

Suntien Green Energy (956 HK)

A-share listing is top priority

Suntien's FY19 earnings increased 8.4% YoY, in line with our estimates. The Company didn't announce final dividend with FY19 results release. Mgmt. explained 1) it was a decision based on CSRC's requirements for A-share listing, and 2) the Company will distribute FY19 final dividend after A-share listing targeting in 3Q20 with ~40% payout ratio. We think market overreacted to the dividend delay (we estimated potential dividend yield of ~11%). Trading at only FY20E 3.2x/0.4x PER/PBR, we think Suntien is a conviction pick. **Reiterate BUY with TP trimmed to HK\$2.30 based on lower multiples for gas segment.**

- Net profit increased 8.4% YoY.** Revenue surged 19.7% YoY to RMB11,943mn, driven by 15.4%/21.8% YoY sales growth from wind and gas segment, respectively. Major expenses remained in good control, while other gains and other expense were significantly better than our estimates. Share profit from associates experienced decline by 25.8% due to Jing Tang LNG project contribution fall by ~RMB60mn. Net profit was RMB1,344mn, in line with our estimates, but 9.2% lower than consensus estimates.
- A-Share listing is top priority.** Management suspended dividend distribution as to comply with CSRC's listing rules. Mgmt. emphasized FY19 dividend will be delayed till A-share listing, and payout ratio will maintain with reference to past two years, implying ~40%. Suntien will submit FY19 audited earnings with other feedbacks to CSRC's comments shortly after FY19 results announcement. Mgmt. set 3Q20 a target timeline for A-share listing.
- Conservative FY20 guidance due to COVID-19.** Mgmt. expected 1) gas sales volume growth to slow from 23.0% in FY19 to 8-9% in FY20E due to virus outbreak, while 2) wind hours to remain relatively stable at range from 2,350 – 2,400 hours. With reference to history, we expect Suntien to perform better than guidance, and we estimate gas volume/power generation to increase by 11.1%/12.8% YoY in 2020. In a longer term period, we expect continues coal to gas conversion and new gas pipeline will boost gas sales and profit contribution.
- Conviction BUY at extremely low valuation.** We expect Suntien's will have resilient earnings performance in 2020, albeit economy of Hebei may suffer quite severe impacts from COVID-19. Trading at extremely low valuation at FY20E 0.4x PBR, we think the panic market had created perfect entry point. We believe Suntien's A-share listing and future dividend payout expectation will help restore the Company's valuation. **Our SOTP TP is trimmed to HK\$2.30 due to downward revision of gas segment multiple to 10x. Reiterate BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,975	11,943	13,130	15,124	17,326
Net income (RMB mn)	1,240	1,344	1,458	1,575	1,753
EPS (RMB)	0.33	0.36	0.39	0.42	0.47
YoY growth (%)	31.95	8.39	8.51	7.99	11.30
Consensus EPS (RMB)	N/A	0.39	0.44	0.47	N/A
P/E (x)	3.78	3.48	3.21	2.97	2.67
P/B (x)	0.47	0.40	0.35	0.33	0.30
Yield (%)	9.92	0.00	12.46	13.46	14.98
ROE (%)	12.35	11.37	10.99	11.04	11.39
Net gearing (%)	203	199	216	251	275

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$2.30
(Previous TP)	HK\$2.74)
Up/Downside	+64.3%
Current Price	HK\$1.78

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,201
Avg 3 mths t/o (HK\$ mn)	9.7
52w High/Low (HK\$)	2.56/1.36
Total Issued Shares (mn)	1,839

Source: Bloomberg

Shareholding Structure

HECIC	50.5%
GIC	5.4%
Freefloat	44.1%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-31.7%	-18.2%
3-mth	-37.8%	-24.0%
6-mth	-37.5%	-27.5%
12-mth	-44.2%	-28.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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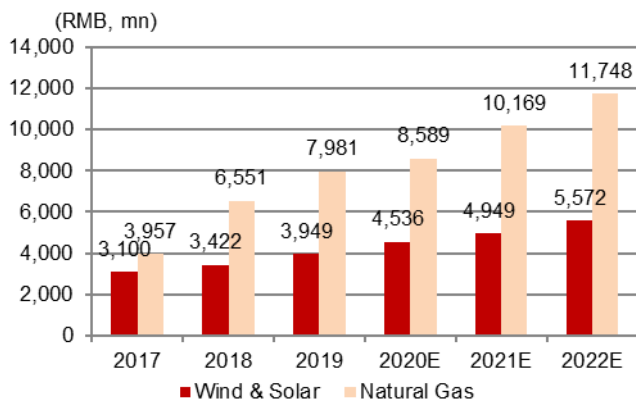
- "Suntien Green Energy (956 HK) – Limited virus impact; A-share listing on track I" – 10 Mar 2020
- "Suntien Green Energy (956 HK) – Investing in Tangshan LNG terminal" – 18 Nov 2019
- "Suntien Green Energy (956 HK) – 3Q19 operating performance on track" – 21 Oct 2019

Figure 1: FY19 earnings summary

(RMB, mn)	2018A			yoy Change		Est. diff		Our comments
		1H19	2H19	2019A	(%)	2019E	Actual vs. Ours (%)	
Revenue	9,975	6,361	5,583	11,943	19.7%	12,080	-1.1%	In line with our estimates
Wind & Solar	3,422	2,106	1,843	3,949	15.4%	3,974	-0.6%	
Natural Gas	6,551	4,254	3,727	7,981	21.8%	8,105	-1.5%	
Cost of sales	-7,116	-4,431	-4,206	-8,638	21.4%	-8,637	0.0%	
Gross profit	2,860	1,929	1,376	3,305	15.6%	3,443	-4.0%	GPM was lower than our est.
<i>Gross profit margin</i>	<i>28.7%</i>	<i>30.3%</i>	<i>24.7%</i>	<i>27.7%</i>	<i>-1ppt</i>	<i>28.5%</i>	<i>-0.8ppt</i>	
Other income and gains, net	100	53	118	171	70.4%	79	115.8%	
Selling and distribution expenses	-0	-0	-0	-1	19.0%	-1	-6.8%	
Administrative expenses	-502	-218	-369	-587	17.0%	-562	4.5%	
Other expenses	-219	4	-49	-44	-79.9%	-102	-56.6%	Gas receivables provision wrote back
Operating profit	2,239	1,769	1,076	2,845	27.1%	2,858	-0.5%	In line.
Financial costs	-785	-422	-453	-875	11.5%	-916	-4.4%	
Share profit from	290	111	104	215	-25.8%	300	-28.4%	Jing Tang LNG contribution declined by RMB60r
Joint ventures	-6	-6	-1	-7	22.5%	-5	41.4%	
Associates	296	116	106	222	-24.9%	305	-27.3%	
Profit before Tax	1,743	1,457	727	2,184	25.3%	2,243	-2.6%	
Income tax expense	-168	-246	-110	-356	112.1%	-314	13.5%	
<i>Effective tax rate</i>	<i>9.6%</i>	<i>16.9%</i>	<i>14.0%</i>	<i>14.0%</i>	<i>4.4ppt</i>	<i>14.0%</i>	<i>0ppt</i>	<i>Some wind project tax increased from 0% to 12.5</i>
Profit for the year	1,575	1,211	617	1,828	16.0%	1,929	-5.2%	
Less: Non-controlling interests	307	244	170	413	34.7%	485	-14.8%	
Renewable green bond	29	32	39	71	147.0%	70		
Net profit	1,240	936	408	1,344	8.4%	1,374	-2.2%	Net profit largely in line with est.
<i>Net profit margin</i>	<i>12.4%</i>	<i>14.7%</i>	<i>7.3%</i>	<i>11.3%</i>	<i>-1.2ppt</i>	<i>11.4%</i>	<i>-0.1ppt</i>	

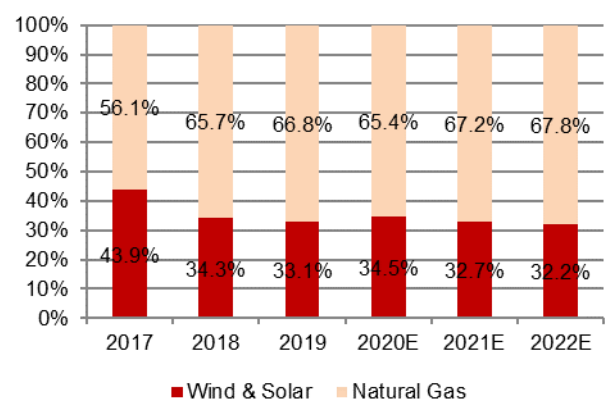
Source: Company data, CMBIS estimates

Figure 2: Suntien's wind power and gas sales revenue



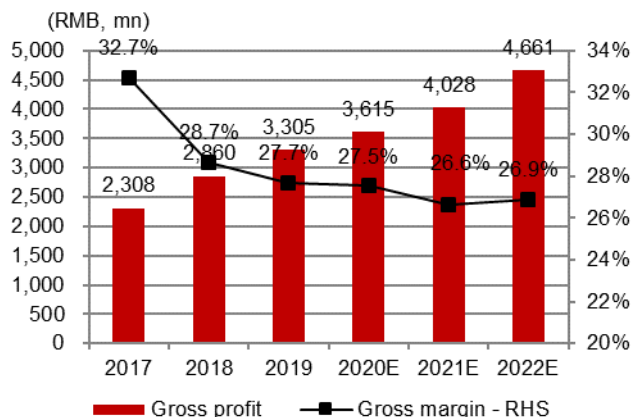
Source: Company data, CMBIS estimates

Figure 3: Power generation and gas sales revenue mix



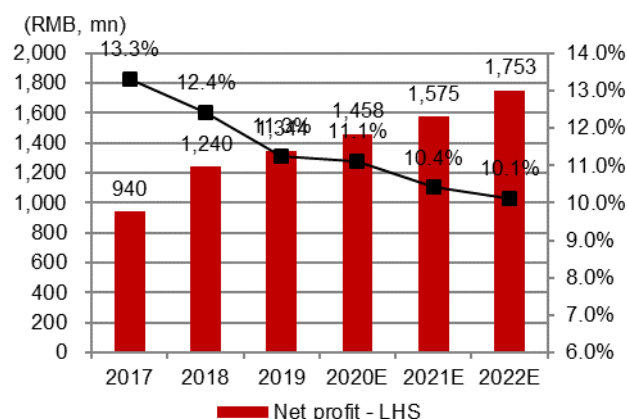
Source: Company data, CMBIS estimates

Figure 4: Gross profit vs. gross profit margin



Source: Company data, CMBIS estimates

Figure 5: Net profit vs. net margin



Source: Company data, CMBIS estimates

Figure 6: Earnings revision reflects resilience

	Old		New		Change(%)	
	2020	2021	2020	2021	2020	2021
Revenue (RMB mn)	13,551	16,151	13,130	15,124	-3.1%	-6.4%
Net Income (RMB mn)	1,470	1,618	1,458	1,575	-0.8%	-2.7%
EPS (RMB)	0.40	0.44	0.39	0.42	-0.8%	-2.7%

Our est. vs. Consensus			Diff	
Consensus Earnings (RMB mn)		1,629	1,766	-10.5% -10.8%
Consensus EPS (RMB mn)		0.438	0.471	-10.4% -10.0%

Source: Company data, CMBIS estimates

Figure 7: Our SOTP valuation for Suntien

SOTP Valuation summary	Measure by	
	The Company (RMB mn)	Per share (RMB)
Wind & Solar segment -DCF	31,505	8.48
Piped gas supply segment - PER	8,002	2.15
Total value	39,506	10.63
Less: Net debt	28,630	7.71
Minority Interest	3,021	0.81
Renewable corp bond	1,500	0.05
Equity Value of the firm	7,855	2.07
Per share value (HKD)		2.30

Source: CMBIS estimates

Figure 8: Our DCF valuation for wind segment

DCF Valuation	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Grid Connected Capacity(MW)	5,416	5,916	6,416	6,958	7,546	8,184	8,876	9,626	10,439	11,322
Capacity growth	10.2%	9.2%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Additional capacity of that year(MW)	500	500	500	542	588	638	692	750	814	882
Turnover (Rmb mn)	4,949	5,572	6,090	6,167	6,621	7,109	7,633	8,195	8,799	9,448
Turnover growth	9.1%	12.6%	9.3%	1.3%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
EBIT (Rmb mn)	2,634	3,047	3,359	3,385	3,618	3,866	4,131	4,414	4,716	5,039
EBIT margin (%)	53.2%	54.7%	55.2%	54.9%	54.6%	54.4%	54.1%	53.9%	53.6%	53.3%
Tax rate (%)	12.3%	12.8%	13.3%	14%	15%	16%	16%	17%	18%	19%
Depreciation (Rmb mn)	1,667	1,811	1,950	2,274	2,442	2,622	2,815	3,022	3,245	3,484
CAPEX (Rmb mn)	(3,250)	(3,250)	(3,250)	(3,489)	(3,747)	(4,023)	(4,319)	(4,637)	(4,979)	(5,346)
Change in working capital (Rmb mn)	(6)	(395)	(675)	(23)	(136)	(146)	(157)	(169)	(181)	(194)
Free cash flow	722	824	938	1,673	1,643	1,719	1,798	1,880	1,964	2,051
Years	1	2	3	4	5	6	7	8	9	10
Discount factor	0.93	0.86	0.80	0.74	0.69	0.64	0.60	0.55	0.52	0.48
Discount free cash flow	671	711	752	1,246	1,137	1,105	1,074	1,043	1,012	982
Terminal value	45,479									
Terminal perpetual growth	3.00%									
Terminal EV/EBITDA	5.34									

Valuations (RMB mn)		WACC Calculations	
Terminal value	45,479	Cost of debt	4.80%
Terminal perpetual growth	3.0%	Tax rate	20%
Terminal EV/EBITDA	5.34	After tax cost of debt	3.8%
Total discount FCF	9,732	Adjusted beta	1.05
Discount terminal value	21,773	Market risk premium	14.40%
Segment value	31,505	Risk free rate	1.4%
Discount FCF(% of total)	31%	Cost of equity	16.5%
Terminal value (% of total)	69%	% of debt financing	70%
Share fair value (Rmb)	8.48	WACC	7.6%
Share fair value (HKD)	9.42		

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	9,975	11,943	13,130	15,124	17,326
Wind & Solar	3,422	3,949	4,536	4,949	5,572
Natural Gas	6,551	7,981	8,589	10,169	11,748
Costs of sales	(7,116)	(8,638)	(9,515)	(11,096)	(12,665)
Other income & gains	100	171	130	136	142
Selling & distribution	(0)	(1)	(1)	(1)	(1)
Administrative expenses	(502)	(587)	(619)	(683)	(748)
Other expenses	(219)	(44)	(27)	(16)	(25)
Operating profit	2,239	2,845	3,097	3,464	4,029
Finance costs	(785)	(875)	(1,005)	(1,217)	(1,463)
Joint ventures & associates	290	215	249	338	360
Pre-tax profit	1,743	2,184	2,341	2,585	2,926
Income tax	(168)	(356)	(386)	(432)	(495)
Minority interests	(307)	(413)	(419)	(501)	(601)
Renewable green bond	(29)	(71)	(78)	(78)	(78)
Net profit	1,240	1,344	1,458	1,575	1,753

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,743	2,184	2,341	2,585	2,926
DD&A	1,308	1,540	1,718	2,045	2,509
Working cap change	(147)	(909)	(2,215)	(6)	(395)
Taxation	(217)	(325)	(378)	(422)	(485)
Others	91	(1)	1	-	-
Operating cash flow	2,778	2,489	1,468	4,202	4,555
Capex & investments	(5,568)	(6,041)	(8,589)	(10,887)	(10,496)
Others	(12)	-	115	-	-
Investment cash flow	(5,580)	(6,041)	(8,474)	(10,887)	(10,496)
Equity raised	-	396	-	-	-
Perpetual MTN raised	590	910	-	-	-
Change of Debts	2,673	3,037	7,193	7,354	7,438
Others	274	-	-	-	-
Financing cash flow	3,022	3,633	6,862	6,436	6,407
Net change in cash	220	81	(144)	(249)	466
Cash at beginning	2,110	2,240	2,341	2,197	1,948
Exchange difference	(89)	20	-	-	-
Cash at the end	2,240	2,341	2,197	1,948	2,414
Add: Acquired cash	-	-	-	-	-
Cash at balance sheet	2,240	2,341	2,197	1,948	2,414

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	32,743	35,507	42,202	50,247	57,860
Fixed asset	26,584	28,252	35,011	43,607	51,327
Intangible assets	1,757	1,672	1,574	1,475	1,376
Associates & JVs	1,918	2,302	2,503	2,840	3,198
Prepayments	1,648	2,904	2,852	2,065	1,700
Others	837	377	262	260	259
Current assets	6,418	7,455	8,632	9,769	10,289
Cash	2,240	2,341	2,197	1,948	2,414
Receivables	3,296	3,966	4,460	5,007	5,541
Prepayments	812	1,083	1,901	2,737	2,253
Others	70	65	74	77	80
Current liabilities	8,602	10,423	11,078	13,249	14,174
Trade and bill payables	148	137	150	173	198
Other payables	3,655	4,870	4,036	4,648	4,012
Borrowings	4,644	5,316	6,782	8,308	9,835
Others	70	100	110	120	130
Non-current liabilities	18,162	20,673	26,343	32,196	38,081
Borrowings	16,683	19,093	24,045	29,457	34,868
Other payables	184	225	168	194	167
Others	25	46	46	46	46
Minority Interest	2,360	2,933	3,021	3,187	3,388
Renewable green bond	590	1,500	1,500	1,500	1,500
Shareholders' equity	9,446	10,316	11,775	12,766	13,889
Total Equity	12,397	11,867	13,413	14,570	15,893

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Wind & Solar	43.9	34.3	33.1	34.5	32.7
Natural Gas	56.1	65.7	66.8	65.4	67.2
Total	100	100	100	100	100
P&L ratios (%)					
Gross profit margin	32.7	28.7	0.28	27.5	0.27
Operating margin	25.0	22.4	23.8	23.6	22.9
Pre-tax margin	17.1	17.5	18.3	17.8	17.1
Net margin	13.3	12.4	11.3	11.1	10.4
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	0.77	0.73
Quick ratio (x)	0.58	0.74	0.70	0.77	0.73
Cash ratio (x)	0.22	0.26	0.22	0.20	0.15
Debtors turnover days	107.	111.	117.	114.	111.
Total debt/equity ratio (%)	190.	182.	175.	189.	216.
Net debt/equity ratio (%)	202.	198.	215.	251.	274.
Returns (%)					
ROE	10.9	12.3	11.3	10.9	11.0
ROA	2.74	3.17	2.92	2.71	2.50
Per share					
EPS (RMB)	0.33	0.36	0.39	0.42	0.47
DPS (RMB)	0.13	-	0.16	0.17	0.19
BVPS (RMB)	2.70	3.18	3.57	3.84	4.14

Source: Company data, CMBIS estimates

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