

China Longyuan (916 HK)

Results slight beat; accelerate overseas expansion

CLY's FY19 realized net profit of RMB4,325mn, up 10.2% YoY, and beat our estimate by 5.4%. We believe CLY's overall FY19 results were solid, and the Company continues to pursue aggressive capacity expansion of 2.15GW within 2020, albeit COVID-19 had caused about 1.5 month construction delay. For subsidy receivables, CLY collected RMB5.5bn in FY19, but the figure still climb to RMB17.5bn. In view of new subsidy distribution policy, mgmt. expects to receive RMB4.7bn in 2020. At current valuation, we think the market had discounted CLY's subsidy receivable to zero, which would be a significant misprice. **Upgrade to BUY with TP unchanged at HK\$4.73.**

- Earnings beat on better-than-expected financial expenses.** CLY realized stable tariff from wind and coal-fired power generation, and kept major expenses in well control. Financial expenses were significantly lower than our estimates due to mgmt.'s active control and high base in FY18. Net profit was up 10.2% to RMB4,325mn. CLY maintained 20% dividend payout and declared RMB10.76cents DPS, representing 2.9% dividend yield.
- 2.15GW capacity addition in 2020, with RMB19bn CAPEX.** In FY19, CLY added 1.1GW wind farm with total CAPEX reached RMB12.5bn. Mgmt. maintained ambitious guidance in 2020 for a capacity addition target of 2.15GW, of which 2.05GW would be wind project, and the remaining 100MW would be solar farm. As COVID-19 had caused construction delay and supply disruption, we think the capacity target is challenging but achievable, since CLY had planned sufficient buffer for a previous deadline set at end-Oct. Mgmt. prepared another ~400MW as flexible capacity target in case NEA relaxes grid-connection timeline, implying those proportion may be subject to tariff cut exposures (due to subsidy cut), in our view.
- Long term growth path beyond 2020.** Mgmt. revealed CLY's long term growth path, through 1) onshore grid-parity projects through large scale wind farm base in northwest China; 2) offshore development; and 3) accelerating overseas project investment. The Company expects to have another 2.5GW wind farm installation in 2021, of which offshore project will account for significant portion. For more overseas details, CLY planned to expand to new territory in Ukraine, Vietnam, and Australia and expand further through existing projects in Canada and South Africa.

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) | 7.48 | 6.78 | 6.26 | 5.37 | 4.6 |
| P/B (x) | 0.7 | 0.61 | 0.57 | 0.52 | 0.48 |
| Yield (%) | 2.70 | 2.90 | 3.20 | 3.70 | 4.4 |
| ROE (%) | 8.87 | 9.02 | 9.06 | 9.71 | 10.4 |
| Net gearing (%) | 163 | 156 | 166 | 169 | 151.0 |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

| | |
|---------------|-----------|
| Target Price | HK\$4.73 |
| (Previous TP) | HK\$4.73) |
| Up/Downside | +16.0% |
| Current Price | HK\$4.07 |

China Wind Sector

Robin Xiao

(852) 3900 0849

robinxiao@cmbi.com.hk

Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 32,708 |
| Avg 3 mths t/o (HK\$ mn) | 47.6 |
| 52w High/Low (HK\$) | 5.50/3.46 |
| Total Issued Shares (mn) | 3,340 |

Source: Bloomberg

Shareholding Structure

| | |
|-----------------------|-------|
| CHN Energy | 58.4% |
| Wellington Mgmt Group | 5.4% |
| Free float | 36.2% |

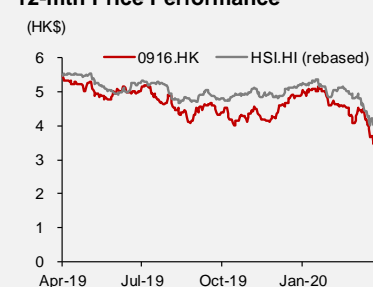
Source: HKEX

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | -0.2% | 12.5% |
| 3-mth | -17.4% | 0.4% |
| 6-mth | -7.5% | 4.1% |
| 12-mth | -23.7% | -4.4% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "China Longyuan (916 HK) – Flat FY19E earnings; longing for privatization" – 10 Mar 2020
- "China Longyuan (916 HK) – Sluggish 3Q19 operating performance" – 21 Oct 2019
- "China Longyuan (916 HK) – Flattish 1H19 earnings" – 5 Aug 2019

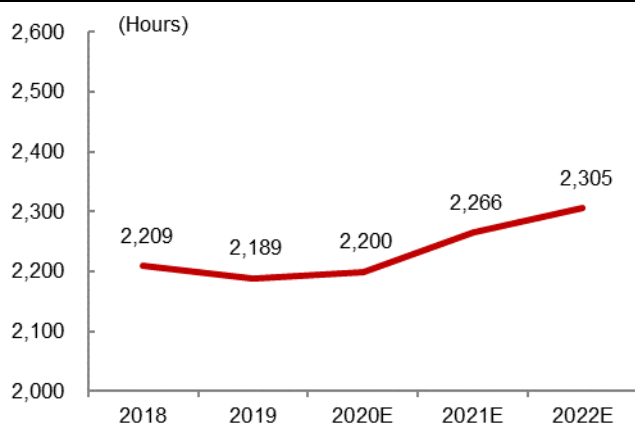
- **Subsidy collection still a headache.** According to mgmt. CLY collected RMB5.5bn subsidies during FY19, better than previous guidance, but the figure still increased RMB3.7bn YoY to RMB17.5bn. In view of inclusion of remaining grid-connected renewables capacity beyond seventh batch catalogue coverage, mgmt. expects subsidy collection may reduce to RMB4.7bn in 2020. Considering new subsidy receivable generation of ~RMB10bn, we expect the accumulated amount will reach above RMB22bn by end-2020, if CLY takes no other measures.
- **May need to gear up in 2020.** CLY's net gearing declined by two consecutive years to 156% in FY19 from 173% in FY17. We wonder if the Company needs to gear up again in 2020/21E due to its ambitious CAPEX for onshore and offshore wind projects. Other than financing through borrowings, we've noticed that CLY had registered RMB10bn ABS product in SZSE for securitizing its subsidy receivables. We had not factored in the impacts from ABS, since issue costs is not yet clear. We think CLY still have various means to finance for its project expansion.
- **Valuation reflects "zero" subsidy value.** We think subsidy delay had caused distortion to CLY's valuation. Based on CLY's current market capitalization at RMB29.5bn, we think it merely reflects 0.97x of CLY's equity value of common shareholders (RMB47.9bn) deducting RMB17.5bn of subsidy receivables. In other word, market is valuating CLY's subsidy receivables at "zero" value. We believe it is a significant misprice, as apparently CLY has various means to recycle those receivables through asset securitization. **We upgrade CLY from HOLD to BUY with TP unchanged at HK\$4.73.**

Figure 1: FY19 results summary

| (RMB, mn) | 2018 | 1H19 | 2H19 | 2019 | YoY(%) | 2019E | A vs. E diff (%) | CMBI Comments |
|-----------------------------------|-----------------|----------------|-----------------|-----------------|---------------|-----------------|------------------|--|
| Revenue | 26,388 | 14,038 | 13,503 | 27,541 | 4.4% | 27,313 | 0.8% | Revenue inline. |
| Wind | 18,410 | 9,915 | 9,066 | 18,981 | 3.1% | 19,005 | -0.1% | Wind tariff remained stable at RMB0.482/KWh; |
| Coal-fired | 7,314 | 3,753 | 4,032 | 7,784 | 6.4% | 7,574 | 2.8% | Coal power tariff remained stable at RMB0.337/KW |
| Others | 650 | 354 | 303 | 657 | 1.2% | 674 | -2.5% | |
| Concession revenue | 14 | 16 | 102 | 118 | 734.5% | 60 | 96.3% | |
| Other net income | 917 | 456 | 388 | 843 | -8.1% | 886 | -4.8% | |
| Operating expenses | (18,063) | (8,377) | (10,061) | (18,438) | 2.1% | (18,269) | 0.9% | |
| Depreciation and amortisation | (7,286) | (3,754) | (3,879) | (7,633) | 4.8% | (7,609) | 0.3% | |
| Coal consumption | (2,465) | (1,072) | (1,164) | (2,236) | -9.3% | (2,250) | -0.6% | |
| Coal sales costs | (3,151) | (1,740) | (1,775) | (3,515) | 11.6% | (3,449) | 1.9% | |
| Concession construction costs | (14) | (16) | (102) | (118) | 734.5% | (60) | 96.3% | |
| Personnel costs | (2,075) | (854) | (1,498) | (2,352) | 13.4% | (2,205) | 6.7% | Increase due to higher salary bonus in FY19; |
| Material costs | (192) | (82) | (82) | (164) | -14.6% | (273) | -39.8% | Maintained good control; |
| Repairs and maintenance | (819) | (267) | (553) | (820) | 0.2% | (886) | -7.4% | |
| Administration expenses | (588) | (179) | (385) | (564) | -4.1% | (609) | -7.4% | Maintained good control; |
| Other operating expenses | (1,473) | (411) | (623) | (1,034) | -29.8% | (929) | 11.3% | |
| Operating profit -EBIT | 9,242 | 6,116 | 3,830 | 9,946 | 7.6% | 9,930 | 0.2% | |
| Operating profit margin | 35.0% | 43.6% | 28.4% | 36.1% | 1.1ppt | 36.4% | -0.2ppt | Inline with our estimates; |
| Finance income | 212 | 59 | 81 | 140 | -33.8% | 142 | -1.7% | |
| Finance expenses | (3,724) | (1,833) | (1,793) | (3,626) | -2.7% | (3,844) | -5.7% | Interest costs declined & high base in FY18 |
| Net finance expenses | (3,513) | (1,773) | (1,712) | (3,486) | -0.8% | (3,701) | -5.8% | |
| Share of profits/(loss) | 167 | 41 | (51) | (10) | -106.1% | 23 | -145.0% | |
| Profit before tax | 5,897 | 4,384 | 2,066 | 6,450 | 9.4% | 6,251 | 3.2% | |
| Income tax | (976) | (753) | (378) | (1,131) | 15.9% | (1,112) | 1.7% | |
| Effective tax rate | 16.5% | 17.2% | 18.3% | 17.5% | 1.0ppt | 17.8% | -0.3ppt | |
| Profit for the year | 4,921 | 3,632 | 1,688 | 5,320 | 8.1% | 5,140 | 3.5% | |
| Less: non-controlling interests | 755 | -424 | 1,177 | 753 | -0.3% | 793 | -5.1% | |
| Less: perpetual bond holder inter | 242 | -121 | 363 | 242 | 0.0% | 242 | 0.0% | |
| Net income | 3,924 | 3,087 | 1,238 | 4,325 | 10.2% | 4,104 | 5.4% | Net profit beat our est. |
| Net margin | 14.9% | 22.0% | 9.2% | 15.7% | 0.8ppt | 15.0% | 0.7ppt | |

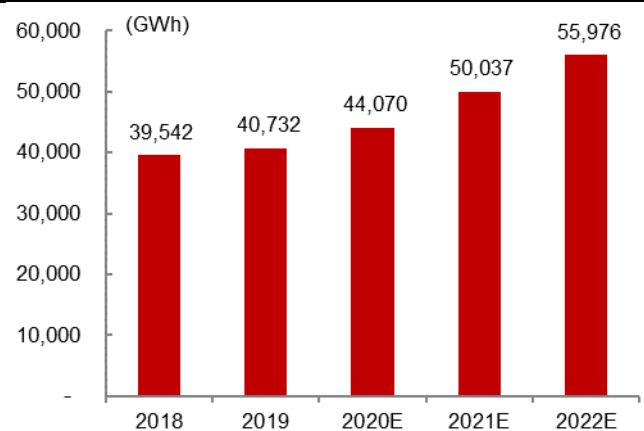
Source: Company data, CMBIS estimates

Figure 2: CLY's wind utilization hours

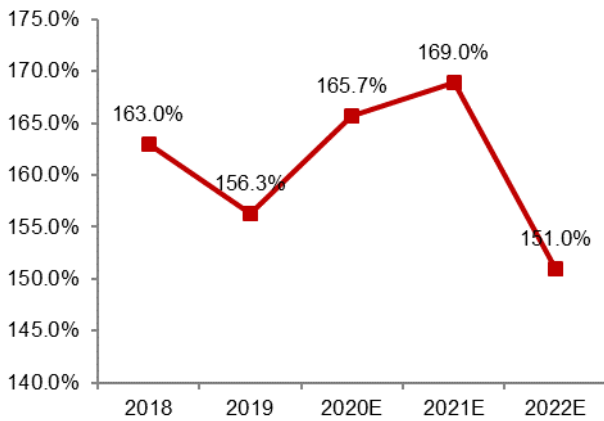


Source: Company data, CMBIS estimates

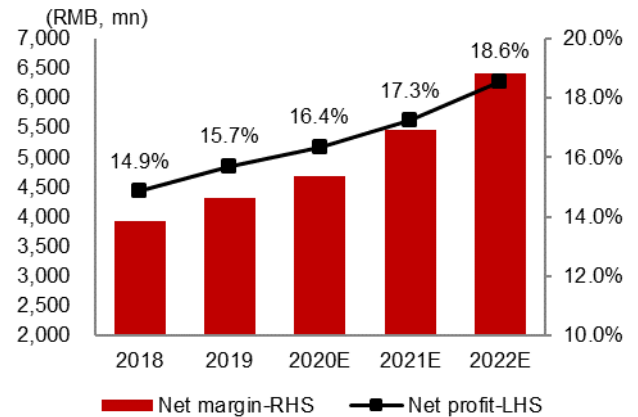
Figure 3: CLY's wind power generation



Source: Company data, CMBIS estimates

Figure 4: CLY's net gearing

Source: Company data, CMBIS estimates

Figure 5: CLY's net profit vs. net margin

Source: Company data, CMBIS estimates

Figure 6: Earnings revision

| | Old | | New | | Change(%) | |
|-----------------------------|--------|--------|--------|--------|-----------------|-------|
| | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 |
| Revenue (RMB mn) | 29,252 | 31,763 | 28,684 | 31,668 | -1.9% | -0.3% |
| Net Income (RMB mn) | 4,565 | 5,371 | 4,690 | 5,463 | 2.7% | 1.7% |
| EPS (RMB) | 0.568 | 0.668 | 0.584 | 0.680 | 2.7% | 1.7% |
| | | | | | est. difference | |
| Consensus earnings (RMB mn) | | | 4,788 | 5,359 | -2.0% | 1.9% |
| Consensus EPS (RMB mn) | | | 0.588 | 0.655 | -0.7% | 3.8% |

Source: CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 26,388 | 27,541 | 28,684 | 31,668 | 34,545 |
| 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) |
| Gross profit | 12,461 | 13,053 | 13,724 | 15,576 | 17,278 |
| 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) |
| EBIT | 9,242 | 9,946 | 10,501 | 12,068 | 13,532 |
| Finance costs, net | (3,513) | (3,486) | (3,584) | (4,142) | (4,375) |
| Associates & JVs | 167 | (10) | 43 | 44 | 44 |
| Exceptional | - | - | - | - | - |
| Pre-tax profit | 5,897 | 6,450 | 6,961 | 7,970 | 9,200 |
| 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 |
| Net profit | 3,924 | 4,325 | 4,690 | 5,463 | 6,411 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income | 3,924 | 4,325 | 4,690 | 5,463 | 6,411 |
| 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 |
| Operating CF | 14,255 | 12,515 | 7,384 | 9,160 | 13,992 |
| Capex | (7,248) | (9,799) | (17,28) | (17,50) | (10,75) |
| Associates inv. | (78) | 221 | (43) | (44) | (44) |
| Other | (1,308) | (1,196) | (61) | (83) | (81) |
| Investment CF | (8,633) | (10,77) | (17,39) | (17,62) | (10,87) |
| 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 |
| Financing CF | (7,802) | (1,700) | 10,252 | 8,629 | (2,074) |
| Net change in cash | (2,179) | 41 | 244 | 161 | 1,040 |
| Cash at beginning | 5,071 | 2,861 | 2,908 | 3,152 | 3,313 |
| Exchange difference | (31) | 7 | - | - | - |
| Cash at the end | 2,861 | 2,908 | 3,152 | 3,313 | 4,353 |
| Pledged cash | 253 | 523 | 320 | 354 | 350 |
| Time deposit | - | - | - | - | - |
| Cash at balance sheet | 3,114 | 3,432 | 3,472 | 3,668 | 4,704 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 128,71 | 133,77 | 142,58 | 150,62 | 150,92 |
| 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 |
| Current assets | 17,786 | 23,029 | 27,479 | 31,450 | 34,381 |
| 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 |
| Current liabilities | 39,780 | 43,538 | 48,384 | 50,197 | 48,757 |
| 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 |
| Non-current liabilities | 50,158 | 52,610 | 57,050 | 62,575 | 61,774 |
| 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 |
| Minority Interest | 7,329 | 7,732 | 7,882 | 8,032 | 8,182 |
| Perpetual MTN | 4,991 | 4,991 | 4,991 | 4,991 | 4,991 |
| Shareholders' equity | 44,245 | 47,932 | 51,757 | 56,282 | 61,600 |
| Total Equity | 56,566 | 60,655 | 64,630 | 69,305 | 74,773 |

Key ratios

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| 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 | - | - | - |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Profit & loss ratios (%) | | | | | |
| 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 |
| Balance sheet ratios | | | | | |
| 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 |
| Returns (%) | | | | | |
| ROE | 8.9 | 9.0 | 9.1 | 9.7 | 10.4 |
| ROA | 2.7 | 2.8 | 2.8 | 3.0 | 3.5 |
| Per share | | | | | |
| 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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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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