

China Longyuan (916 HK)

9M20 results on track; seeing silver lining for accelerating subsidy collection

CLY released quarter results. 9M20 net profit after perpetual interest distribution was RMB3,718mn, up 11.7% YoY, on track with our full year projection. Capacity installation was above 1.2GW. Mgmt. intended to boost capacity target up from 2.3GW to 2.5GW in 2020 to secure more high return projects. For recent subsidy policy update, mgmt. thought reasonable utilization hours would have mild impact on existing projects' return, and admitted that the policy would likely lead to a solution for subsidy shortfall. We think the solution will come shortly. **Reiterate BUY rating with TP unchanged at HK\$7.38.**

- **9M20 results on track.** 3Q20 revenue read slight declined by 2.5% due to lower tariff from coal-fired power and power generation decline from other renewables segment. 9M20 revenue was flat. 9M20 Operating expenses was down 3.0% YoY due to less coal fuel and trading costs, and finance expenses maintained declining trend at 7.5% lower YoY. After deducting perpetual interest distribution, 9M20 net profit of RMB3,718mn was up 11.7%, on track with our 2020E earnings growth projection of 11.7%.
- **Subsidy collection was RMB3bn.** According to mgmt., CLY collected RMB3bn subsidy receivables in 9M20. The figure was significantly accelerated comparing with 1H20 results briefing. For recent subsidy policy update, mgmt. addressed that a subsidy cap is now fixed by end-2020, which could be seen as a meaningful sign for a total solution for renewable subsidy funding shortfall. Mgmt. expected subsidy collection to remain slow at RMB3.5bn in 2020E, but saw chance for accelerating collection from 2021E.
- **Renewables capacity to double by 2025.** CLY set ambitious target in 14th FYP to accelerate wind and solar projects investments. The Company expected renewables capacity to reach 40GW by 2025, implying capacity to double from existing level. Other than several offshore wind farms, all the new onshore wind and solar projects commence operation from 2021 will be grid-parity. We expect CAPEX budget to maintain high in the coming few years.
- **Reiterate BUY on silver lining for subsidy collection.** We think mgmt.'s comment reaffirms our view that a solution for subsidy shortfall will come shortly, which will boost market sentiment and trigger sector re-rating. We maintained our earnings forecasts unchanged, and reiterate BUY rating on the Company. Our TP is maintained at HK\$7.38 per share, reflecting 8.8x/7.6x 2021/22E PER.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
cRevenue (RMB mn)	26,388	27,541	28,526	31,424	34,239
YoY growth (%)	7.3	4.4	3.6	10.2	9.0
Net income (RMB mn)	3,924	4,325	4,832	5,831	6,831
EPS (RMB)	0.49	0.54	0.60	0.73	0.85
EPS CHG (%)	6.39	10.22	11.7	20.7	17.1
Consensus EPS(RMB)	N/A	N/A	0.58	0.65	0.72
P/E (x)	9.27	8.41	7.52	6.23	5.3
P/B (x)	0.8	0.76	0.70	0.64	0.58
Yield (%)	2.2	2.4	2.7	3.2	3.8
ROE (%)	8.9	9.0	9.3	10.3	10.9
Net gearing (%)	163	156	167	163	144

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$7.38
(Previous TP	HK\$7.38)
Up/Downside	+41.9%
Current Price	HK\$5.20

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	41,789
Avg 3 mths t/o (HK\$ mn)	115.3
52w High/Low (HK\$)	6.12/3.30
Total Issued Shares (mn)	8,036

Source: Bloomberg

Shareholding Structure – H share

Wellington Mgmt Group	13.0%
BlackRock Inc.	7.0%
Free float	80.0%

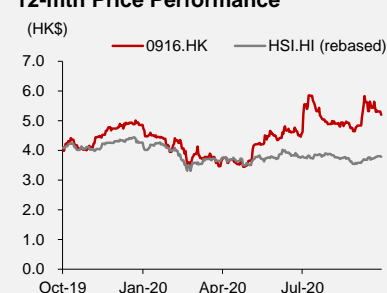
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.8%	4.8%
3-mth	16.6%	15.7%
6-mth	43.1%	40.1%
12-mth	25.4%	34.9%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

Related Reports

"China Longyuan (916 HK) –1H20 results in line; await subsidies funding resolve plan" – 13 Aug 2020

Figure 1: CLY's 3Q20/9M20 results summary

(RMB, mn)	3Q19	9M19	3Q20	9M20	3Q20 YoY	9M20 YoY
Revenue	5,917	19,955	5,768	19,986	-2.5%	0.2%
Wind	3,704	13,618	3,785	14,387	2.2%	5.6%
Coal power	2,023	5,776	1,850	5,180	-8.5%	-10.3%
Others	165	519	86	259	-48.1%	-50.1%
Concession	25	41	77	189	204.0%	359.6%
Other net income	149	604	165	588	11.2%	-2.6%
Operating expenses	(4,622)	(12,999)	(4,304)	(12,607)	-6.9%	-3.0%
Operating profit	1,444	7,560	1,629	7,967	12.8%	5.4%
Operating profit margin	24.4%	37.9%	28.2%	39.9%	3.8 ppt	2.0 ppt
Net finance expenses	(859)	(2,633)	(703)	(2,436)	-18.1%	-7.5%
Share profit	(38)	3	9	(2)	-124.6%	-158.9%
Profit before tax	546	4,931	935	5,529	71.2%	12.1%
Income tax	(89)	(841)	(119)	(937)	34.3%	11.4%
Effective tax rate	16.2%	17.1%	12.7%	16.9%	-3.5 ppt	-0.1 ppt
Profit for the period	458	4,089	816	4,592	78.3%	12.3%
Less: Minority interest	155	579	248	693	59.8%	19.8%
Perpetual interest distribution*	61	182	61	182	0.0%	0.0%
Net profit*	242	3,329	508	3,718	109.7%	11.7%

Source: Company data, CMBIS estimates

Note: Perpetual interest distribution and net profit is estimated by CMBIS

Figure 2: 3Q20/9M20 operating performance summary

	3Q19	9M19	3Q20	9M20	3Q20 YoY	9M20 YoY
Total power generation (GWh)	10,307	36,597	11,008	37,934	6.8%	3.7%
Run Rate %	20.3%	72.1%	20.8%	71.6%	n/a	n/a
Wind power generation (GWh)	7,717	29,162	8,376	31,148	8.5%	6.8%
Run Rate %	18.9%	71.6%	19.0%	70.7%	n/a	n/a
Coal-fired power (GWh)	2,471	7,050	2,547	6,513	3.1%	-7.6%
Run Rate %	25.9%	74.0%	30.2%	77.2%	n/a	n/a
Other power (GWh)	119	384	85	272	-28.8%	-29.2%
Run Rate %	25.1%	81.2%	17.6%	56.7%	n/a	n/a

Source: Company data, CMBIS estimates

* Run rate is based on CMBIS' full year power generation estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	26,388	27,541	28,526	31,424	34,239
Wind	18,410	18,981	20,535	23,248	25,954
Coal-fired	7,314	7,784	7,255	7,488	7,598
Others	650	657	624	688	688
Concession revenue	14	118	113	-	-
Cost of sales	(13,927)	(14,488)	(14,751)	(15,726)	(16,851)
Gross profit	12,461	13,053	13,775	15,697	17,388
Other income, net	917	843	881	990	1,061
Admin expense	(588)	(564)	(584)	(644)	(701)
Personnel costs	(2,075)	(2,352)	(2,606)	(2,843)	(3,004)
Other expenses	(1,473)	(1,034)	(998)	(1,100)	(1,198)
EBIT	9,242	9,946	10,466	12,101	13,546
Finance costs, net	(3,513)	(3,486)	(3,311)	(3,700)	(3,848)
Associates & JVs	167	(10)	(22)	22	22
Exceptional	-	-	-	-	-
Pre-tax profit	5,897	6,450	7,134	8,422	9,719
Income tax	(976)	(1,131)	(1,292)	(1,558)	(1,855)
Less:					
Minority interests	755	753	768	791	791
Perp. MTN	242	242	242	242	242
Net profit	3,924	4,325	4,832	5,831	6,831

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	3,924	4,325	4,832	5,831	6,831
DD&A	7,316	7,786	8,421	9,251	10,163
WC change	(2,405)	(1,865)	(6,045)	(5,668)	(2,860)
Others	5,420	2,270	338	60	83
Operating CF	14,255	12,515	7,546	9,475	14,217
Capex	(7,248)	(9,799)	(18,493)	(14,124)	(10,753)
Associates inv.	(78)	221	22	(22)	(22)
Other	(1,308)	(1,196)	(61)	(83)	(81)
Investment CF	(8,633)	(10,774)	(18,533)	(14,229)	(10,856)
Equity raised	-	-	-	-	-
Change of Debts	(2,459)	3,286	11,751	7,560	(1,132)
Dividend paid	(738)	(785)	(865)	(966)	(1,166)
Others	(4,605)	(4,202)	150	150	150
Financing CF	(7,802)	(1,700)	11,036	6,744	(2,148)
Net change in cash	(2,179)	41	49	1,989	1,213
Cash at beginning	5,071	2,861	2,908	2,957	4,946
Exchange difference	(31)	(7)	-	-	-
Cash at the end	2,861	2,908	2,957	4,946	6,159
Pledged cash	253	523	323	350	347
Time deposit	-	-	-	-	-
Cash at balance sheet	3,114	3,432	3,280	5,297	6,506

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	128,718	133,773	143,805	148,600	149,111
Fixed asset	110,001	114,607	124,809	129,979	130,873
Prepaid lease payments	2,152	-	-	-	-
Interest in JVs	4,549	4,328	4,306	4,328	4,350
Others	12,016	11,683	11,493	11,113	10,727
Current assets	17,786	23,029	27,184	32,885	35,948
Cash	3,114	3,432	3,280	5,297	6,506
Account receivable	10,542	16,365	19,987	23,583	25,351
Prepayments	2,819	1,963	2,495	2,567	2,648
Others	1,312	1,269	1,422	1,438	1,443
Current liabilities	39,780	43,538	48,698	49,767	48,328
Trade and other payable	2,059	3,411	2,049	2,049	2,049
Other payables	9,122	10,840	10,465	8,480	7,474
Borrowings	28,336	28,965	35,876	38,935	38,514
Others	264	230	220	225	222
Non-current liabilities	50,158	52,610	57,520	61,931	61,130
Borrowings	46,645	48,881	53,813	58,403	57,771
Obligation under financial	361	-	-	-	-
Others non-current assets	3,152	2,984	3,052	2,952	2,852
Minority Interest	7,329	7,732	7,882	8,032	8,182
Perpetual MTN	4,991	4,991	4,991	4,991	4,991
Shareholders' equity	44,245	47,932	51,898	56,763	62,428
Total Equity	56,566	60,655	64,772	69,787	75,601

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Wind	69.8	68.9	72.0	74.0	75.8
Coal-fired	27.7	28.3	25.4	23.8	22.2
Others	2.5	2.4	2.2	2.2	2.0
Concession revenue	0.1	0.4	0.4	-	-
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Operating margin	35.0	36.1	36.7	38.5	39.6
Pre-tax margin	22.3	23.4	25.0	26.8	28.4
Net margin	14.9	15.7	16.9	18.6	20.0
Effective tax rate	16.5	17.5	18.1	18.5	19.1
Balance sheet ratios					
Current ratio (x)	0.45	0.53	0.56	0.66	0.74
Quick ratio (x)	0.43	0.51	0.54	0.64	0.72
Cash ratio (x)	0.07	0.07	0.06	0.10	0.13
Inventory turnover days	12.5	11.1	11.5	11.4	10.6
Debtors turnover days	122.4	178.3	232.6	253.0	260.8
Creditor turnover days	51.8	68.9	67.5	47.6	44.4
Total debt / equity ratio (%)	169.5	162.4	172.8	171.5	154.2
Net debt / equity ratio (%)	163.0	156.3	167.1	162.8	144.4
Returns (%)					
ROE	8.9	9.0	9.3	10.3	10.9
ROA	2.7	2.8	2.8	3.2	3.7
Per share					
EPS (RMB)	0.49	0.54	0.60	0.73	0.85
DPS (RMB)	0.10	0.11	0.12	0.15	0.17
BVPS (RMB)	5.51	5.96	6.46	7.06	7.77

Source: Company data, CMBIS estimates

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