

Analyst: Paul Sham

CGN POWER CO., LTD.
(中國廣核電力股份有限公司)

Sector	: Utilities
HKSE Code	: 01816
Market Price	: HK\$3.19 (23/03/2015)
Shares Issued	: 11,164m
Mkt. Cap.	: HK\$35,613m
52 weeks Hi/ Lo	: HK\$3.66 / HK\$3.00
HSI / HSCEI	: 24,479.18 / 12,167.73 (23/03/2015)
Main Business	: Nuclear power supplier

Chairman : Mr. Zhang Shanming

President & Executive Director : Mr. Gao Ligang

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014

Final Results Highlights

	FY2014	FY2013	
	RMB million	RMB million	Change
Revenue	20,793	17,365	+19.7%
Sales of electricity	19,327	16,268	+18.8%
Service revenue	1,214	843	+43.9%
Sales of other goods	252	254	-0.7%
Gross profit	10,090	8,148	+23.8%
Profit attributable to equity shareholders	5,713	4,195	+36.2%
	RMB	RMB	
EPS	0.1700	0.150	+13.3%
Final dividend	0.0025	NA	
Key financial indicators			
Gross margin	48.5%	46.9%	
Net margin	27.5%	24.2%	
Return on equity	15.1%	18.2%	
Return on total assets	4.8%	4.1%	
Gearing ratio	136.4%	250.4%	
Debt to equity ratio	88.0%	220.7%	
Interest coverage	2.3x	1.7x	

- CGN Power's FY14 net profit surged 36.2% y-o-y to RMB5,713m, ahead of market estimate of RMB5,475m. The strong earnings was attributable to the commissioning of new nuclear power projects. With its short listing history since late-Dec 14, the company declared a minimal final dividend of RMB0.0025 per share. Going forward, CGN Power targets dividend payout ratio to be above 33%.
- There was notable improvement in CGN Power's gearing ratio and debt-to-equity ratio, primarily due to the net proceeds of RMB21,604m being raised from the global offering in late 2014. Its gearing ratio is expect to rise in 2015 and 2016 after consolidating the two units of the Taishan Nuclear Station (with a total installed capacity of 3,500MW) from its parent, CGNPC.

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Outlook & Prospects

- **A leading player in an expanding nuclear industry** CGN Power has eleven operating nuclear power units with a total installed capacity of 11,624MW as of end-2014. Of these eleven units, CGN Power has controlling interests in seven units in Guangdong, and minority interests in two units in Fujian and two units in Liaoning. In addition, CGN Power has nine nuclear power generating units with a total installed capacity of 9,846MW under construction. Meanwhile, CGN Power plans to acquire two units of the Taishan Nuclear Station with a total installed capacity of 3,500MW from its parent, CGNPC. Once all its nuclear power units under construction in China commence operations (by end-2019), CGN Power will expand its total installed capacity to 24,970MW, from the current 11,624MW, translating into CAGR of 13.6% from 2014 to 2020E. Given CGN accounted for 57.3% market share in terms of nuclear installed capacity in 2014, we believe the market trend will drive the company's earnings directly.
- **High earning visibility** CGN Power can provide higher earnings stability and visibility vs thermal power as nuclear power stations generally enjoys priority on grid connection over power companies with electricity generated using fossil fuels. On the other hand, nuclear output is also less weather dependent than wind and solar. As such, the average utilization hours of CGN Power's mature units maintained at a high level of 7,851 hours and 7,793 hours in 2013 and 2014 respectively and we expect CGN Power could sustain its current utilization hours in the future with limited downside risk.
- **Smooth acquisition of Taishan Nuclear plan as near-term catalyst** CGN Power said the process of acquiring an additional 41% equity interest in Taishan Nuclear (from 10% to 51%) from its parent CGNPC is on track and the deal is expected to be completed at end-Mar 2015 with consideration of RMB9.7bn. Currently, Taishan Nuclear Unit 1 and 2 are under construction and scheduled to commence operation in 2016. The smooth completion of the acquisition is the key for CGN Power to maintain high earnings growth in 2015 and 2016.
- **Potential Inclusion of CGN Power to main indices** CGN Power was included into MSCI China Index and FTSE World Index in late December 2014, less than a month since its listing on 10th December 2014. Considering its unique nature of CGN's business and its large market capitalization, we believe CGN Power is very likely to be included in the HSCEI or even Hang Seng Index after having a listing history of 24 months. The inclusion of CGN Power in the main stock market indices could be a medium term positive catalyst on the share prices of CGN Power.
- **Valuation** As CGN Power is the only pure (100% of nuclear capacity) nuclear operator listed in Hong Kong, there is no direct comparison. Based on the current price of HK\$3.19, CGN Power's FY15E P/E of 19.0x is trading at a premium over other new energy operators, such as solar sector's 10.1x and wind farm operators' 10.8x. Nevertheless, we believe nuclear power should enjoy a valuation premium over other renewable energy as the nuclear power industry in China has substantially barriers to entry, including barriers related to government approvals, technology, human capital and financing. Due to high entry barriers, only a small number of participants in the nuclear power industry in China hold a relatively large market share, implying limited competition among rivals. As such, we recommend a "Buy" rating to the counter.

Recommendation: Buy

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