

Nat Resources & Energy
Electric Utilities
 Equity – China

Buy

Target price (HKD)	9.50
Share price (HKD)	8.14
Upside/Downside (%)	16.7

Performance	1M	3M	12M
Absolute (%)	-0.1	2.6	1.5
Relative ^A (%)	-1.1	-1.4	-21.3

Index^A HSCEI

RIC 0916.HK
 Bloomberg 916 HK

Market cap (USDm) 8,483
 Market cap (HKDm) 65,796

Enterprise value (CNYm) 118669
 Free float (%) 33

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China Longyuan Power (916 HK)

Buy: FY14 results beat expectation

- ▶ **FY14 normalised attributable net profit of RMB2,608m, up 10% y-o-y, 19%/7% above HSBCe/Consensus**
- ▶ **Good results due to better operating cost, higher associate contribution and lower tax rate**
- ▶ **Establish a Buy rating and set a fair value TP of HKD9.50 based on average of DCF and RoE-implied PB**

Investment thesis: We believe Longyuan, the largest domestic wind developer, will continue to benefit from the long-term renewable themes in China – wind utilisation improvement, wind capacity expansion, and favourable renewable policy. We expect earnings recovery from its announced larger expansion plan and utilisation normalisation.

FY14 results: Longyuan reported FY14 attributable net profit of RMB2,558m, up 25% y-o-y and EPS of RMB0.3183, up 25% y-o-y. We estimate FY14 normalised attributable net profit of RMB2,608m, after excluding impairment loss and other one-off items, up 10% y-o-y, 19%/7% above HSBCe/Consensus. Higher-than-expected results were mainly due to: 1) **lower operating cost** down 6.9% y-o-y if we exclude impairment loss, especially y-o-y decline in repairs and maintenance costs; 2) **associate contribution** (RMB453m) from JV coal power plant (RMB236m higher than our estimates); and 3) **lower effective tax rate** at 12.5% in FY14 vs 16% in FY13. **Gearing ratio** continues to remain at a reasonable level of 62.3% (net debt/(net debt + equity)) by the end of 2014 vs 60.4% by the end of 1H14. **Wind/Coal** segment contributed 87%/12% to total EBIT in FY14.

Key focus for the briefing on 25 March: Company guidance on utilisation hours, curtailment improvement, and wind conditions in FY15; new builds target for FY15 and possibility on earlier commission; outlook for post-warranty maintenance cost; and time frame for implementation of the Renewable Portfolio Standards.

We establish a Buy rating (OW under our previous rating system) and set a fair value TP of HKD9.50 based on the average of DCF and RoE-implied PB: Our DCF valuation is HKD9.21 (based on an unchanged WACC of 5.4% using a risk free rate of 3.0%, equity risk premium of 6.5% and equity beta of 0.6), and our RoE-implied PB-based valuation is HKD8.08 (based on FY15e book value and RoE/CoE PB multiple of 1.44x). We apply a 10% premium for the long-term carbon benefit. **Downside risks:** lower generation; less new-builds and higher operation costs. **Catalysts:** stronger wind output and earlier commission time for new projects.

Results

Financials (Rmb m)

	Unit	1H 2014	2H 2014	FY2014	HSBC FY14e	vs HSBC FY14e	1H/FY2014
Revenue		9,204	9,441	18,645	19,673	-5%	49%
yoy/hoh growth	%	-6.7%	-3%	-5%	1%		
Coal consumption		-893	-848	-1,741	-1,826	-5%	51%
Coal sales cost		-1,077	-1,170	-2,247	-2,928	-23%	48%
Service concession construction costs		-20	-207	-228	-667	-66%	9%
Personnel costs		-495	-730	-1,225	-1,239	-1%	40%
Material cost		-180	-163	-344	-410	-16%	52%
Repairs and maintenance		-190	-259	-450	-571	-21%	42%
Administration expenses		-115	-263	-378	-455	-17%	30%
Other operating expenses		-238	-235	-474	-492	-4%	50%
EBITDA		5,995	5,565	11,559	11,084	4%	52%
Margin	%	65%	59%	62%	56%		
yoy/hoh growth	%	5.9%	17%	11%	7%		
Depreciation & amortization		-2,406	-2,594	-5,001	-4,826	4%	48%
yoy/hoh growth		15%	12%	14%	7%		
EBIT		3,588	2,970	6,559	7,518	-13%	55%
Margin	%	39%	31%	35%	32%		
yoy/hoh growth	%	0.4%	22%	9%	4%		
Financial income		63	135	198	96	106%	32%
Financial expense		-1,642	-1,507	-3,149	-3,199	-2%	52%
Share in profit JV/associate		167	287	454	218	108%	37%
PBT		2,176	2,176	4,062	3,373	20%	54%
Tax		-287	-224	-510	-506	1%	56%
Tax rate		-13%	-10%	-13%	-15%		
Reported attributable profit		1,365	1,193	2,558	2,190	17%	53%
Margin		15%	13%	14%	11%		
yoy/hoh growth		-6.8%	103%	25%	52%		
Normalized attributable profit		1,364	1,244	2,608	2,190	19%	52%
Margin	%	15%	13%	14%	11%		
yoy/hoh growth	%	-8%	40%	10%	-15%		
Normalised EPS		16.99	15.46	32.45	27.25	19%	52%
yoy/hoh growth	%	-7%	38%	10%	7%		

Source: Company, HSBC estimates

Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 25 March 2015, the distribution of all ratings published is as follows:

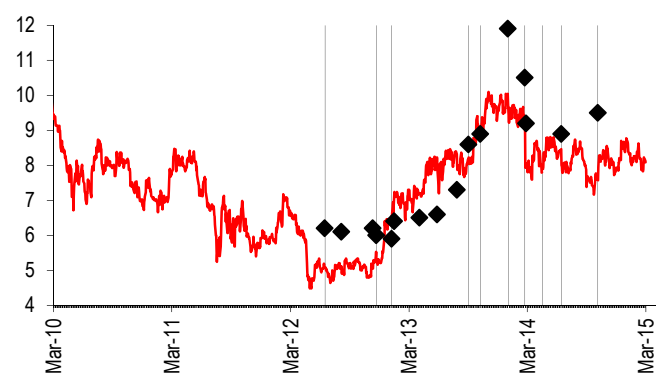
Buy	41%	(30% of these provided with Investment Banking Services)
Hold	39%	(28% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

China Longyuan Power (0916.HK) Share Price performance HKD Vs HSBC

rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	08 July 2012
Overweight (V)	Neutral	14 December 2012
Neutral	Underweight	30 January 2013
Underweight	Neutral	24 September 2013
Neutral	Underweight	31 October 2013
Underweight	Overweight	24 January 2014
Overweight	Neutral	17 March 2014
Neutral	Overweight	11 May 2014
Overweight	Neutral	07 July 2014
Neutral	Overweight	28 October 2014
Target Price	Value	Date
Price 1	6.20	08 July 2012
Price 2	6.10	28 August 2012
Price 3	6.20	03 December 2012
Price 4	6.00	14 December 2012
Price 5	5.90	30 January 2013
Price 6	6.40	07 February 2013
Price 7	6.50	26 April 2013
Price 8	6.60	19 June 2013
Price 9	7.30	20 August 2013
Price 10	8.60	24 September 2013
Price 11	8.90	31 October 2013
Price 12	11.90	24 January 2014
Price 13	10.50	17 March 2014
Price 14	9.20	21 March 2014
Price 15	8.90	07 July 2014
Price 16	9.50	28 October 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
CHINA LONGYUAN POWER	0916.HK	8.09	24-Mar-2015	4

Source: HSBC

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