	8,075	9,355	10,345
Net Capex	-7,062	-7,186	-15,793	-14,872	-11,078	-10,004
Free cash flow	-2,385	-565	-5,143	-6,796	-1,723	341
Equity raised/(bought back)	2,118	0	2,268	1,842	1,935	0
Dividends paid	-338	-377	-291	-366	-564	-715
Net inc/(dec) in borrowings	3,016	5,006	7,476	6,923	3,647	4,002
Other investing/financing cash flows	-1,591	-4,871	-4,756	-3,138	-3,283	-3,493
Net cash flow	820	-807	-445	-1,534	11	135
Change in working capital	-275	551	3,576	-568	-291	-347

## Balance Sheet (CNYm)

Cash and other liquid assets	2,576	1,769	3,291	1,757	1,768	1,903
Tangible fixed assets	46,639	52,265	66,074	77,565	85,028	90,830
Goodwill/intangible assets	970	1,096	1,100	1,100	1,100	1,100
Associates/investments	2,668	3,546	4,433	5,379	6,407	7,731
Other assets	8,487	9,001	11,037	11,703	12,100	12,654
Total assets	61,341	67,676	85,935	97,504	106,403	114,218
Interest bearing debt	36,539	41,918	51,827	58,750	62,397	66,399
Other liabilities	12,092	12,048	16,450	16,547	16,654	16,861
Total liabilities	48,632	53,966	68,277	75,297	79,051	83,261
Shareholders' equity	10,574	11,211	15,013	19,244	24,106	27,432
Minorities	2,135	2,500	2,646	2,963	3,247	3,525
Total shareholders' equity	12,709	13,711	17,658	22,207	27,353	30,957
Net debt	33,964	40,149	48,536	56,993	60,629	64,497

## Key Company Metrics

Sales growth (%)	56.0	16.7	4.9	12.7	6.7	8.5
DB EPS growth (%)	71.8	50.8	7.3	35.9	20.7	13.0
EBITDA Margin (%)	42.6	49.2	53.1	58.7	61.0	62.4
EBIT Margin (%)	26.7	32.7	33.9	36.3	36.9	37.4
Payout ratio (%)	18.0	19.8	18.6	20.0	20.0	20.0
ROE (%)	12.1	13.5	14.2	16.1	16.1	15.7
Capex/sales (%)	62.2	54.3	113.7	95.0	66.3	55.2
Capex/depreciation (x)	3.9	3.3	5.9	4.2	2.7	2.2
Net debt/equity (%)	267.2	292.8	274.9	256.6	221.7	208.3
Net interest cover (x)	1.6	1.9	2.0	2.3	2.2	2.2

Source: Company data, Deutsche Bank estimates



# Investment thesis

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## Outlook

Huadian Fuxin, with roughly an even capacity split across wind, coal, hydro and others, has the most balanced capacity portfolio among the major IPPs and clean energy players. This helps the company to effectively diversify from earnings volatility while capturing China's fast clean energy development with continued EPS CAGR of 23% in 2014-2017E, driven mainly by the strong capacity pipeline of nuclear and wind power. As Fuqing Nuclear (39%-owned) commences operation in 2014-17, it would contribute 30% of Fuxin's 2017E earnings.

We believe 2015 will be a critical year for the stock to re-rate with several milestones to be crossed including: 1) the first full-year operation of Fuqing Unit 1; 2) earnings contribution from 1.4GW wind capacity added in 2014 and continued strong capacity delivery in 2015 (guided 1.5-2.0GW); 3) thermal profit trend under potential tariff cut and utilization downside. We also see further catalysts during the year including 1) strong 1Q15 results, 2) final approval of Fuqing Unit 5-6, 3) start-up of Fuqing Unit 2 in mid-2015; 4) approval of Kemen III.

Huadian Fuxin is trading at an attractive 8.2x/6.8x of 2015/16E PE, Buy.

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## Valuation

Our target price is based on an SOTP-based valuation by applying DCF to the main business and PE multiple to associates. For its main business, we discount operating cash flow through 2025E and assume zero terminal growth. We apply a WACC of 8.3%, based on a 6.5% pre-tax cost of debt, a 3.9% risk-free rate, a 5.6% equity risk premium, a beta of 1.4 and a 50% target debt-to-capital ratio. We value associates by 12x 17E PE (when Fuqing Nuclear fully commences operation), discounted to 2015 by an 8.3% WACC.

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## Risks

Key downside risks include: 1) Nuclear: delayed commissioning and capex overrun; lower-than-expected utilization on teething issue of new units or maintenance, 2) Wind: weak wind speed or less-than-expected capacity addition, 3) Thermal: low utilization hours due to potential overcapacity in Fujian province, greater-than-expected coal tariff cut relative to its coal price decline, 4) Hydro: insufficient rainfall and thus lower hydro utilization hours, and 5) higher-than-expected effective finance cost and share placement.



## 2014 results recap – in line

Huadian Fuxin's 2014 net profit increased by 27% to Rmb1,867m, in line with our/consensus forecast of Rmb1,854m/Rmb1,927m.

By segment, operating profit mix is 22%: 34%: 37%: 7% between hydro: wind: thermal: other renewable. Hydro recorded Rmb1.1bn of operating profit (+17% yoy) under the good water condition (utilization +211hrs); wind was up 19% yoy to Rmb1.7bn on the back of 40% yoy capacity growth, though partially cannibalized by poor wind condition (utilization -142hrs); thermal largely flat at Rmb1.9bn despite a 7.4% decline in coal price; other clean energy saw a good 82% yoy growth to Rmb346m.

Associates income retreated by 11% to Rmb84m, which we believe is mainly due to the Putian gas-fired project as Fuqing nuclear started operation in end-Nov 2014 and the profit contribution is yet to be fully reflected.

We show the results summary with the segment breakdown in [Figure 1](#).

Figure 1: 2014 results review - financials

Income Statement (Rmb m)	2013	2014	yoy	Deutsche Bank comment
<b>Operating Revenue, Net</b>	<b>13,242</b>	<b>13,895</b>	<b>5%</b>	
Hydro	2,075	2,404	16%	Gross output +16% yoy; avg. tariff -0.5% yoy
Wind	2,767	3,153	14%	Capacity +40% yoy but output only +10% yoy on poor wind utilization
Coal-fired	7,465	7,138	-4%	Gross output -1% yoy
Other clean energy	851	1,170	37%	Solar contributed Rmb485m of revenue
<b>Other net income</b>	<b>61</b>	<b>237</b>	<b>286%</b>	Rmb87m gov'n't grant; Rmb115m penalty income from equip suppliers
<b>Operating Expenses</b>	<b>(8,907)</b>	<b>(9,190)</b>	<b>3%</b>	
Fuel	(4,362)	(4,218)	-3%	Standard coal cost -7.4% yoy to Rmb616.8/ton
Cost of substituted electricity	(140)	(55)	N.M.	
Repairs and Maintenance	(440)	(426)	-3%	
Administration expenses	(415)	(405)	-2%	
Depreciation & Amortization	(2,175)	(2,667)	23%	
Staff Costs	(955)	(1,052)	10%	
Other operating expenses	(339)	(342)	1%	
<b>Operating profit</b>	<b>4,397</b>	<b>4,942</b>	<b>12%</b>	
Hydro	932	1,094	17%	
Wind	1,466	1,742	19%	
Coal-fired	1,966	1,899	-3%	
Other clean energy	191	346	82%	
Others	(157)	(139)	-12%	
<b>Operating margin</b>	<b>33.2%</b>	<b>35.6%</b>	<b>2.4ppt</b>	
Interest income	120	173	44%	Incl. Rmb103.8m dividend income and Rmb15m FX gains
Interest expense	(2,425)	(2,518)	4%	
<b>Net finance expenses</b>	<b>(2,305)</b>	<b>(2,344)</b>	<b>2%</b>	
Share of profits from asso/JV	94	84	-11%	Decline likely due to gas-fired projects; Fuqing start-up on Nov 2014
<b>Profit before tax</b>	<b>2,185</b>	<b>2,681</b>	<b>23%</b>	
Income tax	(484)	(534)	10%	
<i>Effective tax rate</i>	<i>22%</i>	<i>21%</i>	<i>-1.6ppt</i>	Wind projects enjoy preferential tax rate (3-year zero; 3-year half)
<b>Profit Before Minority Interest</b>	<b>1,701</b>	<b>2,147</b>	<b>26%</b>	
Minorities	(233)	(280)	20%	
<i>MI Rate</i>	<i>14%</i>	<i>13%</i>	<i>-0.7ppt</i>	
<b>Net Profit (reported)</b>	<b>1,468</b>	<b>1,867</b>	<b>27%</b>	
<b>Net Profit (recurring)</b>	<b>1,670</b>	<b>1,867</b>	<b>12%</b>	2013 booked Rmb250m impairment on receivables (mainly on CDM)
<b>EPS (Rmb/share)</b>	<b>0.1925</b>	<b>0.2340</b>	<b>22%</b>	Slower EPS growth due to 2x placement in 2014
<b>Net debt/total equity (incl. MI)</b>	<b>293%</b>	<b>275%</b>	<b>-18.0ppt</b>	Improved by 18ppt vs. end-14 upon equity placement

Source: Deutsche Bank, company data



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## Thermal: capacity upside; utilization downside

### Capacity growth: Shaowu III received approval; Kemen III under planning

On 11 February, Huadian Fuxin received approval from Fujian Development and Reform Commission (Fujian NDRC) to build Shaowu Power Plant Phase III (Shaowu III). Shaowu III will have 2x600MW ultra-supercritical units with total investment of Rmb45.8bn. Fuxin has a 100% stake in the plant. We believe the two units are likely to start operation in 2017 and increase Fuxin's coal-fired capacity by 31% to 5.05GW by 2017.

Besides Shaowu III, Fuxin is also actively seeking approval for Kemen Phase III (2x1,000MW ultra-supercritical coal-fired units). We have not factored the project into our model. However, on a back-of-envelope calculation, it could contribute c.Rmb400m profit upon the likely start-up in 2018E, equaling c.10% of Fuxin's 2017E earnings.

### Utilization in downtrend, but still above 4,200hrs

During the briefing, management mentioned that it expects mild downside in 2015 coal-fired utilization. We agree – based on our Fujian demand and supply forecast, we believe the utilization will be more reflected in 2016-17E. We have adjusted our forecast based on two new occurrences:

- The Fujian government has intensively approved four coal-fired projects since December 2014 with total capacity of 6.4GW. As such, we now expect a total 8.4GW thermal capacity to come online in 2015-17, with most of them concentrated in 2017 (5.8GW) considering an average of 2-year construction period.
- The North Zhejiang-Fuzhou UHV (6.8GW of capacity), which transmits electricity from Fujian to Zhejiang, was completed in end-2014. Nevertheless, as Zhejiang itself faces oversupply under weak demand growth (+1.5% yoy in 2014) and a squeeze of hydro import, we now remove the assumption of extra power export to Zhejiang in 2015-17E.

Our conclusion is that, despite an 800hrs (16%) retreat in total during 2015-17, by end-2017, coal utilization could still stand at over 4,200hrs, or way above the breakeven point of c. 3,200hrs.

Besides, the continued strong power consumption growth in Fujian provides relief to utilization downside – in 1-2M15, power consumption in Fujian grew 8% yoy, much faster than 2.5% for the nation and could post potential upside to our assumed 7.0% growth p.a. In Appendix A we discuss in detail the supply and demand situation of Fujian.

### Key assumptions

- **Tariff:** we have assumed c.5% thermal tariff cut effective from 2Q15, in line with other IPPs.
- **Utilization:** based on our new Fujian demand and supply forecast, we now assume a 6%/7%/6% utilization decline in 2015/16/17E, respectively. Our 2017 utilization for Fuxin is 4,124hrs, which is conservative compared with our forecast for Fujian average (4,253hrs).
- **Coal price:** we assume a 5% decline in 2015 coal price, and a flat outlook beyond.



Figure 2: Coal-fired - operating metrics and forecast

Coal-fired	Unit	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Consolidated capacity	(MW)	2,650	2,650	2,050	2,650	3,850	3,850	3,850	5,050	5,050
Capacity addition	(MW)		0	(600)	600	1,200	0	0	0	1,200
Attributable capacity	(MW)	2,690	2,690	2,090	2,690	3,890	3,890	3,750	4,950	4,950
Gross power generation	(Bn kWh)	12.2	11.0	8.0	9.8	19.5	19.3	17.0	15.8	16.1
Net generation	(Bn kWh)	15.9	14.0	11.1	11.1	19.0	18.3	17.2	16.0	16.2
-self generated		11.5	10.3	7.6	10.2	18.4	18.3	17.2	16.0	16.2
-substituted		4.4	3.7	3.5	0.9	0.6	0.0	0.0	0.0	0.0
Utilization hours	(Hours)	4,943	4,467	6,045	4,762	5,063	5,018	4,717	4,387	4,124
On-grid tariff	(Rmb/MWh)	360	354	364	380	376	376	361	356	356
Unit fuel cost	(Rmb/MWh)	222	277	265	370	215	198	188	188	188
Operating revenue	(Rmb m)	5,760	4,991	4,119	6,159	7,465	7,138	6,382	5,851	5,928
Operating profit	(Rmb m)	1,011	386	656	907	1,966	1,899	1,894	1,635	1,611

Source: Deutsche Bank estimates, Company data

## Wind: fastest capacity growth among peers

### 2014 capacity +1.4GW, an above-peers 40% yoy growth

Fuxin added 1,389MW of new wind capacity in 2014, largely delivering its year-beginning target of 1.5GW. The implied 40% yoy growth is the highest among peers given its small asset base (Huaneng Renewable added 1.3GW or 22% yoy; Longyuan is likely to add 1.6GW or 19% yoy). Besides, it has received approval for 27 new projects with a total capacity of 2,211MW during 2014.

### 2015 guidance: 1.5-2.0GW of new wind capacity

During the results briefing, management maintained its 1.5GW capacity addition target in 2015 but also pointed out that, based on the current progress, it might be able to achieve as high as 2.0GW. As of end-2014, it has 1.7GW of capacity under construction. Based on our earlier discussion with management, the construction progress has also been accelerated – c.500MW will be completed in 1H15.

### New guidelines to support clean energy and relieve curtailment

According to news reported by China Securities Journal, on 23 March 2015, NEA/NDRC jointly released Guideline on Improving Power Operation and On-grid connection of Renewable Energy (the Guideline), which requires local governments to ensure full dispatch of renewable energy under the premise of grid safety and stability. The Guideline will help further relieve the wind curtailment (national avg.: 8% in 2014) with administrative effect. Hence, we expect wind utilization in 2015 to recover from a low-based 2014 (national average at 1,893hrs) on more favorable and strictly-implemented policies as well as wind speed normalization.

### Key assumptions

- **Tariff:** we have applied a 3% wind tariff cut for new units to be commissioned after 1 January 2016.
- **Utilization:** considering the low base in 2014, we assumed a 5% recovery in 2015 to 1,982hrs (vs. management guidance of 2,000hrs). In 2016-17, we factor in another 2.0% and 1.5% utilization improvement on reduced curtailment upon the commencement of major UHV lines.



- **Capacity:** we build in 1.6GW of new wind capacity in 2015E, which falls at the low end of management guidance (1.5-2.0GW) on a conservative front; for 2016-17E, we assume 1.2GW and 1.0GW new capacity, respectively.

Figure 3: Wind - operating metrics and forecasts

Wind	Unit	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Consolidated capacity	(MW)	471	1,334	2,171	2,717	3,501	4,889	6,489	7,689	8,689
Capacity addition			863	838	546	784	1,389	1,600	1,200	1,000
Attributable capacity	(MW)	471	1,228	1,955	2,412	3,101	4,443	5,860	6,923	7,809
Gross power generation	(Bn kWh)	0.8	1.3	3.1	4.3	6.2	6.8	10.8	13.5	16.1
Utilization hours	(Hours)	2,726	2,232	2,072	1,923	2,030	1,888	1,982	2,022	2,052
On-grid tariff	(Rmb/MWh)	418	454	481	484	482	489	489	488	486
Operating revenue	(Rmb m)	234	550	1,214	1,901	2,767	3,153	4,928	6,130	7,280
Operating profit	(Rmb m)	153	347	794	1,182	1,466	1,742	2,369	2,919	3,501

Source: Deutsche Bank estimates, Company data

## Nuclear: 30% earnings contribution by 2017E

### 7,500hrs of utilization guided for 2015; commissioning schedule

After taking into account the first year refueling overhaul, management guided a 7,500hrs of utilization for Fuxin Nuclear in 2015. Meanwhile, the commissioning schedule is maintained. Unit 2 is currently undergoing hot testing which started on 20 November 2014. It is planned to connect to grid in June 2015 and start commercial operation in August 2015. Unit 3 and 4 are scheduled to start commercial operation in February 2016 and March 2017, respectively.

### Rmb1.2bn of contribution to net profit (30%) by 2017E

Despite a relatively small contribution in 2014 as unit 1 only starts operation in November, we expect Rmb427m/936m/1,231m earnings contribution from Nuclear in 2015/16/17 (or 16%/27%/30% of total). Our key assumptions include:

- **Tariff:** We assume Rmb430/MWh nuclear benchmark tariff for unit 1 and 2. However, for unit 3 and 4, we have lowered the tariff in parity with local thermal tariff. Based on our assumption of 5% tariff cut, Fujian's thermal tariff (c.Rmb418/MW) will fall below the nuclear benchmark tariff. Note that the government set the nuclear tariff using the lower between Rmb430/MWh and provincial on-grid thermal tariff when the unit enters into operation.
- **Utilization:** We assumed c.7,200hrs of utilization in view of the potential oversupply in Fujian.

### Fuqing Nuclear phase II likely to receive approval in 1H15

In addition, Fuqing Phase II (units 5 and 6) has completed the preparatory work and can start construction once approved. After Hongyanhe II received approval in Feb 2015 – marking the official nuclear resumption – we see an increasing chance that Fuqing Phase II will receive approval within 2015. Upon operation commencement in 2018-19E, Phase II will contribute c.Rmb500m profit to Huadian Fuxin, representing 12% of Fuxin's 2017E earnings.



## Forecast changes and comps

By incorporating the 2014 results and latest operational updates into our forecasts, we lower our 2015-16E earnings by 3-7% (Figure 5), mainly on our assumed thermal tariff cut from 2Q15 (which also resulted in lower nuclear tariff) and utilization cut in thermal considering the power oversupply in Fujian.

Besides, we have also factored in two additional share placements of 5% each, in 2015 and 2016. Correspondingly, we lower our SOTP-based target price to HKD5.5 (Figure 5), which implies a 13.8x/11.5x/10.1x 2015E/16E/17E PE, respectively.

Overall, we still see a 23% EPS CAGR in 14-17E on 1) the kick-off of nuclear contribution; 2) fastest wind capacity growth among peers; and 3) new investment in other clean energy.

Figure 4: Key operating metrics and assumptions (2009-16E)

Operating metrics	Unit	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
<b>Total consolidated capacity</b>	<b>MW</b>	<b>5,425</b>	<b>6,351</b>	<b>6,524</b>	<b>7,899</b>	<b>10,424</b>	<b>12,313</b>	<b>14,323</b>	<b>15,723</b>	<b>18,123</b>
% chg			17.1%	2.7%	21.1%	32.0%	18.1%	16.3%	9.8%	15.3%
Thermal	MW	2,650	2,650	2,050	2,650	3,850	3,850	3,850	3,850	5,050
Hydro	MW	2,146	2,199	2,223	2,223	2,457	2,457	2,567	2,667	2,767
Wind	MW	471	1,334	2,171	2,717	3,501	4,889	6,489	7,689	8,689
<b>Total attributable capacity</b>	<b>MW</b>	<b>5,106</b>	<b>6,017</b>	<b>6,200</b>	<b>7,347</b>	<b>9,717</b>	<b>11,898</b>	<b>13,556</b>	<b>14,793</b>	<b>17,053</b>
% chg			17.8%	3.1%	18.5%	32.3%	22.4%	13.9%	9.1%	15.3%
<b>Annual utilisation hrs</b>										
Thermal	Hours	4,943	4,467	6,045	4,762	5,063	5,018	4,717	4,387	4,124
Hydro	Hours	2,379	4,015	2,583	4,065	3,438	3,649	3,467	3,467	3,467
Wind	Hours	2,726	2,232	2,072	1,923	2,030	1,888	1,982	2,022	2,052
<b>Consolidated gross output</b>	<b>Bn kWh</b>	<b>18.2</b>	<b>21.7</b>	<b>17.3</b>	<b>23.9</b>	<b>34.4</b>	<b>36.5</b>	<b>39.0</b>	<b>41.2</b>	<b>44.5</b>
% chg			19.7%	-20.3%	37.9%	44.0%	6.1%	6.8%	5.6%	8.2%
Thermal	Bn kWh	12.2	11.0	8.0	9.8	19.5	19.3	17.0	15.8	16.1
Hydro	Bn kWh	5.0	8.8	5.7	9.0	7.7	8.9	8.6	9.0	9.4
Wind	Bn kWh	0.8	1.3	3.1	4.3	6.2	6.8	10.8	13.5	16.1
<b>Average tariff</b>										
Thermal	Rmb/MWh	360	354	364	380	376	376	361	356	356
Hydro	Rmb/MWh	251	254	253	275	278	277	277	277	277
Wind	Rmb/MWh	418	454	481	484	482	489	489	488	486
<b>Fuel cost</b>										
Standard coal consumption	g/kWh	308	305	304	302	302	314	314	314	314
Avg. standard coal cost	Rmb/ton	689	803	740	755	666	617	586	586	586
% chg			16.6%	-7.9%	2.0%	-11.8%	-7.4%	-5.0%	0.0%	0.0%

Source: Company data, Deutsche Bank estimates





Figure 5: Earnings estimate and target price changes

0816.HK	Current	Before	% change
<b>Revenue (Rmb m)</b>			
2015E	15,657	15,448	1.4%
2016E	16,709	16,663	0.3%
2017E	18,130	NA	NA
<b>EBITDA (Rmb m)</b>			
2015E	9,192	9,217	-0.3%
2016E	10,200	10,320	-1.2%
2017E	11,315	NA	NA
<b>Net profit (Rmb m)</b>			
2015E	2,754	2,834	-2.8%
2016E	3,492	3,770	-7.4%
2017E	4,042	NA	NA
<b>Rating</b>	<b>Buy</b>	<b>Buy</b>	
<b>Target price (HKD)</b>	<b>5.50</b>	<b>6.10</b>	<b>-9.8%</b>

Source: Deutsche Bank estimates

Figure 6: Deutsche Bank vs. consensus forecast

Huadian Fuxin	0816.HK	HKD5.50	Buy
	DB	Consensus	DB vs. Consensus
<b>Revenue (Rmb m)</b>			
2015	15,657	16,597	-6%
2016	16,709	18,542	-10%
2017	18,130	20,113	-10%
<b>EBITDA (Rmb m)</b>			
2015	9,192	9,263	-1%
2016	10,200	10,830	-6%
2017	11,315	12,529	-10%
<b>Net income (Rmb m)</b>			
2015	2,754	2,641	4%
2016	3,492	3,214	9%
2017	4,042	4,152	-3%
<b>Consensus Ratings</b>	<b>Buys</b>	<b>Hold</b>	<b>Sell</b>
	19	0	1

Source: Deutsche Bank estimates, Bloomberg Finance LP



Figure 7: Comps and share price performances

Share price as of		3/23/2015		Performance						Valuations						Returns & Gearing (%)					
Company	Ticker	Price	Rating	Price target	% to target	Mkt. Cap. US\$m	Absolute 3m	Relative 3m	P/E 14E	P/E 15E	P/E 16E	EV/EBITDA 14E	EV/EBITDA 15E	P/BV 14E	P/BV 15E	RoE 14E	RoE 15E	ROA 14E	ROA 15E	Gearing 14E	Yield 14E
<b>China IPPs - H</b>																					
Datang	0991.HK	HKD3.60	Buy	HKD4.30	19%	6,177	(14%)	(18%)	8.6	5.9	5.7	8.9	7.8	0.8	0.8	5.6	12.1	0.8	2.0	300.4	4.6
CR Power	0836.HK	HKD19.20	Buy	HKD23.10	20%	11,859	(5%)	(9%)	7.3	7.0	6.9	3.9	3.2	1.3	1.1	15.5	15.8	5.3	5.6	93.7	4.1
Huaneng	0902.HK	HKD9.18	Buy	HKD11.10	21%	17,064	(13%)	(17%)	8.5	7.8	8.1	2.8	2.5	1.5	1.3	17.4	18.2	4.4	4.7	171.6	5.7
Huadian	1071.HK	HKD6.24	Buy	HKD7.70	23%	6,458	(8%)	(12%)	7.0	7.1	7.3	6.3	6.0	1.3	0.9	20.8	16.7	3.2	3.3	248.6	5.8
CPI	2380.HK	HKD4.09	Buy	HKD4.70	15%	3,541	6%	2%	9.1	8.3	8.2	8.6	8.8	1.1	1.0	13.6	13.7	3.3	3.3	186.6	4.8
<b>Average</b>							<b>(7%)</b>	<b>(11%)</b>	<b>8.1</b>	<b>7.2</b>	<b>7.2</b>	<b>6.1</b>	<b>5.7</b>	<b>1.2</b>	<b>1.0</b>	<b>14.6</b>	<b>15.3</b>	<b>3.4</b>	<b>3.8</b>	<b>200.2</b>	<b>5.0</b>
<b>China IPPs - A</b>																					
Datang-A	601991.SS	CNY6.58	Sell	CNY3.40	(48%)	14,131	3%	(15%)	19.8	13.6	13.0	10.8	9.6	1.9	1.8	5.6	12.1	0.8	2.0	300.4	2.0
Huaneng-A	600011.SS	CNY8.38	Buy	CNY8.90	6%	19,498	(3%)	(20%)	9.7	8.9	9.3	3.2	2.8	1.7	1.5	17.4	18.2	4.4	4.7	171.6	5.0
Huadian-A	600027.SS	CNY6.78	Hold	CNY6.20	(9%)	8,784	(8%)	(24%)	9.6	9.6	9.9	6.9	6.6	1.7	1.3	20.8	16.7	3.2	3.3	248.6	4.2
<b>Average</b>							<b>(3%)</b>	<b>(20%)</b>	<b>13.0</b>	<b>10.7</b>	<b>10.7</b>	<b>7.0</b>	<b>6.4</b>	<b>1.8</b>	<b>1.5</b>	<b>14.6</b>	<b>15.6</b>	<b>2.8</b>	<b>3.3</b>	<b>240.2</b>	<b>3.8</b>
<b>China Wind</b>																					
Longyuan Power	0916.HK	HKD8.14	Buy	HKD9.60	18%	8,432	3%	(2%)	21.1	14.2	11.8	10.1	8.9	1.6	1.4	7.7	10.7	2.2	3.0	142.2	1.2
Huaneng Renewabl	0958.HK	HKD2.73	Buy	HKD3.40	25%	2,973	15%	10%	18.6	12.1	9.7	9.6	8.6	1.1	1.0	7.4	10.4	1.7	2.2	234.3	0.9
Huadian Fuxin	0816.HK	HKD3.29	Buy	HKD5.50	67%	3,384	4%	(0%)	11.2	8.2	6.8	8.7	7.8	1.4	1.1	14.2	16.1	2.4	3.0	274.9	1.7
<b>Average</b>							<b>9%</b>	<b>4%</b>	<b>19.8</b>	<b>13.1</b>	<b>10.7</b>	<b>9.8</b>	<b>8.8</b>	<b>1.4</b>	<b>1.2</b>	<b>7.6</b>	<b>10.5</b>	<b>1.9</b>	<b>2.6</b>	<b>188.3</b>	<b>1.1</b>
<b>China Nuclear</b>																					
CGN Power	1816.HK	HKD3.19	Sell	HKD2.90	(9%)	18,689	(9%)	(13%)	21.6	18.7	15.2	12.1	12.3	2.5	2.3	15.6	12.9	3.7	3.1	102.2	2.4

All estimates are DB estimates and all stock data is from Datastream, Bloomberg Finance LP

Definitions: 1) Gearing is net debt / shareholders equity; 2) EV is after deducting estimated value of associates;

Share price as of		3/23/2015		Share price performance					Avg.		Relative performance					Avg.		Share price statistics					Avg.
Company	Price	Rating	1wk	1m	3m	6m	12m	3yr	US\$, 1m**	1wk	1m	3m	6m	12m	3yr	US\$, 6m**	52w H	52w L	52W H	52W L	10yr H	10yr L	US\$, 1yr**
<b>China IPPs - H</b>																							
Datang	HKD3.60	Buy	1%	(1%)	(14%)	(12%)	25%	54%	7.2	(2%)	(2%)	(18%)	(23%)	(3%)	35%	10.0	4.60	2.62	0.78	1.37	7.93	1.58	9.3
CR Power	HKD19.20	Buy	5%	(4%)	(5%)	(14%)	0%	47%	17.4	2%	(6%)	(9%)	(25%)	(23%)	29%	19.0	24.82	17.86	0.77	1.07	27.88	2.80	18.1
Huaneng	HKD9.18	Buy	7%	(3%)	(13%)	3%	29%	137%	27.8	4%	(4%)	(17%)	(10%)	0%	107%	34.7	11.56	6.86	0.79	1.34	11.56	2.35	30.0
Huadian	HKD6.24	Buy	5%	1%	(8%)	9%	91%	289%	8.1	2%	(0%)	(12%)	(5%)	47%	240%	13.0	7.55	3.28	0.83	1.91	7.55	0.88	13.2
CPI	HKD4.09	Buy	9%	4%	6%	11%	61%	180%	12.2	6%	3%	2%	(4%)	24%	145%	9.6	4.56	2.46	0.90	1.66	4.56	0.88	8.0
<b>Average</b>			<b>5%</b>	<b>(1%)</b>	<b>(7%)</b>	<b>(0%)</b>	<b>41%</b>	<b>141%</b>	<b>14.5</b>	<b>2%</b>	<b>(2%)</b>	<b>(11%)</b>	<b>(14%)</b>	<b>9%</b>	<b>111%</b>	<b>17.3</b>	<b>10.62</b>	<b>6.62</b>	<b>0.81</b>	<b>1.47</b>	<b>11.89</b>	<b>1.70</b>	<b>15.7</b>
<b>China IPPs - A</b>																							
Datang-A	CNY6.58	Sell	7%	17%	3%	67%	80%	29%	59.5	(0%)	3%	(15%)	4%	(0%)	(18%)	60.6	7.30	3.38	0.90	1.95	22.97	2.93	34.1
Huaneng-A	CNY8.38	Buy	7%	12%	(3%)	37%	80%	81%	75.5	(0%)	(2%)	(20%)	(14%)	(0%)	15%	71.6	9.46	4.63	0.89	1.81	15.26	3.31	43.3
Huadian-A	CNY6.78	Hold	12%	22%	(8%)	68%	140%	140%	73.6	5%	7%	(24%)	5%	33%	53%	73.7	7.38	2.84	0.92	2.39	10.93	1.90	45.6
<b>Average</b>			<b>9%</b>	<b>17%</b>	<b>(3%)</b>	<b>57%</b>	<b>100%</b>	<b>83%</b>	<b>69.6</b>	<b>2%</b>	<b>3%</b>	<b>(20%)</b>	<b>(2%)</b>	<b>11%</b>	<b>17%</b>	<b>68.6</b>	<b>8.05</b>	<b>3.62</b>	<b>0.90</b>	<b>2.05</b>	<b>16.39</b>	<b>2.71</b>	<b>41.0</b>
<b>China Wind</b>																							
Longyuan Power	HKD8.14	Buy	4%	(0%)	3%	10%	2%	26%	17.7	1%	(1%)	(2%)	(4%)	(21%)	10%	15.0	9.06	7.12	0.90	1.14	10.72	4.40	14.5
Huaneng Renewables	HKD2.73	Buy	5%	5%	15%	4%	(6%)	45%	7.4	2%	3%	(10%)	(10%)	(27%)	27%	7.5	3.12	2.14	0.88	1.28	3.83	0.86	8.3
Huadian Fuxin	HKD3.29	Buy	(7%)	(9%)	4%	(28%)	(12%)	96%	6.0	(10%)	(10%)	(0%)	(38%)	(32%)	71%	9.3	4.94	3.08	0.67	1.07	4.94	1.31	7.9
<b>Average</b>			<b>1%</b>	<b>(2%)</b>	<b>7%</b>	<b>(5%)</b>	<b>(5%)</b>	<b>55%</b>	<b>10.4</b>	<b>(2%)</b>	<b>(3%)</b>	<b>3%</b>	<b>(17%)</b>	<b>(27%)</b>	<b>36%</b>	<b>10.6</b>	<b>5.71</b>	<b>4.11</b>	<b>0.81</b>	<b>1.16</b>	<b>6.50</b>	<b>2.19</b>	<b>10.3</b>
<b>China Nuclear</b>																							
CGN Power	HKD3.19	Sell	0%	2%	(9%)	15%	15%	15%	30.9	(3%)	1%	(13%)	(0%)	(11%)	0%	70.5	3.66	2.78	0.87	1.15	3.66	2.78	70.5

\*\* in USD millions

\*\*\*\* Relative performance is against the HSCEI

Source: Bloomberg Finance LP, Deutsche Bank estimate; closing price as of 22 August 2014



Figure 8: Huadian Fuxin – income statement (2010-17E)

Income statement (Rmb m)	2010	2011	2012	2013	2014	2015E	2016E	2017E
<b>Operating Revenue, Net</b>	<b>8,398</b>	<b>7,278</b>	<b>11,352</b>	<b>13,242</b>	<b>13,895</b>	<b>15,657</b>	<b>16,709</b>	<b>18,130</b>
Hydro	2,206	1,441	2,414	2,075	2,404	2,359	2,460	2,555
Wind	550	1,214	1,901	2,767	3,153	4,928	6,130	7,280
Coal-fired	4,991	4,119	6,159	7,465	7,138	6,382	5,851	5,928
Other clean energy	458	453	597	851	1,170	1,988	2,269	2,367
Service concession construction	193	44	277	81	27	0	0	0
Others	0	7	3	4	4	0	0	0
<b>Operating Expenses</b>	<b>(6,735)</b>	<b>(5,644)</b>	<b>(8,317)</b>	<b>(8,907)</b>	<b>(9,190)</b>	<b>(9,970)</b>	<b>(10,541)</b>	<b>(11,356)</b>
Fuel	(2,857)	(2,010)	(4,107)	(4,362)	(4,218)	(4,035)	(3,899)	(3,939)
Cost of substituted electricity	(1,048)	(1,100)	(272)	(140)	(55)	0	0	0
Repairs and Maintenance	(226)	(168)	(335)	(440)	(426)	(477)	(529)	(572)
Administration expenses	(197)	(226)	(430)	(415)	(405)	(405)	(456)	(487)
Depreciation & Amortization	(1,138)	(1,244)	(1,798)	(2,175)	(2,667)	(3,505)	(4,032)	(4,541)
Service concession construction	(193)	(44)	(277)	(81)	(27)	0	0	0
Staff Costs	(827)	(661)	(801)	(955)	(1,052)	(1,162)	(1,212)	(1,369)
Other operating expenses (incomes)	(249)	(191)	(297)	(339)	(342)	(386)	(412)	(448)
<b>Profit from Operations</b>	<b>1,899</b>	<b>1,945</b>	<b>3,478</b>	<b>4,397</b>	<b>4,942</b>	<b>5,758</b>	<b>6,239</b>	<b>6,809</b>
Operating margin	23%	27%	31%	33%	36%	37%	37%	38%
Hydro	1,170	447	1,258	932	1,094	1,054	1,099	1,149
Wind	347	794	1,182	1,466	1,742	2,369	2,919	3,501
Coal-fired	386	656	907	1,966	1,899	1,894	1,635	1,611
Other clean energy	83	88	139	191	346	450	541	610
Other Income	236	310	443	61	237	70	70	35
Interest Income	30	71	74	120	173	159	141	143
Interest Expenses	(985)	(1,272)	(1,978)	(2,425)	(2,518)	(2,653)	(2,916)	(3,205)
<b>Total Financial Expenses</b>	<b>(954)</b>	<b>(1,201)</b>	<b>(1,905)</b>	<b>(2,305)</b>	<b>(2,344)</b>	<b>(2,494)</b>	<b>(2,775)</b>	<b>(3,062)</b>
Share of Profit of Associates	12	3	43	94	84	427	936	1,231
<b>Profit Before Tax</b>	<b>956</b>	<b>748</b>	<b>1,616</b>	<b>2,185</b>	<b>2,681</b>	<b>3,691</b>	<b>4,400</b>	<b>4,978</b>
Income Tax Expense	(158)	(95)	(261)	(484)	(534)	(619)	(624)	(658)
Effective tax rate	17%	13%	17%	23%	21%	19%	18%	18%
Profit Before Minority Interest	798	653	1,356	1,701	2,147	3,072	3,776	4,320
Minority Interest	(277)	(87)	(262)	(233)	(280)	(317)	(284)	(278)
<b>Net Profit Attributable to Shareholders</b>	<b>521</b>	<b>566</b>	<b>1,093</b>	<b>1,468</b>	<b>1,867</b>	<b>2,754</b>	<b>3,492</b>	<b>4,042</b>
Net profit margin	6%	8%	10%	11%	13%	18%	21%	22%
<b>Recurring EPS (Rmb)</b>	<b>NA</b>	<b>0.09</b>	<b>0.16</b>	<b>0.19</b>	<b>0.23</b>	<b>0.32</b>	<b>0.39</b>	<b>0.44</b>
growth yoy %	NM	NM	70%	20%	22%	37%	21%	13%
DPS (Rmb)	-	-	0.03	0.04	0.04	0.06	0.08	0.09
growth yoy %	NM	NM	NM	32%	14%	47%	21%	13%
Dividend payout ratio	0%	0%	18%	20%	19%	20%	20%	20%

Source: Company data, Deutsche Bank estimates



Figure 9: Huadian Fuxin – balance sheet (2010-17E)

Balance Sheet (Rmb m)	2010	2011	2012	2013	2014	2015E	2016E	2017E
<b>Non-Current Assets</b>	<b>40,289</b>	<b>44,688</b>	<b>53,729</b>	<b>60,706</b>	<b>76,186</b>	<b>88,623</b>	<b>97,115</b>	<b>104,240</b>
Property, Plant and Equipment, Net	35,967	38,895	46,639	52,265	66,074	77,565	85,028	90,830
Investment in Associates	1,435	2,046	2,668	3,546	4,433	5,379	6,407	7,731
Intangible Assets	610	700	970	1,096	1,100	1,100	1,100	1,100
Other Non-Current Asset	2,277	3,047	3,451	3,800	4,579	4,579	4,579	4,579
<b>Current Assets</b>	<b>5,422</b>	<b>5,560</b>	<b>7,612</b>	<b>6,970</b>	<b>9,749</b>	<b>8,881</b>	<b>9,289</b>	<b>9,978</b>
Inventories	216	269	342	412	427	414	407	414
Accounts receivable	1,381	1,947	2,866	3,049	3,492	3,934	4,199	4,556
Prepayments and other Receivables	995	1,601	1,578	1,474	1,854	2,090	2,230	2,419
Other current assets	135	216	249	267	686	686	686	686
Cash and Bank Balances	2,695	1,528	2,576	1,769	3,291	1,757	1,768	1,903
<b>Total Assets</b>	<b>45,711</b>	<b>50,248</b>	<b>61,341</b>	<b>67,676</b>	<b>85,935</b>	<b>97,504</b>	<b>106,403</b>	<b>114,218</b>
<b>Current Liabilities</b>	<b>14,717</b>	<b>17,844</b>	<b>18,767</b>	<b>21,816</b>	<b>26,579</b>	<b>26,676</b>	<b>26,783</b>	<b>26,990</b>
Accounts Payable	1,377	992	1,172	1,777	2,915	2,889	2,909	3,046
Other payables and accrued charges	6,164	7,983	7,793	8,049	11,246	11,246	11,246	11,246
Short term bank borrowings	6,997	8,616	9,379	11,617	11,997	11,997	11,997	11,997
Tax Payable	132	16	80	250	328	452	539	609
Other current liabilities	47	236	343	123	93	93	93	93
<b>Non-Current Liabilities</b>	<b>22,524</b>	<b>23,095</b>	<b>29,865</b>	<b>32,149</b>	<b>41,698</b>	<b>48,621</b>	<b>52,268</b>	<b>56,270</b>
Long term bank borrowings	21,707	21,796	27,160	30,301	39,830	46,753	50,400	54,402
Deferred income	122	198	240	321	370	370	370	370
Other Long-term Liability	695	1,101	2,464	1,527	1,498	1,498	1,498	1,498
<b>Shareholders' Equity</b>	<b>6,840</b>	<b>7,504</b>	<b>10,574</b>	<b>11,211</b>	<b>15,013</b>	<b>19,244</b>	<b>24,106</b>	<b>27,432</b>
Issued capital	5,089	6,000	7,623	7,623	8,408	8,828	9,270	9,270
Reserves	1,751	1,504	2,952	3,588	6,605	10,416	14,836	18,162
Minority interest	1,630	1,805	2,135	2,500	2,646	2,963	3,247	3,525
<b>Total Equity</b>	<b>8,470</b>	<b>9,310</b>	<b>12,709</b>	<b>13,711</b>	<b>17,658</b>	<b>22,207</b>	<b>27,353</b>	<b>30,957</b>
<b>Total Liabilities &amp; Equity</b>	<b>45,711</b>	<b>50,248</b>	<b>61,341</b>	<b>67,676</b>	<b>85,935</b>	<b>97,504</b>	<b>106,403</b>	<b>114,218</b>

Source: Company data, Deutsche Bank estimates



Figure 10: Huadian Fuxin – cash flow statement (2010-17E)

Cash Flow (Rmb m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E
<b>Profit Before Tax</b>	<b>956</b>	<b>748</b>	<b>1,616</b>	<b>2,185</b>	<b>2,681</b>	<b>3,691</b>	<b>4,400</b>	<b>4,978</b>
Depreciation & Amortization	1,122	1,244	1,798	2,175	2,667	3,505	4,032	4,541
Dividend income	(7)	(8)	(33)	(74)	0	0	0	0
Gain / Loss on Disposals	(9)	(78)	(136)	21	0	0	0	0
Share of Loss of Associates	(12)	(3)	(43)	(94)	(84)	(427)	(936)	(1,231)
Interest income	(20)	(63)	(40)	(46)	(173)	(159)	(141)	(143)
Interest expenses	981	1,252	1,906	2,141	2,518	2,653	2,916	3,205
FX change	(2)	7	3	11	0	0	0	0
Changes in working capital	199	(1,404)	(275)	551	3,576	(568)	(291)	(347)
Other operating adjustments	(0)	(38)	(7)	(20)	0	0	0	0
<b>Operating Cashflow</b>	<b>3,208</b>	<b>1,657</b>	<b>4,789</b>	<b>6,849</b>	<b>11,184</b>	<b>8,694</b>	<b>9,980</b>	<b>11,003</b>
Tax paid	(193)	(188)	(112)	(228)	(534)	(619)	(624)	(658)
Capex	(6,886)	(5,997)	(7,062)	(7,186)	(15,793)	(14,872)	(11,078)	(10,004)
Capitalised Interest	0	0	(523)	(294)	(364)	(492)	(417)	(339)
Investment in associate	(1,234)	(648)	(681)	(1,542)	(500)	(519)	(92)	(92)
Interest received	73	91	70	46	173	159	141	143
Dividends received	7	50	21	96	0	0	0	0
Other investing adjustments	96	174	523	324	0	0	0	0
<b>Investing Cashflow</b>	<b>(7,945)</b>	<b>(6,330)</b>	<b>(7,651)</b>	<b>(8,557)</b>	<b>(16,484)</b>	<b>(15,724)</b>	<b>(11,446)</b>	<b>(10,292)</b>
Shares Issued/Repurchased	0	0	2,118	0	2,268	1,842	1,935	0
Borrowings	14,122	16,943	13,931	14,752	17,476	16,923	14,647	14,002
Payment of borrowings	(8,218)	(12,045)	(10,915)	(9,747)	(10,000)	(10,000)	(11,000)	(10,000)
Dividends Paid	(96)	(182)	(338)	(377)	(291)	(366)	(564)	(715)
Interest paid	(1,352)	(1,763)	(2,405)	(2,216)	(2,495)	(2,653)	(2,916)	(3,205)
Other financing adjustments	1,643	748	1,407	(1,273)	(1,570)	368	0	0
<b>Financing Cashflow</b>	<b>6,100</b>	<b>3,702</b>	<b>3,798</b>	<b>1,139</b>	<b>5,388</b>	<b>6,115</b>	<b>2,101</b>	<b>82</b>
FX changes	2	(7)	(3)	(11)	0	0	0	0
<b>Net Cashflow</b>	<b>1,172</b>	<b>(1,167)</b>	<b>820</b>	<b>(807)</b>	<b>(445)</b>	<b>(1,534)</b>	<b>11</b>	<b>135</b>

Source: Company data, Deutsche Bank estimates



# Appendix A: Fujian power demand and supply forecast

Given Huadian Fuxin's high capacity concentration in Fujian province, with all coal/hydro/nuclear capacity located there, we analyze Fujian's power demand and supply, which underpin our forecast for its coal plant utilization hours.

Our conclusion is that, despite an intensive addition from both nuclear and coal-fired, Fujian's coal-fired utilization does face downward pressure with a likely 800hr (16%) retreat in total during 2015-17. Nevertheless, by end-2017, coal utilization could still stand at over 4,200hrs, which is way above the breakeven point of c. 3,200hrs.

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## Power consumption

In 2014, Fujian's total power consumption reached 185.6bn kWh, up by 9.1% yoy, which is much faster than the nationwide growth of 3.8% yoy. In 1-2M15, the momentum continues with 8% yoy growth in power consumption despite 2.5% average growth recorded in China. We expect Fujian to see 7% yoy consumption growth p.a. in 2015-17E, outpacing our nationwide forecast of 5.0% yoy.

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## Capacity addition

As of end-2014, Fujian's total installed capacity reached 44.4GW, including 26.7GW of thermal (coal-fired and gas-fired), 3.2GW of nuclear, 12.3GW of hydro and 1.6GW of wind. During 2014-17, we expect nuclear and coal-fired power to be major capacity growth drivers, with 2017E year-end capacity reaching 58.8GW.

- **Coal-fired:** The Fujian government has approved four coal-fired projects since December 2014 with total capacity of 6.4GW including: Huaneng Luoyuan (2x600MW), Shenhua Shishi Hongshan (2x1000MW), SDIC Meizhou Bay II (2x1000MW) and Huadian Fuxin Shaowu III (2x600MW). Together with Shenhua Luoyuan Bay (2x1000MW), which has been approved earlier, we expect a total 8.4GW thermal capacity to come online in 2015-17, with most concentrated in 2017 (5.8GW) by assuming an average of 2-year construction period.
- **Nuclear:** Based on the current construction progress of Ningde Nuclear and Fuqing Nuclear, we expect 2.2GW, 2.2GW and 1.1GW to be added in 2015, 2016 and 2017, respectively.
- **Wind/hydro/gas:** For wind, we build in a 250MW of wind capacity addition p.a. in 2015-17E. For conventional hydro (excluding pumped storage), we expect limited capacity growth as Fujian's hydro resources are well developed. For gas, considering the current high costs and supply shortage, we have not factored in any new capacity,



which is also supported by our national gas project database. In 2005-06, Fujian was leading the nation in ramping up gas-fired plants, resulting in a high 9% capacity mix in 2014 (Deutsche Bank estimate).

- **Inter-provincial transmission:** The North Zhejiang-Fuzhou UHV, which transmits electricity from Fujian to Zhejiang, was completed in end-2014 and increases Fujian's power transmission capacity by 6,800MW on top of the current 1,800MW. Nevertheless, as Zhejiang itself faces oversupply under weak demand growth (+1.5% yoy in 2014) and a squeeze of hydro import upon the commissioning of Xiluodu – Zhejiang UHV line in June 2014, we have not factored in any substantial power export growth during 2015-17E.

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## Utilization hours

With the 1) commissioning of nuclear and 2) ramp up of newly approved thermal units, overall we expect 6.7%/8.7%/14.0% total capacity growth in 2015/16/17. As such, based on our assumption of 7.0% demand growth p.a. in Fujian and limited growth in power export, we do anticipate downward pressure in thermal utilization hours in 2015-17E. Fortunately, some relief was provided by gas-fired units – whose output quota will be mostly transferred to coal-fired units given their unsatisfactory profitability level.

By treating it as plug-in generation after prioritized dispatch of non-fossil fuel capacity, we forecast **coal-fired utilization, despite an 800hr drop during 2015-17E, could still remain above 4,200hrs by end-2017 – which is way above the breakeven point of c. 3,200hrs.**

We summarize our Fujian demand and supply forecast in [Figure 11](#).



Figure 11: Power demand and supply forecast in Fujian

End year capacity (MW)	2011	2012	2013	2014	2015E	2016E	2017E
Coal	21,240	22,202	22,462	22,652	23,652	25,252	31,052
Gas	3,860	4,058	4,058	4,058	4,058	4,058	4,058
Nuclear	0	0	1,080	3,240	5,400	7,560	8,640
Hydro	11,250	11,380	12,250	12,280	12,380	12,480	12,580
Wind	1,030	1,133	1,462	1,594	1,844	2,094	2,344
<b>Total</b>	<b>37,170</b>	<b>38,850</b>	<b>41,330</b>	<b>44,440</b>	<b>47,434</b>	<b>51,544</b>	<b>58,774</b>

New capacity addition (MW)	2011	2012	2013	2014	2015E	2016E	2017E
Coal	2,220	962	260	190	1,000	1,600	5,800
Gas		198	0	0	0	0	0
Nuclear			1,080	2,160	2,160	2,160	1,080
Hydro	150	130	870	30	100	100	100
Wind	300	103	329	132	250	250	250

Power demand (bn kWh)	2011	2012	2013	2014	2015E	2016E	2017E
Fujian power consumption	152.0	157.9	170.1	185.6	198.6	212.5	227.4
% yoy change	15.6%	3.9%	7.7%	9.1%	7.0%	7.0%	7.0%
Power exports	5.7	4.0	8.3	1.2	3.4	3.4	3.4
Export capacity (MW)	1,800	1,800	1,800	1,800	8,600	8,600	8,600
Export capacity (Effective, MW)	1,800	1,800	1,800	1,800	3,400	3,400	3,400
Utilisation hours	3,156	2,244	4,626	641	1,000	1,000	1,000
Export % of Fujian's total output	4%	2%	5%	1%	2%	2%	1%

Power generation (bn kWh)	2011	2012	2013	2014	2015E	2016E	2017E
Coal	113.4	95.1	114.5	113.8	116.0	117.5	118.5
Gas	13.9	14.3	12.2	12.2	10.1	4.1	4.1
Thermal	127.3	109.4	126.6	126.0	126.2	121.6	122.5
Nuclear	0.0	0.0	6.2	11.8	29.8	47.3	60.3
Hydro	28.5	47.6	38.8	38.7	38.9	39.2	39.5
Wind	(125.0)	2.8	3.6	3.8	4.6	5.3	6.0
<b>Total</b>	<b>158.0</b>	<b>162.3</b>	<b>176.5</b>	<b>182.7</b>	<b>202.0</b>	<b>215.9</b>	<b>230.8</b>

Utilisation hours	2011	2012	2013	2014	2015E	2016E	2017E
Coal	5,631	4,376	5,126	5,067	5,067	4,785	4,253
% yoy change		-22%	17%	-1.1%	0.0%	-5.6%	-11.1%
Gas	3,601	3,535	3,000	3,000	2,500	1,000	1,000
Thermal	5,295	4,362	4,852	4,850	4,680	4,248	3,839
% yoy change		-18%	11%	0%	-3%	-9%	-10%
Nuclear			8,471	7,160	7,200	7,200	7,200
Hydro	2,505	4,185	3,263	3,260	3,260	3,260	3,260
Wind		2,803	2,738	2,530	2,700	2,700	2,700

Source: CEIC, Fujian NDRC, Fujian NEA, Deutsche Bank estimates







# Appendix 1

## Important Disclosures

Additional information available upon request

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Company	Ticker	Recent price*	Disclosure
Huadian Fuxin	0816.HK	3.28 (HKD) 23 Mar 15	6,9

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Historical recommendations and target price: Huadian Fuxin (0816.HK)  
 (as of 3/23/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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1.	11/03/2014:	Upgrade to Buy, Target Price Change HKD5.50	3.	24/08/2014:	Buy, Target Price Change HKD6.00
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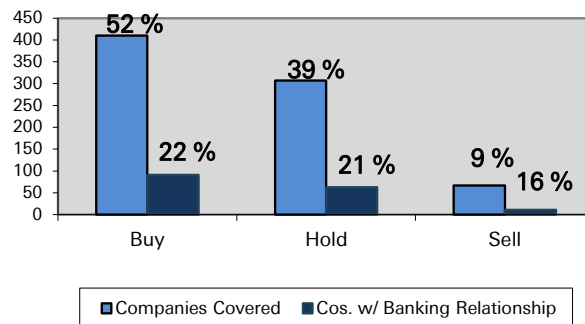
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