

CTGR Group (600905 CH)

Sound business operation; rising depreciation drags on earnings

CTGR Group announced its 1H23 results, with in-line business operation but operating cost missing expectations. CTGR achieved revenue of RMB13.70bn, up by 12.98% YoY. Attributable NP was RMB4.52bn, dropped by 10.10% YoY. Although CTGR reported solid operation in electricity generation and slightly beat on-grid tariff, the increase in costs and operating expenses (under updated accounting standards) led to a drop in earnings. We believe CTGR will grow rapidly since its abundant projects under construction are about to operate in 2H23 and following years, and lower new energy upstream costs will lead to higher IRR of the projects. **We adjusted our TP to RMB6.24 and maintained a BUY rating.**

■ **Robust operational performance drives 1H23 revenue growth; rising operating costs erode overall earnings.** In 1H23, CTGR's revenue was up by 12.98% YoY due to resilient power generation growth. Attributable NP dropped by 10% YoY. Its operating cash flow rose 21.79% YoY. CTGR's revenue rose while attributable NP slipped due to: 1) 14.55% YoY rise in on-grid power generation; 2) slightly beat on-grid tariff for wind/solar power of RMB0.496/0.506 /kWh; 3) 34.67% YoY increase in operating costs thanks to higher depreciation under accounting standard change (the depreciation of project operation costs accrue as the units enter operation in 2023 after a trial run in 2022) and higher management fee; and 4) 1.6% YoY rise in management expenses, while investment earnings descended by RMB0.27bn.

■ **CTGR has abundant projects in construction and approved, with expected promising growth.** In 1H23, CTGR recorded a newly-added new energy installed capacity of approximately 1.8GW (0.84/0.65GW of wind/solar power). Moreover, CTGR recorded an approved and filed project capacity of 5.5 GW, and the planned installed capacity of projects under construction totalled 13.2 GW. With the projects gradually commencing by 2H23 and next year, CTGR's installed capacity of new energy is expected to speed up. Meanwhile, CTGR's IRR of newly-added power plant projects will potentially climb due to lower upstream costs, benefiting CTGR's earnings.

■ **We adjusted our TP to RMB6.24, maintained BUY.** Considering accounting standard adjustment, we slightly raised our estimated operating cost to RMB12,219/14,344/16,371mn in FY23-25E, and adjusted attributable NP to RMB8,932/10,534/12,956mn in FY23-25E. However, we maintained our key assumptions unchanged and stayed optimistic about CTGR thanks to its solid growth of power generation and steady on-grid tariff, and several projects are about to start operation. Thus, we raised our target FY23E PE from 18x to 20x (close to 3-year hist. avg. PE of 19x) for its sound business outlook, and we adjusted our TP to RMB6.24. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	15,484	23,812	28,682	33,444	38,601
Net profit (RMB mn)	5,642.4	7,155.5	8,932	10,534	12,956
EPS (Reported) (RMB)	0.23	0.25	0.31	0.37	0.45
YoY growth (%)	26.3	9.7	27.7	21.6	22.7
Consensus EPS (RMB)	na	0.25	0.32	0.38	0.45
ROE (%)	10.1	9.7	10.5	11.1	12.1
P/E(x)	26.2	20.8	16.2	13.6	11.3
P/B(x)	2.3	2.0	1.7	1.5	1.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB6.24
 (Previous TP) RMB6.79
Up/Downside 26%
Current Price RMB4.95

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Stock Data

Mkt Cap (RMB mn)	141,974
Avg 3 mths t/o (RMB mn)	376.98
52w High/Low (RMB)	6.11/4.9
Total Issued Shares (mn)	28,624

Source: FactSet

Shareholding Structure

China Three Gorges Group	48.9%
Ducheng Weiye Group	3.5%

Source: HKEx

Share Performance

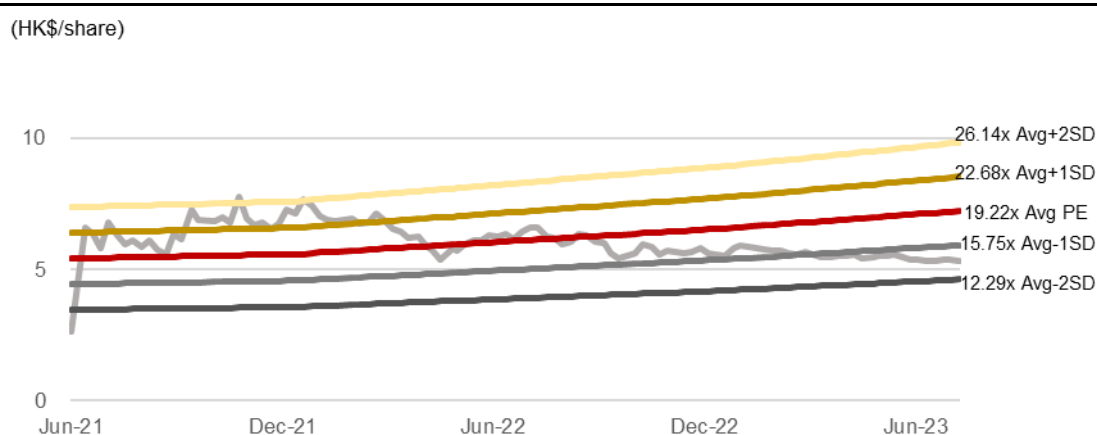
	Absolute	Relative
1-mth	-7.3%	-3.1%
3-mth	-7.1%	-6.8%
6-mth	-11.8%	-5.4%

Source: FactSet

12-mth Price Performance

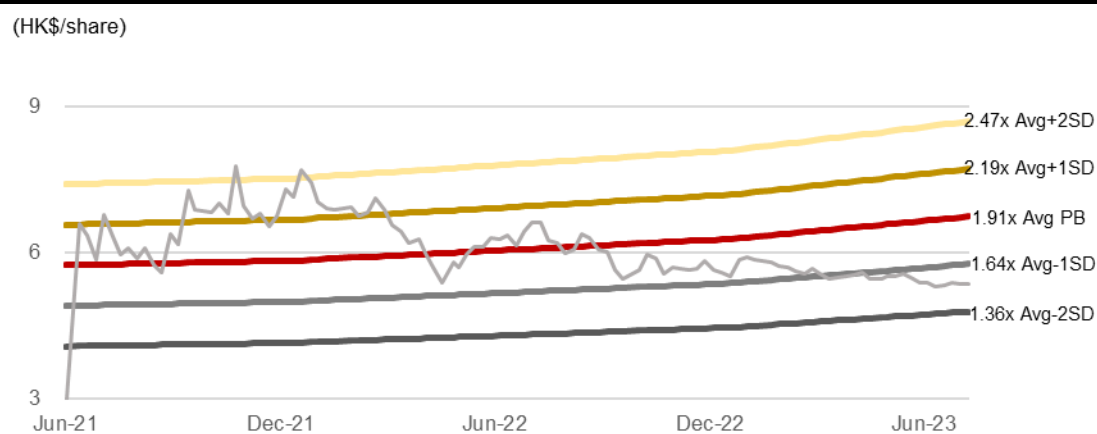
Source: FactSet

Figure 1: CTGR's PE band



Source: Company data, CMBIGM estimates

Figure 2: CTGR's PB band



Source: Company data, CMBIGM estimates

Figure 3: Revision table

	Old			New			Change(%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Wind power generation(k/GWh)-Gric	37,008	42,592.00	49,337.00	37,007.83	42,591.82	49,337.00	0.0%	0.0%	0.0%
Solar power generation(k/GWh)	17,902.00	23,297.00	29,429.00	17,901.82	23,297.05	29,428.80	0.0%	0.0%	0.0%
Hydro power generation (k/GWh)	915	915	915	915	915	915	0.0%	0.0%	0.0%
Revenue (RMB mn)	28,682	33,444	38,601	28,682	33,444	38,601	0.0%	0.0%	0.0%
Net Income (RMB mn)	9,716	11,786	14,435	8,932	10,534	12,956	-8.1%	-10.6%	-10.2%
EPS (RMB)	0.34	0.41	0.50	0.31	0.37	0.45	-8.2%	-10.2%	-9.5%

Source: Company data, CMBIGM estimates

Figure 4: Peers table (A-share)

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$m)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
CHINA THREE GO-A	600905 CH	4.96	141973.80	0.31	0.36	0.44	19.6%	16.16	13.63	11.30	1.68	1.51	1.34
CHINA LONGYUAN-A	001289 CH	19.69	118840.59	0.96	1.11	1.25	14.3%	20.55	17.79	15.74	2.16	1.97	1.78
HUANENG POWER-A	600011 CH	7.80	102450.57	0.77	0.87	1.05	16.6%	10.13	8.96	7.45	1.09	1.04	0.90
CHINA SOUTHERN-A	003035 CH	6.07	22992.42	0.18	0.27	0.37	41.0%	32.99	22.23	16.58	3.24	2.86	2.43
ZHONGMIN ENER-A	600163 CH	4.75	9039.23	0.44	0.46	0.48	4.4%	10.80	10.33	9.90	1.37	1.21	1.08
CECEP WIND POW-A	601016 CH	3.39	21949.81	0.28	0.32	0.35	11.8%	12.11	10.76	9.69	1.21	1.11	1.02
Average								17.3	14.0	11.9	1.8	1.6	1.4

Source: Company data, CMBIGM estimates

Figure 5: Peers table (H-share)

Company	Ticker	Closing Price (HK\$)	Mkt cap (HK\$m)	EPS			23-25E CAGR	PER			PBR		
				23E	24E	25E		23E	24E	25E	23E	24E	25E
CHINA SUNTIEN-H	956 HK	2.80	26396.11	0.54	0.65	0.80	21.7%	4.80	4.02	3.25	0.51	0.47	0.44
CHINA POWER INTE	2380 HK	2.93	36244.54	0.31	0.45	0.56	34.8%	8.86	6.11	4.87	0.72	0.66	0.60
CHINA RES POWER	836 HK	15.42	74177.04	2.54	2.99	3.57	18.6%	6.08	5.15	4.32	0.83	0.75	0.68
CGN NEW ENERGY H	1811 HK	2.14	9182.36	0.05	0.06	0.07	13.5%	5.25	4.41	4.08	na	na	na
CHINA LONGYUAN-H	916 HK	6.31	128016.69	0.96	1.14	1.29	15.7%	6.10	5.14	4.56	0.66	0.59	0.53
CHINA DATANG C-H	1798 HK	1.96	14256.45	0.38	0.43	0.52	16.4%	4.74	4.20	3.50	0.72	0.62	0.54
DATANG INTL PO-H	991 HK	1.23	44237.46	0.20	0.29	0.35	32.3%	5.71	3.94	3.26	0.32	0.30	0.27
HUANENG POWER-H	902 HK	3.82	110361.14	0.73	0.82	1.02	18.1%	4.87	4.35	3.49	0.55	0.51	0.42
HUADIAN POWER-H	1071 HK	3.07	50009.01	0.52	0.62	0.69	15.1%	5.49	4.57	4.14	0.57	0.52	0.43
CONCORD NE	182 HK	0.64	5516.10	0.12	0.13	0.15	11.8%	4.95	4.57	3.96	0.94	0.89	0.78
Average								5.7	4.6	3.9	0.6	0.6	0.5

Source: Company data, CMBIGM estimates

Figure 6: Key assumption table

Wind Power	2022	2023E	2024E	2025E	2026E
Revenue-RMB mn	16,886	18,874	21,296	23,682	27,020
YoY	68%	12%	13%	11%	14%
Total attributed installed capacity-MW	15,922	17,922	20,422	23,422	27,022
YoY	12%	13%	14%	15%	15%
Newly-added installed capacity-MW	1,653	2,000	2,500	3,000	3,600
YoY	-69%	21%	25%	20%	20%
Effective utilization hours	2,065	2,065	2,086	2,106	2,127
YoY	33%	0%	1%	1%	1%
Grid parity power generation	32,878	37,008	42,592	49,337	57,489
YoY	49%	13%	15%	16%	17%
Solar Power					
Revenue-RMB mn	6,535	9,309	11,649	14,420	16,589
YoY %	32%	42%	25%	24%	15%
Total attributed installed capacity-MW	10,284	13,284	16,784	20,584	23,584
YoY %	22%	29%	26%	23%	15%
Newly-added installed capacity-MW	1,872	3,000	3,500	3,800	3,000
YoY %	-2%	60%	17%	9%	-21%
Effective utilization hours	1,283	1,348	1,388	1,430	1,465
YoY %	16%	5%	3%	3%	3%
Grid parity power generation-GWh	13,199	17,902	23,297	29,429	34,561
YoY %	41.67%	35.63%	30.14%	26.32%	17.44%

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	11,315	15,484	23,812	28,682	33,444	38,601
Cost of goods sold	(4,788)	(6,440)	(9,906)	(12,219)	(14,344)	(16,371)
Gross profit	6,527	9,044	13,906	16,463	19,100	22,230
Operating expenses	(662)	(1,139)	(1,576)	(2,043)	(2,362)	(2,513)
SG&A expense	(557)	(1,007)	(1,406)	(1,864)	(2,174)	(2,316)
Others	(105)	(133)	(170)	(179)	(188)	(197)
Operating profit	5,866	7,904	12,330	14,420	16,738	19,716
Other income	21	(3)	241	0	0	0
Other expense	(18)	(145)	(148)	0	0	0
Investment gain/loss	52	580	(181)	(100)	(100)	(100)
Share of (losses)/profits of associates/JV	455	1,150	1,289	1,289	1,000	1,000
EBITDA	9,853	13,094	20,207	24,358	27,602	31,891
Depreciation	3,907	5,113	7,636	9,697	10,623	11,933
Other amortisation	81	77	241	241	241	241
EBIT	5,866	7,904	12,330	14,420	16,738	19,716
Interest income	38	175	223	264	568	542
Interest expense	(2,129)	(3,020)	(4,074)	(4,779)	(5,052)	(4,799)
Net Interest income/(expense)	(2,091)	(2,844)	(3,987)	(4,515)	(4,483)	(4,258)
Foreign exchange gain/loss	0	0	0	0	0	0
Other income/expense	21	(3)	241	0	0	0
Others	490	1,582	485	1,189	900	900
Pre-tax profit	4,286	6,640	9,069	11,093	13,155	16,359
Income tax	(344)	(554)	(686)	(943)	(1,184)	(1,636)
After tax profit	3,941	6,086	8,383	10,150	11,971	14,723
Minority interest	(330)	(444)	(1,227)	(1,218)	(1,437)	(1,767)
Net profit	3,611	5,642	7,155	8,932	10,534	12,956

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	21,044	33,728	42,804	59,415	61,766	53,692
Cash & equivalents	1,851	13,207	10,566	22,739	21,664	11,354
Account receivables	12,362	19,088	27,007	31,433	34,818	37,015
Inventories	79	131	222	234	275	314
Other current assets	6,751	1,302	5,009	5,009	5,009	5,009
PP&E	67,030	87,864	138,354	148,747	161,959	176,892
Intangibles	1,871	1,738	5,139	4,898	4,658	4,417
Other non-current assets	52,632	95,520	75,830	77,019	77,919	78,819
Total assets	142,576	218,850	262,127	290,079	306,302	313,820
Current liabilities	30,244	38,393	47,155	45,672	45,817	44,665
Short-term borrowings	7,821	5,524	4,340	4,340	4,340	4,340
Account payables	12,508	21,874	24,916	23,434	23,579	22,427
Other current liabilities	9,915	10,995	17,899	17,899	17,899	17,899
Non-current liabilities	65,897	102,390	127,013	147,013	152,013	147,013
Long-term borrowings	52,698	83,677	99,456	119,456	124,456	119,456
Other non-current liabilities	13,198	18,713	27,557	27,557	27,557	27,557
Total liabilities	96,141	140,783	174,168	192,685	197,830	191,678
Share capital	29,781	52,429	52,221	52,221	52,221	52,221
Retained earnings	12,002	17,661	189	8,406	18,047	29,949
Other reserves	130	90	24,804	24,804	24,804	24,804
Total shareholders equity	41,913	70,180	77,051	85,268	94,909	106,812
Minority interest	4,522	7,887	10,908	12,126	13,563	15,329
Total equity and liabilities	142,576	218,850	262,127	290,079	306,302	313,820

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,611	5,642	7,155	8,932	10,534	12,956
Depreciation & amortization	3,988	5,190	7,877	9,938	10,864	12,174
Change in working capital	(662)	(3,941)	(3,249)	(5,920)	(3,281)	(3,388)
Others	2,040	1,926	5,088	29	537	867
Net cash from operations	8,976	8,818	16,871	12,979	18,654	22,609
Investing						
Capital expenditure	(25,456)	(29,906)	(27,731)	(20,090)	(23,835)	(26,866)
Acquisition of subsidiaries/ investments	(1,928)	(2,251)	(1,608)	0	0	0
Others	(687)	(2,740)	(452)	0	0	0
Net cash from investing	(28,072)	(34,897)	(29,790)	(20,090)	(23,835)	(26,866)
Financing						
Dividend paid	(2,610)	(4,973)	(4,922)	(716)	(893)	(1,053)
Net borrowings	22,330	28,682	14,595	20,000	5,000	(5,000)
Others	(2,879)	13,537	600	0	0	0
Net cash from financing	16,841	37,246	10,273	19,284	4,107	(6,053)
Net change in cash						
Exchange difference	0	4	5	0	0	0
Others	(2,255)	11,166	(2,646)	12,173	(1,075)	(10,310)
Cash at the end of the year	(2,255)	11,170	(2,642)	12,173	(1,075)	(10,310)
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	26.3%	36.8%	53.8%	20.5%	16.6%	15.4%
Gross profit	28.4%	38.6%	53.8%	18.4%	16.0%	16.4%
Operating profit	28.0%	34.8%	56.0%	17.0%	16.1%	17.8%
EBITDA	26.3%	32.9%	54.3%	20.5%	13.3%	15.5%
EBIT	28.0%	34.8%	56.0%	17.0%	16.1%	17.8%
Net profit	27.2%	56.3%	26.8%	24.8%	17.9%	23.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	57.7%	58.4%	58.4%	57.4%	57.1%	57.6%
Operating margin	51.8%	51.0%	51.8%	50.3%	50.0%	51.1%
EBITDA margin	87.1%	84.6%	84.9%	84.9%	82.5%	82.6%
Return on equity (ROE)	9.0%	10.1%	9.7%	11.0%	11.7%	12.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	0.7	0.9	0.9	1.3	1.3	1.2
Receivable turnover days	398.8	449.9	414.0	400.0	380.0	350.0
Inventory turnover days	6.0	7.4	8.2	7.0	7.0	7.0
Payable turnover days	953.6	1,239.7	918.1	700.0	600.0	500.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						

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

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