

Suntien Green Energy (956 HK)

Heading towards further re-rating opportunities

We think Suntien's 2020E earnings performance would be somewhat lackluster due to impacts of COVID-19, but market had fully priced in. Looking ahead in 2021E, on the back of wind capacity addition and gas dollar margin to resume normal, we expect Suntien to resume earnings growth to 21.2%. The Company's valuation is significantly below peers'. As time moves towards 2022 Beijing Winter Olympics (4 Feb 2022), we expect market to pay more attention to Suntien for its largest wind operator position in Hebei. **We lift our SOTP TP by 30.4% to HK\$3.26, and we expect re-rating for Suntien-H is coming. Maintain BUY.**

- **2020E earnings to stay flat.** Suntien recorded wind power generation/gas sales volume increase of 11.9%/8.9% YoY in 2020. Both segments' performance was slightly below our estimates due to weaker-than-expected wind resources and COVID-19's impacts. We expect Suntien to have 2020E earnings of RMB1,396mn, up 3.9% YoY only, and we believe market had fully priced in operating and earnings performance in 2020E.
- **A good start in 2021E.** We think Suntien had a good start in 2021E, with wind power generation surged 86.3% YoY in Jan, and gas sales volume also maintained steady growth of 7% YoY in the month. On the back of wind farm capacity addition, we estimate wind power generation to increase 15.6% YoY in 2021E, while gas sales volume to resume double digit growth to 11.4% with gas dollar margin to recover with normalized LNG price. We expect 2021E earnings to increase by 21.2% YoY to RMB1,692mn.
- **A-share placement to attract market attention.** Suntien announced A-share placement proposal in Dec 2020. The Company intended to raise up to RMB5.1bn through a maximum placement of 1.15bn new shares, bringing a potential dilution up to 23.1%. The potential pricing for the placement will be the higher of 20% discount to 20-day closing average or Suntien's book value per share. With reference to Suntien-A's recent share price movement, we expect share dilution impact will be significantly lower than 23.1%, and we also believe the placement will boost Suntien-A's future trading liquidity and attract market attention for Suntien-H.
- **Catalyst on renewables concept for Winter Olympic Games.** Supported by China's low-carbon development strategy, China wind operators had experienced significant valuation re-rating from 4Q20. Trading at only 4.8x/0.55x forward PER/PBR, Suntien is obviously lagging behind. As the largest wind operator in Hebei, Suntien is running more than 3.8GW wind capacity in the province and acting as one of the most important renewables energy suppliers to the 2022 Beijing Winter Olympic Games. As time moves towards 2022 Beijing Winter Olympics, we expect market sentiment will be boosted and will trigger a re-rating for Suntien-H.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,975	11,943	12,234	14,153	16,365
Net income (RMB mn)	1,240	1,344	1,396	1,692	1,843
EPS (RMB)	0.33	0.36	0.37	0.44	0.48
YoY growth (%)	32.0	8.4	2.1	19.1	8.9
Consensus EPS (RMB)	N/A	N/A	0.365	0.403	0.445
P/E (x)	6.4	5.9	5.8	4.8	4.4
P/B (x)	0.8	0.7	0.6	0.55	0.50
Yield (%)	5.9	5.9	6.0	7.2	7.9
ROE (%)	12.4	11.4	10.3	11.3	11.4
Net gearing (%)	203	199	202	221	241

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$3.26**
 (Previous TP **HK\$2.50**)
 Up/Downside **+27.3%**
 Current Price **HK\$2.56**

China Wind Sector

Robin Xiao
 (852) 3900 0849
 robinxiao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	23,182
Avg 3 mths t/o (HK\$ mn)	40.58
52w High/Low (HK\$)	2.84/1.16
Issued shares – H (mn)	1,839
Issued shares – A (mn)	2,011

Source: Bloomberg

Shareholding Structure

HECIC	48.7%
Freefloat	51.3%

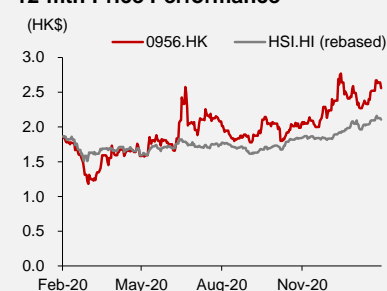
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.8%	-0.1%
3-mth	28.6%	12.2%
6-mth	23.1%	2.0%
12-mth	33.3%	20.1%

Source: Bloomberg

12-mth Price Performance

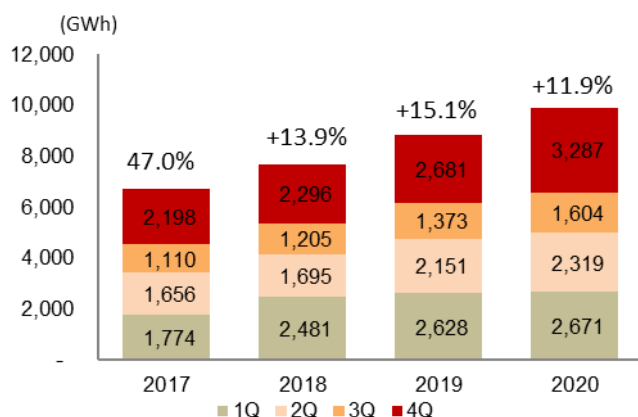


Source: Wind

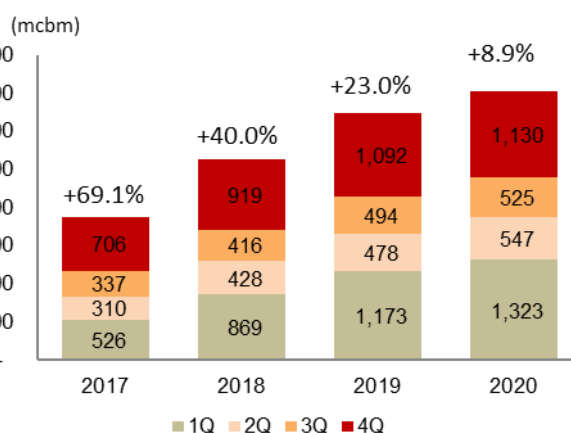
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Related Reports

1. "Suntien Green Energy (956 HK) – 3Q20 results miss; weak gas margin dragged earnings" – 3 Nov 2020
2. "Suntien Green Energy (956 HK) – 1H20 results beat; earnings to pick up in 2H" – 28 Aug 2020
3. "Suntien Green Energy (956 HK) – Stable operating performance in 1H20" – 30 Jul 2020

Figure 1: Suntien's wind power generation performance and YoY growth


Source: Company data, CMBIS

Figure 2: Suntien's gas sales volume and YoY growth


Source: Company data, CMBIS

Figure 3: Suntien recorded strong wind power generation performance in Jan 2021

	2020 Jan	2021 Jan	YoY
Wind power (GWh)	762	1,420	86.3%
Hebei	584	1,145	95.9%
Shanxi	32	62	98.0%
Xinjiang	5	9	57.8%
Yunnan	77	60	-22.1%
Shandong	5	8	72.7%
Inner Mongolia	26	68	164.2%
Guangxi	17	10	-38.0%
Jiangsu	13	19	49.5%
Henan	3	16	385.0%
Heilongjiang	-	21	n/a
Solar power (GWh)	11.5	11	-0.6%
Hebei	4.0	4	6.3%
Xinjiang	2.5	2	19.6%
Liaoning	1.2	1	-1.2%
Heilongjiang	3.8	4	-15.5%
Total power generation	773.40	1,431	85.0%
As% to annual generation	7.7%		
Natural gas (mcbm)	685	685	7.1%
Wholesale	501	501	4.7%
Retail	179	179	16.6%
CNG	5	5	-38.5%
LNG	0	0	428.8%

Source: Company data, CMBIS estimates

Figure 4: We made slight revision on earnings estimates

	Old			New			Change(%)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenue (RMB mn)	13,281	15,445	17,633	12,234	14,153	16,365	-7.9%	-8.4%	-7.2%
Net Income (RMB mn)	1,391	1,689	1,845	1,396	1,692	1,843	0.4%	0.2%	-0.1%
EPS (RMB)	0.37	0.44	0.48	0.37	0.44	0.48	0.4%	0.2%	-0.1%

Our est. vs. Consensus				Diff with consensus		
Consensus Earnings (RMB mn)	1,438	1,600	1,784	-2.9%	5.8%	3.3%
Consensus EPS (RMB)	0.37	0.40	0.45	1.1%	9.1%	7.6%

Source: CMBIS estimates

Figure 5: DCF valuation for wind power segment

DCF Valuation	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Grid Connected Capacity(MW)	6,116	6,616	7,079	7,574	8,105	8,672	9,279	9,928	10,623
Capacity growth	8.9%	8.2%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Additional capacity of that year(MW)	500	500	463	496	530	567	607	650	695
Turnover (Rmb mn)	5,840	6,344	6,720	7,118	7,540	7,988	8,461	8,963	9,494
Turnover growth	11.9%	8.6%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
EBIT (Rmb mn)	3,218	3,489	3,662	3,844	4,035	4,235	4,444	4,663	4,893
EBIT margin (%)	55.1%	55.0%	54.5%	54.0%	53.5%	53.0%	52.5%	52.0%	51.5%
Tax rate (%)	12.8%	13.3%	14%	15%	16%	16%	17%	18%	19%
Depreciation (Rmb mn)	1,874	2,034	2,478	2,625	2,781	2,946	3,120	3,306	3,502
CAPEX (Rmb mn)	-3,250	-3,250	-2,980	-3,157	-3,344	-3,542	-3,752	-3,975	-4,211
Change in working capital (Rmb mn)	-105	-272	-113	-40	-42	-45	-47	-50	-53
Free cash flow	1,326	1,538	2,535	2,706	2,804	2,905	3,009	3,116	3,225
Years	1	2	3	4	5	6	7	8	9
Discount factor	0.91	0.84	0.77	0.70	0.64	0.59	0.54	0.49	0.45
Discount free cash flow	1,213	1,287	1,941	1,895	1,797	1,703	1,614	1,529	1,448
Terminal value	52,666								
Terminal perpetual growth	3.00%								
Terminal EV/EBITDA	6.27								

Valuations (RMB mn)		WACC Calculations	
Terminal value	52,666	Cost of debt	4.80%
Terminal perpetual growth	3.0%	Tax rate	20%
Terminal EV/EBITDA	6.27	After tax cost of debt	3.8%
Total discount FCF	14,427	Adjusted beta	1.22
Discount terminal value	23,642	Market risk premium	14.76%
Segment value	38,069	Risk free rate	1.4%
Discount FCF(% of total)	38%	Cost of equity	19.5%
Terminal value (% of total)	62%	% of debt financing	65%
Share fair value (Rmb)	9.89	WACC	9.3%
Share fair value (HKD)	11.27		

Source: CMBIS estimates

Figure 6: Our SOTP valuation for wind and gas segment

SOTP Valuation summary	Measure by	
	The Company (RMB mn)	Per share (RMB)
Wind & Solar segment -DCF	38,069	9.89
Piped gas supply segment - PER	9,368	2.43
Total value	47,437	12.32
Less: Net debt	33,101	8.60
Minority Interest	3,173	0.82
Renewable corp bond	1,500	0.04
Equity Value of the firm	11,164	2.86
Per share value (HKD)		3.26

Source: CMBIS estimates

Note: Gas segment valuation based on RMB914mn FY21 earnings and 12x P/E multiple.

Figure 7: Suntien's valuation is lagging behind peers'

Company	Ticker	Market cap RMB, mn	Stock price Local currency	YTD	19	EPS 20E	21E	EPS-CAGR 19-21E	19	PER 20E	21E	19	PBR 20E	21E
HK listed Wind power operators														
CHINA LONGYUAN-H	916 HK	79,903	11.92	53.4	0.54	0.60	0.69	13.1%	17.97	16.57	14.43	1.56	1.45	1.32
CHINA DATANG C-H	1798 HK	10,739	1.77	45.1	0.11	0.16	0.18	25.3%	10.91	9.34	8.34	0.81	0.72	0.67
CHINA SUNTIEN-H	956 HK	19,310	2.56	7.6	0.36	0.37	0.40	5.8%	6.29	5.85	5.30	0.69	0.58	0.54
CGN NEW ENERGY H	1811 HK	7,981	2.23	82.8	0.03	0.03	0.03	7.6%	8.68	9.59	9.59	1.20	1.07	0.93
CONCORD NE	182 HK	4,187	0.60	27.7	0.07	0.08	0.09	12.3%	7.08	6.42	5.50	0.69	0.68	0.64
Average									10.19	9.55	8.63	0.99	0.90	0.82
A-Share listed Wind power operators														
CHINA SUNTIEN -A	600956 CH	19,310	7.65	-24.0	0.36	N/A	N/A	N/A	21.02	N/A	N/A	N/A	N/A	N/A
FUJIAN FUNENG -A	600483 CH	14,259	8.10	2.1	0.80	0.94	1.06	14.8%	12.48	8.62	7.68	1.30	1.25	1.14
NINGXIA JIAZE -A	601619 CH	6,762	3.26	-4.1	0.15	N/A	N/A	N/A	26.72	N/A	N/A	N/A	N/A	N/A
JIANGSU NEW EN-A	603693 CH	6,662	10.78	-16.3	0.41	N/A	N/A	N/A	16.18	N/A	N/A	N/A	N/A	N/A
CECEP WIND POW-A	601016 CH	17,195	3.43	0.0	0.14	0.12	0.16	6.5%	20.81	28.58	21.44	N/A	N/A	N/A
Average									19.44	18.60	14.56	1.30	1.25	1.14
Wind turbine manufacturer														
XINJIANG GOLD-H	2208 HK	65,455	17.14	10.0	0.51	0.77	0.91	33.5%	27.31	18.66	15.73	1.96	1.84	1.68
XINJIANG GOLD-A	002202 CH	65,455	15.76	10.6	0.51	0.78	0.94	36.1%	26.04	20.28	16.69	2.18	2.02	1.86
MING YANG SMAR-A	601615 CH	42,929	22.65	19.3	0.53	0.81	1.26	54.3%	27.56	27.83	17.95	5.90	3.21	2.68
Average									26.97	22.26	16.79	3.34	2.36	2.08
Wind farm material supplier														
SINOMA SCIENCE-A	002080 CH	41,282	24.60	1.7	0.82	1.24	1.43	31.8%	22.08	19.79	17.21	3.51	2.99	2.56
DAJIN HEAVY IN-A	002487 CH	4,279	7.70	-15.3	0.32	N/A	N/A	N/A	11.28	N/A	N/A	N/A	N/A	N/A
QINGDAO TIANNE-A	300569 CH	5,353	13.66	-14.6	0.70	1.10	1.33	37.4%	14.15	12.42	10.27	2.60	N/A	N/A
SHANGHAI TAISH-A	300129 CH	4,682	6.51	-14.3	0.21	0.41	0.50	53.0%	19.12	16.07	13.02	2.02	1.87	1.65
Average									16.68	16.10	13.51	2.71	2.43	2.11
Sector Average									17.43	15.41	12.59	2.04	1.61	1.43

Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	9,975	11,943	12,234	14,153	16,365
Wind & Solar	3,422	3,949	4,422	5,218	5,840
Natural Gas	6,551	7,981	7,806	8,931	10,519
Costs of sales	(7,116)	(8,638)	(8,813)	(10,078)	(11,710)
Other income & gains	100	171	156	164	170
Selling & distribution	(0)	(1)	(1)	(1)	(1)
Administrative expenses	(502)	(587)	(577)	(639)	(706)
Other expenses	(219)	(44)	(2)	26	(16)
Operating profit	2,239	2,845	2,997	3,626	4,102
Finance costs	(785)	(875)	(990)	(1,170)	(1,363)
Joint ventures & associates	290	215	213	263	287
Pre-tax profit	1,743	2,184	2,220	2,718	3,026
Income tax	(168)	(356)	(366)	(454)	(511)
Minority interests	(307)	(413)	(379)	(494)	(593)
Renewable green bond	(29)	(71)	(78)	(78)	(78)
Net profit	1,240	1,344	1,396	1,692	1,843

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,743	2,184	2,220	2,718	3,026
DD&A	1,308	1,540	1,718	2,055	2,531
Working cap change	(147)	(909)	(1,630)	1,805	(105)
Taxation	(217)	(325)	(358)	(444)	(501)
Others	474	1,240	10	0	-
Operating cash flow	3,156	3,732	1,961	6,134	4,950
Capex & investments	(5,568)	(6,041)	(8,779)	(11,087)	(10,423)
Others	1,601	(62)	115	-	-
Investment cash flow	(3,967)	(6,103)	(8,664)	(11,087)	(10,423)
Equity raised	-	-	563	-	-
Perpetual MTN raised	590	910	-	-	-
Change of Debts	2,673	3,037	7,443	5,504	6,513
Others	(939)	533	-	-	-
Financing cash flow	945	2,465	7,675	4,712	5,525
Net change in cash	135	93	973	(240)	51
Cash at beginning	2,110	2,240	2,332	3,305	3,064
Exchange difference	(4)	(2)	-	-	-
Cash at the end	2,240	2,332	3,305	3,064	3,116
Restricted cash	-	9	-	-	-
Cash at balance sheet	2,240	2,341	3,305	3,064	3,116

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	32,743	38,499	45,405	53,647	61,175
Fixed asset	26,584	28,252	35,236	44,097	51,796
Intangible assets	1,757	1,672	1,574	1,475	1,376
Associates & JVs	1,918	2,302	2,467	2,729	3,014
Prepayments	1,648	2,904	2,864	2,073	1,709
Others	837	377	262	260	259
Current assets	6,418	7,455	9,420	8,499	8,305
Cash	2,240	2,341	3,305	3,064	3,116
Receivables	3,296	3,966	4,132	2,610	2,845
Prepayments	812	1,083	1,909	2,749	2,265
Others	70	65	74	77	80
Current liabilities	8,602	10,532	11,518	13,044	13,766
Trade and bill payables	148	137	140	162	187
Other payables	3,655	4,870	4,312	4,677	4,031
Borrowings	4,644	5,316	6,837	7,956	9,279
Others	70	100	110	120	130
Non-current liabilities	18,162	20,673	26,549	30,950	36,113
Borrowings	16,683	19,093	24,240	28,209	32,898
Other payables	184	225	180	195	168
Others	25	46	46	46	46
Minority Interest	2,360	2,933	2,982	3,173	3,371
Renewable green bond	590	1,500	1,500	1,500	1,500
Shareholders' equity	9,446	10,316	12,276	13,479	14,730
Total Equity	12,397	14,750	16,758	18,152	19,601

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Wind & Solar	43.9	34.3	33.1	36.1	36.9
Natural Gas	56.1	65.7	66.8	63.8	63.1
Total	100	100	100	100	100
P&L ratios (%)					
Gross profit margin	32.7	28.7	0.28	28.0	0.29
Operating margin	25.0	22.4	23.8	24.5	25.6
Pre-tax margin	17.1	17.5	18.3	18.1	19.2
Net margin	13.3	12.4	11.3	11.4	12.0
Effective tax rate	8.2	9.6	16.3	16.5	16.7
Balance sheet ratios					
Current ratio (x)	0.58	0.75	0.71	0.82	0.65
Quick ratio (x)	0.58	0.74	0.70	0.81	0.65
Cash ratio (x)	0.22	0.26	0.22	0.29	0.24
Debtors turnover days	107.2	111.0	120.8	86.9	60.8
Total debt/equity ratio (%)	190.0	182.3	175.1	185.4	199.2
Net debt/equity ratio (%)	202.7	198.6	201.5	220.9	240.6
Returns (%)					
ROE	10.92	12.35	11.37	10.32	11.30
ROA	2.74	3.17	2.92	2.55	2.72
Per share					
EPS (RMB)	0.33	0.36	0.37	0.44	0.48
DPS (RMB)	0.13	0.13	0.13	0.15	0.17
BVPS (RMB)	2.70	3.18	3.58	3.89	4.22

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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