



Rating  
**Sell**

Asia  
China

Industrials  
Manufacturing

Company  
**Dongfang Electric  
Alert**

Reuters  
1072.HK

Bloomberg  
1072 HK

Exchange  
HKG Ticker  
1072

Date  
29 March 2015

**Forecast Change**

Price at 27 Mar 2015 (HKD)	14.12
Price target - 12mth (HKD)	9.80
52-week range (HKD)	17.02 - 11.44
HANG SENG INDEX	24,486

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## Results below expectation; cut earnings/TP and reiterate Sell

### Worse-than-expected FY14 results; Reiterate Sell on lackluster outlook

Dongfang Electric reported a set of disappointing FY14 results with NP slumping 46% to Rmb1,278m, which is 7%/17% below DBE/consensus on worse-than-expected ASP and margin decline for coal/wind/hydro/engineering. The company guided to 27GW output in 2015 (2014: 34.5GW) and likely further pressure in earnings. We expect another challenging year with a lackluster outlook for thermal and hydro, while wind and nuclear recovery will likely not be sufficient to offset. We reduce our FY15/16 earnings by 10.5%/14.7% and cut TP to HK\$9.8. We also factor in a 14% equity dilution on 333m new A shares following CB conversion in Jan-Feb 2015. The stock trades at 21x FY15E P/E and 1.1x P/B with a ROE of 5.8%. Reiterate Sell.

### FY14 results suggest no pick-up in 4Q14; margin deterioration to be blamed

In 2014, Dongfang realized revenue of Rmb39bn, down 8% yoy, mainly dragged by 27% lower construction/service and 28%/27% decline in hydro/new energy despite a 4% higher contribution from HECE segment on 129% increase in gas turbines. NP fell a sharp 46%, hurt by an overall margin decline of 3.6ppt (16.8% vs. 20.4% in 2013). Thus, it suggests no pick-up in 4Q14 compared to 42% yoy profit decline in 9M14. The margin deterioration is mainly on worse-than-expected ASP decline in thermal as well as delayed impact from legacy issues for its wind turbine business. By segment, HECE was down 4.6ppt, new energy was down 5.4ppt, hydro was down 7.7ppt while construction/service was up 6.2ppt (probably due to provision reversal on certain project completion). We don't expect any meaningful margin recovery near term as Dongfang continues to digest low price orders for coal/wind according to delivery schedule.

### Output flat; new orders slightly missed target

Sales output was flat at 34.5GW, in line with its target of 33GW. By product, steam generator was 30GW (+11%), steam turbine was 31GW (+2%), steam boiler was 23GW (+9%), hydro generator was 3.4GW (-51%) and wind turbine was 1.1GW (+45%). New orders came in at Rmb38.2bn (-5% yoy), lower vs. its target of Rmb40bn (HECE: Rmb22.2bn, -22%; New energy: Rmb6.1bn, +117%; construction/service: Rmb8bn, +25%; export: Rmb1.8bn, -51%). As a result, total backlog orders at end-14 were down 8% to Rmb126.7bn with 64% from HECE, 16% from new energy, 4% from hydro and 16% from construction.

### Longer A/R days; higher cash balance but no increase for low dividend payout

A/R remains high at Rmb24.5bn (flat yoy), implying receivable days at 229 (vs. 211 in 2013). By end-14, the cash balance increased Rmb5.7bn to Rmb17.8bn, with FCF at 2.6bn and financing cash flow at Rmb3.1bn on issuance of A share CB of Rmb4bn, which has largely converted to 333m A shares, or 14% of enlarged shares, in Feb-15. Dongfang declared DPS at Rmb0.09/sh, implying a 14% payout, similar to 15% in 2013 despite a higher cash balance.

### Key changes

Price target	10.10 to 9.80	↓	-3.0%
Sales (FYE)	40,629 to 39,036	↓	-3.9%
Op prof margin (FYE)	3.7 to 3.4	↓	-8.9%
Net profit (FYE)	1,377.0 to 1,278.3	↓	-7.2%

Source: Deutsche Bank

### Stock data

Market cap (HKDm)	28,295
Market cap (USDm)	3,649
Shares outstanding (m)	2,003.9
Major shareholders	Dongfang Electric Group (53.9%)
Free float (%)	46
Avg daily value traded (USDm)	6.8

Source: Deutsche Bank

### Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	42,391	39,036	37,623
Net Profit (CNYm)	2,349.4	1,278.3	1,265.5
DB EPS (CNY)	1.17	0.64	0.54
PER (x)	8.5	17.7	20.9
Yield (net) (%)	1.8	0.8	1.0

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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