

# Goldwind (2208 HK)

## Struggling at cycle bottom

Goldwind posted disappointed FY19 results, as net profit read only RMB2,109mn down 32.9% YoY. We think the Company was struggling in a booming wind installation market, which led to a mismatch between tightened material supply with increasing costs and squeezing ASP due to pricing competition. WTG GPM showed improvement in 2H19, raising FY19 GPM to 12.5% from an extreme low of 11.3% in 1H19, but WTG warranty provision rate had a substantial increase of 2.3ppt YoY. Mgmt. expects GPM to increase 2-3ppt on improving ASP in 2020. As per our calculation, however, WTG GPM need to rebound to at least 15.7% to drive earnings growth. **We cut FY20/21E EPS by 38.1/4.1%, and cut TP by 36% to HK\$7.70. Downgrade to HOLD.**

- Strong WTG shipment enhanced leading position.** WTG shipment reached 8,171MW, far better than our estimate, while GPM suffered another squeeze by 6.3ppt to 12.5%. Margin squeeze was mainly driven by 6.6% decline in ASP, and we estimate unit costs exhibited slight increase of 0.6%. According to mgmt., GWD sustained its leading market share of 28.0% in China, but strong sales didn't help the Company to earn more. Net profit was RMB2,109mn, down 32.9%, first time decline from 2012.
- Heads up for warranty provision.** We've observe a significant growth in selling and distribution expense in FY19, driven by substantial increase in warranty provision ratio. Mgmt. explained it was due to precaution treatment as GWD launched more new WTG models for both onshore and offshore market. As GWD will have WTG sales shift towards new 2.5/3.0s series and deliver more offshore turbine, we expect the provision rate to remain high and to cause earnings pressures (see Figure 2 for provision details).
- 15.7% WTG GPM a critical line.** We think WTG GPM at 15.7% is a critical line to cover major expenses, including 1) selling and distribution at 7.7%; 2) admin expenses at 6.5%; and 3) other expense at 1.5%. Mgmt. expects GPM to improve by 2-3ppt in 2020 as ASP pressure relieves from low price order. However, due to thrilling downstream demand and supply disruption caused by COVID-19, we remain cautious on WTG margin improvement. Other than that, we think GWD is also facing product delivery risks due to potential shutdown of global supply chain.
- Cycle bottom may last long in 2020/21.** By launching state of the art technologies and comprehensive customer services, we do think GWD is on track to a recovery, but is now facing challenge and dragged to a slower pace. **We cut FY20/21E EPS by 38.1/4.1%. Our TP is trimmed by 36% to HK\$7.70 based on 10.6x FY20 P/E. Downgrade to HOLD.**

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,590	37,878	47,688	45,040	45,995
Net income (RMB mn)	3,145	2,109	2,757	4,154	3,974
EPS (RMB)	0.88	0.51	0.65	0.98	0.94
YoY growth (%)	5.4	-42.1	27.4	50.7	-4
Consensus EPS(RMB)	N/A	N/A	0.94	1.08	1.29
P/E (x)	6.8	11.8	9.2	6.1	6.4
P/B (x)	0.9	0.8	0.8	0.7	0.7
Yield (%)	4.2	2.7	3.3	4.9	4.7
ROE (%)	12.6	7.1	8.4	11.5	10.2
Net gearing (%)	69.3	48.6	64.2	63.7	67.2

Source: Company data, Bloomberg, CMBIS estimates

**HOLD (Down)**

Target Price **HK\$7.70**  
 (Previous TP **HK\$12.06**)  
 Up/Downside **+14.9%**  
 Current Price **HK\$6.70**

### China Wind Sector

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### Stock Data

Mkt Cap (HK\$ mn)	41,100
Avg 3 mths t/o (HK\$ mn)	42.20
52w High/Low (HK\$)	10.93/5.55
Total Issued Shares (mn)	<b>774(H)</b> 3,451(A)

Source: Bloomberg

### Shareholding Structure

China Three Gorges	24.3%
Anbang Insurance Group	13.5%
Free float	<b>62.2%</b>

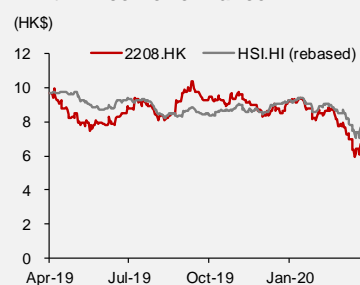
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-15.4%	-4.5%
3-mth	-27.8%	-11.5%
6-mth	-27.6%	-19.1%
12-mth	-35.0%	-17.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

- Goldwind (2208 HK) - WTG business bottomed out in 3Q19" – 29 Oct 2019
- "Goldwind (2208 HK) - GPM bottomed out; 2H19 rebound in sight" – 29 Aug 2019
- "Goldwind (2208 HK) - Strong 1Q19 WTG shipment with expected margin squeeze" – 29 Apr 2019

## Other highlights

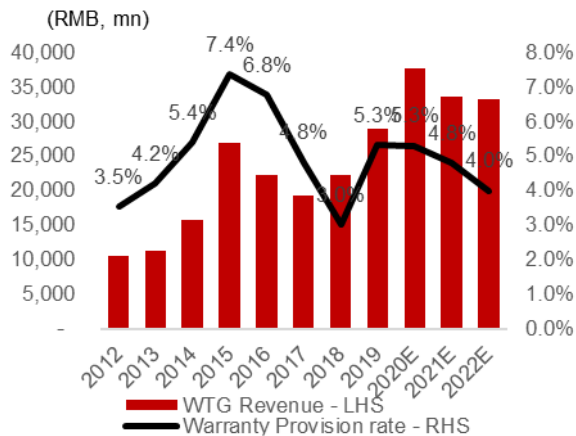
- **Shifting WTG orders towards larger scale.** According to GWD's order backlog, 2S/2.5S/3S product accounts for 94.2% for orders signed contract. For tender awarded had not signed contract yet, product mix shifts to 2.5S/3S/6S aggregate to account for 95.6%.
- **WTG Sales target and COVID-19 impacts.** Mgmt. originally expected to have WTG shipment in range of 12-14GW in 2020. The target is now subject to uncertainties as COVID-19 may have potential disruption to WTG supply chain. Mgmt. mentioned material for wind blade is highly relied on overseas supply, and GWD is following closely on the potential supply disruption.
- **ASP and costs change.** We calculated that WTG ASP had declined by 6.6%, while COGS stripping out DD&A increased by 0.63%. Overall WTG GPM was squeezed further by 6.3ppt YoY to 12.4%.
- **Wind power services also experienced margin decline.** Revenue from wind power service segment surged 116.8% YoY to RMB3,571mn. while GPM of the segment experienced substantial decline from 19.5% in FY18 to 6.3% in FY19. Mgmt. explained it was mainly due to change of revenue mix, as the Company provided more low margin EPC services during the year as results of wind farm installation rush.
- **Wind farm investments contributed steady growth.** Segment revenue increased 9.0% YoY with GPM staying stable at 62.2%. We think wind farm investment was the key earnings contributor in FY19. In view of WTG and construction cost hike during 2019, mgmt. was cautious in developing more new wind farm as perceiving increasing risks. For 2020, GWD plans to install 0.5-1.0GW wind farm, and maintain 500MW for project disposal.

Figure 1: FY19 results summary

(Rmb mn)	2018A	2019A	yoy change(%)	2019E	Diff(%)	CMBI Comments
<b>Revenue</b>	<b>28,590</b>	<b>37,878</b>	<b>32.5%</b>	<b>34,146</b>	<b>10.9%</b>	
WTG manufacturing	22,169	28,857	30.2%	25,856	11.6%	WTG ASP declined only 6.6% YoY, but shipment beat our est.
Wind power services	1,647	3,571	116.8%	2,518	41.8%	Surprisingly high EPC contribution;
Wind farm investment and developer	3,904	4,257	9.0%	4,554	-6.5%	
Others	870	1,193	37.0%	1,218	-2.1%	Water treatment business maintained rapid growth
<b>Cost of sales</b>	<b>-21,247</b>	<b>-30,915</b>	<b>45.5%</b>	<b>-26,927</b>	<b>14.8%</b>	
<b>Gross profit</b>	<b>7,344</b>	<b>6,964</b>	<b>-5.2%</b>	<b>7,219</b>	<b>-3.5%</b>	WTG and wind power service both had margin decline
<b>Gross profit margin</b>	<b>25.7%</b>	<b>18.4%</b>	<b>-7.3ppt</b>	<b>21.1%</b>	<b>-2.76ppt</b>	
Other income and gains	2,073	2,373	14.5%	2,119	12.0%	
Selling and distribution expenses	-1,897	-2,804	47.9%	-2,198	27.6%	Warrenty provision rate were increased;
Administrative expenses	-2,738	-2,637	-3.7%	-2,732	-3.5%	
Other expenses	-295	-611	107.1%	-307	99.0%	
Impairment losses	-	24				
Finance cost	-1,071	-1,109	3.5%	-1,094	1.4%	Financial costs remained in good control
Share of profit and losses of	266	361	35.6%	295	22.6%	
Joint ventures	203	348	71.6%	229	52.2%	
Associates	63	13	-79.9%	66	-80.5%	
<b>EBIT</b>	<b>4,487</b>	<b>3,309</b>	<b>-26.3%</b>	<b>4,101</b>	<b>-19.3%</b>	
<b>Profit before tax</b>	<b>3,682</b>	<b>2,561</b>	<b>-30.5%</b>	<b>3,301</b>	<b>-22.4%</b>	
Income tax expense	-400	-331	-17.1%	-380	-12.7%	
Effective tax rate	10.9%	12.9%	2.08ppt	11.5%	-1.71ppt	
<b>Profit for the year</b>	<b>3,283</b>	<b>2,230</b>	<b>-32.1%</b>	<b>2,922</b>	<b>-23.7%</b>	
Less:						
Non-controlling interests	66	20	-69.5%	100	-79.9%	
Perpetual MTN interest	71	101	41.4%	71	42.3%	
<b>Net income</b>	<b>3,145</b>	<b>2,109</b>	<b>-33.0%</b>	<b>2,751</b>	<b>-23.3%</b>	<b>Net profit was significantly miss</b>

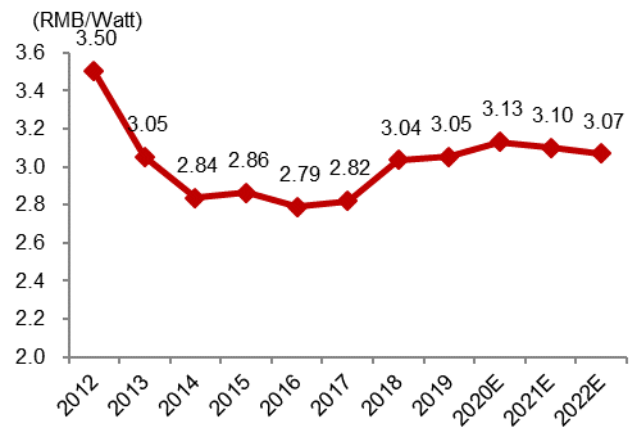
Source: Company data, CMBIS estimates

Figure 2: Warranty provision vs. WTG sales



Source: Company data, CMBIS estimates

Figure 3: Unit costs: (COGS – DD&amp;A) / WTG shipment



Source: Company data, CMBIS estimates

**Figure 4: Earnings revision**

	Old		New		est. change(%)	
	2020	2021	2020	2021	2020	2021
Wind turbine sales (MW)	8,791	7,747	10,135	8,890	15.3%	14.7%
Revenue (RMB mn)	41,894	39,861	47,688	45,040	13.8%	13.0%
Gross profit margin	24.2	26.9	19.5	23.0	-4.7ppt	-4.0ppt
Operating profit margin	15.0	19.7	7.2	12.4	-7.8ppt	-7.3ppt
Net Income (RMB mn)	4457	4331	2757	4154	-38.1%	-4.1%
Net profit margin	10.6	10.9	5.8	9.2	-4.9ppt	-1.6ppt
EPS (RMB)	1.05	1.02	0.65	0.98	-38.0%	-3.9%

Source: CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E	YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
<b>Revenue</b>	<b>28,590</b>	<b>37,878</b>	<b>47,688</b>	<b>45,040</b>	<b>45,995</b>	<b>EBIT</b>	<b>4,487</b>	<b>3,309</b>	<b>4,192</b>	<b>6,016</b>	<b>6,012</b>
WTG manufacturing	22,169	28,857	37,583	33,625	33,288	D&A	1,381	1,627	1,663	1,968	2,335
Wind power services	1,647	3,571	4,302	4,354	4,213	Change in working capital	2,667	(108)	2,742	2,481	1,160
Wind farm	3,904	4,257	4,288	5,243	6,400	Income tax paid	(348)	(393)	(342)	(462)	(678)
Others	870	1,193	1,514	1,818	2,094	Others	2,887	1,100	(4,500)	(5,228)	(2,650)
Cost of sales	(21,247)	(30,915)	(38,398)	(34,700)	(34,828)	<b>Net cash from operating</b>	<b>3,125</b>	<b>5,929</b>	<b>6,839</b>	<b>7,717</b>	<b>8,017</b>
<b>Gross profit</b>	<b>7,344</b>	<b>6,964</b>	<b>9,289</b>	<b>10,340</b>	<b>11,167</b>	Capex	(6,708)	(12,19)	(6,679)	(7,230)	(7,230)
Other income, net	2,073	2,373	2,401	2,406	1,355	Associated companies	(1,270)	(831)	203	(320)	(345)
Selling and distribution	(1,897)	(2,804)	(3,683)	(3,127)	(2,830)	Other	1,863	2,756	(3,700)	(954)	0
Admin expense	(2,738)	(2,637)	(3,100)	(2,928)	(2,990)	<b>Net cash from investing</b>	<b>(6,114)</b>	<b>(10,26)</b>	<b>(10,17)</b>	<b>(8,504)</b>	<b>(7,574)</b>
Other expenses	(295)	(587)	(715)	(676)	(690)	Equity raised	0	4,640	0	0	0
<b>EBIT</b>	<b>4,487</b>	<b>3,309</b>	<b>4,192</b>	<b>6,016</b>	<b>6,012</b>	Change of Debts	450	(593)	3,911	4,686	3,544
Finance costs, net	(1,071)	(1,109)	(1,166)	(1,378)	(1,580)	Dividend paid	(711)	(1,056)	(676)	(827)	(1,246)
JV & associates	266	361	320	345	371	Others	1,463	3,141	(2,085)	(333)	(2,307)
Exceptional	0	0	0	0	0	<b>Net cash from financing</b>	<b>1,201</b>	<b>6,131</b>	<b>1,149</b>	<b>3,526</b>	<b>(9)</b>
<b>Pre-tax profit</b>	<b>3,682</b>	<b>2,561</b>	<b>3,346</b>	<b>4,983</b>	<b>4,803</b>	<b>Net change in cash</b>	<b>(1,787)</b>	<b>1,793</b>	<b>(2,187)</b>	<b>2,739</b>	<b>434</b>
Income tax	(400)	(331)	(438)	(678)	(677)	Cash at the beginning	6,746	5,012	6,807	4,621	7,359
<b>Profit for the year</b>	<b>3,283</b>	<b>2,230</b>	<b>2,908</b>	<b>4,305</b>	<b>4,125</b>	Exchange difference	53	2	0	0	0
Minority interests	(67)	(20)	(50)	(50)	(50)	<b>Cash at the end of the year</b>	<b>5,012</b>	<b>6,807</b>	<b>4,621</b>	<b>7,359</b>	<b>7,794</b>
Perpetual MTN distribution	(71)	(101)	(101)	(101)	(101)	Pledged cash	38	427	128	140	149
<b>Net profit</b>	<b>3,145</b>	<b>2,109</b>	<b>2,757</b>	<b>4,154</b>	<b>3,974</b>	Non-pledged time deposit	16	13	0	0	1
						<b>Cash at balance sheet</b>	<b>5,066</b>	<b>7,248</b>	<b>4,748</b>	<b>7,499</b>	<b>7,943</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E	YE 31 Dec	2018A	2019A	2020E	2021E	2022E
<b>Non-current assets</b>	<b>48,447</b>	<b>53,443</b>	<b>64,083</b>	<b>69,821</b>	<b>75,238</b>	<b>Sales mix (%)</b>					
Fixed asset	25,509	29,010	41,185	46,498	51,445	WTG manufacturing	77.5	76.2	78.8	74.7	72.4
Prepayments & deposits	1,407	1,177	1,916	1,886	1,856	Wind power services	5.8	9.4	9.0	9.7	9.2
Prepaid lease payments	292	-	-	-	-	Wind farm	13.7	11.2	9.0	11.6	13.9
Interest in JVs & associates	3,660	4,491	4,288	4,608	4,953	Others	3.0	3.1	3.2	4.0	4.6
Other non-current assets	17,578	18,765	16,695	16,830	16,984	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Current assets</b>	<b>32,918</b>	<b>48,444</b>	<b>46,066</b>	<b>45,669</b>	<b>43,308</b>	<b>Profit &amp; loss ratios (%)</b>					
Inventory	4,997	8,124	7,503	7,705	6,557	Gross margin	25.7	18.4	19.5	23.0	24.3
Cash	5,066	7,248	4,748	7,499	7,943	Pre-tax margin	12.9	6.8	7.0	11.1	10.4
Account receivable	16,895	17,993	24,514	21,011	19,282	Net margin	11.0	5.6	5.8	9.2	8.6
Prepayments	4,526	6,214	4,470	4,400	4,330	Effective tax rate	10.9	12.9	13.1	13.6	14.1
Other current assets	1,434	8,865	4,831	5,055	5,197	<b>Balance sheet ratios</b>					
<b>Current liabilities</b>	<b>31,601</b>	<b>49,569</b>	<b>52,084</b>	<b>50,422</b>	<b>48,494</b>	Current ratio (x)	1.0	1.0	0.9	0.9	0.9
Trade and bills payable	20,000	25,428	30,029	29,395	28,162	Quick ratio (x)	0.9	0.8	0.9	0.8	0.9
Other payables	6,372	12,186	13,914	12,265	11,631	Cash ratio (x)	0.2	0.1	0.1	0.1	0.2
Borrowings	3,470	5,705	6,376	7,004	7,460	Inventory turnover days	58.0	63.2	59.8	61.6	56.6
Others	1,759	6,250	1,766	1,758	1,241	Debtors turnover days	216.7	168.1	162.7	184.5	159.9
<b>Non-current liabilities</b>	<b>23,288</b>	<b>21,264</b>	<b>24,937</b>	<b>28,626</b>	<b>30,896</b>	Creditor turnover days	302.8	268.2	263.6	312.5	301.6
Borrowings	18,865	16,036	19,276	23,334	26,421	Total debt / equity ratio (%)	84.4	67.5	74.7	80.4	83.6
Provision	1,983	2,186	2,033	1,699	924	Net debt / equity ratio (%)	69.3	48.6	64.2	63.7	67.2
Others non-current assets	2,441	3,041	3,628	3,593	3,550	<b>Returns (%)</b>					
<b>Minority Interest</b>	<b>1514</b>	<b>1549</b>	<b>1599</b>	<b>1649</b>	<b>1699</b>	ROE	12.6	6.9	8.4	11.5	10.2
<b>Perpetual MTN</b>	<b>1,993</b>	<b>1,993</b>	<b>1,993</b>	<b>1,993</b>	<b>1,993</b>	ROA	3.9	2.0	2.5	3.6	3.3
<b>Shareholder's equity</b>	<b>19,461</b>	<b>25,140</b>	<b>27,171</b>	<b>30,448</b>	<b>33,126</b>	<b>Per share</b>					
<b>Total equity</b>	<b>22,968</b>	<b>28,682</b>	<b>30,763</b>	<b>34,090</b>	<b>36,818</b>	EPS (RMB)	0.88	0.51	0.65	0.98	0.94
						DPS (RMB)	0.25	0.16	0.20	0.29	0.28
						BVPS (RMB)	7.02	7.26	7.75	8.54	9.19

Source: Company data, CMBIS estimates

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**NOT RATED** : Stock is not rated by CMBIS

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