

# China Longyuan (916 HK)

## 1Q20 results in line; facing policy uncertainties

CLY delivered 1Q20 operating and financial performance in line with our estimates. We think share price may face short-term headwinds due to potential “reasonable utilization hours” to be introduced as subsidy calculation mechanism. We maintain our estimates and rating unchanged at the moment, as the concept is not yet confirmed and details are still missing. If the policy comes true, however, we think CLY will suffer impacts from project cash flow and returns.

- 1Q20 net profit increased 6.3% YoY.** Revenue increased 1.3% YoY to RMB7,184mn, matching with power generation growth. Operating expenses read 5.8% YoY decline due to lower coal costs and trading. Deducting minority interest and perpetual interests distribution, net profit attributable to common shareholders was RMB1,930mn, up 6.3% YoY, accounting for 41.1% of our annual earnings estimates. We believe CLY’s 1Q20 results were in line with consensus and our estimates.
- 1Q20 operating performance in line.** Wind power generated 11,612GWh, up 7.4% YoY. Coal-fired power generated 1,950GWh, down 24.0% YoY due to grid control for weak demand caused by COVID-19. Other power generation also read YoY decline by 41.0%. Overall, CLY’s total power generation in 1Q20 was 13,693GWh, up 1.0% YoY.
- Sufficient buffer for supply chain disruption.** Mgmt. disclosed wind blade may subject to 1-2 months delay due to COVID-19’s impact to wind turbine’s global supply chain. Fortunately, CLY set sufficient buffer with target delivery schedule concentrated in Jun-Aug, implying limit impacts to its wind farm installation plan in 2020. Mgmt. was confident to fulfill 2.15GW new capacity target.
- Market concerns focus on reasonable utilization hours.** MoF intends to introduce a “reasonable utilization hours” concept associated with renewable subsidy calculation. The Concept raised market concerns on altering project IRR and future subsidy cash flows expectation on existing project. Mgmt. thought the concept was not yet clear, and needed further policy details for a more comprehensive interpretation.
- Valuation at bottom range.** We think market concerns had already factored in current valuation, and are likely to suppress share price in short term until the potential policy negative is cleared. We maintain our earnings forecast unchanged. **TP is maintained at HK\$4.73, maintain BUY.**

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	26,388	27,541	28,684	31,668	34,545
YoY growth (%)	7.3	4.4	4.2	10.4	9.1
Net income (RMB mn)	3,924	4,325	4,690	5,463	6,411
EPS (RMB)	0.49	0.54	0.58	0.68	0.80
EPS CHG (%)	6.39	10.22	8.44	16.48	17.4
Consensus EPS(RMB)	N/A	0.52	0.59	0.66	0.71
P/E (x)	6.89	6.25	5.76	4.95	4.2
P/B (x)	0.6	0.56	0.52	0.48	0.44
Yield (%)	2.9	3.2	3.5	4.0	4.7
ROE (%)	8.9	9.0	9.1	9.7	10.4
Net gearing (%)	163	156	166	169	151

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$4.73
(Previous TP)	HK\$4.73)
Up/Downside	+26.1%
Current Price	HK\$3.75

### China Wind Sector

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### Stock Data

Mkt Cap (HK\$ mn)	30,136
Avg 3 mths t/o (HK\$ mn)	58.21
52w High/Low (HK\$)	5.33/3.46
Total Issued Shares (mn)	8,036

Source: Bloomberg

### Shareholding Structure

CHN Energy	58.4%
Wellington Mgmt Group	13.0%
Free float	28.6%

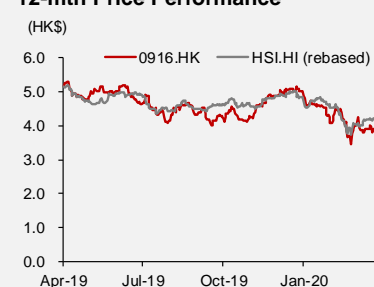
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.3%	-9.3%
3-mth	-25.1%	-13.8%
6-mth	-12.4%	-3.8%
12-mth	-25.5%	-9.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

**Auditor: Ernst & Young**

### Related Reports

- “China Longyuan (916 HK) –NDR takeaways - increasing odds for capital market action” – 9 Apr 2020
- “China Longyuan (916 HK) –Results slight beat; accelerate overseas expansion” – 31 Mar 2020
- “China Longyuan (916 HK) –Flat FY19E earnings; longing for privatization” – 10 Mar 2020

**Figure 1: 1Q20 operating performance summary**

	1Q19	FY19	1Q20	FY20E	1Q YoY
<b>Wind power generation (GWh)</b>	10,856	40,732	11,612	44,070	7.0%
Run Rate %	26.7%	100.0%	26.3%	100.0%	n/a
<b>Coal-fired power (GWh)</b>	2,566	9,531	1,950	9,000	-24.0%
Run Rate %	26.9%	100.0%	21.7%	100.0%	n/a
<b>Other power (GWh)</b>	136	473	81	600	-41.0%
Run Rate %	28.8%	100.0%	13.4%	100.0%	n/a

Source: Company data, CMBIS estimates

**Figure 2: 1Q20 results summary**

(Rmb, mn)	1Q19	FY19	1Q19/FY19	1Q20	FY20E	1Q20/FY20E	1Q YoY
<b>Revenue</b>	<b>7,092</b>	<b>27,541</b>	<b>25.8%</b>	<b>7,184</b>	<b>28,684</b>	<b>25.0%</b>	<b>1.3%</b>
Wind	4,938	18,981	26.0%	5,530	20,535	26.9%	12.0%
Coal power	1,916	7,784	24.6%	1,582	7,432	21.3%	-17.4%
Others	236	657	35.8%	72	717	10.0%	-69.5%
Concession	2	118	1.9%	0	0	n/a	-100.0%
Other net income	226	843	26.8%	203	889	22.8%	-10.2%
Operating expenses	(4,237)	(18,438)	23.0%	(3,989)	(19,072)	20.9%	-5.8%
<b>Operating profit</b>	<b>3,081</b>	<b>9,946</b>	<b>31.0%</b>	<b>3,081</b>	<b>10,501</b>	<b>29.3%</b>	<b>0.0%</b>
<b>Operating profit margin</b>	<b>43.4%</b>	<b>36.1%</b>	<b>N/A</b>	<b>43.4%</b>	<b>36.6%</b>	<b>N/A</b>	<b>0.0%</b>
Net finance expenses	(731)	(3,486)	21.0%	(774)	(3,584)	21.6%	5.9%
Share profit	82	(10)	n/a	15	43	34.9%	-81.6%
<b>Profit before tax</b>	<b>2,432</b>	<b>6,450</b>	<b>37.7%</b>	<b>2,638</b>	<b>6,961</b>	<b>37.9%</b>	<b>8.5%</b>
Income tax	(343)	(1,131)	30.3%	(427)	(1,261)	33.9%	24.6%
Effective tax rate	14.1%	17.5%	n/a	16.2%	18.1%	n/a	14.9%
<b>Profit for the period</b>	<b>2,089</b>	<b>5,320</b>	<b>39.3%</b>	<b>2,211</b>	<b>5,700</b>	<b>38.8%</b>	<b>5.8%</b>
Less: Minority interest	213	753	28.4%	221	768	28.7%	3.3%
Perpetual interest distribution*	61	242	25.0%	61	242	25.0%	0.0%
<b>Net profit*</b>	<b>1,815</b>	<b>4,325</b>	<b>42.0%</b>	<b>1,930</b>	<b>4,690</b>	<b>41.1%</b>	<b>6.3%</b>

Source: Company data, CMBIS estimates

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

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>26,388</b>	<b>27,541</b>	<b>28,684</b>	<b>31,668</b>	<b>34,545</b>
Wind	18,410	18,981	20,535	23,316	26,083
Coal-fired	7,314	7,784	7,432	7,665	7,775
Others	650	657	717	688	688
Concession revenue	14	118	-	-	-
Cost of sales	(13,927)	(14,488)	(14,960)	(16,093)	(17,267)
<b>Gross profit</b>	<b>12,461</b>	<b>13,053</b>	<b>13,724</b>	<b>15,576</b>	<b>17,278</b>
Other income, net	917	843	889	998	1,071
Admin expense	(588)	(564)	(588)	(649)	(708)
Personnel costs	(2,075)	(2,352)	(2,606)	(2,843)	(3,004)
Other expenses	(1,473)	(1,034)	(918)	(1,013)	(1,105)
<b>EBIT</b>	<b>9,242</b>	<b>9,946</b>	<b>10,501</b>	<b>12,068</b>	<b>13,532</b>
Finance costs, net	(3,513)	(3,486)	(3,584)	(4,142)	(4,375)
Associates & JVs	167	(10)	43	44	44
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>5,897</b>	<b>6,450</b>	<b>6,961</b>	<b>7,970</b>	<b>9,200</b>
Income tax	(976)	(1,131)	(1,261)	(1,474)	(1,756)
Less:					
Minority interests	755	753	768	791	791
Perp. MTN	242	242	242	242	242
<b>Net profit</b>	<b>3,924</b>	<b>4,325</b>	<b>4,690</b>	<b>5,463</b>	<b>6,411</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net income</b>	<b>3,924</b>	<b>4,325</b>	<b>4,690</b>	<b>5,463</b>	<b>6,411</b>
DD&A	7,316	7,786	8,501	9,403	10,400
WC change	(2,405)	(1,865)	(6,148)	(5,759)	(2,902)
Others	5,420	2,269	341	53	83
<b>Operating CF</b>	<b>14,255</b>	<b>12,515</b>	<b>7,384</b>	<b>9,160</b>	<b>13,992</b>
Capex	(7,248)	(9,799)	(17,289)	(17,500)	(10,753)
Associates inv.	(78)	221	(43)	(44)	(44)
Other	(1,308)	(1,196)	(61)	(83)	(81)
<b>Investment CF</b>	<b>(8,633)</b>	<b>(10,774)</b>	<b>(17,393)</b>	<b>(17,627)</b>	<b>(10,878)</b>
Equity raised	-	-	-	-	-
Change of Debts	(2,459)	3,286	10,967	9,417	(1,132)
Dividend paid	(738)	(785)	(865)	(938)	(1,093)
Others	(4,605)	(4,201)	150	150	150
<b>Financing CF</b>	<b>(7,802)</b>	<b>(1,700)</b>	<b>10,252</b>	<b>8,629</b>	<b>(2,074)</b>
<b>Net change in cash</b>	<b>(2,179)</b>	<b>41</b>	<b>244</b>	<b>161</b>	<b>1,040</b>
Cash at beginning	5,071	2,861	2,908	3,152	3,313
Exchange difference	(31)	7	-	-	-
<b>Cash at the end</b>	<b>2,861</b>	<b>2,908</b>	<b>3,152</b>	<b>3,313</b>	<b>4,353</b>
Pledged cash	253	523	320	354	350
Time deposit	-	-	-	-	-
<b>Cash at balance sheet</b>	<b>3,114</b>	<b>3,432</b>	<b>3,472</b>	<b>3,668</b>	<b>4,704</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>128,718</b>	<b>133,773</b>	<b>142,585</b>	<b>150,627</b>	<b>150,923</b>
Fixed asset	110,00	114,60	123,52	131,91	132,57
Prepaid lease payments	2,152	-	-	-	-
Interest in JVs	4,549	4,328	4,371	4,415	4,459
Others	12,016	14,838	14,690	14,294	13,888
<b>Current assets</b>	<b>17,786</b>	<b>23,029</b>	<b>27,479</b>	<b>31,450</b>	<b>34,381</b>
Cash	3,114	3,432	3,472	3,668	4,704
Account receivable	10,542	16,365	20,098	23,767	25,577
Prepayments	2,819	1,963	2,495	2,567	2,648
Others	1,312	1,269	1,415	1,449	1,452
<b>Current liabilities</b>	<b>39,780</b>	<b>43,538</b>	<b>48,384</b>	<b>50,197</b>	<b>48,757</b>
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	35,562	39,365	38,943
Others	264	230	312	314	301
<b>Non-current liabilities</b>	<b>50,158</b>	<b>52,610</b>	<b>57,050</b>	<b>62,575</b>	<b>61,774</b>
Borrowings	46,645	48,881	53,343	59,047	58,415
Obligation under financial	361	-	-	-	-
Others non-current assets	3,152	3,728	3,706	3,528	3,359
<b>Minority Interest</b>	<b>7,329</b>	<b>7,732</b>	<b>7,882</b>	<b>8,032</b>	<b>8,182</b>
<b>Perpetual MTN</b>	<b>4,991</b>	<b>4,991</b>	<b>4,991</b>	<b>4,991</b>	<b>4,991</b>
<b>Shareholders' equity</b>	<b>44,245</b>	<b>47,932</b>	<b>51,757</b>	<b>56,282</b>	<b>61,600</b>
<b>Total Equity</b>	<b>56,566</b>	<b>60,655</b>	<b>64,630</b>	<b>69,305</b>	<b>74,773</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Wind	69.8	68.9	71.6	73.6	75.5
Coal-fired	27.7	28.3	25.9	24.2	22.5
Others	2.5	2.4	2.5	2.2	2.0
Concession revenue	0.1	0.4	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Operating margin	35.0	36.1	36.6	38.1	39.2
Pre-tax margin	22.3	23.4	24.3	25.2	26.6
Net margin	14.9	15.7	16.4	17.3	18.6
Effective tax rate	16.5	17.5	18.1	18.5	19.1
<b>Balance sheet ratios</b>					
Current ratio (x)	0.45	0.53	0.57	0.63	0.71
Quick ratio (x)	0.43	0.51	0.55	0.61	0.68
Cash ratio (x)	0.07	0.07	0.07	0.07	0.09
Inventory turnover days	12.5	11.1	11.4	11.3	10.6
Debtors turnover days	122.4	178.3	232.0	252.8	260.7
Creditor turnover days	51.8	68.9	66.6	46.5	43.3
Total debt / equity ratio (%)	169.5	162.4	171.8	174.9	158.0
Net debt / equity ratio (%)	163.0	156.3	165.7	169.0	151.0
<b>Returns (%)</b>					
ROE	8.9	9.0	9.1	9.7	10.4
ROA	2.7	2.8	2.8	3.0	3.5
<b>Per share</b>					
EPS (RMB)	0.49	0.54	0.58	0.68	0.80
DPS (RMB)	0.10	0.11	0.12	0.14	0.16
BVPS (RMB)	5.51	5.96	6.44	7.00	7.67

Source: Company data, CMBIS estimates

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