

Outperform

(Remained)

Environmental Protection

Fujian Funeng Co.,Ltd

(600483.SH)

Remarkable growth in thermal power, slight decline in wind power

22-Jul-19

Key Data

Jul. 17, 2019

Closing Price	8.07
Total Shares (Mn)	1551.83
Shares Outstanding (Mn)	1551.83
Market Cap(CNY/Mn)	12523.27
Market Float(CNY/Mn)	12523.27
Net Assets (CNY/Mn)	11963.77
Total Assets (CNY/Mn)	27225.17
BVPS	7.71

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Key Financial Indicators

FY	2018A	2019E	2020E	2021E
Revenue (Mn/CNY)	9354	9612	10738	11395
YoY (%)	37.6%	2.8%	11.7%	6.1%
Net Profit (Mn/CNY)	1050	1281	1537	1702
YoY (%)	24.5%	22.0%	19.9%	10.8%
Gross Margin (%)	19.6%	23.2%	25.1%	26.4%
Net Profit Margin (%)	11.2%	13.3%	14.3%	14.9%
ROE (%)	8.9%	9.8%	11.1%	11.5%
EPS (CNY)	0.09	0.10	0.11	0.12
OCFPS (CNY)	0.68	0.83	0.99	1.10

Company Profile

Fujian Funeng Co., Ltd. mainly engaged in power generation, heating, electric power industry, and the related technology R&D, advisory services within new energy industry. The company also manufactures textile products including PU leather and apparel. (Source: Bloomberg)

Event

Fujian Funeng (the company) announced its H119 operation data: the company generated 8.97 bn kWh of electricity (up 2.53% yoy), and produced 8.51 bn kWh of on-grid electricity (up 2.24% yoy); for Q219 alone, the company's electricity generation reached 4.76 bn kWh (down 0.65% yoy), and its on-grid electricity amounted to 4.52 billion kWh (down 0.72% yoy).

Comments

The consumption of thermal power obviously ramped up, while that of wind power edged down.

In H119, heat energy provided by Hongshan and Long An thermal power plants respectively registered a double-digit yoy growth: Hongshan power station generated 3.17 bn kWh of on-grid electricity (up 6.42% yoy), and provided a volume of 2.18 mn tons of heat (up 26.87% yoy); Long An produced 90 mn kWh of on-grid electricity (up 23.29% yoy), and it supplied 0.75 mn tons of heat (up 10.71% yoy).

The company's wind power projects generated 832 mn kWh of on-grid electricity, down 2.35% yoy; among which 340 mn kWh on-grid electricity was generated during April ~ June with a 6.58% yoy increase.

The company's coal-fired power plants and photovoltaic power plants recorded a steady growth in their on-grid electricity, while the gas power station in Jinjiang posted a slight decline.

In H119, Liuzhi power plant produced 3.15 bn kWh of on-grid electricity (up 5.07% yoy), and generated 20 mn kWh of on-grid electricity (up 17.65% yoy) through photovoltaic technologies; Jinjiang gas power plant's generated on-grid electricity reached 1.18 bn kWh, down 11.68% yoy; and it completed a volume of 961 mn kWh of alternative electricity.

Relying on Fujian's superior wind resources, the company's wind power generation becomes a new growth point.

Fujian province possesses superior wind resources and has realized full-amount consumption of wind power. In addition, the company, located in one of Class IV onshore wind power resource areas, enjoys the highest on-grid electricity price, so that its returns on wind power projects take the lead in

the industry.

Since 2015, the company has cooperated with China Three Gorges Corporation to develop Fujian's offshore wind power resources. Up to now, the company's total installed capacity of wind power is 754,000 kilowatts and is estimated to reach 1,267,000 kilowatts by 2020, including 400,000 kilowatts of offshore wind power, implying a great growth potential.

The implementation of subsidy policies has made the company more determined to promote the progress of offshore wind power projects.

On May 24th, 2019, the National Development and Reform Commission issued the Notice on Improving the Policies for On-Grid Wind Power Prices, stipulating electricity subsidy price for offshore wind power: the projects that had been approved by 2018's yearend, and will have completed capacity installation and connected to grid by 2021's yearend are available for subsidy price, but the projects failing to get connected to the grid before the end of 2022 will not be eligible for the subsidies.

We believe that the implementation of the subsidy policy will accelerate the installation progress and make various offshore wind power operators have greater certainty about their construction progress.

Earnings forecast and investment recommendation

With the implementation of the subsidy policies for offshore wind power, the company possesses great growth potential in the future.

- 1) Superior wind resources support high returns on projects; rapid growth in installed capacity of wind power will contribute to future earnings growth. We estimate wind power projects to deliver profit of CNY 500/860/990 mn for year 19/20/21.
- 2) Coal-fired power projects may see an earnings recovery, as coal prices are going down and downstream demand for heat is booming. We estimate coal-fire power projects to register profit of CNY 620/640/670 mn for year 19/20/21.

Overall, we revised up our earnings forecast for the company without impacts of capital injection: net profit attributable to shareholders is estimated to be CNY 1.28/1.54/1.70 bn with an EPS of CNY 0.83/0.99/1.10 for year 19/20/21, implying a P/E ratio of 9.8/8.2/7.4x. We maintain "Outperform" rating for the company.

Potential risks: coal price hike; wind power projects may fail to go into operation as expected; adjustment on gas power policy; lifting the ban of small non-tradable shares

Appendix

Balance Sheet					Income Statement				
Mn/CNY					Mn/CNY				
FY	2018A	2019E	2020E	2021E	FY	2018A	2019E	2020E	2021E
Current Assets	8160	9764	8932	12810	Operating Income	9354	9612	10738	11395
Cash and Cash Equivalent	5275	6721	5140	8600	Operating Expense	7521	7386	8044	8387
Trading Financial Assets	0	0	0	0	Business Tax and Surcharges	75	78	86	92
Account Receivables	1614	1799	2437	2810	Selling Expense	49	51	57	60
Other Receivables	14	15	17	18	Administration Expense	183	192	215	227
Inventory	540	520	570	593	Financial Expense	407	487	593	684
Non-current Asset	19047	20463	24319	23400	Asset Impairment	70	50	57	55
Available-for-sale Financial Assets	638	638	638	638	Change in Fair Value	-0	0	0	0
Long-term Equity Investment	1694	1694	1694	1694	Investment Income	222	244	248	253
Investment Real Estate	5	5	5	5	Operating Profit	1319	1612	1935	2143
Fixed Assets	13716	14730	17147	17805	Non-business Income	17	16	14	15
Construction in Progress	1686	1743	3271	1636	Non-business Expense	13	12	12	12
Oil and Gas Assets	0	0	0	0	Total Profit	1323	1616	1937	2147
Intangible Assets	379	404	427	450	Income Tax	241	296	354	393
Total Assets	27207	30227	33251	36211	Net Profit	1082	1320	1583	1754
Current Liabilities	3598	3893	4439	4822	Minority Interest Income	32	39	47	52
Short-term Loans	550	675	726	644	Net Profit Attributable to Parent Company	1050	1281	1537	1702
Notes Payable	0	0	0	0	EPS(CNY)	0.68	0.83	0.99	1.10
Account Payable	1243	1329	1609	1761					
Others	1806	1888	2104	2417	Key Financial Ratios				
Non-current Liabilities	10388	11794	13447	15028	FY	2018A	2019E	2020E	2021E
Long-term Loans	7934	9356	11001	12571	Growth				
Others	2454	2438	2446	2457	Increase Rate of Business Revenue	37.6%	2.8%	11.7%	6.1%
Total Liabilities	13986	15687	17886	19850	Increase Rate of Business Profit	26.3%	22.2%	20.0%	10.8%
Share Capital	3793	3793	3793	3793	Net Profit Growth Rate	24.5%	22.0%	19.9%	10.8%
Capital Reserve	3205	3205	3205	3205					
Undistributed Profit	3726	5442	6130	6973	Profitability				
Minority Interest	1476	1515	1562	1613	Gross Margin Rate	19.6%	23.2%	25.1%	26.4%
Total Shareholders' Equity	13221	14541	15365	16360	Net Profit Margin	11.2%	13.3%	14.3%	14.9%
Total Liabilities and Equity	27207	30227	33251	36211	ROE	8.9%	9.8%	11.1%	11.5%
Cash Flow Statement					Solvency				
FY	2018A	2019E	2020E	2021E	Asset-liability Ratio	51.4%	51.9%	53.8%	54.8%
Net Profit	1050	1281	1537	1702	Current Ratio	2.27	2.51	2.01	2.66
Depreciation and Amortization	964	743	868	991	Quick Ratio	2.12	2.37	1.88	2.53
Property Depreciation Preparation	70	50	57	55					
Amortization of Intangible Assets	14	14	14	14	Operation Capacity				
Loss from Fair Value Change	0	0	0	0	Asset Turnover Ratio	39.8%	33.5%	33.8%	32.8%
Financial Expense	441	487	593	684	AR Turnover Ratio	650.8%	556.1%	499.9%	428.5%
Investment Loss	-222	-244	-248	-253					
Minority Interest Income	32	39	47	52	Stock Info(CNY)				
Change in Working Capitals	-172	39	-272	45	EPS	0.68	0.83	0.99	1.10
Cash Flows from Operating Activities	2141	2020	2650	3203	OCFPS	0.56	0.53	0.70	0.84
Cash Flows from Investment Activities	-1610	-1594	-4588	216	NAVPS	3.10	3.43	3.64	3.89
Cash Flows from Financing Activities	2297	1020	358	41					
Net Change in Cash	2827	1446	-1580	3460	Valuation Ratio				
Beginning Balance of Cash	2427	5275	6721	5140	PE	11.9	9.8	8.2	7.4
Ending Balance of Cash	5254	6721	5140	8600	PB	2.6	2.3	2.2	2.1

Introduction of Share Investment Rating

Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

Company Investment Rating

When measuring the difference between the markup of the company stock price and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of this report, we define the terms as follows:

- **Buy:** With a markup more than 15% better than that of the market;
- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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