

# Suntien Green Energy (956 HK)

## A-share listing is coming close

Suntien had determined A-share listing price at RMB3.18 per share, reflecting 8.65x/1.0x 2019 PER/PBR, in line with our expectation. Based on A-share listing record, we believe Suntien's A-share listing PER would be the lowest since 2019. With reference to several H+A companies' listing history, we expect Flat Glass (6865 HK/601865 CH, NR) would be a close comparable to Suntien. We expect A-share listing will boost Suntien's H-share performance in short term, and Suntien's inclusion of southbound connect will be likely the next catalyst to trigger H-share re-rating. We raise Suntien's gas segment valuation from 10x to 12x, and **our SOTP valuation for Suntien is therefore lifted by 23.5% to HK\$2.84. Maintain BUY.**

- A-share ticker 600956 CH.** Suntien announced to start A-share offering from 12 Jun, with a price at RMB3.18, indicating 8.65x/1.0x PER/PBR. Share offering scale is 134.75mn shares, raising RMB428.51mn equities. After fee, the Company expects to raise RMB389.83mn from the offering. With reference to A-share IPO history since 2019, days between listing and hearing range from 11 to 49 days with an average of ~25 days. We expect Suntien's A-share will likely come on stream in early Jul.
- Southbound stock-connect inclusion will be next catalyst.** Suntien's A-share listing progress had boosted market sentiment on the Company. Share price rebounded 54% from a year low of HK\$1.26 on 24 Mar. According to recent practice of H+A companies, we expect Suntien's H-share to be included into southbound stock-connect 10 trading days after A-share listing. Given Suntien's attractive fundamentals in wind and gas businesses, solid earnings performance with generous dividend distribution track record, and limited A-share offering size, we think the Company will draw a lot of attention through southbound investment. We see stock-connect inclusion a strong catalyst for H-share value re-rating, and a close example would be Flat Glass (6865 HK/601865 CH, see performance detail in page 2).
- Maintain conviction BUY; raise TP by 23.5% to HK\$2.84.** We trim our FY20-22E EPS forecast by 3.3%/6.6%/6.1% to RMB0.38/0.39/0.44 to reflect 1) COVID-19's impact, 2) more conservative assumption on associates profit contribution, and 3) 3.5% earnings dilution from the offering. After A-share listing, we think Suntien's gas business value will gain more market recognition. Therefore, we raise P/E multiples from 10x to 12x for gas business to reflect optimistic market outlook. Our SOTP TP is raised by 23.5% from HK\$2.30 to HK\$2.84. We maintain BUY rating with high conviction.

### 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	1,428	1,512	1,692
EPS (RMB)	0.33	0.36	0.38	0.39	0.44
YoY growth (%)	31.95	8.39	4.40	3.99	11.91
Consensus EPS (RMB)	N/A	N/A	0.41	0.44	0.46
P/E (x)	5.26	4.85	4.65	4.47	3.99
P/B (x)	0.65	0.55	0.49	0.46	0.43
Yield (%)	7.12	0.00	8.46	8.95	10.02
ROE (%)	12.35	11.37	10.53	10.25	10.68
Net gearing (%)	203	199	203	239	263

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$2.84
(Previous TP	HK\$2.30)
Up/Downside	+45.6%
Current Price	HK\$1.95

### China Wind Sector

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

### Stock Data

Mkt Cap (HK\$ mn)	7,245
Avg 3 mths t/o (HK\$ mn)	21.80
52w High/Low (HK\$)	2.38/1.24
Total Issued Shares (mn)	3,715

Source: Bloomberg

### Shareholding Structure

HECIC	50.5%
GIC	5.4%
Freefloat	44.1%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	10.8%	11.3%
3-mth	7.1%	10.4%
6-mth	-11.0%	-3.1%
12-mth	-6.5%	6.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

### Auditor: Ernst & Young

### Related Reports

- "Suntien Green Energy (956 HK) – A-share listing is top priority" – 23 Mar 2020
- "Suntien Green Energy (956 HK) – Limited virus impact; A-share listing on track I" – 10 Mar 2020

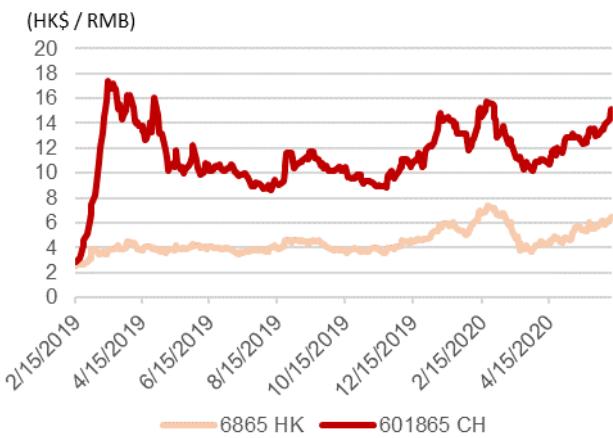
**Please cast your valuable vote for CMBIS research team in the 2020 Asiamoney Brokers Poll:**  
<https://euromoney.com/brokers>

**Figure 1: Based on recent H+A listing summary, we expect Suntien to have listing in early Jul, and Flat Glass (6865 HK/601865 CH) would be a close comparable.**

A-share	H-share		Offering date	Listing date	Days Gap	Offering price	Offering PER	Equity raising amount	Listing fee
002948 CH	3866 HK	BANK OF QINGD	12/5/2018	1/16/2019	42	4.52	10.81	2,038	75.8
601298 CH	6198 HK	QINGDAO PORT	12/28/2018	1/21/2019	24	4.61	10.51	2,095	115.7
300759 CH	3759 HK	PHARMARON BEIJ	1/7/2019	1/28/2019	21	7.66	22.99	503	69.9
601865 CH	6865 HK	FLAT GLASS GRO	1/21/2019	2/15/2019	25	2.00	9.56	300	45.6
003816 CH	1816 HK	CGN POWER	7/31/2019	8/26/2019	26	2.49	14.60	12,574	184.4
601077 CH	3618 HK	CQRC BANK	9/10/2019	10/29/2019	49	7.36	9.26	9,988	99.8
601916 CH	2016 HK	CHINA ZHESHANG	10/15/2019	11/26/2019	42	4.94	9.39	12,597	159.1
601658 CH	1658 HK	POSTAL SAVINGS	10/29/2019	12/10/2019	42	5.50	9.58	32,714	508.0
<b>600956 CH</b>	<b>956 HK</b>	<b>CHINA SUNTEN</b>	<b>6/12/2020</b>	n/a	n/a	<b>3.18</b>	<b>8.65</b>	<b>429</b>	<b>38.7</b>

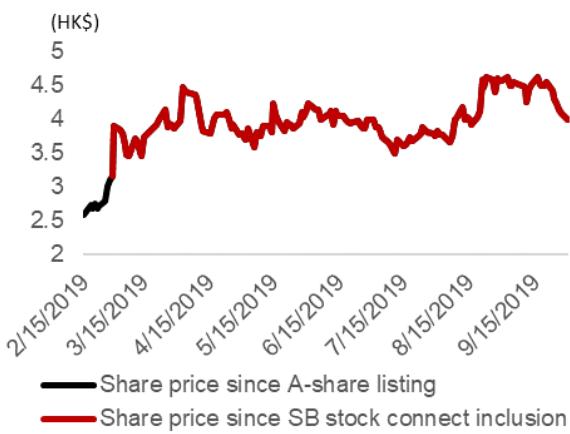
Source: Wind, CMBIS

**Figure 2: Flat Glass' A+H share price performance**



Source: Bloomberg, CMBIS

**Figure 4: We observed significant re-rating for Flat Glass' H-share from A-share listing, inclusion to SB stock-connect in the first 6 months after H+A listing**



Source: Bloomberg, CMBIS

**Figure 3: Flat Glass' H to A pricing discount**



Source: Bloomberg, CMBIS

**Figure 5: Flat Glass' Southbound holding % keeps increasing**



Source: Company data, CMBIS estimates

**Figure 6: Earnings revision reflects resilience**

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Revenue (RMB mn)	13,130	15,124	17,326	13,130	15,124	17,326	0.0%	0.0%	0.0%
Net Income (RMB mn)	1,451	1,561	1,739	1,428	1,512	1,692	-1.6%	-3.2%	-2.7%
EPS (RMB)	0.39	0.42	0.47	0.38	0.39	0.44	-3.3%	-6.6%	-6.1%
<b>Our est. vs. Consensus</b>						<b>Diff with consensus</b>			
Consensus Earnings (RMB mn)				1,529	1,643	1,740	-6.6%	-8.0%	-2.8%
Consensus EPS (RMB mn)				0.407	0.439	0.46	-7.2%	-10.5%	-4.5%

Source: Company data, CMBIS estimates

**Figure 7: Our SOTP valuation for Suntien**

<b>SOTP Valuation summary</b>	<b>Measure by</b>	
	<b>The Company</b> (RMB mn)	<b>Per share</b> (RMB)
Wind & Solar segment -DCF	31,505	8.18
Piped gas supply segment - PER	9,602	2.49
Total value	41,107	10.68
Less: Net debt	28,061	7.29
Minority Interest	3,021	0.78
Renewable corp bond	1,500	0.05
Equity Value of the firm	10,024	2.56
<b>Per share value (HKD)</b>	<b>2.84</b>	

Source: CMBIS estimates

**Figure 8: Our DCF valuation for wind segment**

<b>DCF Valuation</b>	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
<b>Turnover (Rmb mn)</b>	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)
<b>Free cash flow</b>	722	824	938	1,673	1,643	1,719	1,798	1,880	1,964	2,051
<b>Years</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
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
<b>Terminal value</b>	<b>45,479</b>									
Terminal perpetual growth	3.00%									
<b>Terminal EV/EBITDA</b>	<b>5.34</b>									

<b>Valuations ( RMB mn)</b>		<b>WACC Calculations</b>	
<b>Terminal value</b>	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%
<b>Share fair value (Rmb)</b>	<b>8.18</b>	<b>WACC</b>	<b>7.6%</b>
<b>Share fair value (HKD)</b>	<b>9.09</b>		

Source: CMBIS estimates

## Financial Summary

Income statement					Cash flow summary						
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>9,975</b>	<b>11,943</b>	<b>13,130</b>	<b>15,124</b>	<b>17,326</b>	<b>Profit before tax</b>	<b>1,743</b>	<b>2,184</b>	<b>2,305</b>	<b>2,510</b>	<b>2,853</b>
Wind & Solar	3,422	3,949	4,536	4,949	5,572	DD&A	1,308	1,540	1,718	2,045	2,509
Natural Gas	6,551	7,981	8,589	10,169	11,748	Working cap change	(147)	(909)	(2,215)	(6)	(395)
<b>Costs of sales</b>	<b>(7,116)</b>	<b>(8,638)</b>	<b>(9,515)</b>	<b>(11,096)</b>	<b>(12,665)</b>	Taxation	(217)	(325)	(372)	(409)	(472)
Other income & gains	100	171	130	136	142	Others	474	1,240	10	0	-
Selling & distribution	(0)	(1)	(1)	(1)	(1)	<b>Operating cash flow</b>	<b>3,156</b>	<b>3,732</b>	<b>1,448</b>	<b>4,139</b>	<b>4,494</b>
Administrative expenses	(502)	(587)	(619)	(683)	(748)	Capex & investments	(5,568)	(6,041)	(8,554)	(10,812)	(10,423)
Other expenses	(219)	(44)	(27)	(16)	(25)	Others	1,601	(62)	115	-	-
<b>Operating profit</b>	<b>2,239</b>	<b>2,845</b>	<b>3,097</b>	<b>3,464</b>	<b>4,029</b>	<b>Investment cash flow</b>	<b>(3,967)</b>	<b>(6,103)</b>	<b>(8,439)</b>	<b>(10,812)</b>	<b>(10,423)</b>
Finance costs	(785)	(875)	(1,005)	(1,217)	(1,463)	Equity raised	-	-	563	-	-
Joint ventures & associates	290	215	213	263	287	Perpetual MTN raised	590	910	-	-	-
<b>Pre-tax profit</b>	<b>1,743</b>	<b>2,184</b>	<b>2,305</b>	<b>2,510</b>	<b>2,853</b>	Change of Debts	2,673	3,037	7,193	7,354	7,438
Income tax	(168)	(356)	(380)	(419)	(482)	Others	(939)	533	-	-	-
Minority interests	(307)	(413)	(419)	(501)	(601)	<b>Financing cash flow</b>	<b>945</b>	<b>2,465</b>	<b>7,425</b>	<b>6,448</b>	<b>6,432</b>
Renewable green bond	(29)	(71)	(78)	(78)	(78)	<b>Net change in cash</b>	<b>135</b>	<b>93</b>	<b>434</b>	<b>(224)</b>	<b>503</b>
<b>Net profit</b>	<b>1,240</b>	<b>1,344</b>	<b>1,428</b>	<b>1,512</b>	<b>1,692</b>	Cash at beginning	2,110	2,240	2,332	2,766	2,542
						Exchange difference	(4)	(2)	-	-	-
						<b>Cash at the end</b>	<b>2,240</b>	<b>2,332</b>	<b>2,766</b>	<b>2,542</b>	<b>3,045</b>
						Restricted cash	-	9	-	-	-
						<b>Cash at balance sheet</b>	<b>2,240</b>	<b>2,341</b>	<b>2,766</b>	<b>2,542</b>	<b>3,045</b>

Balance sheet					Key ratios						
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>32,743</b>	<b>35,507</b>	<b>42,166</b>	<b>50,136</b>	<b>57,676</b>	<b>Sales mix (%)</b>					
Fixed asset	26,584	28,252	35,011	43,607	51,327	Wind & Solar	43.9	34.3	33.1	34.5	32.7
Intangible assets	1,757	1,672	1,574	1,475	1,376	Natural Gas	56.1	65.7	66.8	65.4	67.2
Associates & JVs	1,918	2,302	2,467	2,729	3,014	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Prepayments	1,648	2,904	2,852	2,065	1,700	<b>P&amp;L ratios (%)</b>					
Others	837	377	262	260	259	Gross profit margin	32.7	28.7	0.28	27.5	0.27
<b>Current assets</b>	<b>6,418</b>	<b>7,455</b>	<b>9,201</b>	<b>10,362</b>	<b>10,920</b>	Operating margin	25.0	22.4	23.8	23.6	22.9
Cash	2,240	2,341	2,766	2,542	3,045	Pre-tax margin	17.1	17.5	18.3	17.6	16.6
Receivables	3,296	3,966	4,460	5,007	5,541	Net margin	13.3	12.4	11.3	10.9	10.0
Prepayments	812	1,083	1,901	2,737	2,253	Effective tax rate	8.2	9.6	16.3	16.5	16.7
Others	70	65	74	77	80	<b>Balance sheet ratios</b>					
<b>Current liabilities</b>	<b>8,602</b>	<b>10,423</b>	<b>11,078</b>	<b>13,249</b>	<b>14,174</b>	Current ratio (x)	0.58	0.75	0.71	0.82	0.77
Trade and bill payables	148	137	150	173	198	Quick ratio (x)	0.58	0.74	0.70	0.82	0.77
Other payables	3,655	4,870	4,036	4,648	4,012	Cash ratio (x)	0.22	0.26	0.22	0.25	0.19
Borrowings	4,644	5,316	6,782	8,308	9,835	Debtors turnover days	107.	111.	117.	114.	111.
Others	70	100	110	120	130	Total debt/equity ratio (%)	190.	182.	175.	183.	210.
<b>Non-current liabilities</b>	<b>18,162</b>	<b>20,673</b>	<b>26,343</b>	<b>32,196</b>	<b>38,081</b>	Net debt/equity ratio (%)	202.	198.	203.	238.	263.
Borrowings	16,683	19,093	24,045	29,457	34,868	<b>Returns (%)</b>					
Other payables	184	225	168	194	167	ROE	10.9	12.3	11.3	10.5	10.2
Others	25	46	46	46	46	ROA	2.74	3.17	2.92	2.63	2.38
<b>Minority Interest</b>	<b>2,360</b>	<b>2,933</b>	<b>3,021</b>	<b>3,187</b>	<b>3,388</b>	<b>Per share</b>					
<b>Renewable green bond</b>	<b>590</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>	EPS (RMB)	0.33	0.36	0.38	0.39	0.44
<b>Shareholders' equity</b>	<b>9,446</b>	<b>10,316</b>	<b>12,308</b>	<b>13,249</b>	<b>14,336</b>	DPS (RMB)	0.13	-	0.15	0.16	0.18
<b>Total Equity</b>	<b>12,397</b>	<b>11,867</b>	<b>13,946</b>	<b>15,053</b>	<b>16,340</b>	BVPS (RMB)	2.70	3.18	3.59	3.83	4.11

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
SELL	: Stock with potential return of +15% to -10% over next 12 months
NOT RATED	: Stock with potential loss of over 10% over next 12 months
	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc..) of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

### For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.