HONG KONG

916 HK — Outperform

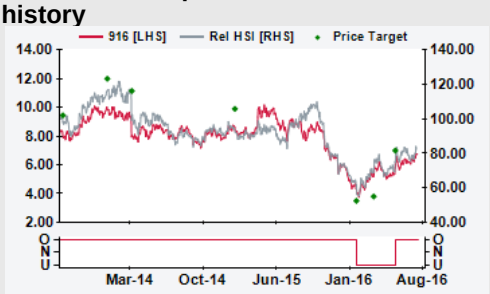
Price (at 08:08, 09 Aug 2016 GMT) HK$6.74

Valuation	**HK$**	**7.00**
- DCF (WACC 7.3%, beta 1.1, ERP 7.0%, RFR 3.0%, TGR 2.8%)		
12-month target	**HK$**	**7.00**
Upside/Downside	**%**	**+3.9**
12-month TSR	**%**	**+5.6**
Volatility Index		**High**
GICS sector		**Utilities**
Market cap	**HK$m**	**54,165**
Market cap	**US$m**	**6,974**
Free float	**%**	**100**
30-day avg turnover	**US$m**	**9.7**
Number shares on issue	**m**	**8,036**

Investment fundamentals

Year end 31 Dec		2015A	2016E	2017E	2018E
Revenue	m	19,649	21,519	23,338	24,720
EBIT	m	7,125	8,731	9,807	10,721
EBIT growth	%	8.6	22.5	12.3	9.3
Reported profit	m	2,881	3,859	4,429	4,925
Adjusted profit	m	2,881	3,859	4,429	4,925
EPS rep	Rmb	0.36	0.48	0.55	0.61
EPS rep growth	%	13.2	34.0	14.8	11.2
EPS adj	Rmb	0.36	0.48	0.55	0.61
EPS adj growth	%	13.2	34.0	14.8	11.2
PER rep	x	16.1	12.0	10.5	9.4
PER adj	x	16.1	12.0	10.5	9.4
Total DPS	Rmb	0.07	0.09	0.10	0.12
Total div yield	%	1.2	1.6	1.8	2.0
ROA	%	5.5	6.3	6.7	6.9
ROE	%	8.4	10.1	10.2	10.4
EV/EBITDA	x	8.9	7.6	6.8	6.3
Net debt/equity	%	172.8	156.9	146.4	133.7
P/BV	x	1.3	1.1	1.0	0.9

916 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2016

(all figures in Rmb unless noted, TP in HKD)

Analyst(s)

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10 August 2016

Macquarie Capital Limited

China Longyuan Power

1H16 results beat, 2H16 to be better

Event

- Longyuan Power released 1H16 results with net profit increasing to Rmb2.4bn (up 7% YoY), which beat our 1H16 estimate by 14% and accounts for 66% of 2016 full-year consensus (vs 58% average in 2013-15), due to lower finance costs. In 2H16, we expect a utilization turnaround (up 18% YoY in 2H16 vs down 10% YoY in 1H16) and positive impact from direct power sales, which we think consensus has not factored in. We maintain our positive view on China wind IPPs and reiterate our Outperform on Longyuan Power.

Impact

- **Positive impact from direct power sales to kick in from 2H16.** Wind power EBIT margin in 1H16 edged down by 3ppts, which was negatively impacted by the lower weighted-average tariff (down 2% YoY), due to enlarging direct power sales in the curtailed regions in 1H16. We believe direct power sales will start to have a positive impact on profitability from 2H16, as renewable names should a) realize a minimum and reasonable return with the full implementation of the minimum-purchase policy in 2H16; b) trade at zero marginal cost, and c) still receive subsidies from direct power sales.
- **Market has overestimated finance costs.** In 1H16, compared with 6% YoY growth in revenue, the net finance costs (excluding forex loss) dropped by 3% YoY, mainly attributed to the lower borrowing rate (down 1ppts YoY). We expect its effective borrowing rate will further decline by 30bps in 2H16 to fuel its earnings growth, arising from the gradual effects of interest rate cuts and an improving debt structure.
- **Consensus has not fully factored in utilization turnaround in 2H16.** In 1H16, wind utilization hours dropped by 10% YoY to 980 hours, which accounts for 51% of our 2016 full-year estimates. Our FY16 estimates are 8% higher than consensus. We are confident that Longyuan will see a utilization turnaround (up 18% YoY) in 2H16, given a) a low base in 2H15, and b) June-July data indicates the curtailment issue in north China is declining with the gradual implementation of the minimum-purchase policy. Our FY16 estimates are 8% higher than consensus.
- **Expect stock to re-rate.** Along with the likely v-shaped recovery of wind utilization in 2H16 from an historical trough in 1H16, the stock could re-rate by another 50% to its historical average forward PE of 18x in 2H16.

Earnings and target price revision

- No change. Earnings estimates under review.

Price catalyst

- 12-month price target: HK$7.00 based on a DCF methodology.
- Catalyst: Strong monthly data, payment of overdue subsidies.

Action and recommendation

- Reiterate Outperform. More details will be given after the analyst briefing on August 10, 2016 at 4:30pm. We maintain our positive view on China wind IPPs (refer to Pitfalls removed) and Huaneng Renewables (958 HK, HK$2.67, Outperform, TP: HK$3.30) is our top pick.

Analysis

Fig 1 1H16 results highlights

Financials (RMB mn)	1H16	1H15	YoY %	1H16 Macquarie estimates	1H16 Actual vs Maq estimates
Revenue	11,209	10,551	6%	10,759	4%
-wind	7,171	6,723	7%		
-coal	3,552	3,056	16%		
-others	456	739	-38%		
Other net income	283	210	35%	261	8%
DDA	-3,043	-2,688	13%	-3,105	-2%
Coal consumption	-673	-761	-12%	-642	5%
Service concession construction costs	-218	-381	-43%	-114	91%
Personnel costs	-593	-550	8%	-777	-24%
Material costs	-1,850	-1,248	48%	-1,206	53%
Repairs and maintenance	-236	-206	15%	-318	-26%
Administration expenses	-142	-134	6%	-203	-30%
Other operating expenses	-193	-367	-48%	-291	-34%
EBIT	4,544	4,426	3%	4,366	4%
-wind	3,876	3,829	1%		
-coal	583	564	3%		
-others	97	71	36%		
EBITDA	7,470	7,114	5%	7,470	0%
Share of profits less losses of associates and joint ventures	239	224	7%	271	-12%
Net finance costs	-1,426	-1,414	0.9%	-1,376	4%
PBT	3,357	3,236	4%	3,261	3%
Net profit attributable to shareholders	2,364	2,206	7%	2,082	14%
Financial ratio (%)	**1H16**	**1H15**	**YoY %**	**2016E**	**1H16 vs 2016E**
EBIT margin	41%	42%	-1%	43%	-2%
-wind	54%	57%	-3%		
-coal	16%	18%	-2%		
-others	21%	10%	12%		
Effective borrowing rate	4.1%	4.9%	-0.9%	3.8%	0.3%
Net gearing	183%	195%	-12%	186%	-3%

Source: Company data, Macquarie Research, August 2016

Fig 2 1H16 operating data highlights

	1H16	1H15	YoY %	2016E	1H16 in % of 2016E
Wind					
Newly-added capacity (MW)	782	1,026	-24%	1,855	42%
Total-installed capacity (MW)	18,732	14,568	29%	20,069	-
Utilization hours	980	1,085	-10%	1,929	51%
Total power generation (mn KWh)	15,409	14,191	9%	30,757	50%
Weighted-average tariff (Rmb/kWh)	0.578	0.588	-2%	0.570	-
Coal					
Total-installed capacity (MW)	1,875	1,875	0%	1,875	-
Utilization hours	2,500	2,618	-5%	4,788	52%
Total power generation (mn KWh)	4,688	4,908	-4%	8,978	52%
Weighted-average tariff (Rmb/kWh)	0.379	0.423	-10%	0.378	-

Source: Company data, Macquarie Research, August 2016

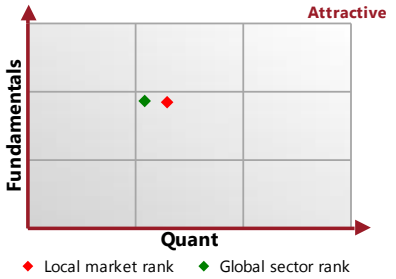
Macquarie Quant View

The quant model currently holds a neutral view on China Longyuan Power. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

281/439

Global rank in Utilities

% of BUY recommendations	79% (23/29)
Number of Price Target downgrades	2
Number of Price Target upgrades	6

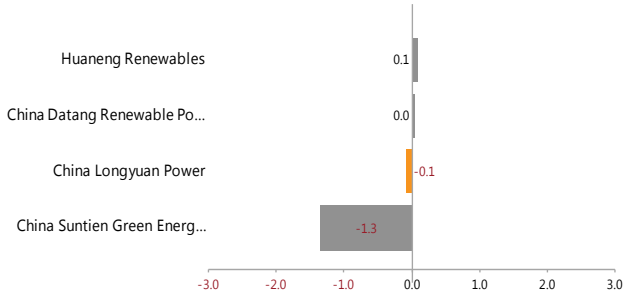


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Hong Kong) and Global sector (Utilities)

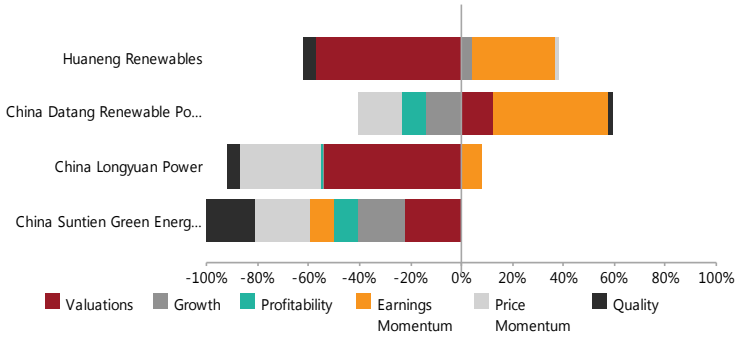
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



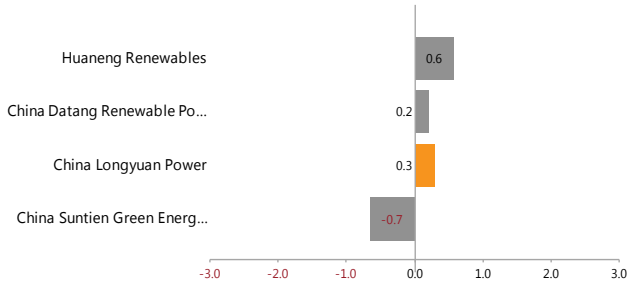
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



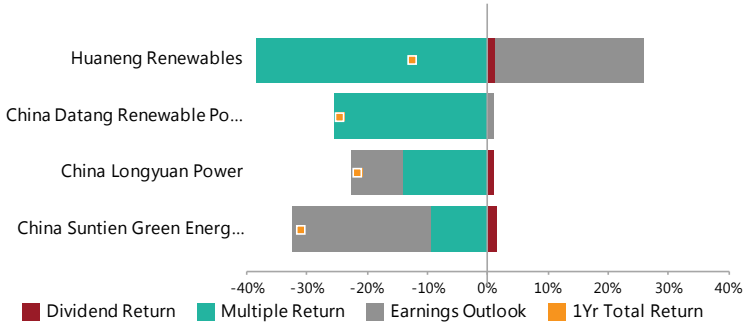
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



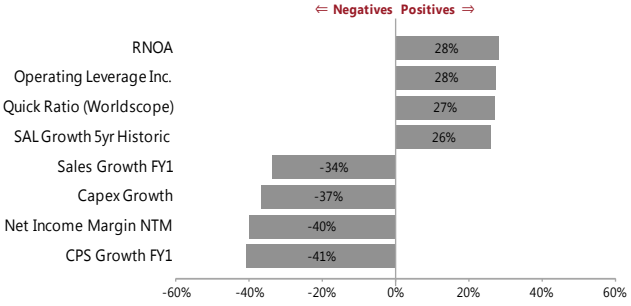
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



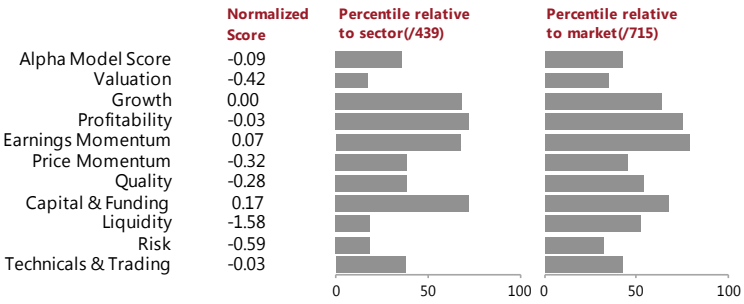
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

China Longyuan Power (916 HK, Outperform, Target Price: HK$7.00)

Interim Results		2H/15A	1H/16E	2H/16E	1H/17E
Revenue	**m**	**9,108**	**10,759**	**10,759**	**10,502**
Gross Profit	**m**	**6,985**	**8,797**	**8,797**	**8,779**
Cost of Goods Sold	m	2,123	1,962	1,962	1,723
EBITDA	**m**	**5,573**	**7,470**	**7,470**	**7,491**
Depreciation	m	2,618	2,843	2,843	2,828
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	262	262	249
EBIT	**m**	**2,955**	**4,366**	**4,366**	**4,413**
Net Interest Income	m	-1,615	-1,376	-1,681	-1,462
Associates	m	352	271	271	277
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	-232	0	0	0
Other Pre-Tax Income	m	232	0	0	-0
Pre-Tax Profit	**m**	**1,692**	**3,261**	**2,956**	**3,229**
Tax Expense	m	-237	-378	-378	-408
Net Profit	**m**	**1,455**	**2,883**	**2,578**	**2,821**
Minority Interests	m	-527	-801	-801	-827
Reported Earnings	**m**	**927**	**2,082**	**1,777**	**1,993**
Adjusted Earnings	**m**	**927**	**2,082**	**1,777**	**1,993**
EPS (rep)	fen	11.5	25.9	22.1	24.8
EPS (adj)	fen	11.5	25.9	22.1	24.8
EPS Growth yoy (adj)	%	-22.9	6.6	91.6	-4.3
EBITDA Margin	%	61.2	69.4	69.4	71.3
EBIT Margin	%	32.4	40.6	40.6	42.0
Earnings Split	%	32.2	54.0	46.0	45.0
Revenue Growth	%	-1.4	2.1	18.1	-2.4
EBIT Growth	%	-6.8	4.7	47.7	1.1

Profit & Loss		2015A	2016E	2017E	2018E
Revenue	**m**	**19,649**	**21,519**	**23,338**	**24,720**
Gross Profit	**m**	**15,136**	**17,595**	**19,510**	**20,906**
Cost of Goods Sold	m	4,513	3,924	3,828	3,814
EBITDA	**m**	**12,680**	**14,941**	**16,646**	**18,177**
Depreciation	m	5,554	5,686	6,285	6,873
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	524	553	584
EBIT	**m**	**7,125**	**8,731**	**9,807**	**10,721**
Net Interest Income	m	-3,025	-3,057	-3,248	-3,369
Associates	m	576	543	616	671
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	-233	0	0	0
Other Pre-Tax Income	m	233	0	0	0
Pre-Tax Profit	**m**	**4,676**	**6,217**	**7,175**	**8,022**
Tax Expense	m	-600	-756	-907	-1,053
Net Profit	**m**	**4,076**	**5,461**	**6,268**	**6,969**
Minority Interests	m	-1,196	-1,602	-1,839	-2,044
Reported Earnings	**m**	**2,881**	**3,859**	**4,429**	**4,925**
Adjusted Earnings	**m**	**2,881**	**3,859**	**4,429**	**4,925**
EPS (rep)	fen	35.8	48.0	55.1	61.3
EPS (adj)	fen	35.8	48.0	55.1	61.3
EPS Growth (adj)	%	13.2	34.0	14.8	11.2
PE (rep)	x	16.1	12.0	10.5	9.4
PE (adj)	x	16.1	12.0	10.5	9.4
Total DPS	fen	6.7	9.0	10.4	11.5
Total Div Yield	%	1.2	1.6	1.8	2.0
Basic Shares Outstanding	m	8,036	8,036	8,036	8,036
Diluted Shares Outstanding	m	8,036	8,036	8,036	8,036

Profit and Loss Ratios		2015A	2016E	2017E	2018E
Revenue Growth	%	7.8	9.5	8.5	5.9
EBITDA Growth	%	9.6	17.8	11.4	9.2
EBIT Growth	%	8.6	22.5	12.3	9.3
Gross Profit Margin	%	77.0	81.8	83.6	84.6
EBITDA Margin	%	64.5	69.4	71.3	73.5
EBIT Margin	%	36.3	40.6	42.0	43.4
Net Profit Margin	%	14.7	17.9	19.0	19.9
Payout Ratio	%	18.8	18.8	18.8	18.8
EV/EBITDA	x	8.9	7.6	6.8	6.3
EV/EBIT	x	15.3	12.7	11.3	10.4
Balance Sheet Ratios					
ROE	%	8.4	10.1	10.2	10.4
ROA	%	5.5	6.3	6.7	6.9
ROIC	%	5.7	6.8	6.7	6.9
Net Debt/Equity	%	172.8	156.9	146.4	133.7
Interest Cover	x	2.4	2.9	3.0	3.2
Price/Book	x	1.3	1.1	1.0	0.9
Book Value per Share		4.4	5.2	5.6	6.1

Cashflow Analysis		2015A	2016E	2017E	2018E
EBITDA	**m**	**12,680**	**14,941**	**16,646**	**18,177**
Tax Paid	m	-525	-756	-907	-1,053
Chgs in Working Cap	m	3,293	-2,617	-846	-604
Net Interest Paid	m	-2,671	-2,925	-3,140	-3,248
Other	m	1,564	-184	-161	-174
Operating Cashflow	**m**	**14,341**	**8,458**	**11,592**	**13,099**
Acquisitions	m	-877	0	0	0
Capex	m	-15,264	-15,110	-14,671	-14,579
Asset Sales	m	14	643	716	771
Other	m	180	52	52	52
Investing Cashflow	**m**	**-15,946**	**-14,415**	**-13,902**	**-13,756**
Dividend (Ordinary)	m	-480	-477	-725	-832
Equity Raised	m	412	0	0	0
Debt Movements	m	4,405	4,158	3,879	2,496
Other	m	-826	0	0	0
Financing Cashflow	**m**	**3,512**	**3,681**	**3,154**	**1,664**
Net Chg in Cash/Debt	**m**	**1,907**	**-2,275**	**845**	**1,007**
Free Cashflow	**m**	**-922**	**-6,651**	**-3,078**	**-1,480**

Balance Sheet		2015A	2016E	2017E	2018E
Cash	m	2,887	1,139	2,084	3,399
Receivables	m	9,310	11,958	12,445	13,180
Inventories	m	1,081	940	917	913
Investments	m	6,875	6,874	6,874	6,874
Fixed Assets	m	98,609	107,146	114,624	121,376
Intangibles	m	12	12	12	12
Other Assets	m	14,700	14,825	14,957	15,094
Total Assets	**m**	**133,473**	**142,894**	**151,911**	**160,848**
Payables	m	1,902	1,654	1,148	1,144
Short Term Debt	m	44,688	47,177	49,499	50,993
Long Term Debt	m	29,970	31,639	33,196	34,198
Provisions	m	0	0	0	0
Other Liabilities	m	15,371	12,908	13,008	13,316
Total Liabilities	**m**	**91,931**	**93,378**	**96,851**	**99,651**
Shareholders' Funds	m	35,109	38,491	42,195	46,288
Minority Interests	m	6,433	8,035	9,873	11,918
Other	m	0	2,991	2,991	2,991
Total S/H Equity	**m**	**41,542**	**49,516**	**55,060**	**61,197**
Total Liab & S/H Funds	**m**	**133,473**	**142,894**	**151,911**	**160,848**

All figures in Rmb unless noted.
Source: Company data, Macquarie Research, 八月 2016

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

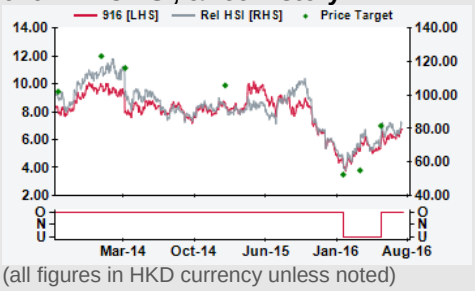
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.17%	56.00%	36.36%	43.16%	63.39%	45.91%	(for global coverage by Macquarie, 6.27% of stocks followed are investment banking clients)
Neutral	36.21%	28.59%	40.26%	50.38%	29.46%	36.96%	(for global coverage by Macquarie, 6.33% of stocks followed are investment banking clients)
Underperform	18.62%	15.41%	23.38%	6.46%	7.14%	17.12%	(for global coverage by Macquarie, 5.38% of stocks followed are investment banking clients)

916 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

958 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, August 2016

12-month target price methodology

916 HK: HK$7.00 based on a DCF methodology

958 HK: HK$3.30 based on a DCF methodology

Company-specific disclosures:
916 HK: Macquarie Capital Limited makes a market in the securities of China Longyuan Power Group Corp Ltd. Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of China Longyuan Power Group Corp Ltd. **958 HK:** Macquarie Capital Limited makes a market in the securities of Huaneng Renwables Corporation Limited.
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Date	Stock Code (BBG code)	Recommendation	Target Price
02-Jun-2016	916 HK	Outperform	HK$7.00
28-Mar-2016	916 HK	Underperform	HK$3.80
04-Feb-2016	916 HK	Underperform	HK$3.50
28-Jan-2015	916 HK	Outperform	HK$9.90
19-Mar-2014	916 HK	Outperform	HK$11.15
03-Jan-2014	916 HK	Outperform	HK$12.00
20-Aug-2013	916 HK	Outperform	HK$9.45

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