

# CR Power (836 HK)

## August operating data recap

CR Power unveiled its operating data for Aug and Jan-Aug 2023. During Jan-Aug, CR Power recorded 3.8% YoY growth on total power generation with robust growth for solar/wind power generation. In Aug, CR Power's total power generation dropped by 12.3% YoY due to decline in thermal/wind power generation as hydro power generation improved together with unfavorable wind condition; while hydro/solar power generation rose significantly by 34.9%/194.7% YoY thanks to higher rainfall and favorable solar condition. Considering recent operating data and assumption guidance on utilization hours, we lower our power generation expectation but remain optimistic on the new energy newly-added installed capacity and lower fuel costs in 2H23. We adjusted our TP to HK\$22.53. Maintain BUY.

- **Wind/thermal power generation dropped in Aug, while wind and solar power maintained rapid growth momentum in Jan-Aug.** CR Power reported a 3.8% YoY increase in power generation in Jan-Aug 2023. Wind/solar/thermal power generation rose by 13.3%/81.0%/1.2% YoY. In Aug, hydro/solar power generation surged by 34.9% and 194.7% YoY, benefiting from abundant rainfall and favourable light conditions. However, thermal power generation decreased by 12.5% YoY due to improved hydro power generation and stricter thermal coal safety management during the Asia Games. In addition, unfavourable wind conditions caused a 21.4% YoY drop in wind power generation.
- **Anticipate continuous slight improvement of thermal power costs and steady tariff policy in 2H23, with expected "capacity payment" benefiting thermal power operators.** CR Power experienced a profit turnaround in thermal power during 1H23, benefiting from lower fuel costs. We expect fuel costs to continue to improve in 2H23. Furthermore, we anticipate significant changes in on-grid tariff policies for thermal power are unlikely in the short term, as spot thermal coal prices in Jul and Aug still exceed the national benchmark for 5,500 kcal thermal coal at Qinghuangdao Port at RMB570-770 tonne. Additionally, the expected release of "capacity payment" policy for thermal power in late 2023 or early 2024 is targeted to help recover earnings lost due to reduced utilization hours of thermal power and enhance power supply stability as more renewable energy achieve grid parity.
- **Expect robust growth in solar power and aim for 7GW newly-added new energy installed capacity in 2023.** In terms of new energy segment, we foresee CR Power to show rapid growth in installed capacity and generation of solar power in 2023, and believe the Company can achieve 7GW newly-added installed capacity of new energy in 2023. The lower upstream costs of solar/ wind power and technological advancement have resulted in advanced IRR of new energy projects. In addition, on-grid tariffs may slightly drop due to rising power transactions, but significant fluctuations are not anticipated in 2H23.
- **Adjusted TP to HK\$22.53, maintain BUY.** Based on the mgmt.'s guidance and operating data, we slightly lower CR Power's thermal/wind/solar power's utilization hour's estimates in 2023-2025, maintain other key assumption unchanged, and adjust the net profit estimates to HK\$12,704/15,153/17,919mn. Consequently, our SOTP-based TP is adjusted to HK\$22.53. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	89,800	103,305	112,885	120,914	129,326
Net profit (HK\$ mn)	1,592.7	7,042.5	12,703.6	15,152.6	17,919.3
EPS (Reported) (HK\$)	0.33	1.46	2.64	3.15	3.73
YoY growth (%)	(79.0)	342.2	80.4	19.3	18.3
Consensus EPS (HK\$)	na	1.46	2.45	2.94	3.31
P/E (x)	42.8	10.5	5.4	4.5	3.8
P/B (x)	0.8	0.9	0.7	0.7	0.6
ROE (%)	1.8	8.3	14.6	15.6	16.6

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$22.53
(Previous TP)	HK\$23.43
Up/Downside	56.2%
Current Price	HK\$14.42

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### Stock Data

Mkt Cap (HK\$ mn)	69,366.6
Avg 3 mths t/o (HK\$ mn)	178.5
52w High/Low (HK\$)	18.80/11.40
Total Issued Shares (mn)	100.0

Source: FactSet

### Shareholding Structure

CRH Power Ltd	62.9%
First Seafront Fund	4.2%

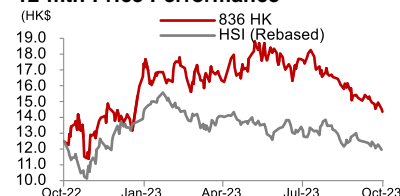
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.4%	0.4%
3-mth	-19.5%	-10.6%
6-mth	-11.9%	3.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Revision Table

	Old			New			Change(%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Wind power generation(k/GWh)	41.01	47.06	55.34	40.15	47.06	55.34	-2.1%	0.0%	0.0%
Solar power generation(k/GWh)	2.93	8.62	14.78	2.69	7.91	13.57	-8.2%	-8.2%	-8.2%
Coal-fired power generation (k/GWh)	157	162	167	156	161	165	-1.0%	-1.0%	-1.0%
Revenue (HKD mn)	114,284	122,125	130,802	112,885	120,914	129,326	-1.2%	-1.0%	-1.1%
Net Income (HKD mn)	13,179	15,492	18,420	12,704	15,153	17,919	-3.6%	-2.2%	-2.7%
EPS (HKD)	2.74	3.22	3.83	2.64	3.15	3.73	-3.6%	-2.2%	-2.7%

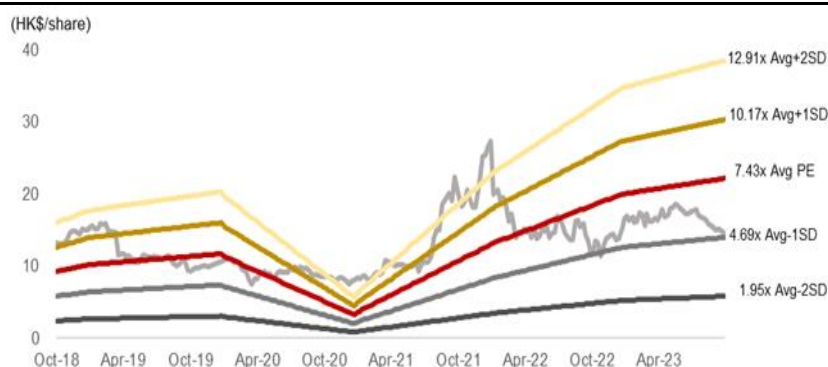
Source: Company data, CMBIGM estimates

Figure 2: Target price

	Bookvalue (HK\$m)-FY23E	Target PB	Per share (HKD)
Thermal power segment	17,503	0.7x	2.4
Renewable power segment	74,620	1.3x	20.2
Total			22.53

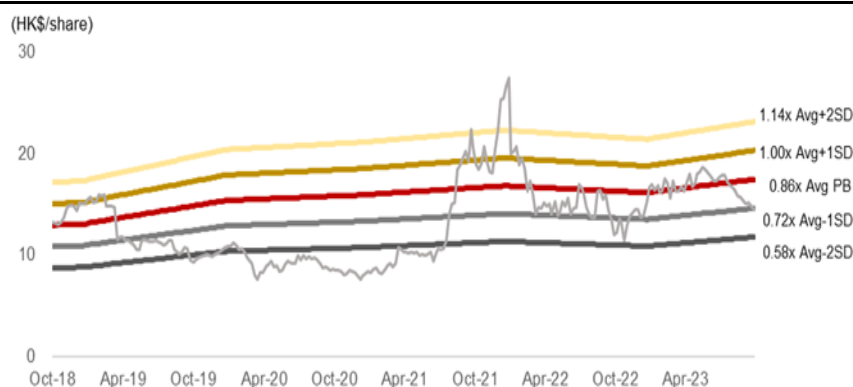
Source: Company data, CMBIGM estimates

Figure 3: PE band



Source: Company data, CMBIGM estimates

Figure 4: PB band



Source: Company data, CMBIGM estimates

Figure 5: Peers table(renewables energy)

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
CHINA RES POWER	836 HK	14.42	69366.60	2.69	3.09	3.70	17.1%	5.35	4.67	3.90	0.77	0.69	0.62
CGN NEW ENERGY H	1811 HK	2.01	8624.56	0.08	0.08	0.09	6.1%	3.21	3.21	2.85	0.78	0.69	0.61
CHINA LONGYUAN-H	916 HK	6.30	128608.07	0.96	1.15	1.26	14.5%	6.10	5.12	4.65	0.66	0.60	0.55
CHINA DATANG C-H	1798 HK	1.79	13019.92	0.40	0.44	0.51	13.6%	4.22	3.78	3.27	na	na	na
CHINA LONGYUAN-A	001289 CH	19.90	119962.06	0.97	1.14	1.25	13.6%	20.49	17.52	15.87	2.13	1.97	1.79
CHINA THREE GO-A	600905 CH	4.78	136821.52	0.30	0.36	0.43	19.6%	15.93	13.39	11.14	1.63	1.47	1.30
Average								9.2	7.9	6.9	1.2	1.1	1.0

Source: Company data, CMBIGM estimates

Figure 6: Peers table(thermal power)

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$mn)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
CHINA POWER INTE	2380 HK	2.96	36615.65	0.32	0.45	0.56	33.8%	8.76	6.08	4.89	0.75	0.68	0.61
CHINA RES POWER	836 HK	14.42	69366.60	2.69	3.09	3.70	17.1%	5.35	4.67	3.90	0.77	0.69	0.62
HUANENG POWER-H	902 HK	3.67	110040.44	0.74	0.85	1.03	18.2%	4.64	4.05	3.32	0.52	0.48	0.38
HUADIAN POWER-H	1071 HK	3.16	52413.47	0.57	0.71	0.80	19.1%	5.21	4.15	3.68	0.57	0.51	0.43
Average								5.4	4.4	3.8	0.7	0.6	0.5

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Revenue	69,551	89,800	103,305	112,885	120,914	129,326
Cost of goods sold	(32,494)	(58,444)	(64,283)	(61,206)	(63,017)	(64,883)
Gross profit	37,057	31,356	39,022	51,679	57,896	64,443
Operating expenses	(12,621)	(13,999)	(15,207)	(16,452)	(17,837)	(19,089)
Staff costs	(6,001)	(6,355)	(6,632)	(7,241)	(8,033)	(8,732)
Others	(6,620)	(7,644)	(8,575)	(9,210)	(9,805)	(10,357)
Operating profit	24,436	17,357	23,815	35,228	40,059	45,354
Other income	2,460	2,812	1,982	1,982	1,982	1,982
EBITDA	26,896	20,169	25,797	37,209	42,041	47,335
Depreciation	(11,468)	(14,598)	(14,245)	(14,543)	(16,040)	(17,454)
Other amortisation	(245)	0	(185)	(162)	(124)	(91)
EBIT	15,184	5,571	11,367	22,504	25,876	29,789
Interest income	349	301	192	192	192	192
Interest expense	(3,771)	(4,061)	(4,083)	(4,340)	(4,210)	(4,169)
Foreign exchange gain/loss	0	0	0	0	0	0
Other income/expense	799	122	(199)	122	122	122
Others	(1,090)	(92)	2,184	0	0	0
Pre-tax profit	11,470	1,841	9,461	18,478	21,981	25,935
Income tax	(2,794)	(958)	(1,906)	(4,620)	(5,495)	(6,484)
After tax profit	8,676	884	7,556	13,859	16,485	19,451
Minority interest	(1,094)	709	(513)	(1,155)	(1,333)	(1,532)
Net profit	7,583	1,593	7,042	12,704	15,153	17,919

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	40,638	53,940	48,631	34,438	34,484	31,352
Cash & equivalents	5,036	7,934	7,721	8,979	9,814	5,144
Account receivables	31,428	37,769	35,616	20,319	19,346	20,692
Inventories	2,912	6,748	4,582	4,362	4,491	4,624
Contract assets	1,262	1,489	712	778	833	891
Non-current assets	218,994	233,415	234,757	251,674	267,131	281,207
PP&E	180,817	192,953	191,356	208,313	223,773	237,819
Deferred income tax	861	1,041	1,075	1,075	1,075	1,075
Goodwill	745	664	622	460	335	244
Other non-current assets	28,367	29,997	32,654	32,654	32,654	32,654
Total assets	259,632	287,355	283,388	286,112	301,616	312,559
Current liabilities	65,065	68,059	82,671	74,523	79,397	77,823
Short-term borrowings	20,158	23,186	38,383	29,417	32,459	28,899
Account payables	33,587	34,136	30,248	28,800	29,652	30,530
Other current liabilities	11,320	10,737	14,039	16,305	17,286	18,393
Non-current liabilities	88,617	112,245	100,164	99,997	99,225	98,357
Long-term borrowings	82,109	105,310	93,322	93,155	92,383	91,515
Other non-current liabilities	6,507	6,935	6,842	6,842	6,842	6,842
Total liabilities	153,682	180,304	182,835	174,519	178,622	176,180
Share capital	22,317	22,317	22,317	22,317	22,317	22,317
Retained earnings	46,580	44,390	49,783	59,668	69,735	81,589
Other reserves	16,906	21,681	10,139	10,139	10,139	10,139
Total shareholders equity	85,803	88,388	82,239	92,123	102,191	114,045
Minority interest	20,148	18,663	18,315	19,470	20,803	22,335
Total equity and liabilities	259,632	287,355	283,388	286,113	301,616	312,560

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	11,470	211,048	9,461	18,478	21,981	25,935
Depreciation & amortization	11,713	14,598	14,430	14,705	16,164	17,546
Change in working capital	(6,339)	(10,599)	(595)	16,268	2,621	448
<b>Net cash from operations</b>	<b>20,702</b>	<b>7,400</b>	<b>24,167</b>	<b>44,710</b>	<b>35,149</b>	<b>37,323</b>
<b>Investing</b>						
Capital expenditure	(30,529)	(25,118)	(32,580)	(31,500)	(31,500)	(31,500)
Others	1,905	5,720	(1,267)	0	0	0
<b>Net cash from investing</b>	<b>(28,624)</b>	<b>(19,398)</b>	<b>(33,847)</b>	<b>(31,500)</b>	<b>(31,500)</b>	<b>(31,500)</b>
<b>Financing</b>						
Dividend paid	(2,756)	(3,155)	(1,226)	(2,819)	(5,085)	(6,065)
Net borrowings	(33,590)	(27,753)	(43,383)	(38,383)	(29,417)	(32,459)
Others	44,397	45,804	54,077	29,250	31,688	28,031
<b>Net cash from financing</b>	<b>8,051</b>	<b>14,896</b>	<b>9,468</b>	<b>(11,952)</b>	<b>(2,815)</b>	<b>(10,493)</b>
<b>Net change in cash</b>						
Cash at the end of the year	129	2,898	(213)	1,258	835	(4,669)
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	2.6%	29.1%	15.0%	9.3%	7.1%	7.0%
Gross profit	7.6%	(15.4%)	24.4%	32.4%	12.0%	11.3%
Operating profit	19.0%	(29.0%)	37.2%	47.9%	13.7%	13.2%
EBITDA	15.1%	(25.0%)	27.9%	44.2%	13.0%	12.6%
EBIT	19.1%	(63.3%)	104.0%	98.0%	15.0%	15.1%
Net profit	15.1%	(79.0%)	342.2%	80.4%	19.3%	18.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	53.3%	34.9%	37.8%	45.8%	47.9%	49.8%
Operating margin	35.1%	19.3%	23.1%	31.2%	33.1%	35.1%
EBITDA margin	38.7%	22.5%	25.0%	33.0%	34.8%	36.6%
Return on equity (ROE)	9.6%	1.8%	8.3%	14.6%	15.6%	16.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Current ratio (x)	0.6	0.8	0.6	0.5	0.4	0.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	5.8	42.8	10.5	5.4	4.5	3.8
P/B	0.5	0.8	0.9	0.7	0.7	0.6
Div yield (%)	6.9	2.1	3.8	7.4	8.8	10.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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