

China Longyuan (916 HK)

1H20 operating performance on track

CLY released 1H20 operating performance. Total power generation increased 2.4% YoY in 1H20, of which wind power generation delivered 6.2% YoY growth. We think overall operating performance was largely on track. For earnings performance, we estimate 1H20 net income to increase 7.3% YoY, and we expect earnings growth to accelerate in 2H20 on the back of 1) wind capacity addition, 2) stable operating performance, 3) improving coal costs, and 4) significant improved financial costs. **We raised CLY's TP by 16.5% to HK\$5.51 per share. Maintain BUY rating.**

- **1H20 operating performance on track.** Wind power generated 22.78TWh, up 6.2% YoY; coal-fired power generated 3.97TWh, down 13.4% YoY; other renewables generated 480GWh, down 29.4% YoY. We think CLY's wind power was on track with our FY20 growth projection of 8.2%, while coal-fired power and other renewables segments were lagging behind. We trim FY20 utilization hours of coal-fired power and other renewables by 100/400 hours to 4,700/1,600 hours to reflect 1H20 operating updates. Overall, we think CLY's 1H20 performance was largely on track.
- **Improving fundamentals from coal and financial costs.** We think cheap coal price in 1H20 helped compensate utilization hours decline in the coal-fired power segment, with unit fuel costs declined by ~10% in 1H20. Other than that, we also observed significant decline in finance costs. Recent new issue of ultra short-term debentures declined ~100bps in costs comparing to 4Q19, and CLY also adjusted 2017 green bond coupon rate down from 4.9% to 2.5%. We think CLY's overall costs of financing can be reduced by at least 50bps in FY20, and that will help boost earnings performance.
- **1H20 earnings to increase 7.3%.** We estimate 1H20 earnings to reach RMB3,312mn, up 7.3%, based on operating updates and assumptions revision (details in Figure 3). We expect earnings growth to accelerate in 2H20, as most of costs saving from financing will come effective in 2H20. We raise FY20-22E EPS by 5.1-9.1% mainly on improving financial costs structure, and our estimates are 5.8%/17.3%/26.1% higher than consensus.
- **Raise TP to HK\$5.51.** We believe market sentiment is shifting stronger on 1) privatization speculations, and 2) improving fundamentals, despite the fact that renewables subsidy issue showed no improvement. **Our revised DCF TP is raised by 16.5% to HK\$5.51. Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	26,388	27,541	28,531	31,668	34,545
YoY growth (%)	7.3	4.4	3.6	11.0	9.1
Net income (RMB mn)	3,924	4,325	4,931	5,960	6,994
EPS (RMB)	0.49	0.54	0.61	0.74	0.87
EPS CHG (%)	6.39	10.22	14.0	20.9	17.4
Consensus EPS(RMB)	N/A	N/A	0.58	0.63	0.69
P/E (x)	8.73	7.92	6.94	5.75	4.9
P/B (x)	0.8	0.71	0.66	0.60	0.55
Yield (%)	2.3	2.5	2.9	3.5	4.1
ROE (%)	8.9	9.0	9.5	10.5	11.1
Net gearing (%)	163	156	164	166	147

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.51
(Previous TP	HK\$4.73)
Up/Downside	+16.0%
Current Price	HK\$4.75

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	38,173
Avg 3 mths t/o (HK\$ mn)	66.81
52w High/Low (HK\$)	5.07/3.30
Total Issued Shares (mn)	8,036

Source: Bloomberg

Shareholding Structure – H share

Wellington Mgmt Group	13.0%
BlackRock Inc.	7.0%
Free float	80.0%

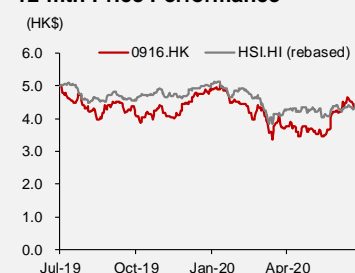
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.8%	7.0%
3-mth	25.7%	15.3%
6-mth	-2.0%	5.4%
12-mth	-5.6%	2.4%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

Related Reports

1. "China Longyuan (916 HK) –1Q20 results in line; facing policy uncertainties" – 27 Apr 2020
2. "China Longyuan (916 HK) –NDR takeaways - increasing odds for capital market action" – 9 Apr 2020

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Figure 1: 1H20 operating performance summary**Power Generation Distribution**

	1Q19	2Q19	1H19	FY19	1Q20	2Q20E	1H20E	FY20E	1H YoY
Total power generation (GWh)	13,558	12,732	26,291	50,736	13,693	13,233	26,925	53,363	2.4%
Run Rate %	26.7%	25.1%	51.8%	100.0%	25.7%	24.8%	50.5%	100.0%	n/a
Wind power generation (GWh)	10,856	10,590	21,445	40,732	11,662	11,111	22,772	44,070	6.2%
Run Rate %	26.7%	26.0%	52.6%	100.0%	26.5%	25.2%	51.7%	100.0%	n/a
Coal-fired power (GWh)	2,566	2,014	4,580	9,531	1,950	2,015	3,965	8,813	-13.4%
Run Rate %	26.9%	21.1%	48.1%	100.0%	22.1%	22.9%	45.0%	100.0%	n/a
Other power (GWh)	136	129	266	473	81	107	188	480	-29.4%
Run Rate %	28.8%	27.3%	56.1%	100.0%	16.8%	22.3%	39.1%	100.0%	n/a

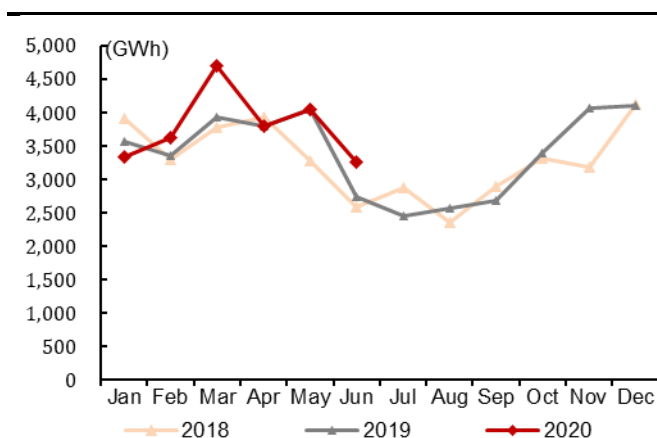
Source: Company data, CMBIS estimates

Figure 2: 1H20 results estimates

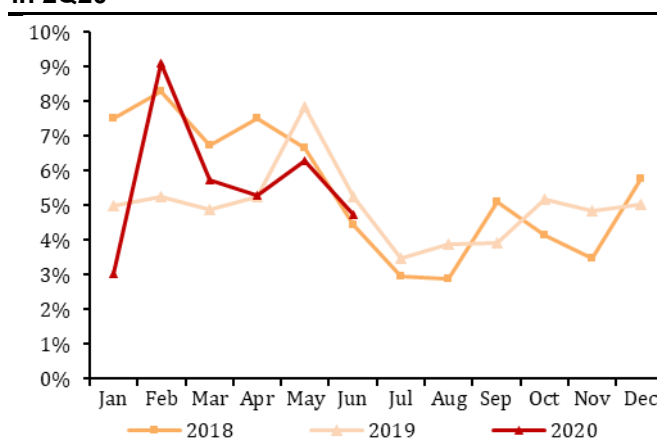
(Rmb, mn)	1Q19	2Q19	1H19	FY19	1Q20	2Q20E	1H20E	FY20E	1H20E YoY
Revenue	7,092	6,946	14,038	27,541	7,184	6,953	14,137	28,531	0.7%
Wind	4,938	4,977	9,915	18,981	5,530	5,045	10,575	20,535	6.7%
Coal power	1,916	1,837	3,753	7,784	1,582	1,736	3,318	7,373	-11.6%
Others	236	119	354	657	72	172	244	624	-31.1%
Concession	2	14	16	118	0	0	0	0	-100.0%
Other net income	226	229	456	843	203	239	442	884	-2.9%
Operating expenses	(4,237)	(4,140)	(8,377)	(18,438)	(3,989)	(4,332)	(8,322)	(18,913)	-0.7%
Operating profit	3,081	3,035	6,116	9,946	3,081	3,177	6,258	10,503	2.3%
Operating profit margin	43.4%	43.7%	43.6%	36.1%	43.4%	45.7%	44.3%	36.8%	0.7 ppt
Net finance expenses	(731)	(1,042)	(1,773)	(3,486)	(774)	(888)	(1,662)	(3,291)	-6.3%
Share profit	82	(41)	41	(10)	15	7	22	43	-47.4%
Profit before tax	2,432	1,952	4,384	6,450	2,638	1,979	4,617	7,255	5.3%
Income tax	(343)	(410)	(753)	(1,131)	(427)	(335)	(762)	(1,314)	1.3%
Effective tax rate	14.1%	21.0%	17.2%	17.5%	16.2%	16.9%	16.5%	18.1%	-0.7 ppt
Profit for the period	2,089	1,542	3,632	5,320	2,211	1,644	3,855	5,941	6.2%
Less: Minority interest	213	210	424	753	221	202	422	768	-0.3%
Perpetual interest distribution*	61	61	121	242	61	61	121	242	0.0%
Net profit*	1,815	1,272	3,087	4,325	1,930	1,382	3,312	4,931	7.3%

Source: Company data, CMBIS estimates

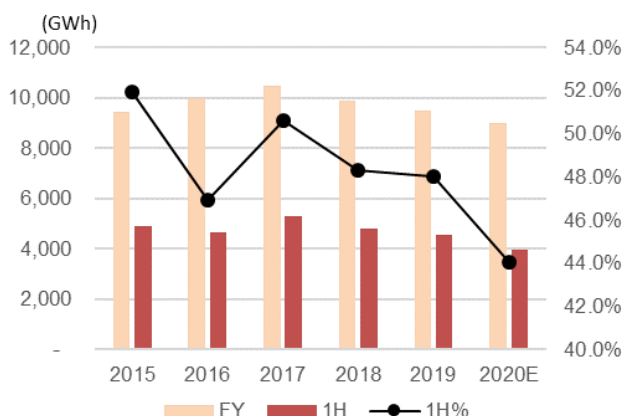
Note: Perpetual interest distribution and net profit is estimated by CMBIS

Figure 3: Monthly wind power generation

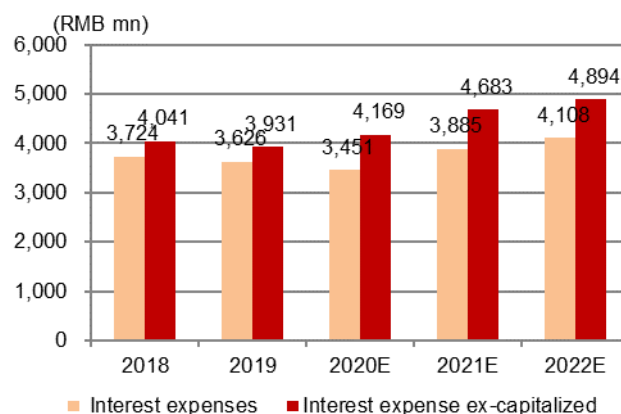
Source: Company data, CMBIS

Figure 4: Curtailment rate shot up in Feb due to COVID-19 outbreak, and resumed improving trend in 2Q20

Source: Company data, CMBIS

Figure 5: Coal-fired power performance was lagging behind our previous estimates


Source: Company data, CMBIS

Figure 6: We expect financial cost to have significant improvement in FY20


Source: Company data, CMBIS estimates

Figure 7: Earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Revenue (RMB mn)	28,684	31,668	34,545	28,531	31,668	34,545	-0.5%	0.0%	0.0%
Net Income (RMB mn)	4,690	5,463	6,411	4,931	5,960	6,994	5.1%	9.1%	9.1%
EPS (RMB)	0.584	0.680	0.80	0.614	0.742	0.87	5.1%	9.1%	9.1%
est. difference									
Consensus earnings (RMB mn)				4,741	5,252	5,758	4.0%	13.5%	21.5%
Consensus EPS (RMB mn)				0.580	0.632	0.690	5.8%	17.3%	26.1%

Source: Company data, CMBIS estimates

Figure 8: Our DCF valuation suggest TP of HK\$5.51 per share

DCF Valuation (RMB, mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turnover	31,668	34,545	36,583	34,269	33,610	32,946	32,280	31,613	30,947	30,285
Turnover growth (%)	11%	9%	6%	-6%	-2%	-2%	-2%	-2%	-2%	-2%
EBIT	12,249	13,792	14,913	14,455	13,818	13,191	12,577	11,976	11,389	10,816
EBIT margin	39%	40%	41%	42%	41%	40%	39%	38%	37%	36%
Tax rate (%)	18%	19%	19%	20%	20%	21%	21%	22%	22%	23%
Depreciation	9,072	9,966	10,594	10,800	11,002	11,199	11,390	11,577	11,759	11,936
CAPEX	(18,289)	(11,146)	(11,014)	(10,805)	(10,600)	(10,400)	(10,203)	(10,010)	(9,821)	(9,637)
Change in working capital	(5,867)	(2,903)	(729)	(871)	(329)	(332)	(333)	(334)	(333)	(331)
Free cash flow	6,632	12,884	12,326	12,442	11,728	11,563	11,404	11,251	11,106	10,968

Years	1	2	3	4	5	6	7	8	9	10
Discount factor	0.92	0.84	0.77	0.71	0.65	0.60	0.55	0.50	0.46	0.42
Discount free cash flow	6,083	10,836	9,508	8,802	7,609	6,881	6,223	5,631	5,098	4,617
Terminal value	158,966									
Terminal perpetual growth	2%									
Terminal EV/EBITDA	6.99									

Valuations (RMB mn)		WACC Calculations	
Terminal value	158,966	Cost of debt	4.8%
Terminal perpetual growth	2.0%	Tax rate	20.0%
Terminal EV/EBITDA	6.99	After tax cost of debt	3.8%
Total discount FCF	71,288	Cost of equity	16.8%
Discount terminal value	66,918	Adjusted beta	1.00
Firm value	138,206	Market risk premium	15.0%
Discount FCF(% of total)	51.6%	Risk free rate	1.8%
Terminal value (% of total)	48.4%	% of debt financing	60.0%
Add: Cash & cash equivalent	3,419	WACC	9.0%
Less: Debt	88,906		
Non-controlling interest	7,882		
Perpetual MTN note	4,991		
Equity Value - RMB	39,846		
Share fair value (RMB)	4.96		
Exchange rate (HKD/RMB)	0.90		
Share fair value (HKD)	5.51		

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	26,388	27,541	28,531	31,668	34,545
Wind	18,410	18,981	20,535	23,316	26,083
Coal-fired	7,314	7,784	7,373	7,665	7,775
Others	650	657	624	688	688
Concession revenue	14	118	-	-	-
Cost of sales	(13,927)	(14,488)	(14,723)	(15,817)	(16,903)
Gross profit	12,461	13,053	13,808	15,851	17,643
Other income, net	917	843	884	998	1,071
Admin expense	(588)	(564)	(585)	(649)	(708)
Personnel costs	(2,075)	(2,352)	(2,606)	(2,843)	(3,004)
Other expenses	(1,473)	(1,034)	(999)	(1,108)	(1,209)
EBIT	9,242	9,946	10,503	12,249	13,792
Finance costs, net	(3,513)	(3,486)	(3,291)	(3,713)	(3,915)
Associates & JVs	167	(10)	43	44	44
Exceptional	-	-	-	-	-
Pre-tax profit	5,897	6,450	7,255	8,580	9,921
Income tax	(976)	(1,131)	(1,314)	(1,587)	(1,894)
Less:					
Minority interests	755	753	768	791	791
Perp. MTN	242	242	242	242	242
Net profit	3,924	4,325	4,931	5,960	6,994

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	3,924	4,325	4,931	5,960	6,994
DD&A	7,316	7,786	8,421	9,251	10,163
WC change	(2,405)	(1,865)	(6,042)	(5,867)	(2,903)
Others	5,420	2,270	341	53	83
Operating CF	14,255	12,515	7,652	9,398	14,337
Capex	(7,248)	(9,799)	(17,289)	(17,500)	(10,753)
Associates inv.	(78)	221	(43)	(44)	(44)
Other	(1,308)	(1,196)	(61)	(83)	(81)
Investment CF	(8,633)	(10,774)	(17,393)	(17,627)	(10,878)
Equity raised	-	-	-	-	-
Change of Debts	(2,459)	3,286	10,967	9,417	(1,132)
Dividend paid	(738)	(785)	(865)	(986)	(1,192)
Others	(4,605)	(4,202)	150	150	150
Financing CF	(7,802)	(1,700)	10,252	8,580	(2,174)
Net change in cash	(2,179)	41	511	351	1,285
Cash at beginning	5,071	2,861	2,908	3,419	3,771
Exchange difference	(31)	(7)	-	-	-
Cash at the end	2,861	2,908	3,419	3,771	5,056
Pledged cash	253	523	320	354	350
Time deposit	-	-	-	-	-
Cash at balance sheet	3,114	3,432	3,739	4,125	5,407

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	128,718	133,773	142,665	150,858	151,391
Fixed asset	110,001	114,607	123,604	132,149	133,044
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	27,641	31,908	35,087
Cash	3,114	3,432	3,739	4,125	5,407
Account receivable	10,542	16,365	19,991	23,767	25,577
Prepayments	2,819	1,963	2,495	2,567	2,648
Others	1,312	1,269	1,415	1,450	1,455
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	51,998	56,971	62,774
Total Equity	56,566	60,655	64,871	69,995	75,947

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Wind	69.8	68.9	72.0	73.6	75.5
Coal-fired	27.7	28.3	25.8	24.2	22.5
Others	2.5	2.4	2.2	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	36.8	38.7	39.9
Pre-tax margin	22.3	23.4	25.4	27.1	28.7
Net margin	14.9	15.7	17.3	18.8	20.2
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	0.64	0.72
Quick ratio (x)	0.43	0.51	0.55	0.62	0.70
Cash ratio (x)	0.07	0.07	0.07	0.08	0.10
Inventory turnover days	12.5	11.1	11.4	11.3	10.6
Debtors turnover days	122.4	178.3	232.6	252.2	260.7
Creditor turnover days	51.8	68.9	67.7	47.3	44.2
Total debt / equity ratio (%)	169.5	162.4	171.0	172.7	155.1
Net debt / equity ratio (%)	163.0	156.3	164.4	166.1	147.0
Returns (%)					
ROE	8.9	9.0	9.5	10.5	11.1
ROA	2.7	2.8	2.9	3.3	3.8
Per share					
EPS (RMB)	0.49	0.54	0.61	0.74	0.87
DPS (RMB)	0.10	0.11	0.12	0.15	0.17
BVPS (RMB)	5.51	5.96	6.47	7.09	7.81

Source: Company data, CMBIS estimates

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