

# Suntien Green Energy (956 HK)

## Earnings growth to resume in 2021E

Suntien realized net profit of RMB1,433mn, up 6.6% YoY, slightly higher than our estimates. The Company maintained generous dividend payout of 35.9% with a final dividend of RMB0.136 per share. Looking ahead in 2021E, mgmt. guided wind segment to maintain robust power generation growth (c.30% YoY) on the back of capacity addition, while gas sales volume to increase 5-8% with gas dollar margin to remain sluggish. Our revised outlook suggests Suntien's earnings growth to accelerate to 22.6% in 2021E. **We lift our SOTP TP slightly to HK\$3.43. Maintain BUY.**

- FY20 results in line.** Revenue increased 4.8% YoY to RMB12.5bn, with renewables power revenue grew by 13.9% while natural gas sales remained flat on lower gas ASP. Major expenses were in line with our estimates, and finance costs increased 4.3% YoY only while total borrowing amount expanded 29.6% YoY. Effective tax rate also exhibited slight decline on higher profit contribution from wind segment. Net profit was RMB1,433mn, up 6.6% YoY.
- Wind power will be key driver in 2021E.** Suntien added 1,056MW new wind capacity in 2020 to secure high tariff project, significantly higher than mgmt. guidance back in 3Q20 results briefing. Wind power tariff increased slightly from per kWh RMB0.46 to RMB0.47 on new project contribution from high tariff areas such as Jiangsu and Guangxi. For 2021E, mgmt. guided target power generation volume of 13TWh with 2,400 wind utilization hours, reflecting 32% power generation growth YoY. We think wind power will be a key earnings growth driver in 2021E.
- Gas sales volume to increase 5-8% in 2021E.** Suntien recorded gas sales volume of 3.5bcm, up 8.9% YoY. Competition with LNG was fierce in 2020, which led to a shrink in gas dollar margin to RMB0.266 per cbm. Mgmt. expects gas sales volume to increase 5-8% in 2021E, while gas dollar margin may remain sluggish as economy in Hebei is in early phase of recovery. For LNG terminal, construction is on track to schedule, and Suntien expects phase 1 project to commence operation in 2023.
- A-share placement a priority in 2021E.** Suntien re-initiated A-share placement motion. EGM is going to be held on 23 Apr, and mgmt. plans to submit application material by end-Apr once the proposal is approved. Based on recent placement reference, CSRC needs 3-4 months on average to process before granting approval. Given Suntien's CAPEX needs (RMB11bn in 2021E) and increasing gearing, mgmt. thought A-share placement a priority in the year. As A-share price is significantly higher than Suntien's book value, we expect share placement number and EPS dilution will likely be limited, and lower than highest potential dilution of 23.6%.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	11,969	12,511	13,998	15,559	17,866
Net income (RMB mn)	1,344	1,433	1,756	1,830	2,001
EPS (RMB)	0.36	0.38	0.46	0.48	0.52
YoY growth (%)	8.4	4.7	20.4	4.2	9.3
Consensus EPS (RMB)	N/A	N/A	0.43	0.47	0.51
P/E (x)	6.7	6.4	5.3	5.1	4.6
P/B (x)	0.76	0.71	0.65	0.60	0.55
Yield (%)	5.2	5.6	6.5	6.9	7.7
ROE (%)	11.3	11.1	12.2	11.7	11.8
Net gearing (%)	186	225	232	260	259

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$3.43**  
 (Previous TP **HK\$3.26**)  
 Up/Downside **+17.8%**  
 Current Price **HK\$2.91**

### China Wind Sector

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### Stock Data

Mkt Cap (HK\$ mn)	35,264
Avg 3 mths t/o (HK\$ mn)	61.94
52w High/Low (HK\$)	3.10/1.20
Issued shares – H (mn)	1,839
Issued shares – A (mn)	2,011

Source: Bloomberg

### Shareholding Structure

HECIC	48.7%
Free float	51.3%

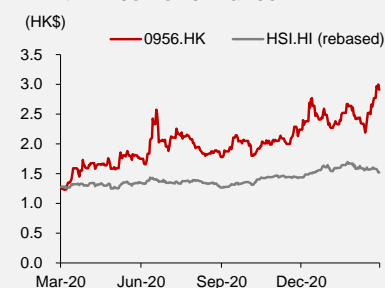
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	17.3%	26.5%
3-mth	29.9%	22.9%
6-mth	63.5%	36.2%
12-mth	121.9%	87.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

**Auditor: Ernst & Young**

### Related Reports

- "Suntien Green Energy (956 HK) – Heading towards further re-rating opportunities" – 23 Feb 2021  
 "Suntien Green Energy (956 HK) – 3Q20 results miss; weak gas margin dragged earnings" – 3 Nov 2020
- "Suntien Green Energy (956 HK) – 1H20 results beat; earnings to pick up in 2H" – 28 Aug 2020

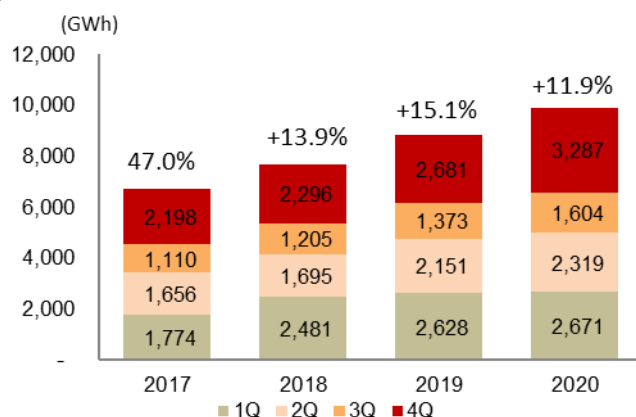
- **Maintain BUY with TP lifted slightly to HK\$3.43.** We revise our FY21/22E earnings outlook slightly by +1.4%/-0.4% respectively on slower-than-expected gas dollar margin recovery outlook but compensated by higher wind power generation. For wind power generation, we adopt more conservative assumption with 21.8% power generation growth. We think Suntien is still on track to accelerating earnings growth to 22.6% in FY21E. And our SOTP TP is lifted slightly from HK\$3.26 to HK\$3.43, reflecting 6.24x forward P/E and 0.76x forward P/B. In Jan-Feb 2021, Suntien recorded wind power generation growth of 73.3% YoY. We think the Company's 1Q21 results would be a short term catalyst. Maintain BUY rating.

Figure 1: FY20 results summary

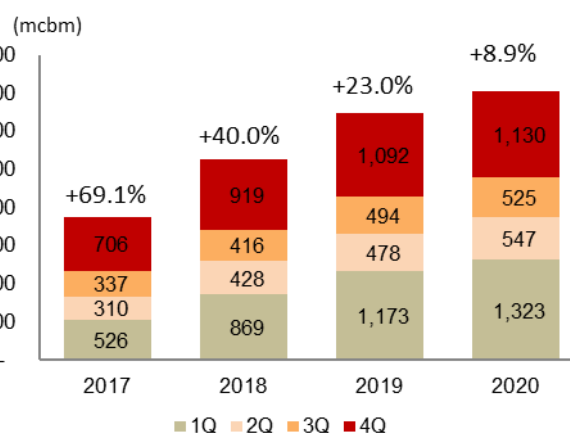
(RMB mn)				Act. vs. Est.	
	FY19A	FY20A*	YoY	FY20E	Diff %
<b>Revenue</b>	<b>11,943</b>	<b>12,511</b>	<b>4.8%</b>	<b>12,234</b>	<b>2.3%</b>
Wind & Solar	3,949	4,500	13.9%	4,422	1.7%
Natural Gas	7,981	7,983	0.0%	7,806	2.3%
Cost of sales	-8,638	-9,094	5.3%	-8,813	3.2%
<b>Gross profit</b>	<b>3,305</b>	<b>3,417</b>	<b>3.4%</b>	<b>3,420</b>	<b>-0.1%</b>
<i>Gross profit margin</i>	<i>27.7%</i>	<i>27.3%</i>	<i>-0.4ppt</i>	<i>28.0%</i>	<i>-0.6ppt</i>
Other income and gains, net	171	87	-49.1%	156	-44.2%
Selling and distribution expenses	(1)	(2)	252.6%	(1)	224.6%
Administrative expenses	(587)	(565)	-3.8%	(577)	-2.1%
Other expenses/gains	(44)	14	-132.6%	(2)	-818.0%
<b>Operating profit</b>	<b>2,845</b>	<b>2,952</b>	<b>3.8%</b>	<b>2,997</b>	<b>-1.5%</b>
Financial costs	(875)	(913)	4.3%	(990)	-7.8%
Share profit	215	254	18.2%	213	19.1%
		2,293			
<b>Profit before Tax</b>	<b>2,184</b>	<b>2,264</b>	<b>3.7%</b>	<b>2,220</b>	<b>2.0%</b>
Income tax expense	(356)	(331)	-7.0%	(366)	-9.6%
<i>Effective tax rate</i>	<i>16.3%</i>	<i>14.6%</i>	<i>-1.7ppt</i>	<i>16.5%</i>	<i>-1.9ppt</i>
Profit for the period	1,828	1,933	5.7%	1,854	4.3%
Less: Non-controlling interests	413	422	2.2%	379	11.3%
Renew able green bond	71	78	9.9%	78	0.0%
<b>Net profit</b>	<b>1,344</b>	<b>1,433</b>	<b>6.6%</b>	<b>1,396</b>	<b>2.6%</b>
<i>Net profit margin</i>	<i>11.3%</i>	<i>11.5%</i>	<i>0.2ppt</i>	<i>11.4%</i>	<i>0.0ppt</i>

Source: Company data, CMBIS estimates

Note: \*Suntien changed its reporting format following China domestic accounting standard, all figures in FY20 are based on work back calculation by CMBIS for comparison purpose.

**Figure 2: Suntien's wind power generation performance and YoY growth**


Source: Company data, CMBIS

**Figure 3: Suntien's gas sales volume and YoY growth**


Source: Company data, CMBIS

**Figure 4: We made slight revision on earnings estimates**

	Old		New		Change(%)	
	2021E	2022E	2021E	2022E	2021E	2022E
Revenue (RMB mn)	14,153	16,365	13,998	15,559	-1.1%	-4.9%
Net Income (RMB mn)	1,692	1,843	1,716	1,835	1.4%	-0.4%
EPS (RMB)	0.44	0.48	0.45	0.48	1.4%	-0.4%

Our est. vs. Consensus				Diff with consensus	
Consensus Earnings (RMB mn)		1,667	1,820	2.9%	0.8%
Consensus EPS (RMB)		0.42	0.45	6.9%	5.5%

Source: CMBIS estimates

**Figure 5: Our SOTP valuation for wind and gas segment**

SOTP Valuation summary	Measure by	
	The Company (RMB mn)	Per share (RMB)
Wind & Solar segment - DCF	42,760	11.11
Piped gas supply segment - PER	5,320	1.38
Total value	48,080	12.49
Less: Net debt	33,265	8.64
Minority Interest	3,687	0.96
Renewable corp bond	1,494	0.04
Equity Value of the firm	11,127	2.85
<b>Per share value (HKD)</b>		<b>3.43</b>

Source: CMBIS estimates

Note: Gas segment valuation based on RMB665mn FY21 earnings and 8x P/E multiple.

**Figure 6: DCF valuation for wind power segment**

DCF Valuation	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Grid Connected Capacity(MW)	6,572	7,122	7,656	8,230	8,848	9,511	10,224	10,991	11,816
Capacity growth	9.1%	8.4%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Additional capacity of that year(MW)	550	550	534	574	617	664	713	767	824
<b>Turnover (Rmb mn)</b>	6,070	6,798	7,234	7,699	8,194	8,720	9,281	9,877	10,512
Turnover growth	10.8%	12.0%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
EBIT (Rmb mn)	3,366	3,826	4,042	4,271	4,513	4,768	5,037	5,321	5,621
EBIT margin (%)	55.4%	56.3%	55.9%	55.5%	55.1%	54.7%	54.3%	53.9%	53.5%
Tax rate (%)	12.8%	13.3%	14%	15%	16%	16%	17%	18%	19%
Depreciation (Rmb mn)	1,914	2,100	2,668	2,839	3,022	3,216	3,423	3,643	3,877
CAPEX (Rmb mn)	-3,575	-3,575	-3,437	-3,658	-3,893	-4,143	-4,409	-4,693	-4,994
Change in working capital (Rmb mn)	-299	351	-131	-46	-49	-53	-56	-60	-63
<b>Free cash flow</b>	976	2,195	2,576	2,776	2,893	3,013	3,138	3,267	3,400
<b>Years</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
Discount factor	0.92	0.84	0.77	0.71	0.65	0.60	0.55	0.50	0.46
Discount free cash flow	896	1,850	1,993	1,972	1,887	1,804	1,725	1,649	1,576
<b>Terminal value</b>	59,140								
Terminal perpetual growth	3.00%								
<b>Terminal EV/EBITDA</b>	<b>6.23</b>								

Valuations ( RMB mn )		WACC Calculations	
Terminal value	59,140	Cost of debt	4.70%
Terminal perpetual growth	3.0%	Tax rate	20%
Terminal EV/EBITDA	6.23	After tax cost of debt	3.8%
Total discount FCF	15,353	Adjusted beta	1.20
Discount terminal value	27,407	Market risk premium	14.76%
Segment value	42,760	Risk free rate	0.8%
Discount FCF(% of total)	36%	Cost of equity	18.5%
Terminal value (% of total)	64%	% of debt financing	65%
<b>Share fair value (Rmb)</b>	<b>11.11</b>	WACC	8.9%
<b>Share fair value (HKD)</b>	<b>12.66</b>		

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>11,969</b>	<b>12,511</b>	<b>13,998</b>	<b>15,559</b>	<b>17,866</b>
Natural gas	7,996	8,043	8,517	9,484	11,064
Wind & Solar	3,985	4,463	5,476	6,070	6,798
Others	4	5	5	5	5
Operating cost	(8,638)	(9,101)	(9,870)	(10,968)	(12,630)
Business tax & surcharge	(39)	(34)	(39)	(44)	(51)
Selling expenses	(1)	(2)	(2)	(2)	(3)
Administration expenses	(554)	(528)	(588)	(653)	(750)
R&D expenses	(10)	(36)	(42)	(47)	(54)
Finance costs	(869)	(913)	(1,144)	(1,325)	(1,508)
Other gain or loss	96	75	85	85	85
Investment income	222	266	263	287	312
Provisions & disposal	(35)	70	75	75	75
<b>Operating profit</b>	<b>2,136</b>	<b>2,252</b>	<b>2,721</b>	<b>2,951</b>	<b>3,327</b>
Non-operating income	50	13	20	20	20
Non-operating expenses	(2)	(2)	(2)	(2)	(2)
<b>Profit before tax</b>	<b>2,184</b>	<b>2,264</b>	<b>2,739</b>	<b>2,969</b>	<b>3,345</b>
Income tax	(356)	(331)	(411)	(468)	(552)
<b>Profit for the period</b>	<b>1,828</b>	<b>1,933</b>	<b>2,328</b>	<b>2,501</b>	<b>2,793</b>
Less: Minorities	413	422	494	593	715
Perpetual distribution	71	78	78	78	78
<b>Net profit</b>	<b>1,344</b>	<b>1,433</b>	<b>1,756</b>	<b>1,830</b>	<b>2,001</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>2,184</b>	<b>2,303</b>	<b>2,747</b>	<b>3,016</b>	<b>3,431</b>
DD&A	1,542	1,461	2,029	2,555	3,038
Working cap change	438	1,453	(1,167)	(299)	351
Taxation	(272)	(378)	(495)	(500)	(577)
Others	(158)	(929)	288	-	-
<b>Operating cash flow</b>	<b>3,732</b>	<b>3,899</b>	<b>3,401</b>	<b>4,772</b>	<b>6,243</b>
Capex & investments	(6,075)	(12,478)	(8,847)	(11,572)	(9,191)
Others	(28)	2,664	219	-	-
<b>Investment cash flow</b>	<b>(6,103)</b>	<b>(9,814)</b>	<b>(8,629)</b>	<b>(11,572)</b>	<b>(9,191)</b>
Equity raised	47	423	-	-	-
Perpetual MTN raised	904	-	-	-	-
Change of Debts	1,674	7,218	6,333	7,203	4,545
Others	(710)	(331)	(852)	(996)	(1,117)
<b>Financing cash flow</b>	<b>1,849</b>	<b>(1,872)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>93</b>	<b>(477)</b>	<b>253</b>	<b>(593)</b>	<b>480</b>
Cash at beginning	2,245	2,358	1,887	2,140	1,547
<b>Cash at the end</b>	<b>19</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>
Restricted cash	2,358	1,887	2,140	1,547	2,027
<b>Cash at balance sheet</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>38,531</b>	<b>48,582</b>	<b>55,640</b>	<b>64,401</b>	<b>70,290</b>
Fixed asset	28,269	39,601	46,223	55,011	60,911
Intangible assets	2,249	2,210	2,146	2,082	2,017
Associates & JVs	2,302	2,476	2,729	3,014	3,323
Prepayments	2,904	1,854	2,291	2,035	1,771
Others	377	460	260	259	257
<b>Current assets</b>	<b>7,484</b>	<b>8,634</b>	<b>9,388</b>	<b>9,312</b>	<b>10,568</b>
Cash	2,358	1,898	2,140	1,547	2,027
Receivables	3,983	5,287	5,938	6,590	7,504
Prepayments	1,081	1,391	1,233	1,096	953
Others	63	58	77	80	83
<b>Current liabilities</b>	<b>10,551</b>	<b>13,536</b>	<b>15,515</b>	<b>16,905</b>	<b>18,609</b>
Trade and bill payables	137	181	209	232	266
Other payables	6,341	8,306	8,095	8,101	8,962
Borrowings	3,920	4,912	7,081	8,422	9,211
Others	153	136	120	130	140
<b>Non-current liabilities</b>	<b>20,706</b>	<b>27,026</b>	<b>31,212</b>	<b>37,074</b>	<b>40,866</b>
Borrowings	19,093	25,922	28,324	33,686	36,842
Other payables	225	316	337	338	373
Others	46	50	50	50	50
<b>Minority Interest</b>	<b>2,936</b>	<b>3,531</b>	<b>3,687</b>	<b>3,885</b>	<b>4,125</b>
<b>Renewable green bond</b>	<b>1,494</b>	<b>1,494</b>	<b>1,494</b>	<b>1,494</b>	<b>1,494</b>
<b>Shareholders' equity</b>	<b>10,360</b>	<b>11,671</b>	<b>12,872</b>	<b>14,107</b>	<b>15,516</b>
<b>Total Equity</b>	<b>14,759</b>	<b>16,654</b>	<b>18,301</b>	<b>19,734</b>	<b>21,383</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Wind & Solar	66.8	64.3	60.8	61.0	61.9
Natural Gas	33.3	35.7	39.1	39.0	38.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	32.7	28.7	27.7	28.4	29.5
Operating margin	17.8	18.0	19.4	19.0	18.6
Pre-tax margin	18.2	18.1	19.6	19.1	18.7
Net margin	11.2	11.5	12.5	11.8	11.2
Effective tax rate	16.3	14.6	15.0	15.8	16.5
<b>Balance sheet ratios</b>					
Current ratio (x)	0.75	0.71	0.64	0.61	0.55
Quick ratio (x)	0.74	0.70	0.63	0.60	0.55
Cash ratio (x)	0.26	0.22	0.14	0.14	0.09
Debtors turnover days	111.2	139.0	146.3	146.9	144.0
Total debt/equity ratio (%)	182.3	164.7	189.1	196.1	216.1
Net debt/equity ratio (%)	185.5	225.4	231.5	259.9	258.7
<b>Returns (%)</b>					
ROE	12.4	11.3	11.1	11.9	11.8
ROA	3.2	2.9	2.5	2.6	2.5
<b>Per share</b>					
EPS (RMB)	0.36	0.38	0.46	0.48	0.52
DPS (RMB)	0.13	0.14	0.16	0.17	0.18
BVPS (RMB)	3.19	3.42	3.73	4.05	4.42

Source: Company data, CMBIS estimates

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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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