

Nat Resources & Energy
Electric Utilities
 Equity – China

Buy

Target price (HKD)	5.30
Share price (HKD)	3.13
Upside/Downside (%)	69.3

Performance	1M	3M	12M
Absolute (%)	4.0	-6.8	-33.8
Relative ^A (%)	5.9	-9.5	-46.4
Index ^A	HSCEI		
RIC	0579.HK		
Bloomberg	579 HK		
Market cap (USDm)	2,768		
Market cap (HKDm)	21,504		
Enterprise value (CNYm)	39790		
Free float (%)	30		

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

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Beijing Jingneng Clean (579 HK)

Buy: FY14 results in line with our expectation

- ▶ **FY14 normalised attributable net profit of RMB1,153m, up 7% yoy, in line with our estimates**
- ▶ **Gas power segment profit margin down 5ppt yoy due to the time lag of fuel cost pass-through; partially offset by wind/other segment**
- ▶ **Establish a Buy rating and set a fair value TP of HKD5.30 based on average of DCF and RoE-implied PB**

Investment thesis: We like BJCE's dominant and distinctive position in Beijing's gas power market, strong earnings growth driven by its capacity expansion and stable Beijing local government support. The stock offers good value, in our view, on FY15e multiples that include earnings contributions from projects to be commissioned – trading at FY15e PE of 7.5x vs EPS growth of 40.8% in FY15-16e; FY15e PB of 1.2x vs RoE of 17.0%.

FY14 results largely in line with our expectation: BJCE reported FY14 attributable net profit of RMB1,235m, up 5% yoy; FY14 normalised attributable net profit of RMB1,153m (ex one-off gains) was up 7% yoy, in line with our estimates and 19% below consensus. **Gas power segment** profit of RMB1,170m (50% of total operating profit), up 25% yoy, on contribution from newly commissioned capacity; segment profit margin down 5ppt yoy to 23% from 18% due to the increase of gas cost by RMB0.4/cm³ in August 2014 has been not been passed through to on-grid tariffs (equivalent to RMB0.08/KWh). The increase in on-grid tariffs is pending NDRC approval. **Wind power segment** profit of RMB855m (37% of total operating profit) was down 2.5% yoy due to weak wind generation in FY14; segment profit margin largely remained at 55% in FY14 vs 53% in FY13. **Trade receivables increased** by RMB2.15bn to RMB3.97bn (up 118% yoy) which was largely related to gas power subsidy.

Post result conference call is at 4pm on 31 March: Key focus includes an update on gas power subsidy to reflect increase in gas cost last August; any possibility to revise down gas power tariffs given lower gas prices in FY15; new build plans in FY15/16e; and utilisation guidance for FY15e.

Establish Buy rating and set unchanged TP of HKD5.30 based on the simple average of DCF of HKD5.85 at an unchanged WACC of 5.6% and RoE-implied PB of HKD4.74 at 2.0x 2014e PB. **Downside risks:** gas price cannot be fully passed through, delays in commissioning of new projects, and lower utilisation hours.

Results summary table

BJCE financials (RMB '000)

	1H14	2H14	2014	HSBC 2014e	vs HSBC 2014e	yoy
Revenue (ex other income)	3,293,500	5,435,187	8,728,687	8,011,043	9%	40%
yoy change %	12%	-13%	40%	28%		
Other income	519,343	906,280	1,425,623	1,101,561	29%	-2%
Operating expense						
Gas consumption	-1,757,677	-3,643,773	-5,401,450	-4,522,643	19%	48%
Service concession construction costs	0	0	0	0		
Depreciation and amortization	-591,871	-712,224	-1,304,095	-1,335,985	-2%	18%
Personnel costs	-153,580	-263,814	-417,394	-387,175	8%	20%
Repairs and maintenance	-74,327	-234,477	-308,804	-266,286	16%	24%
Other expenses	-140,199	-348,605	-488,804	-462,082	6%	14%
Other gains and losses	45,016	51,311	96,327	0		
Total Operating expenses	-2,672,638	-5,151,582	-7,824,220	-6,974,172	12%	38%
Profit from operations	1,140,205	1,189,885	2,330,090	2,138,433	9%	14%
margin (%)	30%	22%	27%	23%		
yoy change %	12%	17%	14%	5%		
Finance income	12,891	8,530	21,421	27,834	-23%	-28%
Finance costs	-484,683	-614,873	-1,099,556	-1,034,136	6%	21%
Net finance expenses	-471,792	-606,343	-1,078,135	-1,006,302	7%	23%
Share of results of associates	180,452	139,204	319,656	287,939	11%	11%
Share of results of jointly controlled entities	-93	96	3	73	-96%	-96%
Profit before taxation	848,772	722,842	1,571,614	1,420,143	11%	-1
Income tax	-129,703	-154,618	-284,321	-184,619	54%	28%
	15%		18%	13%		
Profit for the period	719,069	568,224	1,287,293	1,235,524	4%	5%
Non-controlling interests	-48,293	-30,670	-78,963	-82,486	-4%	-4%
Profit attributable to equity holders of the company	670,776	537,554	1,208,330	1,153,039	5%	5%
Normalized attributable net profit	632,639	496,791	1,129,430	1,153,039	-2%	7%

Source: Company data, HSBC estimates

Disclosure appendix

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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.

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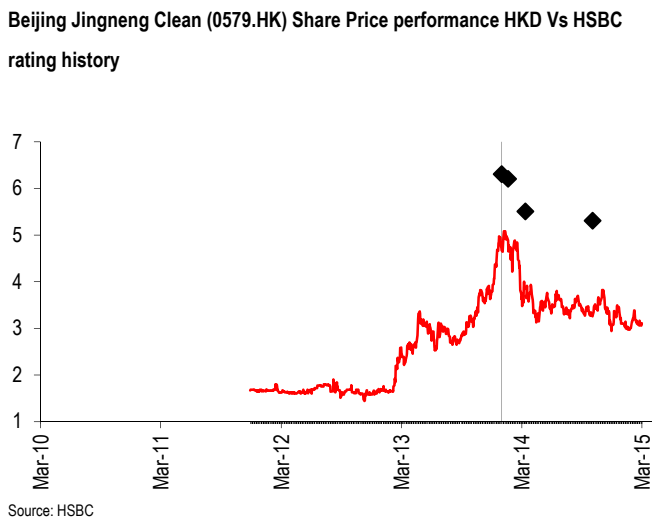
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Buy	41%	(30% of these provided with Investment Banking Services)
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For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current 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



Recommendation & price target history		
From	To	Date
N/A	Overweight (V)	24 January 2014
Target Price	Value	Date
Price 1	6.30	24 January 2014
Price 2	6.20	13 February 2014
Price 3	5.50	06 April 2014
Price 4	5.30	27 October 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BEIJING JINGNENG CLEAN ENERGY	0579.HK	3.11	25-Mar-2015	4, 7

Source: HSBC

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