

China Longyuan Power Group

February data: wind power output +30.9% YoY

Company Update

What's new

In February, LYP's total monthly power output was 3,522GWh (-6.7% MoM & +30.9% YoY), 2,596GWh from wind power (-7.7% MoM & +30.9% YoY) and 883GWh from coal (-3.4% MoM & +34% YoY). On an YTD basis, LYP's total power output was 7,296GWh (+16.7% YoY) in 2M17, with wind output contributing 5,409GWh (+19.6% YoY).

Comments

February wind utilization was 149 hours, up 18.8% YoY. The strong growth is believed to have come from better wind resources in North China along with eased curtailment. Specifically, Liaoning, Ningxia and Hebei delivered the strongest improvements in utilization, with increases of 243%/86%/68% YoY respectively in February 2017. Wind utilization in South China was affected by weaker wind resources, with Shaanxi (-57% YoY), Guangdong (-33% YoY), Anhui & Zhejiang (-19% YoY) and Hainan (-17% YoY).

Curtailment was halved vs. a high 35% last year We do believe that power demand recovery was also a big catalyst to the improved curtailment as the utilization of coal-fired power plants was also +10% YoY over the first two months of 2017.

Valuation and recommendation

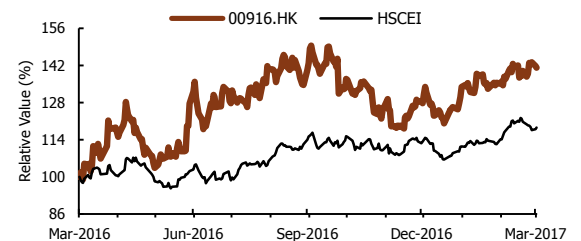
We maintain our 2016/17/18e EPS at Rmb0.45/0.52/0.61; and **we reiterate our BUY rating and target price of HK\$8.54** (15x 2017e P/E).

Risks

Worse-than-expected curtailment; delays in capacity rollout.

Maintain BUY

Ticker	00916.HK
CICC investment rating	BUY
Last close	HK\$6.77
CICC target	HK\$8.54
52wk price range	HK\$7.30~4.65
Market cap (bn)	HK\$54
Daily value (mn)	HK\$97.90
Shares outstanding (mn)	8,036
Free float (%)	42
Daily volume (mn sh)	14.62
Business sector	Alternative Energy



(Rmb mn)	2015A	2016E	2017E	2018E
Revenue	19,649	21,113	23,038	24,930
(+/-)	7.8%	7.5%	9.1%	8.2%
Net profit	2,865	3,603	4,208	4,936
(+/-)	12.9%	25.7%	16.8%	17.3%
EPS	0.36	0.45	0.52	0.61
BPS	4.74	5.12	5.55	6.06
DPS	0.07	0.09	0.11	0.12
CPS	2.03	1.74	1.77	1.93
P/E	15.9	13.5	11.6	10.2
P/B	1.2	1.2	1.1	1.0
EV/EBITDA	10.1	9.7	8.8	8.2
Dividend yield	1.3%	1.5%	1.7%	2.0%
ROAA	2.2%	2.6%	2.9%	3.2%
ROAE	8.0%	9.1%	9.8%	10.6%

Source: Wind, Bloomberg, company data, CICC Research

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Financial summary

Financial statement (Rmb mn)	2015A	2016E	2017E	2018E	Financial ratios	2015A	2016E	2017E	2018E
Income statement					Growth ability				
Revenue	19,649	21,113	23,038	24,930	Revenue	7.8%	7.5%	9.1%	8.2%
COGS	-4,513	-4,678	-4,616	-4,634	Operating profit	9.1%	5.3%	17.4%	12.1%
Selling expenses	-1,419	-1,886	-2,014	-2,184	EBITDA	9.9%	8.7%	13.2%	10.5%
Administrative expenses	-901	-617	-667	-729	Net profit	12.9%	25.7%	16.8%	17.3%
Other ops income (expense)	-6,153	-6,917	-7,504	-8,147	Profitability				
Operating profit	6,663	7,016	8,237	9,236	Gross margin	77.0%	77.8%	80.0%	81.4%
Finance costs	-3,228	-2,696	-2,622	-2,717	Operating margin	33.9%	33.2%	35.8%	37.0%
Other income (expense)	447	465	486	512	EBITDA margin	62.3%	63.0%	65.3%	66.7%
Profit before income tax	4,661	5,622	6,485	7,456	Net margin	14.6%	17.1%	18.3%	19.8%
Income tax	-600	-753	-971	-1,131	Liquidity				
Minority interest	-1,196	-1,266	-1,306	-1,389	Current ratio	0.23	0.25	0.26	0.29
Net profit	2,865	3,603	4,208	4,936	Quick ratio	0.21	0.23	0.24	0.27
EBITDA	12,233	13,299	15,050	16,635	Cash ratio	0.05	0.09	0.10	0.13
Recurrent net income	2,865	3,603	4,208	4,936	Liabilities / assets	66.6%	65.4%	64.0%	62.4%
Balance sheet					Net debt / equity	161.2%	148.6%	138.8%	127.1%
Cash and bank balances	2,887	5,029	5,766	7,697	Return				
Trade and bill receivables	4,238	3,760	3,787	4,098	RoA	2.2%	2.6%	2.9%	3.2%
Inventories	1,081	1,089	1,012	1,016	RoE	8.0%	9.1%	9.8%	10.6%
Other current assets	4,492	4,532	4,650	4,748	Per-share data				
Total current assets	12,697	14,410	15,215	17,558	EPS (Rmb)	0.36	0.45	0.52	0.61
Fixed assets and CIP	98,609	103,632	109,334	114,371	BPS (Rmb)	4.74	5.12	5.55	6.06
Intangible assets and others	22,167	23,208	24,310	25,404	DPS (Rmb)	0.07	0.09	0.11	0.12
Total non-current assets	120,776	126,840	133,644	139,775	Cash flow per share (Rmb)	2.03	1.74	1.77	1.93
Total assets	133,473	141,250	148,859	157,333	Valuation				
Short-term borrowings	44,688	46,156	47,458	48,751	P/E	15.9	13.5	11.6	10.2
Trade and bill payables	10,804	11,344	11,556	11,960	P/B	1.2	1.2	1.1	1.0
Other current liabilities	156	164	168	174	EV/EBITDA	10.1	9.7	8.8	8.2
Total current liabilities	55,647	57,664	59,182	60,885	Dividend yield	1.3%	1.5%	1.7%	2.0%
Long-term borrowings	29,970	31,438	32,740	34,033					
Total non-current liabilities	33,293	34,761	36,063	37,356					
Total liabilities	88,940	92,425	95,245	98,241					
Share capital	8,036	8,036	8,036	8,036					
Retained profit	27,072	30,099	33,582	37,672					
Equity	38,100	41,126	44,610	48,699					
Total liabilities & equity	133,473	141,250	148,859	157,333					
Cash flow statement									
Pretax profit	4,661	5,622	6,485	7,456					
Depreciation & amortization	5,570	6,283	6,813	7,399					
Change in working capital	4,175	977	148	-3					
Others	1,919	1,105	781	649					
Cash flow from operations	16,325	13,988	14,227	15,501					
Capital expenditure	-15,264	-11,747	-13,018	-12,930					
Others	-1,055	237	270	337					
Cash flow from investing	-16,319	-11,509	-12,748	-12,593					
Equity financing	0	0	0	0					
Bank borrowings	0	2,937	2,604	2,586					
Others	507	-3,272	-3,346	-3,563					
Cash flow from financing	507	-336	-743	-977					
Foreign exchange gain (loss)	-22	0	0	0					
Net changes in cash	491	2,143	737	1,931					

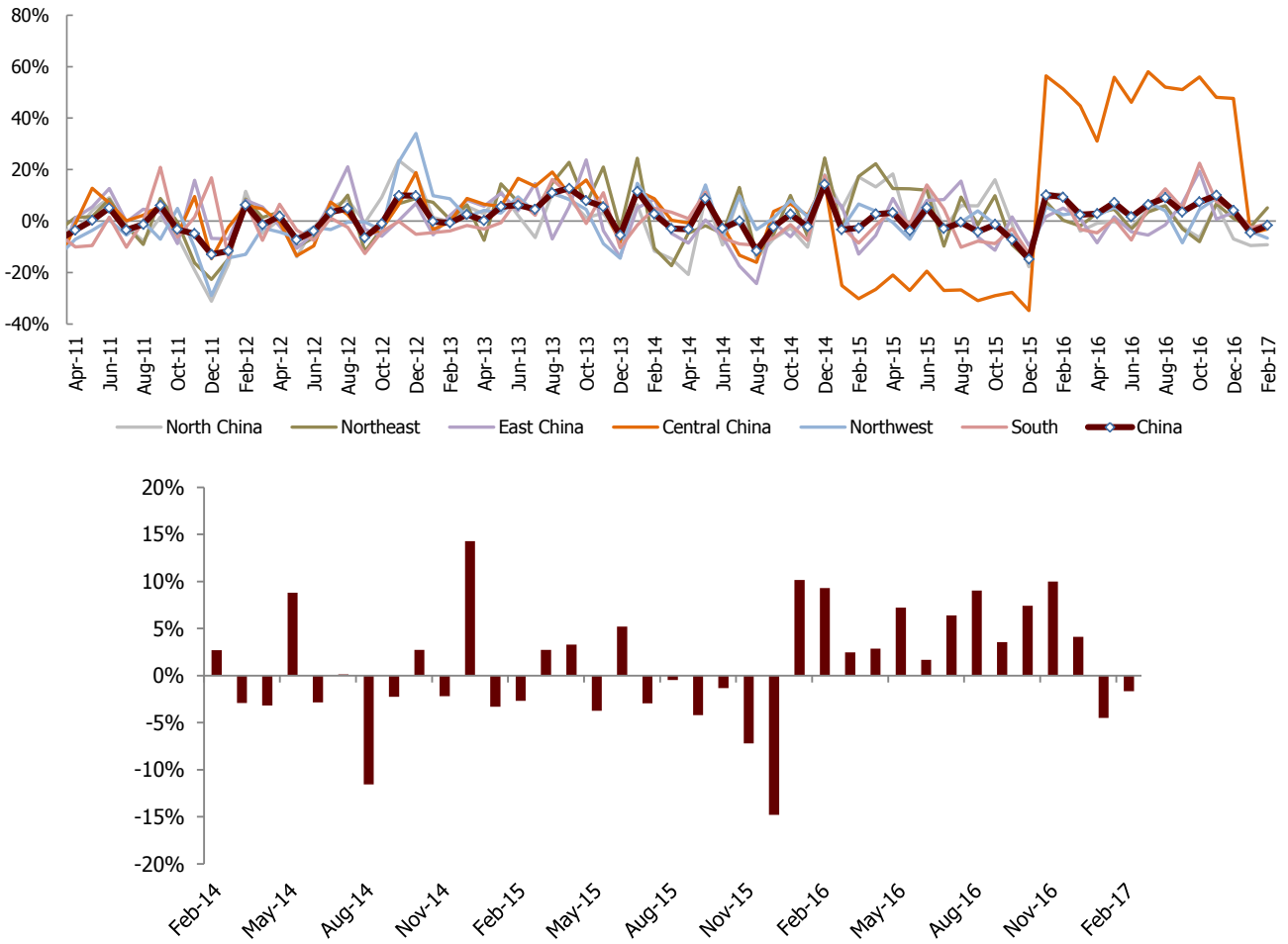
Source: Company data, CICC Research

Company description

On December 10, 2009, China Longyuan Power Technology Developing Corporation raised Rmb17.7bn when it listed in Hong Kong. At that time it was heralded as "China's first new energy stock". The company is mainly involved in the design, development, construction, management and operation of wind farms. It runs other projects involving thermal, solar, tidal, biomass and geothermal power. The company also offers consultation, repair, maintenance and training services to other wind farm operators.



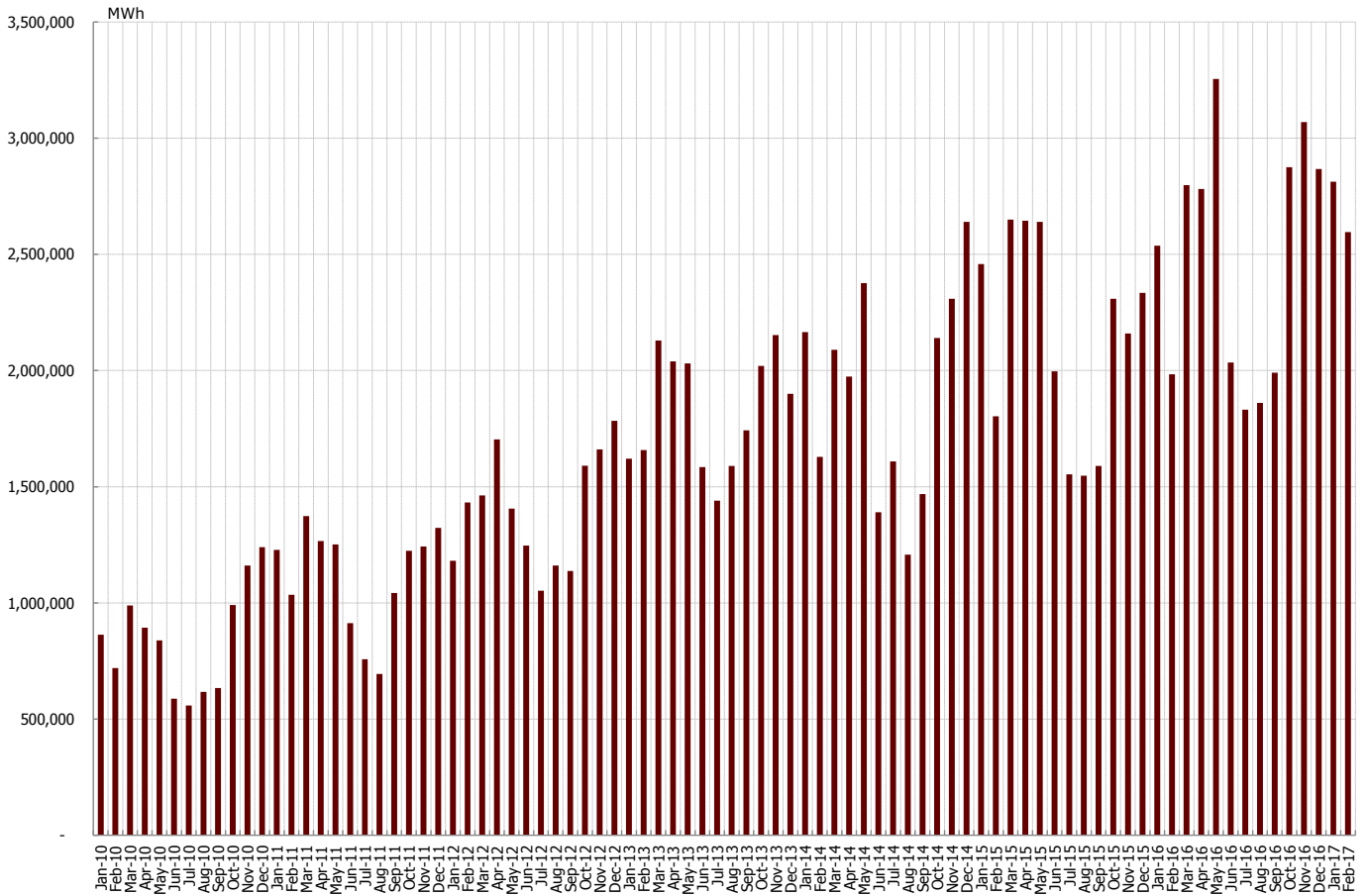
Figure 2: Wind speeds in China



Source: Company data, CICC Research



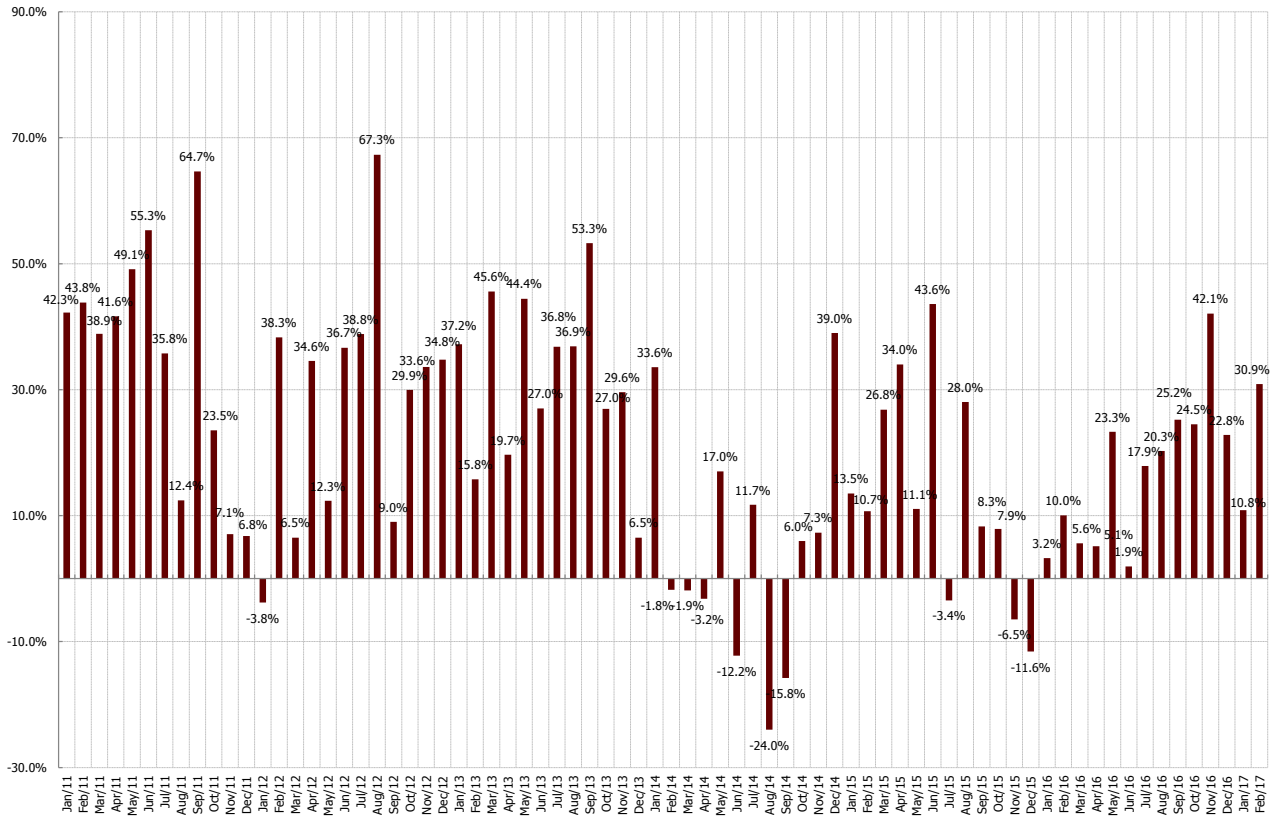
Figure 3: Longyuan's wind power generation



Source: Company data, CICC Research

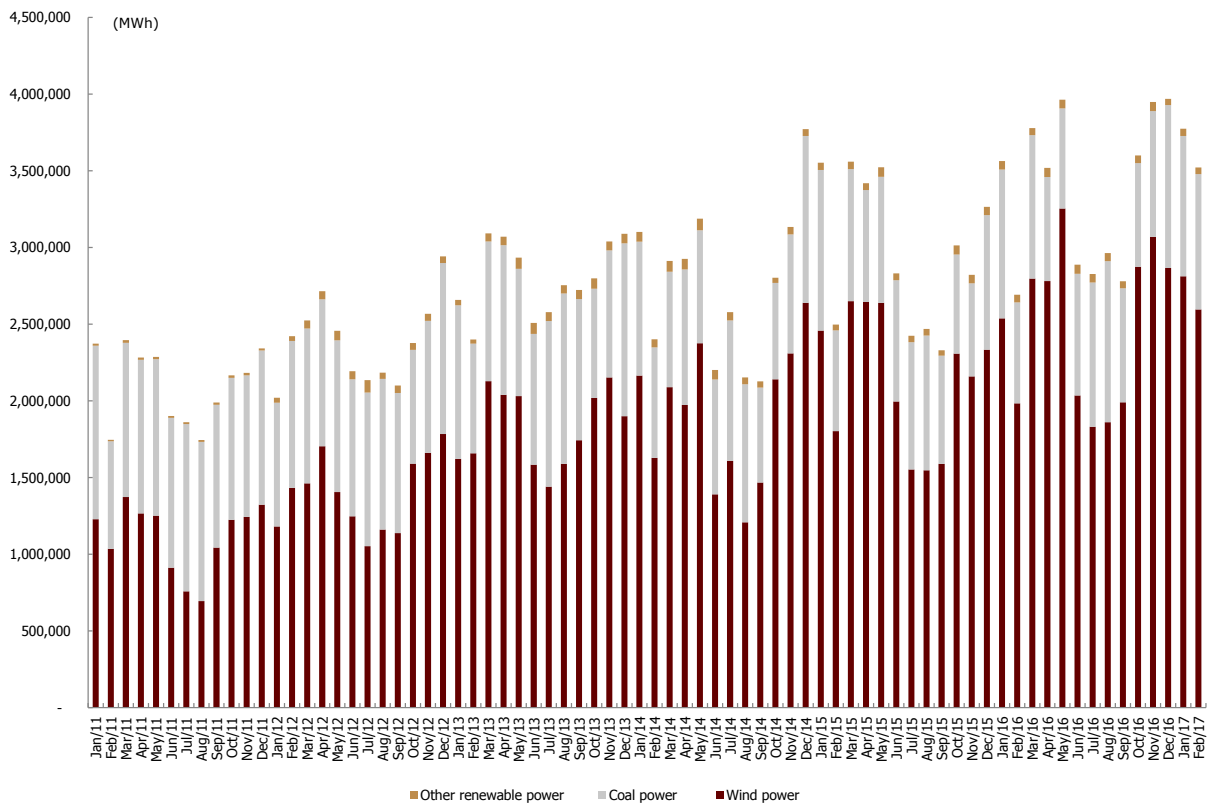


Figure 4: The YoY growth of Longyuan's wind power generation



Source: Company data, CICC Research

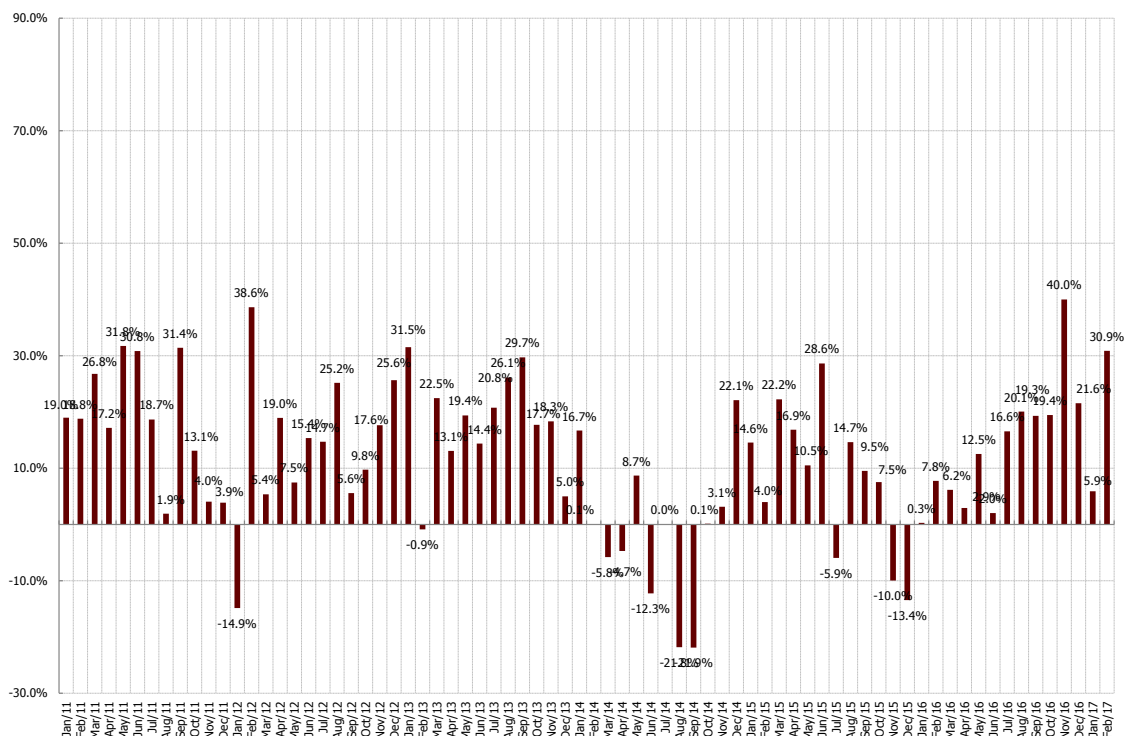
Figure 5: Longyuan's total power generation



Source: Company data, CICC Research



Figure 6: The YoY growth of Longyuan's total power generation



Source: Company data, CICC Research

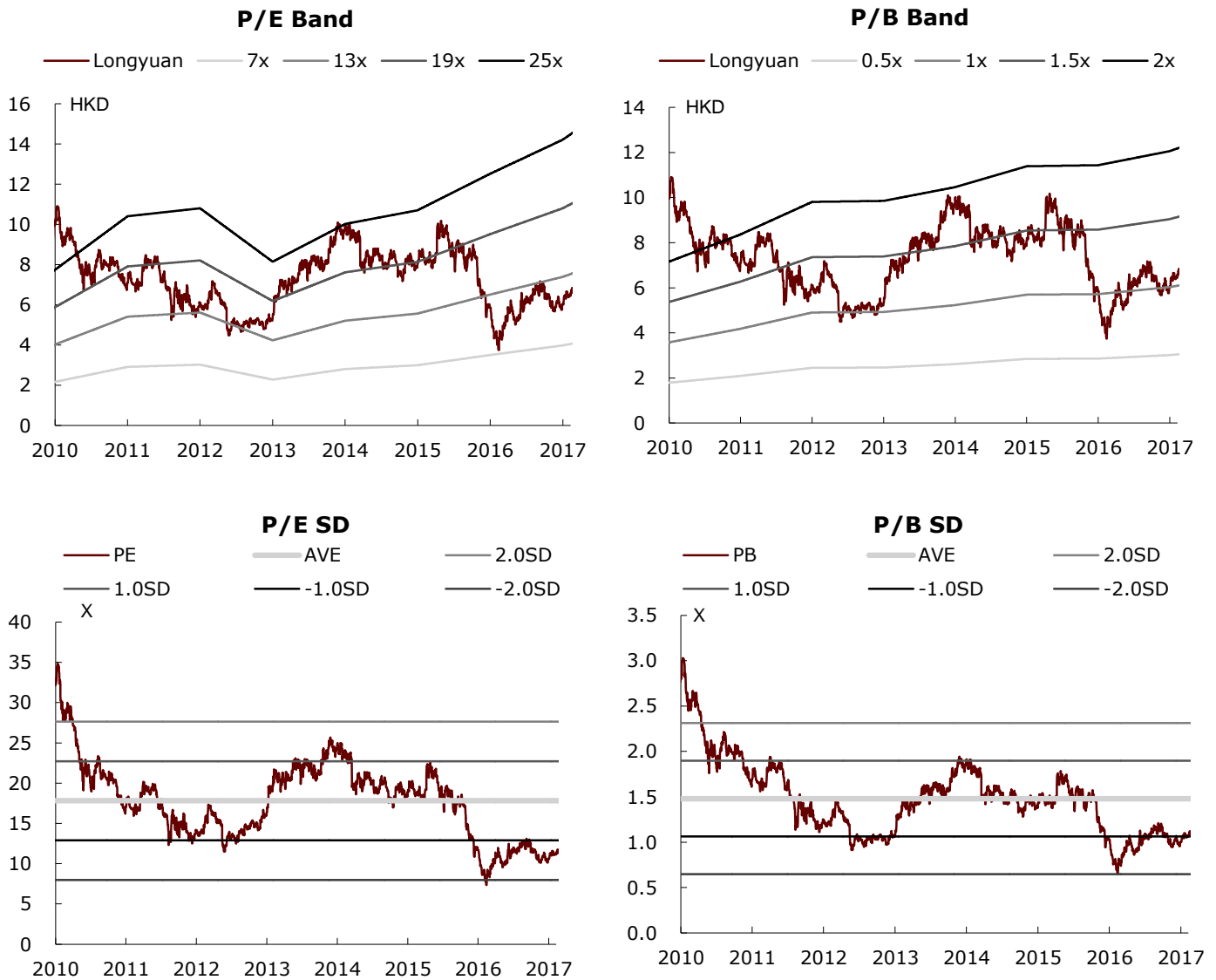
Figure 7: Valuations of companies in the wind sector

Company	Ticker	Price	3-mth Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	Div yld Hist (%)	P/B Hist (x)	P/B FY1 (x)	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)
Adjusted sector avg					21.2	11.2	9.0	1.8	1.3	1.0	106.6	25.6	7.9	11.8	10.8
Wind turbine and component manufacturer															
Xinjiang Gold-H	2208 HK	13.00	6,209	6.8	10.7	9.1	8.5	4.3	1.8	1.5	36.5	26.1	9.5	18.6	N/A
Xinjiang Gold-A	002202 CH	16.58	6,209	32.8	15.3	12.5	11.4	2.9	2.4	2.2	36.5	26.1	9.5	16.4	N/A
China High-Speed	658 HK	9.09	1,914	6.1	12.8	11.4	10.9	2.5	1.3	1.2	38.6	32.5	10.5	11.3	11.5
Guodian Techno-H	1296 HK	0.56	437	0.1	N/A	N/A	N/A	N/A	0.6	N/A	157.8	19.1	(23.2)	(64.6)	N/A
Sinovel Wind-A	601558 CH	2.22	1,940	40.7	N/A	N/A	N/A	N/A	3.7	N/A	0.0	9.4	(320.4)	(69.3)	N/A
Vestas Wind Syst	VWS DC	522.00	16,445	72.1	17.8	15.7	14.2	1.3	4.7	4.2	0.0	20.8	9.4	31.7	N/A
Gamesa	GAM SM	21.65	6,391	32.2	20.1	17.5	16.5	0.7	3.4	3.3	0.0	N/A	6.5	18.3	N/A
Nordex Se	NDX1 GY	13.87	1,422	17.7	14.1	16.2	14.7	N/A	1.4	1.4	0.0	N/A	2.8	10.5	N/A
Wind farm operators															
Huaneng Renewa-H	958 HK	2.73	3,420	8.3	12.7	8.9	7.8	1.3	1.2	1.2	254.6	N/A	25.3	14.0	N/A
China Longyuan-H	916 HK	6.77	7,007	12.2	16.8	13.4	10.9	1.3	1.3	1.2	159.9	N/A	14.7	8.3	N/A
Huadian Fuxin -H	816 HK	1.88	2,036	3.3	7.7	6.0	5.7	2.5	0.8	0.7	279.0	N/A	12.4	13.1	11.9
Concord Ne	182 HK	0.42	471	0.8	7.3	5.9	4.7	2.4	0.6	0.6	51.4	N/A	11.8	9.2	N/A
Cgn New Energy H	1811 HK	1.26	696	0.9	6.7	7.4	6.5	2.7	0.9	0.9	273.6	N/A	9.0	13.5	N/A
Cecep Wind Pow-A	601016 CH	8.54	2,571	10.4	93.8	43.8	N/A	0.5	2.8	N/A	110.3	44.6	13.4	3.0	N/A
China Datang C-H	1798 HK	0.79	740	0.2	369.5	18.5	9.1	N/A	0.6	0.5	288.8	N/A	0.2	0.2	N/A
China Suntien-H	956 HK	1.44	689	1.0	28.2	9.8	8.4	1.2	0.6	0.6	140.0	26.5	4.0	3.2	N/A
Jnec-H	579 HK	2.40	2,124	1.8	7.7	7.0	6.0	3.3	1.0	0.9	140.9	N/A	13.6	14.0	13.1
C P New Energy	735 HK	4.76	727	0.7	47.0	8.8	6.8	0.8	0.6	0.6	133.6	74.9	4.5	3.0	6.6

Source: Bloomberg, CICC Research



Figure 8: Longyuan's historical P/E and P/B bands



Source: Company data, CICC Research



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