

Goldwind (002202 CH)

WTG business bottomed out in 3Q19

GWD released 3Q19 results. Quarter earnings read only RMB406mn, down 54.3% YoY, while 9M19 earnings was RMB1,591mn, down 34.2% YoY. By 9M19, GWD's earnings was only 55.6%/52.8% to ours and consensus annual estimates, indicating a likely earnings miss in FY19E. However, market seems not explicitly concerning earnings miss but paying more attention to overall GPM improvement, from 17.9% in 2Q19 to 19.1% in 3Q19. We believe GWD demonstrated cost control capabilities with future improvement potential. We revised FY19-21E EPS outlook by -3.8/+15.5/0.5%, respectively. Maintain BUY with TP unchanged at HK\$12.06.

- **WTG shipment reached 5,245MW.** It was the first time GWD disclosed quarterly shipment results since 2014. Mgmt. took active measures to merge WTG product platforms from 6 types to 3 types through modular design. The Company suffered short-term pain for cost surge from component upgrade, but we expect GWD's product capabilities and improving cost curve will conquer the market for grid-parity demand in 2020/21E.
- **Order backlog refresh record again to 22.8GW.** Strong order backlog was in line with thrilling domestic demand with record-high tender of 49.9GW in 9M19, and installation rush drove recovery of WTG average bidding price. Mgmt. maintained prudent product delivery pricing outlook in 2020E, as GWD still intends to fulfil those low price orders won in 2017/18. For 2020E, GWD expected WTG shipment will have significant growth from 8-8.5GW in 2019E to 12GW in 2020E. We believe GWD's order backlog would be enough to cover some grid-parity and offshore demand in 2021E.
- **Expense control a highlight in 3Q19.** Selling & distribution, administrative and finance expenses exhibited significant decline as percentages to topline in 3Q19. Mgmt. set overall expenses (SD&A, finance and R&D expenses) ratio to decline 3ppt as a controlling target in FY19E, which we believe will boost long-term profitability.
- **Increasing contribution from overseas market.** Mgmt. expected overseas WTG to reach 1.2GW in FY19E and 2.0GW in 2020E. We believe increasing overseas sales will stabilize GWD's earnings performance, despite grid-parity impacts in China.
- **Maintain BUY on improving WTG outlook.** We trim GWD's FY19E earnings by 3.8% based on business update, raise FY20E earnings by 15.5% to reflect wind farms disposal gain and better costs control. Out FY21E estimates is largely unchanged. **We lower target FY20E PE multiple from 17.9x to 15.5x as we expect GWD's FY20E earnings will be boosted by higher wind farm disposal gain. Our TP is RMB16.28 unchanged. Maintain BUY rating.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	24,971	28,590	34,146	41,894	39,861
Net income (RMB mn)	2,984	3,145	2,751	4,457	4,331
EPS (RMB)	0.84	0.88	0.68	1.05	1.02
YoY growth (%)	0.6	5.4	-23.4	55.6	-2.8
P/E (x)	10.3	9.8	12.8	8.2	8.5
P/B (x)	1.4	1.2	1.2	1.1	1.0
Yield (%)	2.3	2.9	1.9	2.9	2.8
ROE (%)	13.2	12.6	9.3	12.9	11.4
Net gearing (%)	66.7	69.3	61.9	62.5	73.1

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB16.28
(Previous TP)	RMB16.28)
Up/Downside	+24.2%
Current Price	RMB13.11

China Wind Sector

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Stock Data

Mkt Cap (RMB mn)	57,652
Avg 3 mths t/o (RMB mn)	299.0
52w High/Low (RMB)	14.95/7.66
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%

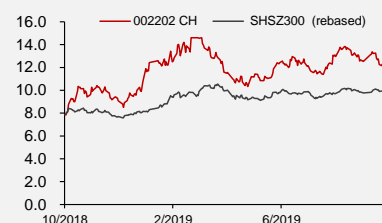
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.9%	-3.0%
3-mth	-0.1%	-1.1%
6-mth	7.2%	7.0%
12-mth	43.6%	17.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

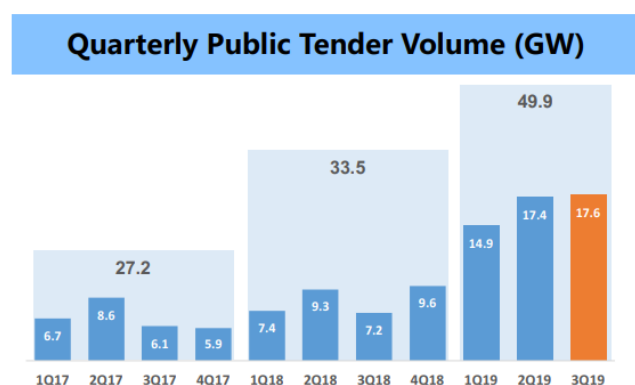
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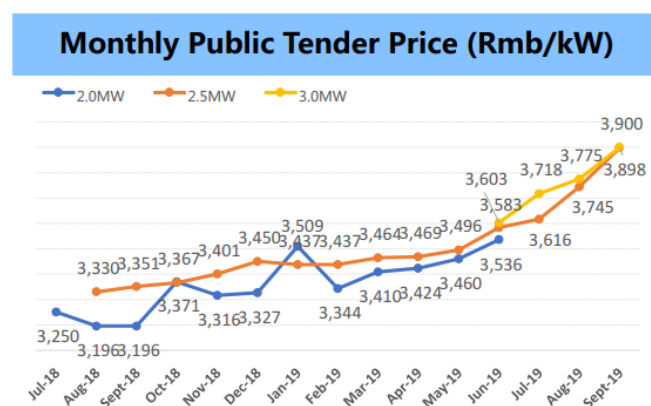
Figure 1: 3Q19 & 9M19 earnings summary

(RMB mn)	3Q18	9M18	3Q19	9M19	3Q19 YoY(%)	9M19 YoY(%)	Our comment
Total operating revenue	6786	17816	9002	24735	32.7%	38.8%	WTG sales was the key driving revenue growth
Total operating cost	(6368)	(15941)	(8536)	(23882)	34.0%	49.8%	
Operating cost	(4961)	(12552)	(7280)	(19722)	46.7%	57.1%	
Business tax and surcharge	(30)	(88)	(24)	(70)	-21.3%	-20.8%	
Selling and distribution expenses	(570)	(1075)	(497)	(1690)	-12.8%	57.2%	GWD strengthen expenses control in 3Q19
Administrative expenses	(420)	(950)	(355)	(1101)	-15.5%	15.9%	GWD strengthen expenses control in 3Q19
R&D expenses	(151)	(527)	(183)	(609)	20.9%	15.5%	
Finance expense	(236)	(749)	(197)	(690)	-16.3%	-7.8%	GWD strengthen expenses control in 3Q19
Overall GPM	26.9%	29.5%	19.1%	20.3%	-7.8ppt	-9.3ppt	Though overall declines, but QoQ GPM exhibited a recovery
Other gain	36	141	33	160	-7.3%	13.3%	
Investment income	518	869	24	990	-95.4%	13.9%	There was wind farm disposal in 3Q18, but nil in 3Q19
Gain or losses from changes in fair values	(12)	(145)	(18)	(149)	42.5%	2.2%	
Disposal gain or (loss)	19	36	(88)	(16)	-563.0%	-143.9%	
Operating profit	979	2776	416	1839	-57.5%	-33.8%	
Operating profit margin	14.4%	15.6%	4.6%	7.4%	-67.9%	-52.3%	
Non operating income	0.9	3.2	31.6	38.9	3401.8%	1121.3%	
Non operating expenses	(1)	(5)	(13)	(19)	2171.2%	255.6%	
Period profit	979	2774	435	1858	-55.6%	-33.0%	ASP and margin squeeze lead to profit decline
Income tax	-86.2	-275.6	-41.0	-252.1	-52.5%	-8.5%	
Less: Minority	4.0	78.9	12.3	15.6	208.2%	-80.3%	
Net income	889	2419	406	1591	-54.3%	-34.2%	

Source: Company data, CMBIS

Figure 2: 9M19 WTG tenders volume hit record high

Source: Company data

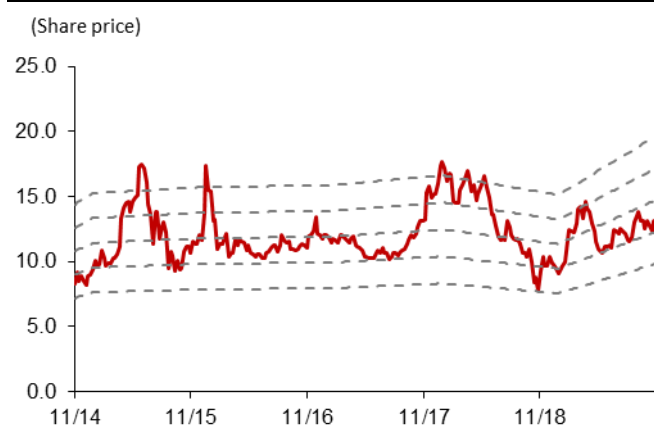
Figure 3: Average tender price exhibited significant recovery on thrilling installation rush demand

Source: Company data,

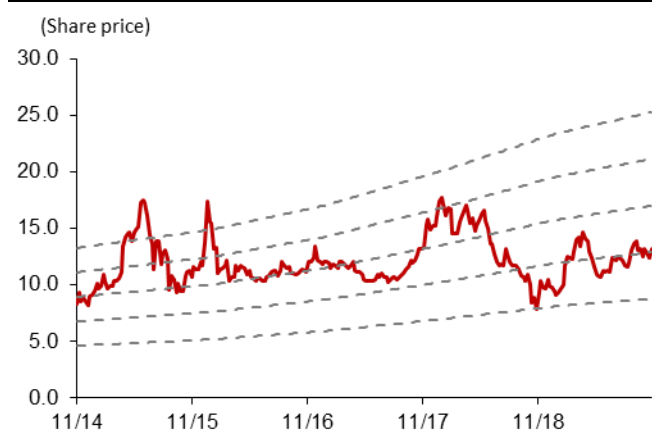
Figure 4: Earnings revision

	Old			New			est. change(%)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Wind turbine sales (MW)	7,430	8,174	7,350	7,430	8,791	7,747	0.0%	7.5%	5.4%
Revenue (RMB mn)	34,146	39,727	38,442	34,146	41,894	39,861	0.0%	5.5%	3.7%
Gross profit margin	21.1	24.6	27.3	21.1	24.2	26.9	0.0ppt	-0.4ppt	-0.4ppt
Operating profit margin	8.4	9.7	11.2	10.5	15.0	19.7	2.1ppt	5.3ppt	8.4ppt
Net Income (RMB mn)	2859	3860	4311	2751	4457	4331	-3.8%	15.5%	0.5%
Net profit margin	8.4	9.7	11.2	8.1	10.6	10.9	-0.3ppt	0.9ppt	-0.3ppt
EPS (RMB)	0.70	0.91	1.02	0.68	1.05	1.02	-3.8%	15.5%	0.5%

Source: CMBIS estimates

Figure 5: 12M forward P/E band

Source: Bloomberg, CMBIS

Figure 6: 12M forward P/B band

Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	24,971	28,590	34,146	41,894	39,861
WTG manufacturing	19,346	22,169	25,856	30,897	26,957
Wind power services	2,057	1,647	2,518	3,075	2,888
Wind farm	3,247	3,904	4,554	6,338	7,958
Others	321	870	1,218	1,584	2,059
Cost of sales	(17,505)	(21,247)	(26,927)	(31,756)	(29,125)
Gross profit	7,466	7,344	7,219	10,138	10,737
Other income, net	1,631	2,073	2,119	1,960	830
Selling and distribution	(2,101)	(1,897)	(2,198)	(2,626)	(2,291)
Admin expense	(2,520)	(2,738)	(2,732)	(2,933)	(2,790)
Other expenses	(377)	(295)	(307)	(377)	(359)
EBIT	4,098	4,487	4,101	6,162	6,127
Finance costs, net	(818)	(1,071)	(1,094)	(1,220)	(1,323)
JV & associates	210	266	295	317	341
Exceptional	0	0	0	0	0
Pre-tax profit	3,491	3,682	3,301	5,259	5,146
Income tax	(342)	(400)	(380)	(631)	(643)
Profit for the year	3,149	3,283	2,922	4,628	4,502
Minority interests	(94)	(67)	(100)	(100)	(100)
Perpetual MTN distribution	(71)	(71)	(71)	(71)	(71)
Net profit	2,984	3,145	2,751	4,457	4,331

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	4,098	4,487	4,101	6,162	6,127
D&A	1,133	1,381	1,592	2,092	2,538
Change in working capital	(1,562)	2,667	1,063	(772)	(3,561)
Income tax paid	(480)	(348)	(398)	(405)	(632)
Others	1,483	2,887	(2,299)	3,162	2,580
Net cash from operating	3,023	3,125	5,519	9,871	4,124
Capex	(4,843)	(6,708)	(8,056)	(8,056)	(5,729)
Associated companies	(1,083)	(1,270)	(266)	(295)	(317)
Other	(1,172)	(1,837)	(2,850)	(3,420)	(3,078)
Net cash from investing	(7,098)	(6,114)	(11,117)	(11,777)	(9,124)
Equity raised	0	0	4,744	0	0
Change of Debts	3,794	450	4,582	1,098	3,530
Dividend paid	(547)	(711)	(889)	(660)	(1,070)
Others	135	1,463	0	0	0
Net cash from financing	3,382	1,201	8,437	438	2,461
Net change in cash	(693)	(1,787)	2,784	(1,462)	(2,539)
Cash at the beginning	7,526	6,746	5,012	7,796	6,334
Exchange difference	(88)	53	0	0	0
Cash at the end of the year	6,746	5,012	7,796	6,334	3,795
Pledged cash	983	38	98	101	103
Non-pledged time deposit	10	16	0	0	0
Cash at balance sheet	7,740	5,066	7,894	6,435	3,898

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	39,707	48,447	56,084	62,826	66,631
Fixed asset	22,838	25,509	32,019	38,032	41,273
Prepayments & deposits	1,555	1,407	1,856	1,916	1,886
Prepaid lease payments	302	292	313	334	353
Interest in JVs & associates	2,391	3,660	3,927	4,221	4,539
Other non-current assets	12,620	17,578	17,969	18,323	18,580
Current assets	33,081	32,918	36,124	39,465	36,638
Inventory	4,083	4,997	4,988	5,559	6,334
Cash	7,740	5,066	7,894	6,435	3,898
Account receivable	17,048	16,895	17,556	21,553	20,494
Prepayments	2,650	4,526	4,330	4,470	4,400
Other current assets	1,560	1,434	1,357	1,448	1,513
Current liabilities	29,600	31,601	34,117	39,358	35,242
Trade and bills payable	15,257	20,000	21,874	26,139	22,805
Other payables	6,360	6,372	6,054	7,015	6,675
Borrowings	5,999	3,470	4,896	5,055	5,168
Others	1,985	1,759	1,293	1,149	594
Non-current liabilities	19,713	23,288	25,447	26,120	28,474
Borrowings	15,886	18,865	22,020	22,959	26,377
Provision	2,097	1,983	1,426	871	23
Others non-current assets	1,730	2,441	2,001	2,290	2,074
Minority Interest	788	1,514	1,614	1,714	1,814
Perpetual MTN	1,495	1,495	1,495	1,495	1,495
Shareholder's equity	18,908	20,457	26,287	29,984	33,146
Total equity	21,192	23,466	29,396	33,193	36,455

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
WTG manufacturing	77.5	77.5	75.7	73.8	67.6
Wind power services	8.2	5.8	7.4	7.3	7.2
Wind farm	13.0	13.7	13.3	15.1	20.0
Others	1.3	3.0	3.6	3.8	5.2
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	29.9	25.7	21.1	24.2	26.9
Pre-tax margin	14.0	12.9	9.7	12.6	12.9
Net margin	11.9	11.0	8.1	10.6	10.9
Effective tax rate	9.8	10.9	11.5	12.0	12.5
Balance sheet ratios					
Current ratio (x)	1.1	1.0	1.1	1.0	1.0
Quick ratio (x)	1.0	0.9	0.9	1.0	0.9
Cash ratio (x)	0.2	0.2	0.2	0.2	0.1
Inventory turnover days	53.2	58.0	53.4	45.9	54.4
Debtors turnover days	247.0	216.7	184.1	170.4	192.5
Creditor turnover days	309.9	302.8	283.8	275.9	306.7
Total debt / equity ratio (%)	93.2	84.4	82.8	77.0	79.3
Net debt / equity ratio (%)	66.7	69.3	61.9	62.5	73.1
Returns (%)					
ROE	13.2	12.6	8.9	12.8	11.4
ROA	4.1	3.9	3.0	4.4	4.2
Per share					
EPS (RMB)	0.84	0.88	0.68	1.05	1.02
DPS (RMB)	0.20	0.25	0.16	0.25	0.25
BVPS (RMB)	6.38	7.02	7.30	8.20	8.97

Source: Company data, CMBIS estimates

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