

Huadian Fuxin (816 HK)

Sluggish nuclear dragged 1H19 earnings

HDFX's 1H19 earnings miss on 1) higher repair and maintenance cost allocation in 1H19; 2) surprising other operating charges from transferring power generation rights; and 3) lower-than-expected nuclear share profit. We trim FY19E EPS outlook by 12.7%, and maintain FY20-21E EPS largely unchanged. Valuation is not demanding, maintain BUY with TP unchanged at HK\$2.00.

- 1H19 earnings missed.** Revenue was RMB9,781mn, up 10.5% YoY. Revenue growth was mainly driven by hydro power, gas distributed and other power generation. Repair and maintenance costs and other operating costs surged 48.9%/92.7% YoY respectively, due to higher costs allocation in 1H19, as well as significant costs associated with power generation rights transferred to third parties. Share profit from nuclear investments was also lower than estimates. Net profit was RMB1,548mn, up 4.5% YoY. The results was 14.2% lower than our estimates.
- Raised FY19 hydro power utilization outlook by 10%.** Based on 8M19 hydro power generation performance, mgmt. raised FY19 outlook by 10% from 3,500 hours to 3,850 hours. Hydro tariff is expected to be stable as HDFX's hydro tariff was significantly lower than projects in nearby provinces.
- Surprisingly good coal-power tariff.** Coal-power revenue beat our estimates, as coal-power tariff raised RMB8.59/MWh to RMB344.53/MWh. Standard coal costs declined 12.1% to RMB697.13/tonne. We expect the segment's tariff and costs structure to remain stable in 2H19.
- Nuclear profit exhibited short-term decline.** Share profit from Fuqing declined by ~RMB200mn due to less power generation. Sanmen 2# also experienced outage shortly after commercial operation in 4Q18. We trim nuclear share profit by 19.6% in FY19E to factor in those earnings impacts.
- Subsidy receivables amounted to RMB10.1bn.** HDFX had accumulated RMB10.1bn subsidy receivables. Mgmt. had RMB4.1bn recycled through ABS/ABN issuance with interest costs of 4.08%. We expect subsidy receivables will be a key factor causing pressure to HDFX's valuation.
- Trim FY19E EPS by 12.7%; TP maintained at HK\$2.0.** Based on lower than expected 1H19 figures, we trim FY19E EPS by 12.7% to RMB0.29. FY20-21E EPS projection remain largely intact. According to updated market data, our DCF TP is maintained at HK\$2.00 per share. HDFX's valuation is undemanding. **Maintain BUY rating.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	16,813	18,330	19,850	23,101	26,627
Net income (RMB mn)	1,986	1,995	2,400	2,988	3,523
EPS (RMB)	0.24	0.24	0.29	0.36	0.42
YoY growth (%)	1.7	0.4	20.3	24.5	17.9
P/E (x)	5.3	5.3	4.4	3.5	3.0
P/B (x)	0.5	0.5	0.5	0.4	0.4
Yield (%)	4.4	4.5	5.1	6.4	7.5
ROE (%)	10.2	9.5	10.4	11.7	12.4
Net gearing (%)	287.2	205.2	207.7	204.6	187.2

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price **HK\$2.00**
 (Previous TP **HK\$2.00**)
Up/Downside **+43.9%**
Current Price **HK\$1.39**

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	11,687
Avg 3 mths t/o (HK\$ mn)	5.82
52w High/Low (HK\$)	1.92/1.29
Total Issued Shares (mn)	2,570
Source: Bloomberg	

Shareholding Structure

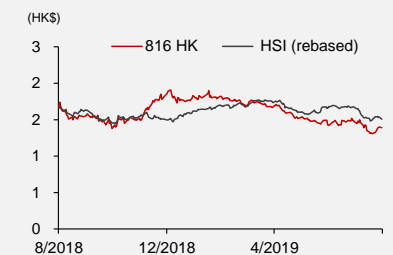
Huadian Group	62.8%
Free float	37.2%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-6.0%	2.6%
3-mth	-7.9%	-3.8%
6-mth	-23.1%	-14.9%
12-mth	-14.1%	-9.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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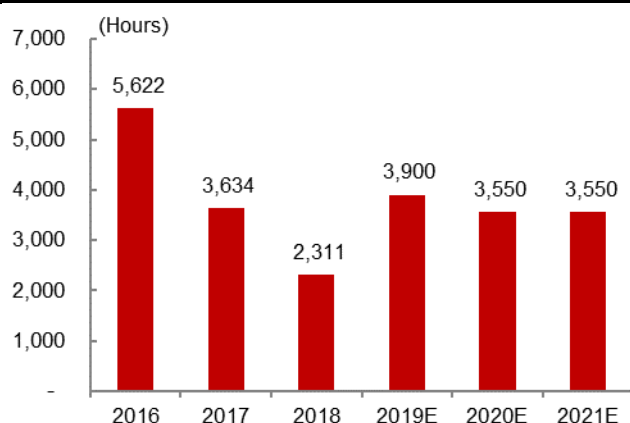
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- "Huadian Fuxin Energy (816 HK) - Recovering hydro and falling coal price - 6 May 2019"
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Figure 1: Our 1H19 earnings estimates for HDFX

(RMB mn)	1H18	1H19A	YoY Change%	1H19E	1H19A vs. 1H19E	Our Comments
Revenue	8,852	9,781	10.5%	9,748	0.3%	Overall revenue was in line with est.
Hydro	670	1,564	133.2%	1,533	2.0%	Power generation surged 129.1% YoY
Coal-fired	2,834	2,688	-5.1%	2,433	10.5%	Power generation decline but with higher tariff
Wind	3,791	3,615	-4.6%	3,865	-6.5%	Realized tariff was RMB17.99/MWh lower
Others	1,557	1,914	23.0%	1,918	-0.2%	
Other net income	184	123	-32.9%	104	18.7%	
Operating expenses	(6,278)	(6,424)	2.3%	(6,312)	1.8%	
Cost of fuel	(2,739)	(2,455)	-10.4%	(2,551)	-3.8%	
Depreciation & amortization	(2,271)	(2,366)	4.2%	(2,339)	1.2%	
Personnel costs	(654)	(693)	6.1%	(762)	-9.0%	
Repairs and maintenance	(147)	(247)	67.3%	(166)	48.9%	Conducted hydro and coal power maintenance in 1H19
Administration expenses	(180)	(139)	-22.5%	(206)	-32.5%	
Service concession construction costs	(36)	(10)	-71.9%	(22)	-54.5%	
Other operating expenses	(251)	(514)	104.9%	(267)	92.7%	Surged due to 3rd party power generation rights transfer
COGS	-5,226	(4,970)	-4.9%	-5,118	-2.9%	
Gross profit	3,810	4,934	29.5%	4,734	4.2%	
Operating (loss)/Profit - EBIT	2,758	3,480	26.2%	3,540	-1.7%	Largely in line
Net Financial expenses	(1,429)	(1,389)	-2.8%	(1,449)	-4.1%	
Finance income	64	49	-22.5%	63	-22.4%	
Finance expenses	(1,492)	(1,438)	-3.6%	(1,512)	-4.9%	Good finance expenses control
Share of profit or losses	486	299	-38.5%	529	-43.4%	Nuclear share profit was significant lower than est.
Profit/(loss) before income tax	1,815	2,390	31.7%	2,620	-8.8%	
Income tax expense	(180)	(357)	98.8%	(338)	5.6%	
Profit/(Loss) for the period/ year	1,635	2,033	24.3%	2,281	-10.9%	
Effective tax rate	9.9%	17.6%	77.5%	14.8%	2.7ppt	
Less:						
Minority	(96)	(249)	158.7%	(250)	-0.3%	
Perpetual MTN int distribution	(58)	(236)	310.0%	(228)	3.4%	
Net profit	1,482	1,548	4.5%	1,803	-14.2%	Net profit missed our est. by 14.2%
Net profit margin	16.7%	15.8%	n/a	18.5%	-2.7ppt	

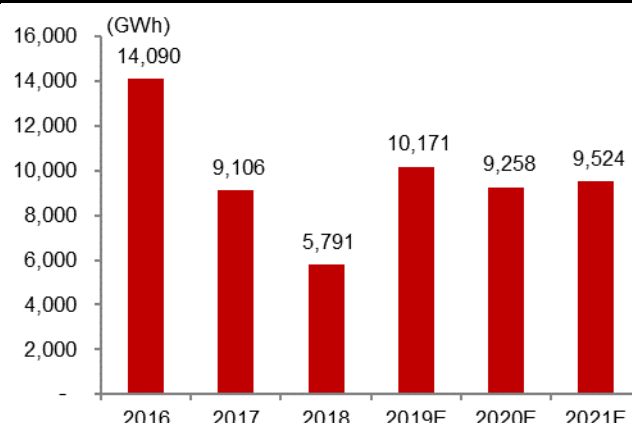
Source: Bloomberg, CMBIS estimates

Figure 2: We trim hydro power utilization hour down based on mgmt. guidance

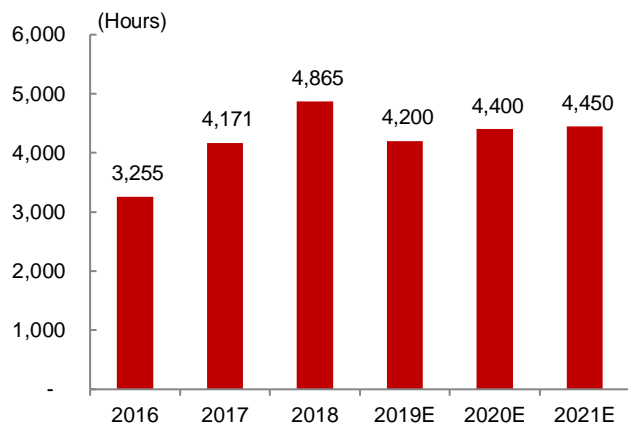


Source: Company data, CMBIS estimates

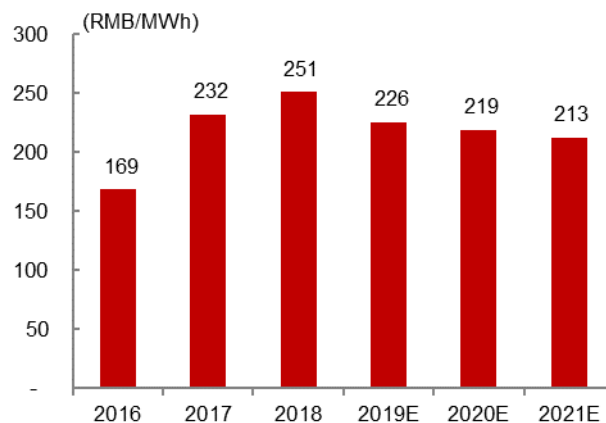
Figure 3: Hydro power generation to recover in FY19E



Source: Company data, CMBIS estimates

Figure 4: Coal-fired power utilization hour to decline due to a squeeze from robust hydro power output in FY19E


Source: Company data, CMBIS estimates

Figure 5: We expect unit fuel cost for coal-fired power segment to decline by 10% in FY19E


Source: CMBIS estimates

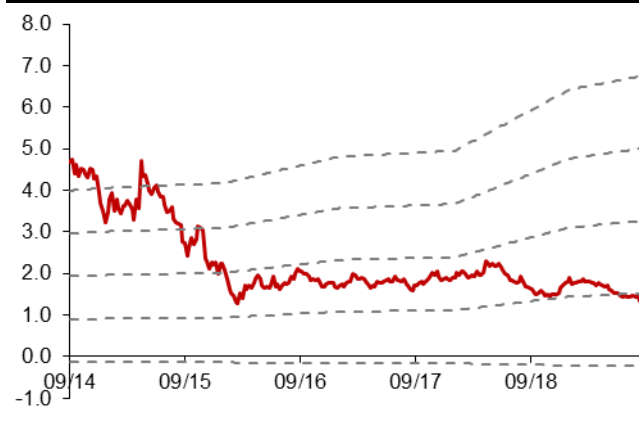
Figure 6: Earnings revision

	Old			New			est. change %		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Revenue (RMB mn)	19,747	22,831	26,948	19,850	23,101	26,627	0.5%	1.2%	-1.2%
Nuclear share profit (RMB mn)	861	1,052	1,295	693	999	1,255	-19.6%	-5.0%	-3.1%
Net Income (RMB mn)	2,748	2,953	3,447	2,400	2,988	3,523	-12.7%	1.2%	2.2%
EPS (RMB)	0.33	0.35	0.41	0.29	0.36	0.42	-12.7%	1.2%	2.2%

Source: CMBIS estimates

Figure 7: 12M forward P/E band


Source: Bloomberg, CMBIS

Figure 8: 12M forward P/B band


Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	16,813	18,330	19,850	23,101	26,627
Hydro	2,518	1,693	2,859	2,602	2,677
Coal-fired	4,896	6,116	5,539	6,445	7,295
Wind	6,401	7,083	7,446	8,107	8,565
Others	2,997	3,437	4,007	5,946	8,089
Cost of sales	(9,435)	(10,975)	(10,761)	(13,271)	(16,105)
Gross profit	7,377	7,355	9,090	9,830	10,522
Other income, net	210	343	225	225	225
Admin expense	(512)	(422)	(522)	(606)	(698)
Personnel costs	(1,383)	(1,599)	(1,769)	(2,132)	(2,302)
Other expenses	(832)	(867)	(1,044)	(1,090)	(1,248)
EBIT	4,861	4,809	5,980	6,226	6,498
Finance costs, net	(2,800)	(2,991)	(2,909)	(3,066)	(3,181)
JVs & associates	742	940	680	1,136	1,432
Exceptional	-	-	-	-	-
Pre-tax profit	2,802	2,758	3,751	4,296	4,750
Income tax	(337)	(285)	(469)	(580)	(689)
Minority interests	(348)	(204)	(426)	(368)	(346)
Perpetual int distribution	(131)	(274)	(456)	(361)	(192)
Net profit	1,986	1,995	2,400	2,988	3,523

Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net income	1,986	1,995	2,400	2,988	3,523
D&A	4,335	4,759	4,970	5,483	6,053
Change in working capital	(4,071)	(821)	855	(527)	834
Others	5,788	374	(1,306)	(201)	(84)
Cash flow from operation	8,038	6,306	6,919	7,744	10,327
Capex	(7,083)	(4,558)	(9,971)	(9,814)	(7,339)
Associated companies	(684)	(795)	(1,351)	(1,596)	(1,805)
Other	(1,583)	-	-	-	-
Cash flow from investment	(9,350)	(5,352)	(11,323)	(11,410)	(9,143)
Equity raised	1,833	5,104	-	-	-
Change of Debts	2,614	(4,132)	5,445	5,357	2,178
Dividend paid	(429)	(467)	(478)	(540)	(672)
Others	(3,499)	4	152	160	168
Cash flow from financing	520	508	5,120	4,977	1,674
Net change in cash	(792)	1,462	716	1,311	2,857
Cash at the beginning of the year	2,895	2,122	3,598	4,314	5,624
Exchange difference	18	14	-	-	-
Cash at the end of the year	2,122	3,598	4,314	5,624	8,482
Pledged cash	5	6	9	9	9
Cash at balance sheet	2,127	3,604	4,323	5,633	8,491

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	95,915	96,146	103,987	110,186	113,434
Fixed asset	81,191	80,930	85,936	90,273	91,567
Prepaid lease payments	1,428	1,428	1,545	1,660	1,770
Interest in joint ventures	8,190	8,985	10,336	11,932	13,736
Other non-current assets	5,107	4,805	6,170	6,321	6,360
Current assets	11,325	12,157	12,790	14,374	16,379
Cash	2,127	3,604	4,323	5,633	8,491
Account receivable	6,992	5,970	6,268	6,435	5,544
Prepayments	1,919	2,154	1,845	1,906	1,925
Other current assets	287	430	355	399	419
Current liabilities	25,366	19,345	24,065	24,936	25,377
Trade and other payable	1,081	1,104	1,290	1,502	1,731
Other payables	8,715	7,220	7,796	7,330	7,082
Borrowings	15,382	10,868	14,780	15,900	16,355
Others	188	153	198	204	209
Non-current liabilities	55,406	55,857	57,535	61,840	63,632
Borrowings	53,779	54,096	55,603	59,814	61,526
Obligation under financial lease	226	291	309	332	341
Others non-current assets	1,401	1,470	1,624	1,694	1,764
Minority Interest	3,043	3,047	3,199	3,359	3,527
Perpetual Instrument	3,988	8,970	8,970	8,970	8,970
Shareholders' equity	19,436	21,086	23,008	25,456	28,307
Total equity	26,467	33,102	35,177	37,785	40,804

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Hydro	15.0	9.2	14.4	11.3	10.1
Coal-fired	29.1	33.4	27.9	27.9	27.4
Wind	38.1	38.6	37.5	35.1	32.2
Others	17.8	18.8	20.2	25.7	30.4
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	45.1	42.0	46.9	43.5	40.4
Pre-tax margin	16.7	15.0	18.9	18.6	17.8
Net margin	11.8	10.9	12.1	12.9	13.2
Effective tax rate	12.0	10.3	12.5	13.5	14.5
Balance sheet ratios					
Current ratio (x)	0.4	0.6	0.5	0.6	0.6
Quick ratio (x)	0.4	0.6	0.5	0.6	0.6
Cash ratio (x)	0.1	0.2	0.2	0.2	0.3
Inventory turnover days	6.0	8.2	6.1	5.9	5.4
Debtors turnover days	151.8	118.9	115.3	101.7	76.0
Creditor turnover days	42.8	37.9	44.7	42.0	39.8
Total debt / equity ratio (%)	2.6	2.0	2.0	2.0	1.9
Net debt / equity ratio (%)	287.2	205.2	207.7	204.6	187.2
Returns (%)					
ROE	10.2	9.5	10.4	11.7	12.4
ROA	1.9	1.8	2.1	2.4	2.7
Per share					
EPS (RMB)	0.24	0.24	0.29	0.36	0.42
DPS (RMB)	0.06	0.06	0.06	0.08	0.09
BVPS (RMB)	2.31	2.51	2.74	3.03	3.37

Source: Company data, CMBIS estimates

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