

Suntien Green Energy (956 HK)

Stable operating performance in 1H20

Suntien released 2Q20 operating performance. Overall performance was stable, with retail gas rapid growth as a highlight in 1H20, demonstrating Suntien's operating resilience. Share price was quite volatile after Suntien-A's listing. However, we remain confident that southbound trading will stabilize share price and gradually boost valuation. We expect 1H20 earnings to be soft, and market is well aware. We think the next catalyst would be re-declaration of FY19 dividend during 1H20 results announcement. **Maintain BUY with TP unchanged at HK\$2.84.**

- 1H20 power generation/sales increased 4.48%/4.13% YoY.** Wind power generation was 4,990GWh, up 4.42% YoY, which was slower than our full year growth projection of 12.8% YoY as curtailment rate experienced a hike caused by COVID-19. Solar power generation increased 8.0% YoY to 92.7GWh. Average on-grid tariff had a surprising increase of 2.28% YoY to RMB0.47/KWh during 1H20, according to Suntien's announcement. We estimate the power generating segment revenue to increase 7.0% YoY in 1H20, while we trim wind utilization hours from 2,375 to 2,300 based on operating updates. We now project FY20E overall power generation to increase 9.4% YoY.
- Retail gas sales performed surprisingly good.** 1H20 gas sales volume reached 1,870mcbm, up 13.3% YoY. Retail gas volume was a highlight with a YoY increase of 29.7% in 1H20, and growth pace was accelerating as retail gas volume surged 34.3% in 2Q20. The outstanding retail gas performance was attributable to Suntien's gas pipeline extending service coverage to reach more industrial retail clients, in our view, especially the newly commenced Gaoyi-Zanhuang pipeline connecting several ceramic users. We expect wholesale gas price to decline, as Hebei government directed a 5% cut on pipeline transmission fee in 1H20. The impacts could be partially offset by higher margin retail gas sales. But given that wholesale gas still accounted for majority of Suntien's gas sales volume, we still expect the gas segment to suffer short term earnings impact.
- Earnings to pick up in 2H20.** We think Suntien has delivered quite resilient operating performance under the backdrop of pandemic. We estimate Suntien's 1H20E earnings to decline 9.2% YoY, but we think market is aware of the potential earnings decline from the Company's preliminary earnings 1H20 projection after A-share listing. Considering the recovery outlook from wind curtailment rate and pipeline transmission fee, we expect Suntien's earnings to pick up growth in 2H20E. **Our TP remains unchanged at HK\$2.84. We think potential re-declaration of FY19 dividend could be a catalyst. Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,975	11,943	13,526	15,777	18,007
Net income (RMB mn)	1,240	1,344	1,436	1,648	1,806
EPS (RMB)	0.33	0.36	0.38	0.43	0.47
YoY growth (%)	31.95	8.39	4.93	12.75	9.58
Consensus EPS (RMB)	N/A	N/A	0.41	0.44	0.46
P/E (x)	5.93	5.47	5.22	4.63	4.22
P/B (x)	0.73	0.62	0.55	0.51	0.48
Yield (%)	6.31	0.00	7.53	8.65	9.47
ROE (%)	12.35	11.37	10.58	11.07	11.26
Net gearing (%)	203	199	204	237	260

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$2.84
(Previous TP	HK\$2.84)
Up/Downside	+29.1%
Current Price	HK\$2.20

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	28,592
Avg 3 mths t/o (HK\$ mn)	46.20
52w High/Low (HK\$)	2.95/1.24
Issued shares - H (mn)	1,839
Issued shares - A(mn)	2,011

Source: Bloomberg

Shareholding Structure-H

HECIC	48.7%
Freefloat	51.3%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	24.3%	22.0%
3-mth	22.9%	21.7%
6-mth	8.4%	15.2%
12-mth	6.3%	20.2%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

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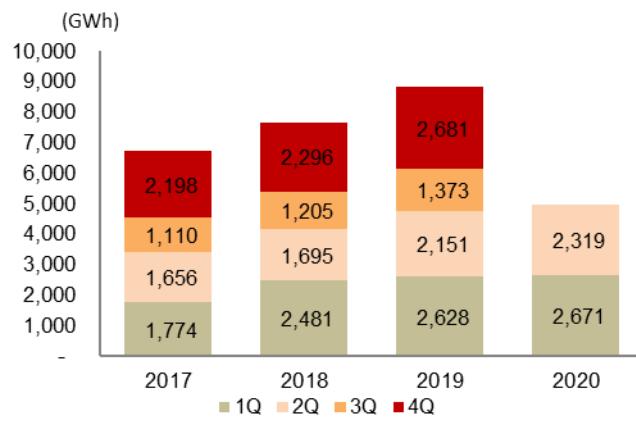
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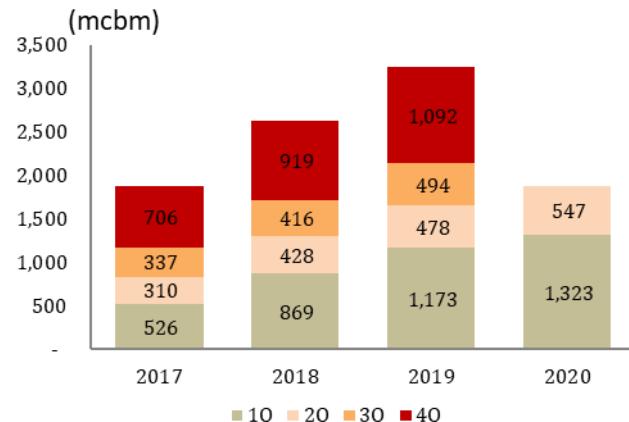
Figure 1: 1H20 operating summary

	1Q19	2Q19	1H19	1Q20	2Q20	1H20	1H20 YoY	FY20E	Run rate
Wind Power Generation (GWh)	2,628	2,151	4,779	2,671	2,319	4,990	4.4%	9,963	50.1%
Hebei	2,162	1,639	3,801	2,093	1,726	3,819	0.5%		
Shanxi	97	65	163	110	108	218	34.1%		
Xinjiang	30	74	104	38	75	113	8.3%		
Yunnan	229	189	418	212	173	385	-7.9%		
Shandong	20	23	43	21	23	44	3.5%		
Inner Mongolia	90	87	177	90	106	196	11.1%		
Guangxi	-	57	57	45	37	82	44.0%		
Jiangsu	-	10	10	47	44	91	770.2%		
Henan	-	7	7	16	27	43	505.1%		
Solar Power Generation	39	35	74	41	51	93	25.7%	159	58.3%
Total gas sales (mn cbm)	1,173	478	1,651	1,326	547	1,873	13.4%	3,800	49.3%
Wholesale	847	237	1,084	928	240	1,168	7.8%	2,244	52.1%
Retail	301	216	516	380	290	670	29.7%	1,476	45.4%
CNG/LNG	26	25	51	17	17	35	-32.4%	81	42.9%

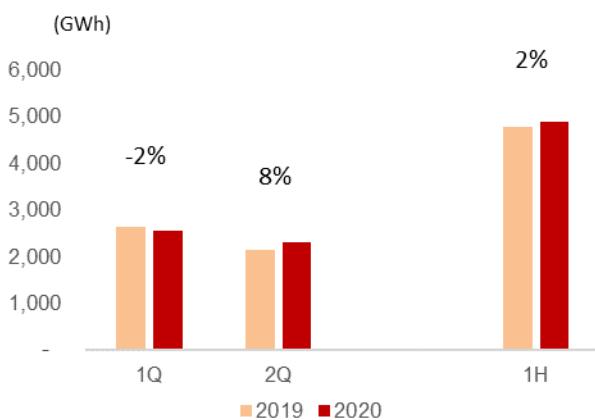
Source: Company data, CMBIS

Figure 2: Wind power generation

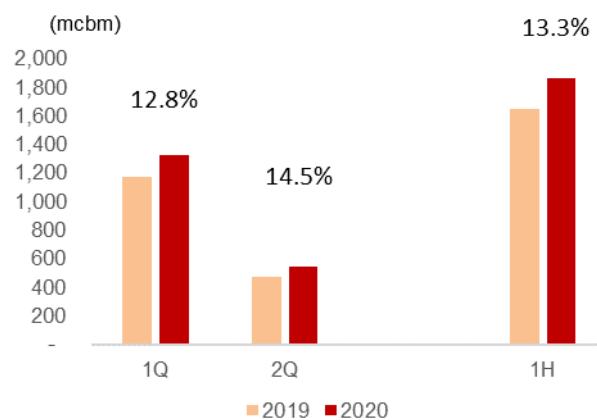
Source: Bloomberg, CMBIS

Figure 3: Gas sales volume

Source: Bloomberg, CMBIS

Figure 4: 1H20 wind power generation performance

Source: Bloomberg, CMBIS

Figure 5: 1H20 gas sales performance

Source: Bloomberg, CMBIS

Figure 6: 1H20E earnings estimates

	1H19E/				1H20E/				1H20E YoY
	1H19A	2H19A	FY19A	FY19E%	1H20E	2H20E	FY20E	FY20E%	
Revenue	6,361	5,583	11,943	53.3%	6,692	6,834	13,526	49.5%	5.2%
Wind & Solar	2,106	1,843	3,949	53.3%	2,254	2,209	4,463	50.5%	7.0%
Natural Gas	4,254	3,727	7,981	53.3%	4,438	4,620	9,058	49.0%	4.3%
Cost of sales	-4,431	-4,206	-8,638	51.3%	-4,871	-5,070	-9,941	49.0%	9.9%
Gross profit	1,929	1,376	3,305	58.4%	1,821	1,764	3,584	50.8%	-5.6%
<i>Gross profit margin</i>	30.3%	24.7%	27.7%	n/a	27.2%	25.8%	26.5%	n/a	-3.1ppt
Other income and gains, net	53	118	171	31.0%	71	87	157	45.0%	33.9%
Selling and distribution expenses	(0)	(0)	(1)	20.8%	(0)	(1)	(1)	20.0%	15.6%
Administrative expenses	(218)	(369)	(587)	37.1%	(255)	(383)	(638)	40.0%	17.2%
Other expenses/gains	4	(49)	(44)	-10.1%	(7)	(10)	(17)	40.0%	-252.6%
Operating profit	1,769	1,076	2,845	62.2%	1,630	1,457	3,087	52.8%	-7.9%
Financial costs	(422)	(453)	(875)	48.2%	(444)	(542)	(986)	45.0%	5.1%
Share profit from	111	104	215	51.4%	107	107	213	50.0%	-3.5%
Joint ventures	(6)	(1)	(7)	80.9%	(2)	(2)	(4)	50.0%	-65.0%
Associates	116	106	222	52.4%	109	109	217	50.0%	-6.6%
Exceptional	-	-	-	n/a	-	-	-	n/a	n/a
Profit before Tax	1,457	727	2,184	66.7%	1,293	1,021	2,314	55.9%	-11.3%
Income tax expense	(246)	(110)	(356)	69.0%	(199)	(183)	(382)	52.0%	-19.2%
<i>Effective tax rate</i>	16.9%	15.2%	16.3%	n/a	15.4%	17.9%	16.5%	n/a	-1.5ppt
Profit for the year	1,211	617	1,828	66.3%	1,094	838	1,932	56.6%	-9.7%
Less: Non-controlling interests	244	170	413	59.0%	205	213	419	49.0%	-15.8%
Renewable green bond	32	39	71	44.5%	39	39	78	50.0%	23.4%
Net profit	936	408	1,344	69.7%	850	586	1,436	59.2%	-9.2%
<i>Net profit margin</i>	28.0%	7.3%	11.3%	n/a	28.0%	8.6%	10.6%	n/a	0.0ppt

Source: Company data, CMBIS estimates

Figure 7: Earnings revision reflects resilience

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Revenue (RMB mn)	13,129	15,122	17,324	13,526	15,777	18,007	3.0%	4.3%	3.9%
Net Income (RMB mn)	1,428	1,511	1,691	1,436	1,648	1,806	0.6%	9.0%	6.8%
EPS (RMB)	0.38	0.39	0.44	0.38	0.43	0.47	0.6%	9.0%	6.8%
Our est. vs. Consensus							Diff with consensus		
Consensus Earnings (RMB mn)				1,529	1,643	1,740	-6.1%	0.3%	3.8%
Consensus EPS (RMB)				0.41	0.44	0.46	-6.7%	-2.5%	2.0%

Source: Company data, CMBIS estimates

Financial Summary

Income statement					Cash flow summary						
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	9,975	11,943	13,526	15,777	18,007	Profit before tax	1,743	2,184	2,314	2,673	2,990
Wind & Solar	3,422	3,949	4,463	5,025	5,598	DD&A	1,308	1,540	1,718	2,045	2,509
Natural Gas	6,551	7,981	9,058	10,747	12,404	Working cap change	(147)	(909)	(2,355)	(85)	(391)
Costs of sales	(7,116)	(8,638)	(9,941)	(11,605)	(13,236)	Taxation	(217)	(325)	(373)	(436)	(495)
Other income & gains	100	171	157	165	173	Others	474	1,240	10	0	-
Selling & distribution	(0)	(1)	(1)	(1)	(1)	Operating cash flow	3,156	3,732	1,315	4,197	4,612
Administrative expenses	(502)	(587)	(638)	(712)	(777)	Capex & investments	(5,568)	(6,041)	(8,554)	(10,812)	(10,423)
Other expenses	(219)	(44)	(17)	(20)	(28)	Others	1,601	(62)	115	-	-
Operating profit	2,239	2,845	3,087	3,603	4,138	Investment cash flow	(3,967)	(6,103)	(8,439)	(10,812)	(10,423)
Finance costs	(785)	(875)	(986)	(1,194)	(1,435)	Equity raised	-	-	563	-	-
Joint ventures & associates	290	215	213	263	287	Perpetual MTN raised	590	910	-	-	-
Pre-tax profit	1,743	2,184	2,314	2,673	2,990	Change of Debts	2,673	3,037	7,193	7,354	7,438
Income tax	(168)	(356)	(382)	(446)	(505)	Others	(939)	533	-	-	-
Minority interests	(307)	(413)	(419)	(501)	(601)	Financing cash flow	945	2,465	7,425	6,445	6,378
Renewable green bond	(29)	(71)	(78)	(78)	(78)	Net change in cash	135	93	302	(170)	567
Net profit	1,240	1,344	1,436	1,648	1,806	Cash at beginning	2,110	2,240	2,332	2,633	2,464
						Exchange difference	(4)	(2)	-	-	-
						Cash at the end	2,240	2,332	2,633	2,464	3,030
						Restricted cash	-	9	-	-	-
						Cash at balance sheet	2,240	2,341	2,633	2,464	3,030

Balance sheet					Key ratios						
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	32,743	38,499	45,168	53,148	60,698	Sales mix (%)					
Fixed asset	26,584	28,252	35,011	43,607	51,327	Wind & Solar	43.9	34.3	33.1	33.0	31.8
Intangible assets	1,757	1,672	1,574	1,475	1,376	Natural Gas	56.1	65.7	66.8	67.0	68.1
Associates & JVs	1,918	2,302	2,467	2,729	3,014	Total	100	100	100	100	100
Prepayments	1,648	2,904	2,852	2,065	1,700	P&L ratios (%)					
Others	837	377	262	260	259	Gross profit margin	32.7	28.7	0.28	26.5	0.26
Current assets	6,418	7,455	9,213	10,510	11,127	Operating margin	25.0	22.4	23.8	22.8	22.8
Cash	2,240	2,341	2,633	2,464	3,030	Pre-tax margin	17.1	17.5	18.3	17.1	16.9
Receivables	3,296	3,966	4,605	5,233	5,763	Net margin	13.3	12.4	11.3	10.6	10.4
Prepayments	812	1,083	1,901	2,737	2,253	Effective tax rate	8.2	9.6	16.3	16.5	16.7
Others	70	65	74	77	80	Balance sheet ratios					
Current liabilities	8,602	10,532	11,202	13,386	14,321	Current ratio (x)	0.58	0.75	0.71	0.82	0.79
Trade and bill payables	148	137	155	180	206	Quick ratio (x)	0.58	0.74	0.70	0.82	0.78
Other payables	3,655	4,870	4,036	4,648	4,012	Cash ratio (x)	0.22	0.26	0.22	0.24	0.19
Borrowings	4,644	5,316	6,782	8,308	9,835	Debtors turnover days	107.2	111.0	115.6	113.8	111.4
Others	70	100	110	120	130	Total debt/equity ratio (%)	190.0	182.3	175.1	183.1	208.9
Non-current liabilities	18,162	20,673	26,343	32,196	38,081	Net debt/equity ratio (%)	202.7	198.6	204.0	237.0	259.8
Borrowings	16,683	19,093	24,045	29,457	34,868	Returns (%)					
Other payables	184	225	168	194	167	ROE	10.92	12.35	11.37	10.58	11.07
Others	25	46	46	46	46	ROA	2.74	3.17	2.92	2.64	2.59
Minority Interest	2,360	2,933	3,021	3,187	3,388	EPS (RMB)	0.33	0.36	0.38	0.43	0.47
Renewable green bond	590	1,500	1,500	1,500	1,500	DPS (RMB)	0.13	-	0.15	0.17	0.19
Shareholders' equity	9,446	10,316	12,315	13,389	14,535	BVPS (RMB)	2.70	3.18	3.59	3.87	4.17
Total Equity	12,397	14,750	16,837	18,076	19,423						

Source: Company data, CMBIS estimates

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