



Rating  
**Hold**

Asia  
China

Utilities  
Utilities

Company  
**Huaneng Power Intl**

Reuters	Bloomberg	Exchange	Ticker
0902.HK	902 HK	HSI	0902

Date  
23 October 2018

**Results**

Price at 22 Oct 2018 (HKD)	4.64
Price target - 12mth (HKD)	5.70
52-week range (HKD)	6.10 - 4.50
HANG SENG INDEX	26,153

## Results miss with unexpected loss in 3Q18

Huaneng Power reported weak 3Q18 results with a net loss of Rmb140mn, which is unexpected as the 8% yoy output growth and 1% yoy higher tariffs were not enough to offset the rising costs. Earnings are mainly dragged by a 11% yoy increase in cost of operations (we estimate a 7% yoy higher unit fuel cost in 3Q18), 12% yoy higher financial cost, and Rmb229mn loss in investment income. Going into 4Q, we see increasing fuel cost pressure as the QHD coal prices are still on the rise. We think Huaneng is trading at unattractive 2019E valuations (0.7x P/B) and the slower-than-expected earnings recovery is also a negative on the dividend outlook. Hold.

### 3Q18 results miss with net loss of Rmb140mn (PRC GAAP)

After market close, Huaneng reported with 3Q18 results with net loss of Rmb140mn (vs. Rmb2.0bn reported net profit in 3Q17, or Rmb1.1bn on a recurring basis). In 9M18, net profit reached Rmb2.0bn, down 29% yoy. (See details in Figure 1)

**Output:** In 3Q18, total power output increased by 8%, higher than the 5% growth on a nationwide basis. Output growth momentum slowed slightly from 11% in 1H18.

**Tariffs:** In 9M18, realized on-grid tariffs edged up by 2% to Rmb0.357/kwh, implying a slight 1% yoy improvement in 3Q18 which we believe is mainly because of narrowing DPS discounts.

**Fuel cost:** We estimate that Huaneng's unit fuel cost was up by 7% yoy in 3Q18, which is more drastic than what the China coal price index indicated (+4% yoy), possibly due to the poor execution of the contract coal delivery.

**SG&A and financial cost:** SG&A cost remained flattish yoy in 3Q18 but financial cost rose by 12% yoy and 5% qoq to Rmb2.8bn in 3Q18.

### Conference call to be held at 16:00 tomorrow

Huaneng will hold a results conference call at 16:00 on 23rd October, we expect key topics to include full year guidance on power output/utilization/fuel cost, the DPS volume mix and discounts trends, updated plan for capacity additions, policy updates and additional outlook.

### Valuation & Risks

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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-10.6	-22.8	-5.3
HANG SENG INDEX	-6.4	-7.3	-8.2

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	5.7
Net debt/equity (%)	203.4
Book value/share (CNY)	5.69
Price/book (x)	0.7
Net interest cover (x)	1.7
Operating profit margin (%)	10.9

Source: Deutsche Bank

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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	13.2	8.3	7.5
Price/BV (x)	0.8	0.8	0.7	0.7	0.7
EV/EBITDA (x)	7.1	10.2	7.2	6.1	5.8
DPS (net) (CNY)	0.290	0.100	0.217	0.348	0.383
Yield (net) (%)	6.3	2.2	5.3	8.5	9.3
ROE (%)	10.0	1.9	5.7	8.5	9.0

Source: Deutsche Bank estimates, company data

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Figure 1: Huaneng 3Q18 results (PRC GAAP)

Income Statement (Rmbmn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	1Q yoy	2Q yoy	3Q yoy
<b>Revenues from principal operations</b>	<b>37,577</b>	<b>33,857</b>	<b>39,978</b>	<b>41,385</b>	<b>43,256</b>	<b>39,149</b>	<b>43,584</b>	<b>15%</b>	<b>16%</b>	<b>9%</b>
<b>Cost of principal operations</b>	<b>(32,953)</b>	<b>(30,273)</b>	<b>(34,777)</b>	<b>(37,524)</b>	<b>(37,422)</b>	<b>(34,145)</b>	<b>(38,671)</b>	<b>14%</b>	<b>13%</b>	<b>11%</b>
Tax and levies on principal operations	(314)	(335)	(406)	(338)	(467)	(410)	(509)	49%	22%	25%
<b>Profit from principal operations</b>	<b>4,310</b>	<b>3,248</b>	<b>4,794</b>	<b>3,523</b>	<b>5,367</b>	<b>4,595</b>	<b>4,404</b>	<b>25%</b>	<b>41%</b>	<b>-8%</b>
Gain/(loss) from asset impairment	(7)	151	72	(1,237)	95	169	(6)	NM	12%	NM
General and administrative expenses	(885)	(924)	(967)	(1,208)	(899)	(954)	(960)	2%	3%	-1%
Selling expenses	(3)	(4)	(4)	(7)	(6)	(7)	(9)	121%	110%	127%
Financial expenses, Net	(2,176)	(2,340)	(2,488)	(2,476)	(2,445)	(2,654)	(2,775)	12%	13%	12%
<b>Operating profit</b>	<b>1,239</b>	<b>131</b>	<b>1,408</b>	<b>(1,405)</b>	<b>2,111</b>	<b>1,147</b>	<b>654</b>	<b>70%</b>	<b>774%</b>	<b>-54%</b>
Investment Income	112	181	1,327	982	218	179	(229)	95%	-1%	NM
Non-operating income	119	(31)	46	259	19	37	9	-84%	NM	-81%
Non-operating expenses	(8)	(12)	(34)	(716)	(8)	(31)	(119)	-2%	156%	251%
<b>Profit Before Tax</b>	<b>1,463</b>	<b>269</b>	<b>2,746</b>	<b>(880)</b>	<b>2,341</b>	<b>1,333</b>	<b>315</b>	<b>60%</b>	<b>395%</b>	<b>-89%</b>
Income Tax Expense	(493)	(202)	(566)	(318)	(613)	(275)	(292)	24%	36%	-49%
<b>Profit Before Minority Interest</b>	<b>970</b>	<b>67</b>	<b>2,180</b>	<b>(1,198)</b>	<b>1,728</b>	<b>1,057</b>	<b>24</b>	<b>78%</b>	<b>1472%</b>	<b>-99%</b>
Minority Interest	(318)	68	(153)	131	(509)	(148)	(163)	60%	NM	7%
<b>Net Profit</b>	<b>652</b>	<b>136</b>	<b>2,027</b>	<b>(1,067)</b>	<b>1,219</b>	<b>910</b>	<b>(140)</b>	<b>87%</b>	<b>571%</b>	<b>NM</b>

Source: Company Data

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# Appendix 1

## Important Disclosures

\*Other information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Huaneng Power Intl	0902.HK	4.64 (HKD) 22 Oct 2018	NA

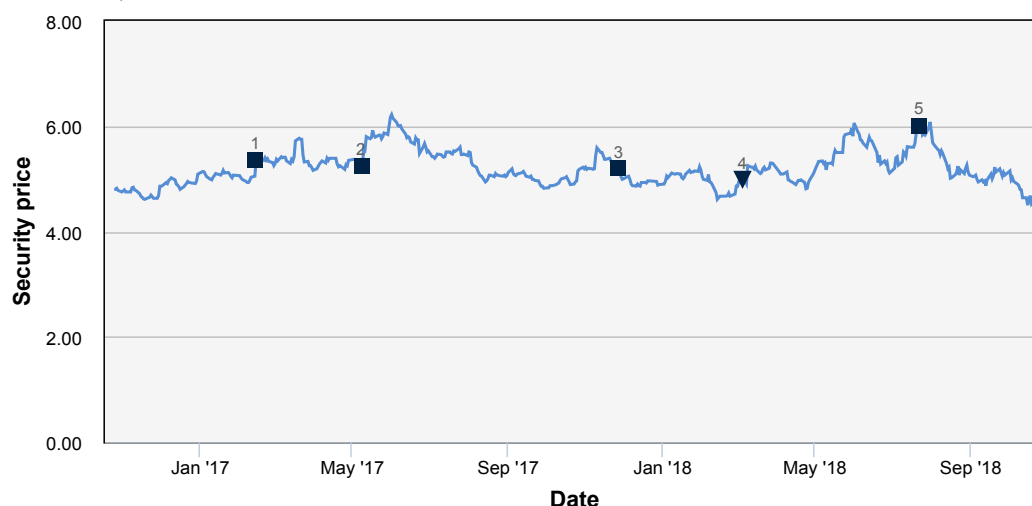
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### Historical recommendations and target price. Huaneng Power Intl (0902.HK)

(as of 10/22/2018)



#### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

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

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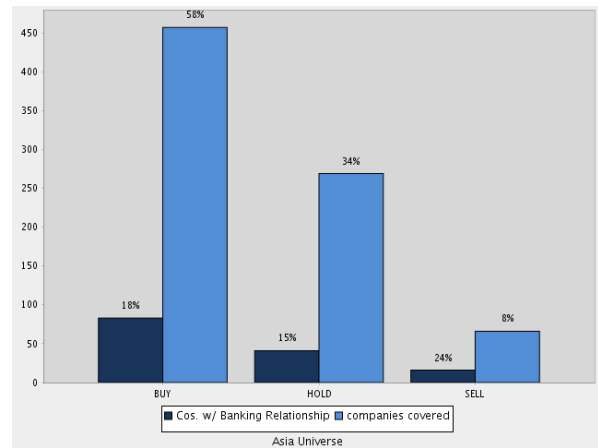
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

**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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