



Rating
Hold

Asia
China

Utilities
Utilities

Company
Huaneng Power Intl

Reuters 0902.HK Bloomberg 902 HK Exchange HSI Ticker 0902

Date
31 July 2018

Results

Price at 30 Jul 2018 (HKD)	6.08
Price target - 12mth (HKD)	5.70
52-week range (HKD)	6.10 - 4.61
HANG SENG INDEX	28,733

Results in line, strong output and higher tariff support earnings recovery

Huaneng reported in line 1H18 results after market close today. The earnings recovery (+610% yoy under IFRS) is mainly driven by a 11% yoy power output growth and a 3% yoy increase in on-grid tariff, but partially offset by 6% higher unit fuel cost and 13% higher financial cost. We layout the detailed quarterly results in Figure 1. Huaneng is trading at 0.9x 2018/19E P/B vs. 5.7%/8.5% 2018/19E ROE, which we think is fairly valued. We believe coal price trends remain to be the key for potential earnings recovery. Maintain Hold.

1H18 results in line, earnings recovery driven by strong output and higher tariff

After market close, Huaneng reported a net profit of Rmb1.7bn (under IFRS) in 1H18, improving significantly from Rmb244mn in 1H17. Under PRC GAAP, net profit was Rmb2.1bn (vs. Rmb0.8bn in 1H17), largely in line with our forecast of Rmb2.25bn.

Output: In 1H18, total power output increased by 11%, higher than the national average of 8% for thermal units. 2Q18 output growth showed stronger momentum at 15% yoy (vs. 9% yoy in 1Q).

Tariff: Realized on-grid tariff in 1H18 was 2.7% higher yoy due to the tariff hike in July 2017 and narrowing DPS discounts. However, 2Q18 tariff dropped slightly qoq by 2% (but still up 1% yoy), possibly due to higher DPS volume mix.

Fuel cost: Although QHD spot coal prices rose by 9% yoy in 1H18, Huaneng's unit fuel cost increased at a milder rate of 5.8% due to the better execution of contracted coals. Fuel cost pressure eased slightly in 2Q18, dropping 1% qoq.

Financial cost: Financial cost rose sequentially by 9% qoq in 2Q18, leading to a 13% yoy increase in 1H18.

Others: SG&A was in good control in 1H18 with a mere 2% yoy increase. Net gearing dropped slightly to 218% at end 1H18 from 235% at end 2017. Annualized ROE reached 5.8% in 1H18.

Conference call to be held at 16:00 on 1st August

Huaneng will hold a results conference call at 16:00 on 1st August, we expect key topics to concentrate on full year guidance on power output/utilization/fuel cost,

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	16.9	16.5	11.8
HANG SENG INDEX	-0.8	-6.7	6.5

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	5.7
Net debt/equity (%)	203.4
Book value/share (CNY)	5.69
Price/book (x)	0.9
Net interest cover (x)	1.7
Operating profit margin (%)	10.9

Source: Deutsche Bank



the DPS volume mix and discounts trends, updated plan for capacity additions, policy updates and outlooks.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	112,636	151,083	166,824	171,590	178,401
EBITDA (CNYm)	33,234	29,405	39,430	44,247	45,697
Reported NPAT (CNYm)	8,520	1,580	4,963	7,946	8,749
Reported EPS FD(CNY)	0.561	0.104	0.310	0.497	0.547
DB EPS FD (CNY)	0.580	0.027	0.310	0.497	0.547
DB EPS growth (%)	-47.5	-95.3	1,042.1	60.1	10.1
PER (x)	8.0	168.5	17.0	10.6	9.7
Price/BV (x)	0.8	0.8	0.9	0.9	0.9
EV/EBITDA (x)	7.1	10.2	7.6	6.5	6.2
DPS (net) (CNY)	0.290	0.100	0.217	0.348	0.383
Yield (net) (%)	6.3	2.2	4.1	6.6	7.2
ROE (%)	10.0	1.9	5.7	8.5	9.0

Source: Deutsche Bank estimates, company data



Figure 1:Huaneng 1H18 results (PRC GAAP)

Income Statement (Rmbmn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	1Q.yoy	2Q.yoy	1H17	2H17	1H18	1H.yoy
Revenues from principal operations	37,577	33,867	39,641	41,385	43,256	39,149	15%	16%	71,434	81,026	82,405	16%
Cost of principal operations	(32,953)	(30,273)	(34,458)	(37,524)	(37,422)	(34,145)	14%	13%	(63,227)	(71,983)	(71,567)	13%
Tax and levies on principal operations	(314)	(335)	(390)	(338)	(467)	(410)	49%	22%	(649)	(728)	(876)	35%
Profit from principal operations	4,310	3,248	4,793	3,523	5,367	4,595	25%	41%	7,558	8,315	9,962	32%
Gain/(loss) from asset impairment	(7)	151	(36)	(1,237)	95	169	NM	12%	144	(1,273)	263	83%
General and administrative expenses	(885)	(924)	(953)	(1,208)	(899)	(954)	2%	3%	(1,809)	(2,160)	(1,853)	2%
Selling expenses	(3)	(4)	(4)	(7)	(6)	(7)	121%	110%	(6)	(11)	(14)	115%
Financial expenses, Net	(2,176)	(2,340)	(2,413)	(2,476)	(2,445)	(2,654)	12%	13%	(4,517)	(4,889)	(5,099)	13%
Operating profit	1,239	131	1,387	(1,405)	2,111	1,147	70%	774%	1,371	(18)	3,259	138%
Investment Income	112	181	1,467	982	218	179	95%	-1%	293	2,450	397	36%
Non-operating income	119	(31)	47	259	19	37	-84%	NM	88	306	56	-37%
Non-operating expenses	(8)	(12)	(34)	(716)	(8)	(31)	-2%	156%	(20)	(750)	(38)	93%
Profit Before Tax	1,463	269	2,868	(880)	2,341	1,333	60%	395%	1,732	1,988	3,673	112%
Income Tax Expense	(493)	(202)	(560)	(318)	(613)	(275)	24%	36%	(695)	(879)	(888)	28%
Profit Before Minority Interest	970	67	2,308	(1,198)	1,728	1,057	78%	1472%	1,037	1,109	2,785	169%
Minority Interest	(318)	68	(235)	131	(509)	(148)	60%	NM	(250)	(104)	(657)	163%
Net Profit	652	136	2,073	(1,067)	1,219	910	87%	571%	788	1,006	2,129	170%

Source:Company data



Model updated: 23 July 2018

Running the numbers

Asia

China

Utilities

Huaneng Power Intl

Reuters: 0902.HK

Bloomberg: 902 HK

Hold

Price (30 Jul 18) HKD 6.08

Target Price HKD 5.70

52 Week range HKD 4.61 - 6.10

Market cap (m) HKDm 88,071
 USDm 11,222

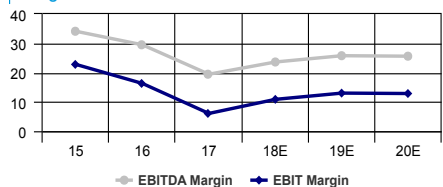
Company Profile

Huaneng Power International, Inc. develops, constructs, owns and operates mainly thermal power plants throughout China. The company is the largest IPP in Asia, with c.82GW capacity in operation at end-2015. In addition, the company owns a 2,600MW power plant in Singapore. China Huaneng Group is the ultimate parent of the company, owning more than 150GW of operating capacity.

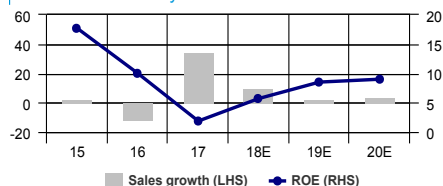
Price Performance



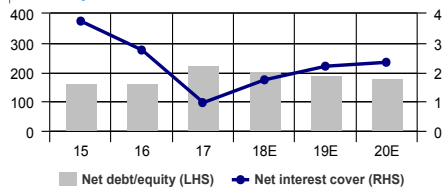
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	1.10	0.58	0.03	0.31	0.50	0.55
Reported EPS (CNY)	0.94	0.56	0.10	0.31	0.50	0.55
DPS (CNY)	0.47	0.29	0.10	0.22	0.35	0.38
BVPS (CNY)	5.8	5.7	5.4	5.7	6.0	6.2
Weighted average shares (m)	14,485	15,200	15,200	16,000	16,000	16,000
Average market cap (CNYm)	109,086	70,278	69,561	76,585	76,585	76,585
Enterprise value (CNYm)	270,731	235,648	300,443	299,091	288,841	282,609

Valuation Metrics

P/E (DB) (x)	6.8	8.0	168.5	17.0	10.6	9.7
P/E (Reported) (x)	8.0	8.2	44.0	17.0	10.6	9.7
P/BV (x)	0.93	0.78	0.78	0.93	0.89	0.86
FCF Yield (%)	1.3	6.9	nm	8.9	13.7	18.1
Dividend Yield (%)	6.2	6.3	2.2	4.1	6.6	7.2
EV/Sales (x)	2.1	2.1	2.0	1.8	1.7	1.6
EV/EBITDA (x)	6.2	7.1	10.2	7.6	6.5	6.2
EV/EBIT (x)	9.3	12.8	32.7	16.5	12.9	12.3

Income Statement (CNYm)

Sales revenue	127,747	112,636	151,083	166,824	171,590	178,401
Gross profit	43,596	33,234	29,405	39,430	44,247	45,697
EBITDA	43,596	33,234	29,405	39,430	44,247	45,697
Depreciation	14,412	14,816	20,181	21,231	21,867	22,686
Amortisation	41	41	41	41	41	41
EBIT	29,143	18,378	9,183	18,158	22,339	22,970
Net interest income/(expense)	-7,785	-6,670	-9,550	-10,440	-10,134	-9,823
Associates/affiliates	1,526	1,299	425	841	1,034	1,064
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	74	807	2,743	0	0	0
Profit before tax	22,958	13,813	2,802	8,558	13,239	14,210
Income tax expense	5,699	3,465	1,218	2,355	3,430	3,540
Minorities	3,607	1,828	4	1,241	1,864	1,921
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	13,652	8,520	1,580	4,963	7,946	8,749
DB adjustments (including dilution)	2,349	298	-1,167	0	0	0
DB Net profit	16,001	8,819	413	4,963	7,946	8,749

Cash Flow (CNYm)

Cash flow from operations	34,417	24,693	19,448	25,422	30,431	32,731
Net Capex	-32,970	-19,843	-36,329	-17,857	-18,851	-17,457
Free cash flow	1,447	4,850	-16,880	7,565	11,580	15,274
Equity raised/(bought back)	4,684	0	0	5,000	0	0
Dividends paid	-5,536	-7,206	-4,353	-1,520	-3,474	-5,562
Net inc/(dec) in borrowings	-2,980	2,905	19,471	-7,393	-4,747	-8,653
Other investing/financing cash flows	-2,376	-216	3,234	-2,184	-2,184	-2,184
Net cash flow	-4,760	332	1,472	1,468	1,175	-1,125
Change in working capital	924	837	-547	-1,213	-252	398

Balance Sheet (CNYm)

Cash and other liquid assets	7,538	7,882	9,365	10,833	12,008	10,883
Tangible fixed assets	219,673	223,062	284,328	280,954	277,938	272,709
Goodwill/intangible assets	11,677	12,136	15,484	15,484	15,484	15,484
Associates/investments	19,745	19,632	19,518	20,358	21,393	22,456
Other assets	50,233	52,128	67,895	70,447	71,110	72,481
Total assets	308,866	314,840	396,590	398,076	397,933	394,014
Interest bearing debt	171,767	175,959	242,106	234,713	229,966	221,313
Other liabilities	35,406	36,694	51,937	53,318	53,770	55,580
Total liabilities	207,173	212,653	294,043	288,031	283,736	276,893
Shareholders' equity	84,142	86,003	82,573	91,016	95,487	98,675
Minorities	17,552	16,184	19,973	19,030	18,709	18,446
Total shareholders' equity	101,694	102,187	102,546	110,046	114,197	117,120
Net debt	164,229	168,077	232,741	223,881	217,958	210,430

Key Company Metrics

Sales growth (%)	2.6	-11.8	34.1	10.4	2.9	4.0
DB EPS growth (%)	26.1	-47.5	-95.3	1,042.1	60.1	10.1
EBITDA Margin (%)	34.1	29.5	19.5	23.6	25.8	25.6
EBIT Margin (%)	22.8	16.3	6.1	10.9	13.0	12.9
Payout ratio (%)	49.9	51.7	96.2	70.0	70.0	70.0
ROE (%)	17.7	10.0	1.9	5.7	8.5	9.0
Capex/sales (%)	25.8	17.6	24.0	10.7	11.0	9.8
Capex/depreciation (x)	2.3	1.3	1.8	0.8	0.9	0.8
Net debt/equity (%)	161.5	164.5	227.0	203.4	190.9	179.7
Net interest cover (x)	3.7	2.8	1.0	1.7	2.2	2.3

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Huaneng Power Intl	0902.HK	5.89 (HKD) 31 Jul 2018	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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Historical recommendations and target price. Huaneng Power Intl (0902.HK)

(as of 07/30/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	09/20/2016	Buy, Target Price Change HKD 6.10	Michael Tong, CFA	4.	11/28/2017	Buy, Target Price Change HKD 6.00	Michael Tong, CFA
2.	02/14/2017	Buy, Target Price Change HKD 5.80	Michael Tong, CFA	5.	03/06/2018	Downgraded to Hold, Target Price Change HKD 5.10	Hanyu Zhang
3.	05/09/2017	Buy, Target Price Change HKD 6.30	Michael Tong, CFA	6.	07/23/2018	Hold, Target Price Change HKD 5.70	Hanyu Zhang



Equity Rating Key

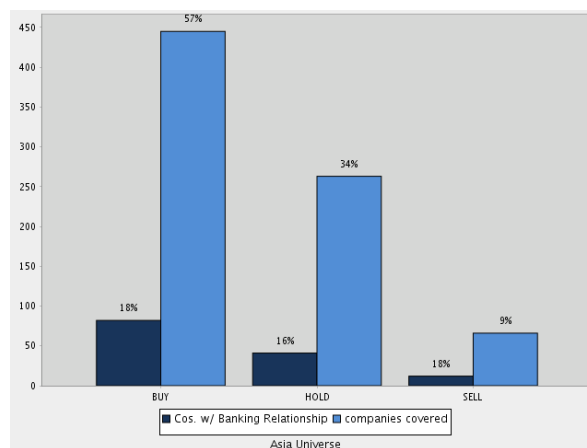
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships





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