

Goldwind (2208 HK)

On track to WTG GPM recovery

GWD's 9M20 earnings reached RMB2,069mn, with earnings growth accelerated from 7.6% in 1H20 to 30.1%. Well performed earnings release was mainly attributable to WTG sales of 4,216MW during 3Q20. 9M20 WTG sales reached 8.3GW, on track to 10-12GW external shipment guidance. For GPM of WTG segment, mgmt. express some improvement from costs saving measures, and maintained full year target to improve GPM to ~15% unchanged. We think GWD was largely on track to our projection of GPM rebound. We lift TP by 57.1% to HK\$12.10 based on 11x FY21E P/E multiple. Maintain BUY.

- **9M20 earnings surged 30.1% YoY.** Strong 9M20 results were mainly boosted by accelerating WTG shipment, which brought a 3Q20 revenue growth of 95.6% YoY. Major expense to revenue ratios remained steady, while investment income was read high comparing with 3Q19. Quarter earnings was RMB794mn, up 95.5% YoY. In 9M20, the Company recognized RMB549mn impairment losses mainly from provisions for receivables and inventories in 9M20, yet earnings was still read RMB2,069mn, up 30.1% YoY.
- **WTG shipment on track, guiding 10GW shipment in 2021E.** WTG external shipments were 8,316MW in 9M20, up 58.6% YoY and implying 2Q20 WTG shipment of 4,216MW. We think GWD's sales pace is on track to 12-14GW shipments in 2020E. For 2021E WTG demand outlook in China, mgmt. thought 30GW market size would be reasonable based on communications with major wind farm developers. GWD expected to seize 30% market shares, implying a shipment target of 10GW in 2021E.
- **Improving product mix to drive further GPM recovery.** The Company was on a graduate pace in margin recovery based on improving price/cost structure in 9M20. Looking ahead, as WTG tender prices are declining in the grid-parity era, we think product mix upgrade towards larger scale product will be the key driver leading to further GPM recovery. With reference to GWD's 3Q20 WTG shipment and order backlog, we observed significant change product mix. We think GWD still has potential to improve its WTG profitability despite pressures from tender prices.
- **Raise TP to HK\$12.10 based on 11x P/E roll over to FY21E.** We lifted GWD's FY20E EPS forecast by 13.5% to RMB0.74 based on revision on investment income. Our outlook for FY21-22E remains largely unchanged. Given recent strong market sentiment longing for supportive renewables development policies in 14th FYP period, we lifted GWD's target P/E multiple from 10x to 11x and rolled over valuation to FY21E. Our TP is lifted 57.1% to HK\$12.10. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,590	37,878	51,591	43,618	44,334
Net income (RMB mn)	3,145	2,109	3,114	4,073	4,364
EPS (RMB)	0.88	0.51	0.74	0.96	1.03
YoY growth (%)	5.4	-42.1	43.9	30.8	7
Consensus EPS(RMB)	N/A	N/A	0.73	0.88	0.94
P/E (x)	10.1	17.5	12.1	9.3	8.7
P/B (x)	1.3	1.2	1.1	1.0	1.0
Yield (%)	2.8	1.8	2.5	3.2	3.5
ROE (%)	12.6	7.1	9.4	11.2	11.1
Net gearing (%)	69.3	48.6	54.6	63.8	59.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$12.10
(Previous TP) HK\$7.70
Up/Downside +18.6%
Current Price HK\$10.20

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	53,978
Avg 3 mths t/o (HK\$ mn)	124.48
52w High/Low (HK\$)	10.96/5.42
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%

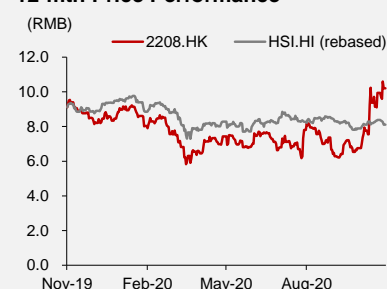
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	50.9%	46.8%
3-mth	30.8%	33.4%
6-mth	37.3%	40.3%
12-mth	12.0%	25.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. "Goldwind (2208 HK) –WTG margin to bottom out in 2H20" – 1 Sep 2020
2. "Goldwind (2208 HK) - Strong 1Q20 results; but headwind remains" – 4 May 2020
3. Goldwind (2208 HK) – Struggling at cycle bottom" – 3 Apr 2020

Figure 1: 3Q20/9M20 results summary

(RMB mn)	1Q19	2Q19	3Q19	1Q20	2Q20	3Q20	3Q20 YoY	9M19	9M20	9M20 YoY
Total operating revenue	5,396	10,338	9,002	5,467	13,958	17,606	95.6%	24,735	37,031	49.7%
Total operating cost	(5,282)	(10,064)	(8,536)	(5,646)	(13,566)	(16,753)	96.3%	(23,882)	(35,965)	50.6%
Operating cost	(3,959)	(8,482)	(7,280)	(4,290)	(11,755)	(14,594)	100.5%	(19,722)	(30,638)	55.4%
Business tax and surcharge	(23)	(23)	(24)	(21)	(44)	(49)	109.5%	(70)	(114)	63.6%
Selling and distribution expenses	(392)	(802)	(497)	(481)	(940)	(1,125)	126.6%	(1,690)	(2,547)	50.7%
... as % to total revenue	7.3%	7.8%	5.5%	8.8%	6.7%	6.4%	0.9ppt	6.8%	6.9%	0.0ppt
Administrative expenses	(351)	(395)	(355)	(352)	(448)	(436)	22.9%	(1,101)	(1,236)	12.2%
... as % to total revenue	6.5%	3.8%	3.9%	6.4%	3.2%	2.5%	-1.5ppt	4.5%	3.3%	-1.1ppt
R&D expenses	(246)	(179)	(183)	(210)	(213)	(230)	25.8%	(609)	(654)	7.5%
... as % to total revenue	4.6%	1.7%	2.0%	3.9%	1.5%	1.3%	-0.7ppt	2.5%	1.8%	-0.7ppt
Finance expense	(310)	(183)	(197)	(281)	(176)	(318)	61.2%	(690)	(776)	12.4%
Gross profit	1,436	1,856	1,721	1,177	2,203	3,012	75.0%	5,013	6,393	27.5%
Overall GPM	26.6%	17.9%	19.1%	21.5%	15.8%	17.1%	-2.0ppt	20.3%	17.3%	-3.0ppt
Other gain	58	69	33	25	46	64	94.8%	160	136	-15.2%
Investment income	146	821	24	1120	215	284	1095.6%	990	1619	63.4%
Gain or losses from changes in fair values	(13)	97	(18)	101	(40)	39	-321.0%	67	100	49.2%
Impairment	(56)	(107)	(69)	(63)	(188)	(299)	335.8%	(231)	(549)	137.6%
Disposal gain or (loss)	11	9	(20)	4	7	3	-115.0%	(0)	14	n/a
Operating profit	259	1163	416	1009	431	945	126.9%	1839	2385	29.7%
Operating profit margin	4.8%	11.2%	4.6%	18.5%	3.1%	5.4%	0.7ppt	7.4%	6.4%	-1.0ppt
Non operating income	5.8	1.5	31.6	0.3	7.0	5.0	-84.2%	38.9	12.3	-68.4%
Non operating expenses	(0)	(6)	(13)	(3)	(9)	(8)	-37.7%	(19)	(21)	8.7%
Pretax profit	265	1158	435	1006	429	942	116.5%	1858	2377	27.9%
Income tax	(3)	(208)	(41)	(92)	(54)	(139)	238.1%	(252)	(284)	12.7%
Effective tax rate	1.3%	13.5%	9.4%	9.1%	12.6%	14.7%	7.8ppt	13.6%	12.0%	-1.6ppt
Less: Minority	32.9	-5.1	12.3	19.8	-5.2	8.8	-27.9%	15.6	23.4	50.6%
Net income	229	956	406	895	380	794	95.5%	1591	2069	30.1%
Net profit margin	4.2%	9.2%	4.5%	16.4%	2.7%	4.5%	0.0ppt	6.4%	5.6%	-0.8ppt

Source: Company data, CMBIS

Figure 2: Earnings revision

	Old			New			est. change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Wind turbine sales (MW)	10,488	8,308	8,308	11,188	8,508	8,508	6.7%	2.4%	2.4%
Revenue (RMB mn)	48,995	42,855	43,807	51,591	43,618	44,334	5.3%	1.8%	1.2%
Gross profit margin	19.4	23.2	24.7	19.2	23.1	24.4	-0.2ppt	-0.1ppt	-0.3ppt
Operating profit margin	7.0	12.7	16.0	6.5	12.4	15.4	-0.5ppt	-0.2ppt	-0.6ppt
Net Income (RMB mn)	2743	4018	4381	3114	4073	4364	13.5%	1.4%	-0.4%
Net profit margin	5.6	9.4	10.0	6.0	9.3	9.8	7.8%	-0.4%	-1.6%
EPS (RMB)	0.65	0.95	1.04	0.74	0.96	1.03	13.5%	1.4%	-0.4%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	28,590	37,878	51,591	43,618	44,334
WTG manufacturing	22,169	28,857	41,486	32,181	31,859
Wind power services	1,647	3,571	4,302	4,399	4,242
Wind farm	3,904	4,257	4,288	5,220	6,140
Others	870	1,193	1,514	1,818	2,094
Cost of sales	(21,247)	(30,915)	(41,694)	(33,542)	(33,526)
Gross profit	7,344	6,964	9,897	10,076	10,808
Other income, net	2,073	2,373	2,899	2,438	1,861
Selling and distribution	(1,897)	(2,804)	(4,066)	(3,122)	(2,708)
Admin expense	(2,738)	(2,637)	(3,353)	(2,835)	(2,882)
Other expenses	(295)	(587)	(774)	(654)	(665)
EBIT	4,487	3,309	4,603	5,903	6,415
Finance costs, net	(1,071)	(1,109)	(1,166)	(1,359)	(1,529)
JV & associates	266	361	320	345	371
Exceptional	0	0	0	0	0
Pre-tax profit	3,682	2,561	3,757	4,889	5,256
Income tax	(400)	(331)	(492)	(665)	(741)
Profit for the year	3,283	2,230	3,265	4,224	4,515
Minority interests	(67)	(20)	(50)	(50)	(50)
Perpetual MTN distribution	(71)	(101)	(101)	(101)	(101)
Net profit	3,145	2,109	3,114	4,073	4,364

Cash flow summary

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBIT	4,487	3,309	4,603	5,903	6,415
D&A	1,381	1,627	1,663	1,961	2,260
Change in working capital	2,667	(108)	3,915	(88)	2,305
Income tax paid	(348)	(393)	(347)	(509)	(673)
Others	2,887	1,100	(4,302)	(4,290)	(3,757)
Net cash from operating	3,125	5,929	9,795	3,397	9,526
Capex	(6,708)	(12,192)	(6,679)	(5,919)	(5,919)
Associated companies	(1,270)	(831)	203	(320)	(345)
Other	1,863	2,756	(3,700)	(954)	0
Net cash from investing	(6,114)	(10,267)	(10,175)	(7,193)	(6,263)
Equity raised	0	4,640	0	0	0
Change of Debts	450	(593)	3,911	3,927	2,992
Dividend paid	(711)	(1,056)	(676)	(934)	(1,222)
Others	1,463	3,141	(2,085)	(333)	(2,307)
Net cash from financing	1,201	6,131	1,149	2,660	(536)
Net change in cash	(1,787)	1,793	769	(1,136)	2,727
Cash at the beginning	6,746	5,012	6,807	7,576	6,440
Exchange difference	53	2	0	0	0
Cash at the end of the year	5,012	6,807	7,576	6,440	9,167
Pledged cash	38	427	128	138	145
Non-pledged time deposit	16	13	0	0	0
Cash at balance sheet	5,066	7,248	7,703	6,578	9,312

Balance sheet

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
Non-current assets	48,447	53,443	64,149	68,506	72,668
Fixed asset	25,509	29,010	41,185	45,193	48,905
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	16,761	16,819	16,954
Current assets	32,918	48,444	51,113	44,924	43,712
Inventory	4,997	8,124	7,503	8,505	6,275
Cash	5,066	7,248	7,703	6,578	9,312
Account receivable	16,895	17,993	26,530	20,339	18,578
Prepayments	4,526	6,214	4,470	4,400	4,330
Other current assets	1,434	8,865	4,907	5,103	5,217
Current liabilities	31,601	49,569	56,478	48,760	46,815
Trade and bills payable	20,000	25,428	33,148	28,132	26,953
Other payables	6,372	12,186	15,053	11,878	11,211
Borrowings	3,470	5,705	6,376	6,890	7,264
Others	1,759	6,250	1,902	1,860	1,388
Non-current liabilities	23,288	21,264	25,300	28,059	29,826
Borrowings	18,865	16,036	19,276	22,689	25,307
Provision	1,983	2,186	2,165	1,869	1,057
Others non-current assets	2,441	3,041	3,859	3,501	3,461
Minority Interest	1514	1549	1599	1649	1699
Perpetual MTN	1,993	1,993	1,993	1,993	1,993
Shareholders' equity	19,461	25,140	27,527	30,617	33,709
Total equity	22,968	28,682	31,120	34,259	37,401

Key ratios

YE 31 Dec	2018A	2019A	2020E	2021E	2022E
Sales mix (%)					
WTG manufacturing	77.5	76.2	80.4	73.8	71.9
Wind power services	5.8	9.4	8.3	10.1	9.6
Wind farm	13.7	11.2	8.3	12.0	13.8
Others	3.0	3.1	2.9	4.2	4.7
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	25.7	18.4	19.2	23.1	24.4
Pre-tax margin	12.9	6.8	7.3	11.2	11.9
Net margin	11.0	5.6	6.0	9.3	9.8
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	0.7	0.9
Cash ratio (x)	0.2	0.1	0.1	0.1	0.2
Inventory turnover days	58	63	55	67	61
Debtors turnover days	217	168	157	196	160
Creditor turnover days	303	268	256	333	300
Total debt / equity ratio (%)	84.4	67.5	73.9	78.0	79.3
Net debt / equity ratio (%)	69.3	48.6	54.6	63.8	59.4
Returns (%)					
ROE	12.6	6.9	9.4	11.2	11.1
ROA	3.9	2.0	2.7	3.6	3.7
Per share					
EPS (RMB)	0.88	0.51	0.74	0.96	1.03
DPS (RMB)	0.25	0.16	0.22	0.29	0.31
BVPS (RMB)	7.02	7.26	7.84	8.58	9.32

Source: Company data, CMBIS estimates

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