

Goldwind (002202 CH)

Struggling at cycle bottom

Goldwind posted disappointed FY19 results, as net profit read only RMB2,109mn down 32.9% YoY. We think the Company was struggling in a booming wind installation market, which led to a mismatch between tightened material supply with increasing costs and squeezing ASP due to pricing competition. WTG GPM showed improvement in 2H19, raising FY19 GPM to 12.5% from an extreme low of 11.3% in 1H19, but WTG warranty provision rate had a substantial increase of 2.3ppt YoY. Mgmt. expects GPM to increase 2-3ppt on improving ASP in 2020. As per our calculation, however, WTG GPM need to rebound to at least 15.7% to drive earnings growth. **We cut FY20/21E EPS by 38.1/4.1%, and cut TP by 37.9% to RMB10.1. Downgrade to HOLD.**

- **Strong WTG shipment enhanced leading position.** WTG shipment reached 8,171MW, far better than our estimate, while GPM suffered another squeeze by 6.3ppt to 12.5%. Margin squeeze was mainly driven by 6.6% decline in ASP, and we estimate unit costs exhibited slight increase of 0.6%. According to mgmt., GWD sustained its leading market share of 28.0% in China, but strong sales didn't help the Company to earn more. Net profit was RMB2,109mn, down 32.9%, first time decline from 2012.
- **Heads up for warranty provision.** We've observe a significant growth in selling and distribution expense in FY19, driven by substantial increase in warranty provision ratio. Mgmt. explained it was due to precaution treatment as GWD launched more new WTG models for both onshore and offshore market. As GWD will have WTG sales shift towards new 2.5/3.0s series and deliver more offshore turbine, we expect the provision rate to remain high and to cause earnings pressures (see Figure 2 for provision details).
- **15.7% WTG GPM a critical line.** We think WTG GPM at 15.7% is a critical line to cover major expenses, including 1) selling and distribution at 7.7%; 2) admin expenses at 6.5%; and 3) other expense at 1.5%. Mgmt. expects GPM to improve by 2-3ppt in 2020 as ASP pressure relieves from low price order. However, due to thrilling downstream demand and supply disruption caused by COVID-19, we remain cautious on WTG margin improvement. Other than that, we think GWD is also facing product delivery risks due to potential shutdown of global supply chain.
- **Cycle bottom may last long in 2020/21.** By launching state of the art technologies and comprehensive customer services, we do think GWD is on track to a recovery, but is now facing challenge and dragged to a slower pace. **We cut FY20/21E EPS by 38.1/4.1%. Our TP is trimmed by 37.9% to RMB10.1 based on 15.5x FY20 P/E. Downgrade to HOLD.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,590	37,878	47,688	45,040	45,995
Net income (RMB mn)	3,145	2,109	2,757	4,154	3,974
EPS (RMB)	0.88	0.51	0.65	0.98	0.94
YoY growth (%)	5.4	-42.1	27.4	50.7	-4
Consensus EPS(RMB)	N/A	N/A	0.94	1.08	1.29
P/E (x)	10.8	18.7	14.6	9.7	10.2
P/B (x)	1.4	1.3	1.2	1.1	1.0
Yield (%)	2.6	1.7	2.1	3.1	3.0
ROE (%)	12.6	7.1	8.4	11.5	10.2
Net gearing (%)	69.3	48.6	64.2	63.7	67.2

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price **RMB10.1**
 (Previous TP **RMB16.28**)
 Up/Downside **+5.7%**
 Current Price **RMB9.55**

China Wind Sector

Robin Xiao
 (852) 3900 0849
 robinxiao@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	37,723
Avg 3 mths t/o (RMB mn)	319.14
52w High/Low (RMB)	14.14/8.92
Total Issued Shares (mn)	774(H)
	3,451(A)

Source: Bloomberg

Shareholding Structure

China Three Gorges	24.3%
Anbang Insurance Group	13.5%
Free float	62.2%

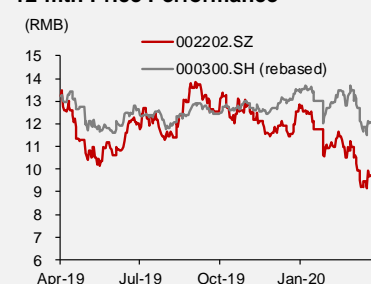
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.9%	-2.9%
3-mth	-25.7%	-17.4%
6-mth	-23.7%	-21.6%
12-mth	-28.8%	-22.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Goldwind (2208 HK) - WTG business bottomed out in 3Q19" – 29 Oct 2019
2. "Goldwind (2208 HK) - GPM bottomed out; 2H19 rebound in sight" – 29 Aug 2019
3. "Goldwind (2208 HK) - Strong 1Q19 WTG shipment with expected margin squeeze" – 29 Apr 2019

Other highlights

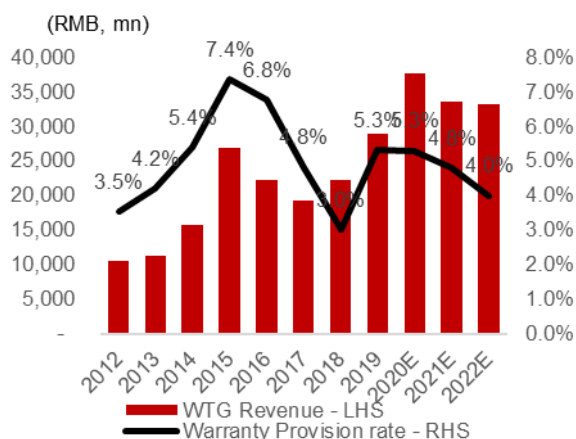
- **Shifting WTG orders towards larger scale.** According to GWD's order backlog, 2S/2.5S/3S product accounts for 94.2% for orders signed contract. For tender awarded had not signed contract yet, product mix shifts to 2.5S/3S/6S aggregate to account for 95.6%.
- **WTG Sales target and COVID-19 impacts.** Mgmt. originally expected to have WTG shipment in range of 12-14GW in 2020. The target is now subject to uncertainties as COVID-19 may have potential disruption to WTG supply chain. Mgmt. mentioned material for wind blade is highly relied on overseas supply, and GWD is following closely on the potential supply disruption.
- **ASP and costs change.** We calculated that WTG ASP had declined by 6.6%, while COGS stripping out DD&A increased by 0.63%. Overall WTG GPM was squeezed further by 6.3ppt YoY to 12.4%.
- **Wind power services also experienced margin decline.** Revenue from wind power service segment surged 116.8% YoY to RMB3,571mn. while GPM of the segment experienced substantial decline from 19.5% in FY18 to 6.3% in FY19. Mgmt. explained it was mainly due to change of revenue mix, as the Company provided more low margin EPC services during the year as results of wind farm installation rush.
- **Wind farm investments contributed steady growth.** Segment revenue increased 9.0% YoY with GPM staying stable at 62.2%. We think wind farm investment was the key earnings contributor in FY19. In view of WTG and construction cost hike during 2019, mgmt. was cautious in developing more new wind farm as perceiving increasing risks. For 2020, GWD plans to install 0.5-1.0GW wind farm, and maintain 500MW for project disposal.

Figure 1: FY19 results summary

(Rmb mn)	2018A	2019A	yoy change(%)	2019E	Diff(%)	CMBI Comments
Revenue	28,590	37,878	32.5%	34,146	10.9%	
WTG manufacturing	22,169	28,857	30.2%	25,856	11.6%	WTG ASP declined only 6.6% YoY, but shipment beat our est.
Wind power services	1,647	3,571	116.8%	2,518	41.8%	Surprisingly high EPC contribution;
Wind farm investment and developer	3,904	4,257	9.0%	4,554	-6.5%	
Others	870	1,193	37.0%	1,218	-2.1%	Water treatment business maintained rapid growth
Cost of sales	-21,247	-30,915	45.5%	-26,927	14.8%	
Gross profit	7,344	6,964	-5.2%	7,219	-3.5%	WTG and wind power service both had margin decline
Gross profit margin	25.7%	18.4%	-7.3ppt	21.1%	-2.76ppt	
Other income and gains	2,073	2,373	14.5%	2,119	12.0%	
Selling and distribution expenses	-1,897	-2,804	47.9%	-2,198	27.6%	Warrenty provision rate were increased;
Administrative expenses	-2,738	-2,637	-3.7%	-2,732	-3.5%	
Other expenses	-295	-611	107.1%	-307	99.0%	
Impairment losses	-	24				
Finance cost	-1,071	-1,109	3.5%	-1,094	1.4%	Financial costs remained in good control
Share of profit and losses of	266	361	35.6%	295	22.6%	
Joint ventures	203	348	71.6%	229	52.2%	
Associates	63	13	-79.9%	66	-80.5%	
EBIT	4,487	3,309	-26.3%	4,101	-19.3%	
Profit before tax	3,682	2,561	-30.5%	3,301	-22.4%	
Income tax expense	-400	-331	-17.1%	-380	-12.7%	
Effective tax rate	10.9%	12.9%	2.08ppt	11.5%	-1.71ppt	
Profit for the year	3,283	2,230	-32.1%	2,922	-23.7%	
Less:						
Non-controlling interests	66	20	-69.5%	100	-79.9%	
Perpetual MTN interest	71	101	41.4%	71	42.3%	
Net income	3,145	2,109	-33.0%	2,751	-23.3%	Net profit was significantly miss

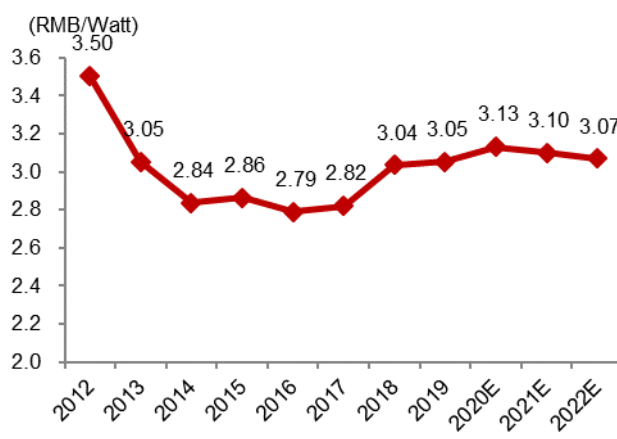
Source: Company data, CMBIS estimates

Figure 2: Warranty provision vs. WTG sales



Source: Company data, CMBIS estimates

Figure 3: Unit costs: (COGS – DD&A) / WTG shipment



Source: Company data, CMBIS estimates

Figure 4: Earnings revision

	Old		New		est. change(%)	
	2020	2021	2020	2021	2020	2021
Wind turbine sales (MW)	8,791	7,747	10,135	8,890	15.3%	14.7%
Revenue (RMB mn)	41,894	39,861	47,688	45,040	13.8%	13.0%
Gross profit margin	24.2	26.9	19.5	23.0	-4.7ppt	-4.0ppt
Operating profit margin	15.0	19.7	7.2	12.4	-7.8ppt	-7.3ppt
Net Income (RMB mn)	4457	4331	2757	4154	-38.1%	-4.1%
Net profit margin	10.6	10.9	5.8	9.2	-4.9ppt	-1.6ppt
EPS (RMB)	1.05	1.02	0.65	0.98	-38.0%	-3.9%

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	28,590	37,878	47,688	45,040	45,995
WTG manufacturing	22,169	28,857	37,583	33,625	33,288
Wind power services	1,647	3,571	4,302	4,354	4,213
Wind farm	3,904	4,257	4,288	5,243	6,400
Others	870	1,193	1,514	1,818	2,094
Cost of sales	(21,247)	(30,915)	(38,398)	(34,700)	(34,828)
Gross profit	7,344	6,964	9,289	10,340	11,167
Other income, net	2,073	2,373	2,401	2,406	1,355
Selling and distribution	(1,897)	(2,804)	(3,683)	(3,127)	(2,830)
Admin expense	(2,738)	(2,637)	(3,100)	(2,928)	(2,990)
Other expenses	(295)	(587)	(715)	(676)	(690)
EBIT	4,487	3,309	4,192	6,016	6,012
Finance costs, net	(1,071)	(1,109)	(1,166)	(1,378)	(1,580)
JV & associates	266	361	320	345	371
Exceptional	0	0	0	0	0
Pre-tax profit	3,682	2,561	3,346	4,983	4,803
Income tax	(400)	(331)	(438)	(678)	(677)
Profit for the year	3,283	2,230	2,908	4,305	4,125
Minority interests	(67)	(20)	(50)	(50)	(50)
Perpetual MTN distribution	(71)	(101)	(101)	(101)	(101)
Net profit	3,145	2,109	2,757	4,154	3,974

Cash flow summary

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBIT	4,487	3,309	4,192	6,016	6,012
D&A	1,381	1,627	1,663	1,968	2,335
Change in working capital	2,667	(108)	2,742	2,481	1,160
Income tax paid	(348)	(393)	(342)	(462)	(678)
Others	2,887	1,100	(4,500)	(5,228)	(2,650)
Net cash from operating	3,125	5,929	6,839	7,717	8,017
Capex	(6,708)	(12,19)	(6,679)	(7,230)	(7,230)
Associated companies	(1,270)	(831)	203	(320)	(345)
Other	1,863	2,756	(3,700)	(954)	0
Net cash from investing	(6,114)	(10,26)	(10,17)	(8,504)	(7,574)
Equity raised	0	4,640	0	0	0
Change of Debts	450	(593)	3,911	4,686	3,544
Dividend paid	(711)	(1,056)	(676)	(827)	(1,246)
Others	1,463	3,141	(2,085)	(333)	(2,307)
Net cash from financing	1,201	6,131	1,149	3,526	(9)
Net change in cash	(1,787)	1,793	(2,187)	2,739	434
Cash at the beginning	6,746	5,012	6,807	4,621	7,359
Exchange difference	53	2	0	0	0
Cash at the end of the year	5,012	6,807	4,621	7,359	7,794
Pledged cash	38	427	128	140	149
Non-pledged time deposit	16	13	0	0	1
Cash at balance sheet	5,066	7,248	4,748	7,499	7,943

Balance sheet

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
Non-current assets	48,447	53,443	64,083	69,821	75,238
Fixed asset	25,509	29,010	41,185	46,498	51,445
Prepayments & deposits	1,407	1,177	1,916	1,886	1,856
Prepaid lease payments	292	-	-	-	-
Interest in JVs & associates	3,660	4,491	4,288	4,608	4,953
Other non-current assets	17,578	18,765	16,695	16,830	16,984
Current assets	32,918	48,444	46,066	45,669	43,308
Inventory	4,997	8,124	7,503	7,705	6,557
Cash	5,066	7,248	4,748	7,499	7,943
Account receivable	16,895	17,993	24,514	21,011	19,282
Prepayments	4,526	6,214	4,470	4,400	4,330
Other current assets	1,434	8,865	4,831	5,055	5,197
Current liabilities	31,601	49,569	52,084	50,422	48,494
Trade and bills payable	20,000	25,428	30,029	29,395	28,162
Other payables	6,372	12,186	13,914	12,265	11,631
Borrowings	3,470	5,705	6,376	7,004	7,460
Others	1,759	6,250	1,766	1,758	1,241
Non-current liabilities	23,288	21,264	24,937	28,626	30,896
Borrowings	18,865	16,036	19,276	23,334	26,421
Provision	1,983	2,186	2,033	1,699	924
Others non-current assets	2,441	3,041	3,628	3,593	3,550
Minority Interest	1514	1549	1599	1649	1699
Perpetual MTN	1,993	1,993	1,993	1,993	1,993
Shareholder's equity	19,461	25,140	27,171	30,448	33,126
Total equity	22,968	28,682	30,763	34,090	36,818

Key ratios

YE 31 Dec	2018A	2019A	2020E	2021E	2022E
Sales mix (%)					
WTG manufacturing	77.5	76.2	78.8	74.7	72.4
Wind power services	5.8	9.4	9.0	9.7	9.2
Wind farm	13.7	11.2	9.0	11.6	13.9
Others	3.0	3.1	3.2	4.0	4.6
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	25.7	18.4	19.5	23.0	24.3
Pre-tax margin	12.9	6.8	7.0	11.1	10.4
Net margin	11.0	5.6	5.8	9.2	8.6
Effective tax rate	10.9	12.9	13.1	13.6	14.1
Balance sheet ratios					
Current ratio (x)	1.0	1.0	0.9	0.9	0.9
Quick ratio (x)	0.9	0.8	0.9	0.8	0.9
Cash ratio (x)	0.2	0.1	0.1	0.1	0.2
Inventory turnover days	58.0	63.2	59.8	61.6	56.6
Debtors turnover days	216.7	168.1	162.7	184.5	159.9
Creditor turnover days	302.8	268.2	263.6	312.5	301.6
Total debt / equity ratio (%)	84.4	67.5	74.7	80.4	83.6
Net debt / equity ratio (%)	69.3	48.6	64.2	63.7	67.2
Returns (%)					
ROE	12.6	6.9	8.4	11.5	10.2
ROA	3.9	2.0	2.5	3.6	3.3
Per share					
EPS (RMB)	0.88	0.51	0.65	0.98	0.94
DPS (RMB)	0.25	0.16	0.20	0.29	0.28
BVPS (RMB)	7.02	7.26	7.75	8.54	9.19

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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