

Huadian Fuxin (816 HK)

Decent FY19E results; but facing cloudy 2020

We raised HDFX's FY19E earnings slightly by 1.6% based on operating updates, and we expect FY19E earnings to surge 21.9% YoY, highest among HK listed wind operators. Due to disruption of COVID-19, we think HDFX's performance will have uncertainties in 2020. Based on current valuation at distress value, however, we still believe HDFX is undervalued. **Maintain BUY with TP unchanged at HK\$2.00.**

- **FY19E earnings to surge 21.9% YoY.** We revised HDFX's FY19E earnings up slightly by 1.6% to RMB2,431mn (perp int. excluded) based on updated operating figures including nuclear power generation. Key earnings growth were driven by strong hydro power rebound and coal-fired power turn around. We think HDFX will have the highest earnings growth among peers in FY19E.
- **Hydro power output surged 63.4% YoY.** Hydro power generation resumed normal in FY19E. Utilization rebounded from a multi-year low of 2,331 hours in 2018 to 3,775 in 2019, according to our calculation.
- **Coal-fired power earnings to rebound.** Coal-fired power output down 8.5% YoY in 2019 due to a squeeze by hydro power. We expect the segment to experience a rebound in earnings contribution, however, backed by coal cost reduction. We expect HDFX to have unit fuel cost to decline by 10% in FY19E, which would likely help improve segment performance.
- **Nuclear to suffer a drag from Sanmen Unit 2#.** Sanmen Unit 2# suffered unexpected pump outage. Maintenance work lasted for most of the year in 2019. As such, we expect HDFX's nuclear investment to suffer a drag from earnings contribution of RMB868mn in 2018 to RMB779mn in 2019, albeit Fuqing Nuclear refreshed record high power sales.
- **2020 Outlook with uncertainties.** HDFX recorded power output dived by 18.5% in Jan and increased 7.1% in Feb, on a YoY basis. 2M20 power output still declined 7.3% YoY. In 2020, we think HDFX's performance has high uncertainties as economic outlook is now in cloud.
- **Valuation at distress level.** Trading at FY19E only 0.44x PBR, we believe market is valuing HDFX at distress asset value. Though we think 2020 will be bumpy, we don't expect the Company will meet financial difficulties given its well diversified power generating portfolios. **Maintain BUY with TP unchanged at HK\$2.00.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	16,813	18,330	19,712	22,083	25,253
YoY growth (%)	5.63	9.02	7.54	12.03	14.36
Net income (RMB mn)	1,986	1,995	2,431	3,035	3,444
EPS (RMB)	0.24	0.24	0.29	0.36	0.41
YoY growth (%)	1.7	0.4	21.9	24.8	13.5
Consensus EPS (RMB)	N/A	N/A	0.28	0.34	0.39
P/E (x)	5.1	5.0	4.1	3.3	2.9
P/B (x)	0.5	0.5	0.44	0.39	0.36
Yield (%)	4.6	4.7	5.4	6.8	7.7
ROE (%)	10.2	9.5	10.6	11.9	12.2
Net gearing (%)	287.2	205.2	207.7	203.5	187.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$2.00
(Previous TP	HK\$2.00)
Up/Downside	+49.3%
Current Price	HK\$1.34

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	11,267
Avg 3 mths t/o (HK\$ mn)	9.6
52w High/Low (HK\$)	1,791.26
Total Issued Shares (mn)	2,570

Source: Bloomberg

Shareholding Structure

Huadian Group	62.8%
Free float	37.2%

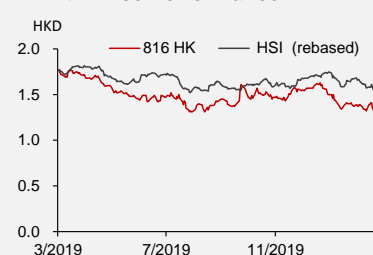
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	0.7%	16.6%
3-mth	-11.5%	1.9%
6-mth	-2.8%	10.6%
12-mth	-21.1%	-4.8%

Source: Bloomberg

12-mth Price Performance

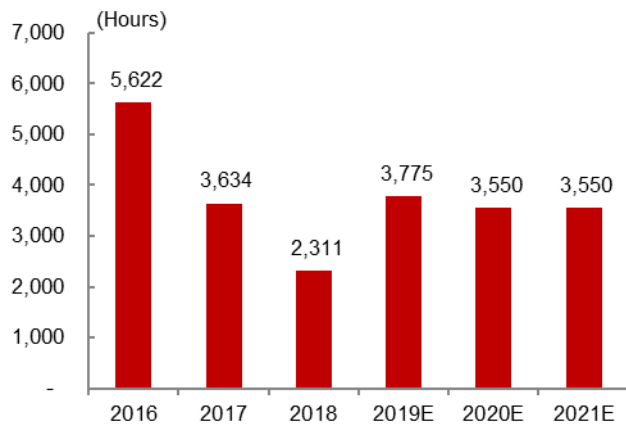


Source: Bloomberg

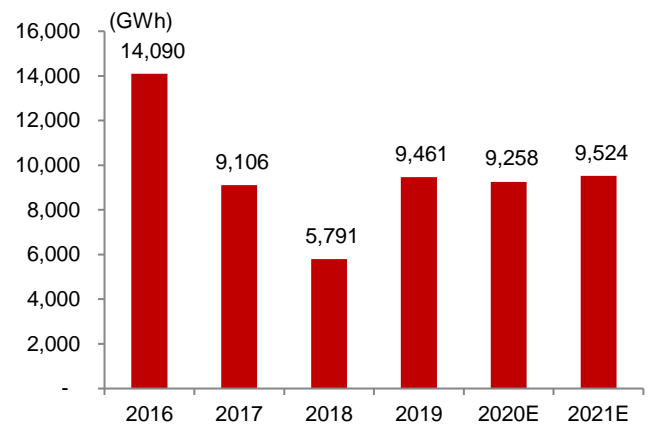
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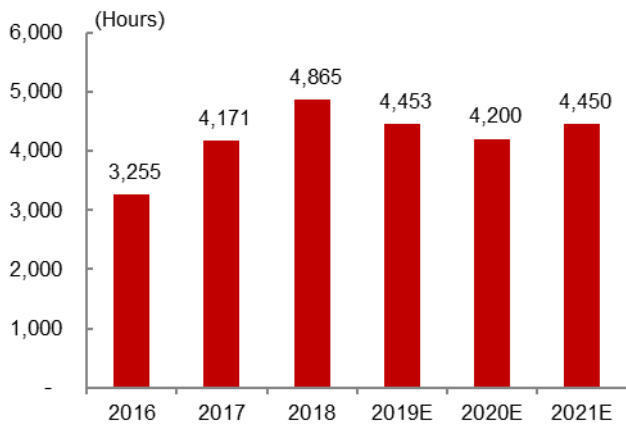
1. "Huadian Fuxin Energy (816 HK) - Hydro beat, but nuclear still missed" - 21 Oct 2019
2. "Huadian Fuxin Energy (816 HK) - Sluggish nuclear dragged 1H19 earnings" - 27 Aug 2019
3. "Huadian Fuxin Energy (816 HK) - High risk/reward with robust earnings growth" - 5 Aug 2019

Figure 1: Hydro utilization hours

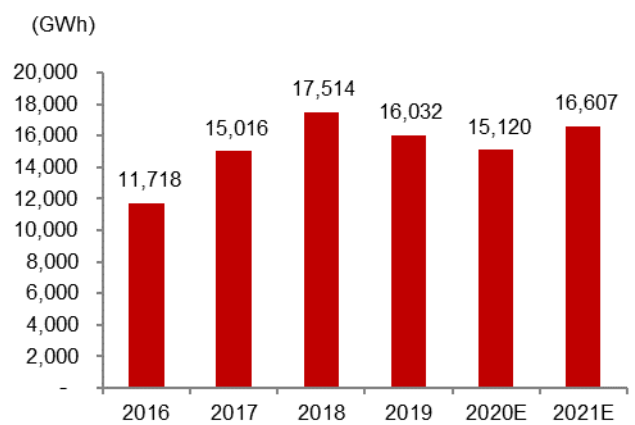
Source: Company data, CMBIS estimates

Figure 2: Hydro power generation

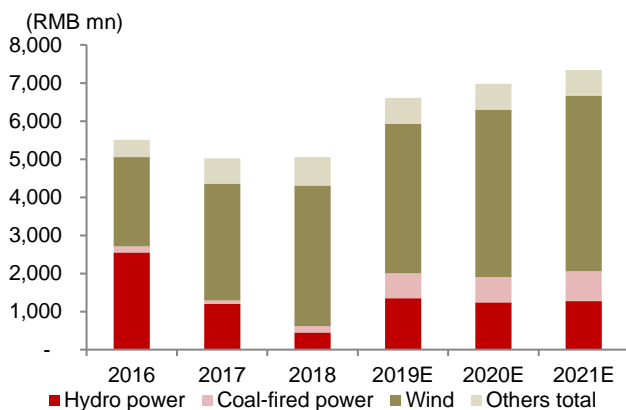
Source: Company data, CMBIS estimates

Figure 3: Coal-fired power utilization hour

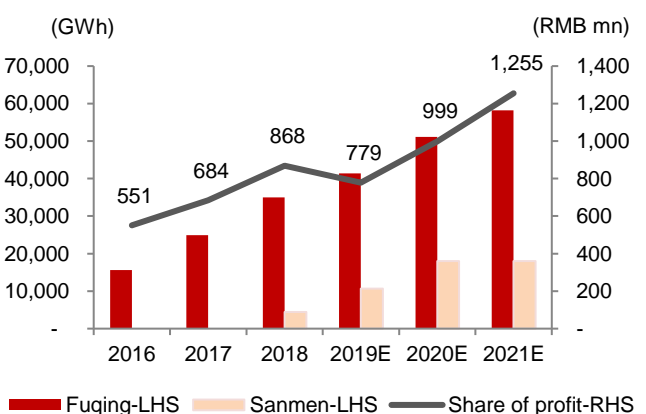
Source: Company data, CMBIS estimates

Figure 4: Coal-fired power generation

Source: Company data, CMBIS estimates

Figure 5: Segment operating profit contribution

Source: Company data, CMBIS estimates

Figure 6: Power generation and profit contribution from nuclear investments

Source: Company data, CMBIS estimates

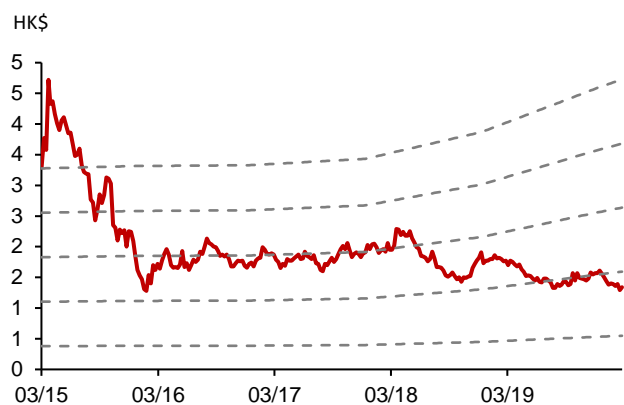
Figure 7: Earnings revision

	Old			New			est. change %		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Revenue (RMB mn)	19,850	23,101	26,627	19,712	22,083	25,253	-0.7%	-4.4%	-5.2%
Nuclear share profit (RMB mn)	693	999	1,255	779	999	1,255	12.4%	0.0%	0.0%
Net Income (RMB mn)	2,400	2,988	3,523	2,431	3,035	3,444	1.3%	1.6%	-2.3%
EPS (RMB)	0.29	0.36	0.42	0.29	0.36	0.41	1.3%	1.6%	-2.3%

Consensus est.				Our est. diff vs. consensus		
Net income				2,490	2,844	3,342
EPS(RMB)				0.28	0.34	0.39
				-2.3%	6.7%	3.1%
				1.8%	7.1%	6.1%

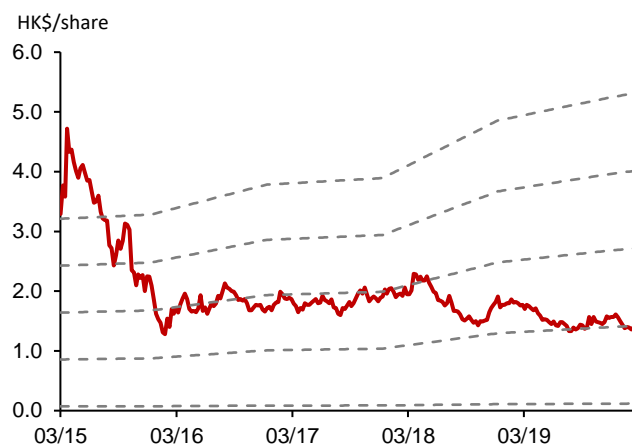
Source: CMBIS estimates

Figure 8: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 9: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	16,813	18,330	19,712	22,083	25,253
Hydro	2,518	1,693	2,659	2,602	2,677
Coal-fired	4,896	6,116	5,731	5,427	5,922
Wind	6,401	7,083	7,281	8,107	8,565
Others	2,997	3,437	4,041	5,946	8,089
Cost of sales	(9,435)	(10,975)	(10,720)	(12,463)	(14,972)
Gross profit	7,377	7,355	8,992	9,620	10,281
Other income, net	210	343	225	225	225
Admin expense	(512)	(422)	(518)	(580)	(662)
Personnel costs	(1,383)	(1,599)	(1,723)	(2,006)	(2,253)
Other expenses	(832)	(867)	(1,037)	(1,044)	(1,187)
EBIT	4,861	4,809	5,939	6,214	6,404
Finance costs, net	(2,800)	(2,991)	(2,786)	(3,000)	(3,179)
JVs & associates	742	940	761	1,136	1,432
Exceptional	-	-	-	-	-
Pre-tax profit	2,802	2,758	3,914	4,350	4,657
Income tax	(337)	(285)	(626)	(587)	(675)
Minority interests	(348)	(204)	(400)	(368)	(346)
Perpetual int distribution	(131)	(274)	(456)	(361)	(192)
Net profit	1,986	1,995	2,431	3,035	3,444

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net income	1,986	1,995	2,431	3,035	3,444
D&A	4,335	4,759	4,838	5,375	5,865
Change in working capital	(4,071)	(821)	928	(124)	822
Others	5,788	374	(1,311)	(204)	(91)
Cash flow from operation	8,038	6,306	6,887	8,082	10,041
Capex	(7,083)	(4,558)	(9,971)	(9,814)	(7,339)
Associated companies	(684)	(795)	(1,412)	(1,596)	(1,805)
Other	(1,583)	-	-	-	-
Cash flow from investment	(9,350)	(5,352)	(11,383)	(11,410)	(9,143)
Equity raised	1,833	5,104	-	-	-
Change of Debts	2,614	(4,132)	5,445	5,357	2,178
Dividend paid	(429)	(467)	(478)	(547)	(683)
Others	(3,499)	4	152	160	168
Cash flow from financing	520	508	5,120	4,970	1,663
Net change in cash	(792)	1,462	623	1,642	2,560
Cash at the beginning of the year	2,895	2,122	3,598	4,221	5,863
Exchange difference	18	14	-	-	-
Cash at the end of the year	2,122	3,598	4,221	5,863	8,423
Pledged cash	5	6	9	9	9
Cash at balance sheet	2,127	3,604	4,230	5,872	8,432

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	95,915	96,146	104,184	110,495	113,938
Fixed asset	81,191	80,930	86,068	90,513	91,995
Prepaid lease payments	1,428	1,428	1,545	1,660	1,770
Interest in joint ventures	8,190	8,985	10,396	11,992	13,797
Other non-current assets	5,107	4,805	6,174	6,330	6,376
Current assets	11,325	12,157	12,615	14,069	15,767
Cash	2,127	3,604	4,230	5,872	8,432
Account receivable	6,992	5,970	6,200	5,931	5,000
Prepayments	1,919	2,154	1,847	1,910	1,931
Other current assets	287	430	339	357	403
Current liabilities	25,366	19,345	24,056	24,870	25,287
Trade and other payable	1,081	1,104	1,281	1,435	1,641
Other payables	8,715	7,220	7,796	7,330	7,082
Borrowings	15,382	10,868	14,780	15,900	16,355
Others	188	153	198	204	209
Non-current liabilities	55,406	55,857	57,535	61,840	63,632
Borrowings	53,779	54,096	55,603	59,814	61,526
Obligation under financial lease	226	291	309	332	341
Others non-current assets	1,401	1,470	1,624	1,694	1,764
Minority Interest	3,043	3,047	3,199	3,359	3,527
Perpetual Instrument	3,988	8,970	8,970	8,970	8,970
Shareholders' equity	19,436	21,086	23,039	25,527	28,288
Total equity	26,467	33,102	35,208	37,856	40,785

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Hydro	15.0	9.2	13.5	11.8	10.6
Coal-fired	29.1	33.4	29.1	24.6	23.5
Wind	38.1	38.6	36.9	36.7	33.9
Others	17.8	18.8	20.5	26.9	32.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	45.1	42.0	46.8	44.6	41.6
Pre-tax margin	16.7	15.0	19.9	19.7	18.4
Net margin	11.8	10.9	12.3	13.7	13.6
Effective tax rate	12.0	10.3	16.0	13.5	14.5
Balance sheet ratios					
Current ratio (x)	0.4	0.6	0.5	0.6	0.6
Quick ratio (x)	0.4	0.6	0.5	0.6	0.6
Cash ratio (x)	0.1	0.2	0.2	0.2	0.3
Inventory turnover days	6.0	8.2	5.8	5.5	5.5
Debtors turnover days	151.8	118.9	114.8	98.0	72.3
Creditor turnover days	42.8	37.9	44.6	42.8	40.6
Total debt / equity ratio (%)	2.6	2.0	2.0	2.0	1.9
Net debt / equity ratio (%)	287.2	205.2	207.7	203.5	187.4
Returns (%)					
ROE	10.2	9.5	10.6	11.9	12.2
ROA	1.9	1.8	2.1	2.4	2.7
Per share					
EPS (RMB)	0.24	0.24	0.29	0.36	0.41
DPS (RMB)	0.06	0.06	0.07	0.08	0.09
BVPS (RMB)	2.31	2.51	2.74	3.04	3.36

Source: Company data, CMBIS estimates

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