

16 July 2018

## Outperform Unchanged

### Market Data: July 13, 2018

Closing Price (HK\$)	2.02
Price Target (HK\$)	2.30
HSCEI	10,746
HSCCI	4,312
52-week High/Low (HK\$)	2.25/1.91
Market Cap (US\$m)	11,695
Market Cap (HK\$m)	91,806
Shares Outstanding (m)	45,449
Exchange Rate (Rmb-HK\$)	1.17

### Price Performance Chart:



Source: Bloomberg

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### Related Reports

"CGN POWER (1816:HK)\_ Policy support " Mar 9, 2018

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# Nuclear decay

## CGN POWER CO LTD-H (01816 HK)

### Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	32,890	45,616	49,443	54,628	57,292
YoY (%)	41.4	38.7	8.4	10.5	4.9
Net income (Rmbm)	7286.9	9500.3	8480.0	9688.0	10505.4
YoY (%)	10.5	30.4	(10.7)	14.2	8.4
EPS (Rmb)	0.16	0.21	0.19	0.21	0.23
Diluted EPS (Rmb)	0.16	0.21	0.19	0.21	0.23
ROE (%)	11.1	13.6	12.6	13.1	12.6
Debt/asset (%)	71.5	71.5	70.0	68.2	66.2
Dividend Yield (%)	3.1	4.1	3.7	4.3	4.6
PE (x)	10.2	7.9	8.8	7.7	7.1
PB (x)	1.3	1.1	1.0	1.0	0.9
EV/Ebitda (x)	14.4	11.7	11.2	10.4	10.2

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

CGN Power's nuclear power output from subsidiaries amounted to 59.9TWh in 1H18 (+9.2% YoY), although we expect a slower rate of top line growth, considering the firm's expanding proportion of sales from direct power supply, weighing on average tariff. We revise down our EPS forecast from Rmb0.23 to Rmb0.19 for 18E (-9.5% YoY) (after excluding the effect of Rmb1.8bn one-off gains from the remeasurement of Ningde Nuclear in 2017), from Rmb0.25 to Rmb0.21 in 19E (+10.5% YoY) and from Rmb0.26 to Rmb0.23 in 20E (+9.5% YoY). We revise down our target price from HK\$2.43 to HK\$2.30. With 13.9% upside, we maintain our Outperform rating.

**Power generation increase.** CGN's Lingdong nuclear power station recorded 16.3% YoY growth in power output in 1H18, while its Ningde plant output rose 21.6% YoY and its Fangchenggang plant output increased 49% YoY. We believe new capacity added in the period (+1.1% YoY; since the start of 2017, only the 1.1GW Yangjiang Unit 4 was put into operation, in March 2017), had only a limited impact on firm-wide power generation growth. We believe the growth is mainly due to strong power demand in 1H18 and an increase in utilisation hours (311 hours YoY).

**DPS expansion.** For 1H18, direct power supply (DPS) accounted for 34.9% of total power generation and the percentage would be 26.3% if excluding Guangdong Province. From 2018, Guangdong has introduced liberalised trading of nuclear power, accounting for c.20% of total power generated (after excluding power sold to Hong Kong). Although the related amount from tariff discount will not affect the firm's top line from an accounting perspective, this will increase costs, impacting the bottom line. For 2017, the proportion of DPS was only 14.4%, and we believe the expanding DPS proportion in 2018 will exert pressure on the company's average tariff, although the extent of the discount will likely shrink within the year.

**New capacity and potential construction approval in 2018.** We expect two new units, Yangjiang Unit 5 and Taishan Unit 1, with a combined contribution of 2.8GW, will come online in 2H18E. The National Energy Administration (NEA) announced an increase in construction approvals for qualified projects in early this year. As such, the NEA plans to start the construction of six to eight units in 2018. We believe CGN's projects, including Lufeng Units 1 & 2 and Fangchenggang Units 5 & 6, are likely to be approved within the year.

**Maintain Outperform.** We revise down our EPS forecast from Rmb0.23 to Rmb0.19 in 18E (-9.5% YoY), from Rmb0.25 to Rmb0.21 in 19E (+10.5% YoY) and from Rmb0.26 to Rmb0.23 in 20E (+9.5% YoY). We revise down our target price from HK\$2.43 to HK\$2.30, representing 10x 18E PE and 1.2x 18E PB, or 8.8x 19E PE and 1.1x 19E PB. With 13.9% upside, we maintain Outperform.

## 投资要点：

18 年上半年，中广核电力来自附属公司的核电发电量达 59.9TWh（同比增长 9.2%），但我们认为由于市场电份额不断扩大可能会导致公司综合电价下降，预计收入增长率会低于此比例。我们下调 EPS 预测如下：扣除 2017 年宁德核电重估收益 18 亿元的一次性影响后，将 18 年预测从 0.23 元下调至 0.19 元（同比下降 9.5%），将 19 年预测从 0.25 元下调至 0.21 元（同比增长 10.5%），将 20 年预测从 0.26 元下调至 0.23 元（同比增长 9.5%）。我们将目标价由 2.43 港币下调至 2.3 港币，现价距目标价仍有 13.9% 的上行空间，维持增持。

**发电量增长。**18 年上半年，中广核电力来自附属公司的核电发电量同比增长 9.2%，其中岭东、宁德和防城港等核电站分别实现了 16.3%、21.6% 和 49% 的增长率。由于等效装机量仅同比增长 1.1%（自 2017 年初以来，只有阳江 4 号机组在 17 年 3 月份投运），我们认为发电量增长受装机容量增长的影响有限，主要原因是 18 年上半年电力需求强劲及机组利用率提升，公司利用小时数同比增长 311 小时。

**市场电份额扩大。**18 年上半年公司市场电占总发电量的 34.9%，除去广东省部分后市场电占比为 26.3%。虽然从会计层面来说广东省市场电的电价折扣相关金额不会影响收入，但会增加成本端影响净利。2017 年市场电比例仅为 14.4%，虽然年内市场电电价折扣趋于收窄，预计 18 年日益扩大的市场电份额会给公司综合电价造成一定压力。

**2018 年新机组投运及项目可能核准。**预计 18 年下半年会有阳江 5 号和台山 1 号两个新机组投运，总装机容量约为 2.8GW。国家能源局年初发布《2018 年能源工作指导意见》，年内计划建成三门 1 号、海阳 1 号、台山 1 号、田湾 3 号和阳江 5 号机组，合计新增装机容量约为 6GW。同时积极推进具备条件项目的核准建设，年内计划开工 6-8 台机组。我们认为中广核电力的陆丰 1 号及 2 号机组，防城港 5 号和 6 号机组有望率先获得审批。

**维持增持。**我们下调 EPS 预测如下：将 18 年预测从 0.23 元下调至 0.19 元（同比下降 9.5%），将 19 年预测从 0.25 元下调至 0.21 元（同比增长 10.5%），将 20 年预测从 0.26 元下调至 0.23 元（同比增长 9.5%）。我们将目标价由 2.43 港币下调至 2.3 港币，相当于 10 倍 18 年 PE 和 1.2 倍 18 年 PB，或者 8.8 倍 19 年 PE 和 1.1 倍 19 年 PB。现价距目标价仍有 13.9% 的上行空间，维持增持。

### Consolidated Income Statement

Rmbm	2016	2017	2018E	2019E	2020E
<b>Revenue</b>	32,890	45,616	49,443	54,628	57,292
<b>Cost of Sales</b>	18,096	25,406	26,433	28,960	30,712
<b>Gross Profit</b>	14,357	19,583	22,288	24,871	25,743
<b>Other Income</b>	1,658	1,757	1,841	1,872	1,871
Selling/General/Admi. Expenses	100	91	91	91	91
<b>Ebitda</b>	2,259	2,332	2,453	2,630	2,676
<b>Ebit</b>	18,388	27,315	29,232	32,419	33,888
Finance Costs	13,661	20,129	21,902	24,340	25,395
<b>Profit before tax</b>	4,083	6,287	6,971	6,977	6,212
Income tax expense	9,578	13,842	14,931	17,362	19,183
Minority interests	653	1,327	1,302	1,665	2,436
<b>Profit for the year</b>	1,638	3,015	5,149	6,009	6,242

Source: Company data, SWS Research

### Cash Flow Statement

Rmbm	2016	2017	2018E	2019E	2020E
<b>Profit before taxation</b>	9,578	13,841	14,931	17,362	19,183
Plus: Depr. and amortisation	4,727	7,186	7,330	8,079	8,493
Finance cost	4,083	6,287	6,971	6,977	6,212
Losses from investments	-1,077	-2,867	-1,330	-1,039	-1,270
Change in working capital	1,260	3,974	8,560	-337	-68
Others	1,232	1,581	581	222	353
<b>CF from operating activities</b>	16,753	26,797	42,062	29,600	30,467
Capex	-4,564	-15,067	-26,252	-21,646	-21,646
Other CF from investing activities	-14,679	-9,460	-619	-619	-619
<b>CF from investing activities</b>	-19,243	-24,527	-26,872	-22,265	-22,265
Equity financing	1,142	1,103	-1,256	0	0
Net change in liabilities	10,388	8,075	4,492	1,434	566
Dividend and interest paid	-4,684	-4,669	-2,798	-3,197	-3,467
Other CF from financing activities	-7,434	-9,759	-6,971	-6,977	-6,212
<b>CF from financing activities</b>	-588	-250	-6,533	-8,740	-9,113
<b>Net cash flow</b>	-3,078	2,020	8,657	-1,406	-912
FCFF	13,426	14,366	9,630	8,101	8,949
FCFE	19,099	13,816	7,867	144	639

Source: Company data, SWS Research

### Consolidated Balance Sheet

Rmbm	2016	2017	2018E	2019E	2020E
Current Assets	43825	56369	54211	55960	57179
Bank balances and cash	8457	10316	18973	17567	16655
Trade and other receivables	14722	17362	9627	10467	10899
Inventories	13138	19739	23478	25793	27492
Other current assets	7508	8952	2133	2133	2133
Long-term investment	12037	8364	9715	10776	12068
PP&E	216509	277284	296250	309893	323155
Intangible and other assets	15263	17091	17666	18210	18721
<b>Total Assets</b>	<b>287634</b>	<b>359527</b>	<b>378262</b>	<b>395258</b>	<b>411542</b>
Current Liabilities	65168	60654	48279	51448	53990
Borrowings	20807	21904	10022	10243	10363
Trade and other payables	27377	27208	31795	34634	36718
Other current liabilities	16984	11542	6462	6570	6909
Long-term liabilities	140567	196339	216620	217946	218407
<b>Total Liabilities</b>	<b>205735</b>	<b>256994</b>	<b>264899</b>	<b>269394</b>	<b>272397</b>
Minority Interests	25364	36695	41845	47853	54095
Shareholder Equity	56535	65838	71519	78010	85049
Share Capital	45449	45449	45449	45449	45449
Reserves	11086	20389	26071	32561	39600
Total Equity	56535	65838	71519	78010	85049
<b>Total Liabilities and equity</b>	<b>287634</b>	<b>359527</b>	<b>378262</b>	<b>395258</b>	<b>411542</b>

Source: Company data, SWS Research

## Key Financial Ratios

	2016	2017	2018E	2019E	2020E
<b>Ratios per share (Rmb)</b>					
Earnings per share	0.16	0.21	0.19	0.21	0.23
Diluted EPS	0.16	0.21	0.19	0.21	0.23
Operating CF per share	0.42	0.54	0.59	0.49	0.49
Dividend per share	0.05	0.07	0.06	0.07	0.08
Net assets per share	1.24	1.45	1.57	1.72	1.87
<b>Key Operating Ratios (%)</b>					
ROIC	5.2	6.3	6.0	6.3	6.1
ROE	11.1	13.6	12.6	13.1	12.6
Gross profit margin	43.7	42.9	45.1	45.5	44.9
Ebitda Margin	55.9	59.9	59.1	59.3	59.1
Ebit Margin	41.5	44.1	44.3	44.6	44.3
Growth rate of Revenue(YoY)	41.4	38.7	8.4	10.5	4.9
Growth rate of Profit(YoY)	10.5	30.4	(10.7)	14.2	8.4
Debt-to-asset ratio	71.5	71.5	70.0	68.2	66.2
Turnover rate of net assets	0.4	0.4	0.4	0.4	0.4
Turnover rate of total assets	0.1	0.1	0.1	0.1	0.1
Effective tax rate (%)	12.1	9.2	8.7	9.6	12.7
Dividend yield (%)	3.1	4.1	3.7	4.3	4.6
<b>Valuation Ratios (x)</b>					
PE	10.2	7.9	8.8	7.7	7.1
PB	1.3	1.1	1.0	1.0	0.9
EV/Sale	8.1	7.0	6.6	6.2	6.0

Source: Company data, SWS Research

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