

Huadian Fuxin (816 HK)

Disappointed earnings on asset provision

HDFX's FY19 earnings surprisingly down 5.3% YoY, 22.3% lower than our estimates. Earnings miss was driven by asset provision of ~RMB790mn from gas distributed projects and wind projects. Market will be disappointed to FY19 earnings, while staying curious for whether HDFX will choose to go private at such a distressed valuation. Mgmt. didn't respond to that directly, but leave all the options on the table depending on parent co.'s decision. **Given extremely low valuation, we maintain BUY rating.**

- Surprising asset provision.** HDFX realized revenue of RMB19,776mn, up 7.9% YoY. Repair and maintenance and personnel costs increased 23.2% and 14.5% YoY, while administration expense declined 12.8%, offsetting some costs increment. Other operating expenses came with surprise with a surge of 135.1% to RMB1,850mn, increased RMB1bn over FY18's figure. Mgmt. disclosed it was due to asset provision of ~RMB790mn for 1) unprofitable gas distributed projects; 2) low efficient wind farm projects; and 3) some new wind farms subject to environmental constraints need to be relocated. Net profit, as a result devoured by those provision, was only RMB1,887mn, down 5.3% YoY, and 22.3% lower than our estimates.
- Coal-fired power turned around.** The segment experienced significant improvement in FY19, as segment operating profit surged 355.6% YoY to RMB757. Strong profit rebound was supported by coal costs decline, as we estimated unit coal fuel costs declined by 15.3% YoY. Given stable coal price outlook in 2020, we expect coal power segment to maintain stable performance while utilization hours may be squeezed due to COVID-19.
- Hydro power resumed normal.** Utilization hours rebounded from multi-year low of 2,311 in FY18 to 3,631 in FY19. Operating profit, as a result, rebounded 250% to RMB1,120mn. For 2020, mgmt. expect hydro power segment to have stable hydro output as usual year with an output target of 9.2TWh.
- Sanmen nuclear recorded loss.** Nuclear investment return suffered a drag as Sanmen Nuclear Unit 2# experienced outage throughout most of the year. Sanmen nuclear brought a loss of ~RMB100mn to HDFX, which reduced overall share profit by 14.8% to RMB801mn. Fortunately, The outage was fixed by Dec 2019, and we expect HDFX's nuclear investment profit to have significant growth in 2020. (more segment info on page 2)

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	18,330	19,776	20,461	25,303	26,697
YoY growth (%)	9.02	7.89	3.46	23.67	5.51
Net income (RMB mn)	1,995	1,887	2,409	3,164	4,149
EPS (RMB)	0.24	0.22	0.29	0.38	0.49
YoY growth (%)	0.4	-5.4	27.7	31.3	31.1
Consensus EPS (RMB)	N/A	N/A	0.31	0.36	N/A
P/E (x)	4.6	4.9	3.8	2.9	2.2
P/B (x)	0.4	0.41	0.37	0.34	0.30
Yield (%)	5.2	5.0	5.9	7.8	10.2
ROE (%)	9.5	8.4	9.9	11.7	13.6
Net gearing (%)	205.2	172.7	194.4	186.0	167.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$1.70**
 (Previous TP **HK\$2.00**)
 Up/Downside **+42.9%**
 Current Price **HK\$1.19**

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	10,005
Avg 3 mths t/o (HK\$ mn)	11.07
52w High/Low (HK\$)	1.78/1.16
Total Issued Shares (mn)	2,570

Source: Bloomberg

Shareholding Structure

Huadian Group	62.8%
Free float	37.2%

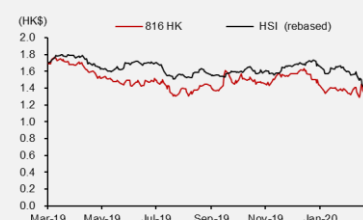
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-12.2%	10.5%
3-mth	-22.3%	-0.1%
6-mth	-14.7%	3.1%
12-mth	-29.1%	-4.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Related Reports

- "Huadian Fuxin Energy (816 HK) - Decent FY19E results; but facing cloudy 2020 - 16 Mar 2020
- "Huadian Fuxin Energy (816 HK) - Hydro beat, but nuclear still missed" - 21 Oct 2019
- "Huadian Fuxin Energy (816 HK) - Sluggish nuclear dragged 1H19 earnings" - 27 Aug 2019

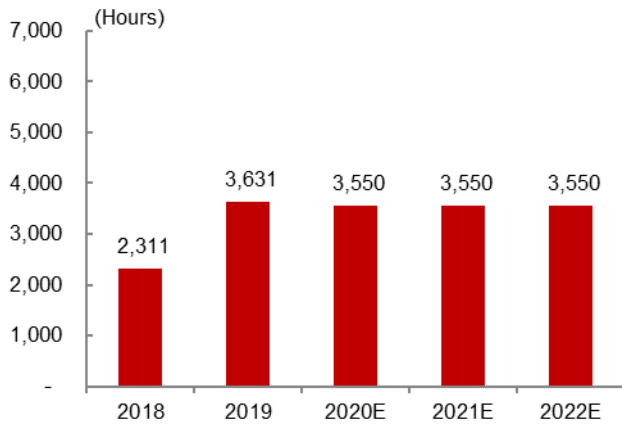
- Wind power was flat in FY19.** Other than flat wind power generation, HDFX installed only 91.7MW in 2019, missing the 400-500MW capacity addition guidance. Mgmt. explained the slow addition pace was due to tightened environmental approval from local governments. HDFX intends to accelerate capacity installation in 2020, and maintains overall 1.2GW new build target unchanged. Since COVID-19 had caused significant delay to wind farm project constructions, we believe the Company is now facing risks of project tariff cut if project constructions miss the 31 Dec cut off line.
- Project commissioning plan.** Other than 1.2GW wind farm, mgmt. put 1) Shaowu phase III: 2 x 660MW, and 2) Zengcheng Gas Power: 1.2GW on commission list within 2020. According to mgmt., Zengcheng Gas Power will have two units commence operation in May and Jul 2020, and Shaowu Phase III's commission will be subject to NDRC's approval. For Zengcheng Gas Power, the Company expects the project to contribute RMB1bn/RMB50mn revenue/profit in 2020 respectively.
- Cut FY20/21E earnings outlook.** Based on FY19 results and more conservative utilization hours outlook due to potential economy impacts due to COVID-19, we cut HDFX's FY20/21E EPS by 19.4%/10.2% to RMB0.29/0.38. We also **cut TP from HK\$2.00 to HK\$1.70** based on assumptions update and valuation roll over. Our TP reflects 5.4x FY20E PER. As HDFX is currently trading at extremely low valuation at only 3.8x/0.37x FY20E PER/PBR respectively, we **maintain BUY on HDFX**.

Figure 1: FY19 results summary

(Rmb mn)	2018	1H19	2H19	2019A	yoy change (%)	2019E	Diff (%)	Our comments
Revenue	18,330	9,781	9,995	19,776	7.9%	19,712	0.3%	In line
Other net income	343	123	200	324	-5.6%	225	43.8%	Beat on higher than est. government subsidies
Operating expenses	(13,863)	(6,424)	(8,618)	(15,042)	8.5%	(13,998)	7.5%	
Cost of fuel	(5,877)	(2,455)	(2,789)	(5,244)	-10.8%	(5,523)	-5.0%	We estimate unit fuel costs declined by 15.3% YoY
Depreciation & amortization	(4,570)	(2,366)	(2,415)	(4,781)	4.6%	(4,640)	3.0%	
Service concession construction costs	(80)	(693)	375	(318)	295.4%	(40)	694.6%	
Personnel costs	(1,599)	(693)	(1,138)	(1,831)	14.5%	(1,723)	6.3%	Employed more people for new projects
Repairs and maintenance	(527)	(247)	(404)	(650)	23.2%	(557)	16.7%	Increment mainly from wind and hydro segment
Administration expenses	(422)	(139)	(229)	(368)	-12.8%	(518)	-29.0%	
Other operating expenses	(787)	(514)	(1,336)	(1,850)	135.1%	(997)	85.6%	Significant assets provision of ~RMB970mn
Operating (loss)/Profit - EBIT	4,809	3,480	1,577	5,057	5.2%	5,939	-14.8%	
EBIT margin	26.2%	35.6%	15.8%	25.6%	-0.7ppt	30.1%	4.6ppt	
Net Financial expenses	(2,991)	(1,389)	(1,235)	(2,624)	-12.3%	(2,786)	-5.8%	Net financial expenses remain in good control
Finance income	82	49	24	74	-10.2%	123	-40.4%	
Finance expenses	(3,073)	(1,438)	(1,259)	(2,698)	-12.2%	(2,909)	-7.3%	
Share of profit or losses	940	299	501	801	-14.8%	761	5.2%	Sanmen Nuclear outage
Profit/(loss) before income tax	2,758	2,390	844	3,234	17.3%	3,914	-17.4%	
Income tax expense	(285)	(357)	(185)	(542)	90.2%	(626)	-13.4%	Effective tax rate was lower than our estimation
Profit/(Loss) for the period/ year	2,473	2,033	658	2,691	8.8%	3,288	-18.1%	
Less: Minority	204	249	26	276	35.0%	400	-31.1%	
Perpetual interest distribution	274	236	293	528	92.9%	456	15.9%	Perpetual instrument increased to RMB12.6bn
Net profit	1,995	1,548	339	1,887	-5.4%	2,431	-22.4%	Earnings missed our est.

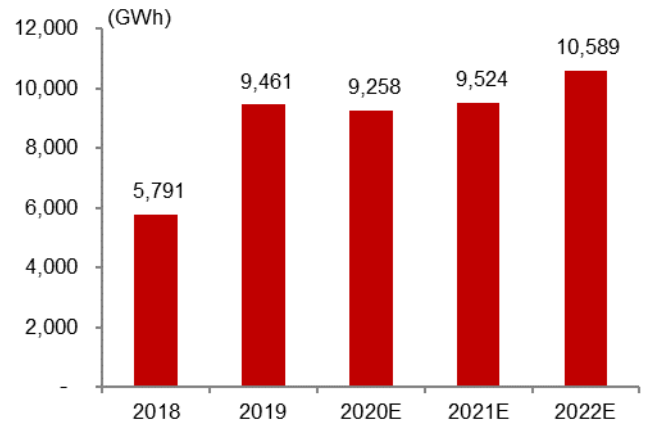
Source: Company data, CMBIS estimates

Figure 2: Hydro utilization hours



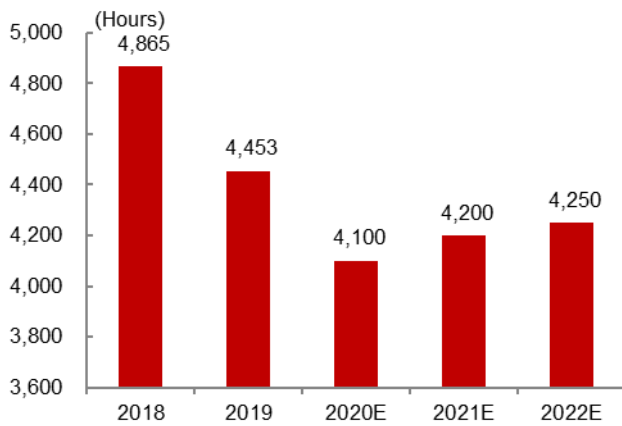
Source: Company data, CMBIS estimates

Figure 3: Hydro power generation



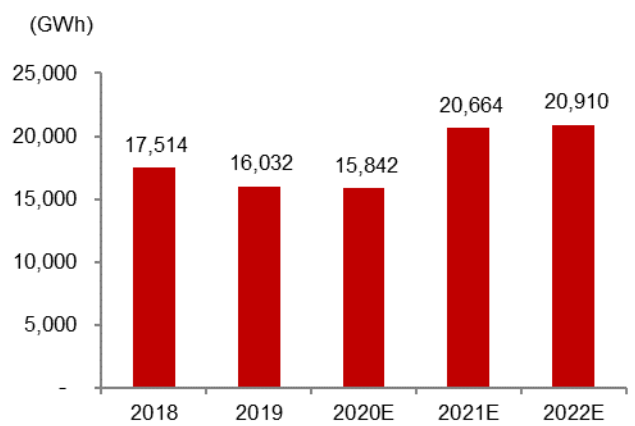
Source: Company data, CMBIS estimates

Figure 4: Coal-fired power utilization hour



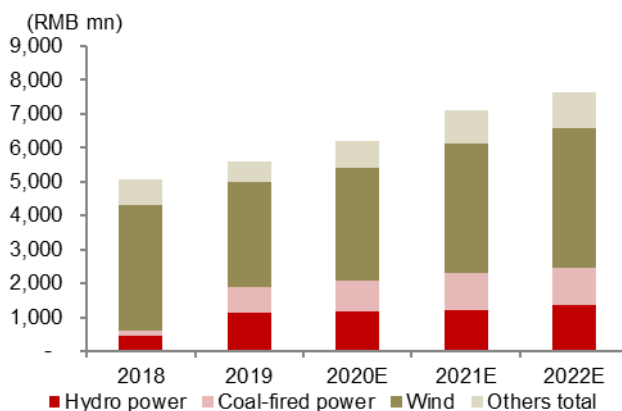
Source: Company data, CMBIS estimates

Figure 5: Coal-fired power generation



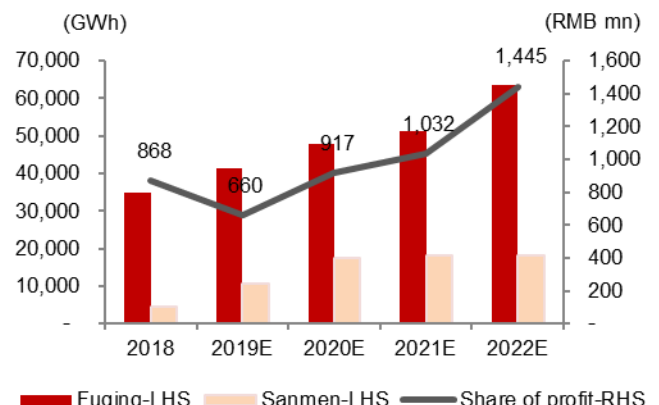
Source: Company data, CMBIS estimates

Figure 6: Segment operating profit contribution



Source: Company data, CMBIS estimates

Figure 7: Power generation and profit contribution from nuclear investments



Source: Company data, CMBIS estimates

Figure 8: Earnings revision

	Old		New		est. change %	
	2020	2021	2020	2021	2020	2021
Revenue (RMB mn)	23,101	26,627	20,461	25,303	-11.4%	-5.0%
Nuclear share profit (RMB mn)	999	1,255	917	1,032	-8.2%	-17.8%
Net Income (RMB mn)	2,988	3,523	2,409	3,164	-19.4%	-10.2%
EPS (RMB)	0.36	0.42	0.29	0.38	-19.3%	-10.2%
Consensus est.						
					diff	
Net income			2,859	3,260	-15.7%	-2.9%
EPS(RMB)			0.31	0.36	-8.4%	4.5%

Source: CMBIS estimates

Figure 9: Our SOTP valuation for HDFX

Segment share value (HK\$)	
Hydro	1.13
Coal-fired	2.32
Wind	5.73
Others	1.56
Corp value	10.74
Less: Net debt	8.56
Perpetual MTN	1.49
Add: Nuclear investment	1.21
Per Share value (HK\$)	1.70
EPS - 2020 (RMB)	0.32
Representing FY20E PER	5.35

Source: CMBIS estimates

Figure 10: WACC assumptions for HDFX's different segments (see next page for segment DCF valuation)

CAPM Assumptions	
Exchange rate (HKD/Rmb)	0.9
Risk free rate	1.6%
Adjusted beta	1.0
Market risk premium	14.4%
Cost of equity	16.0%
Cost of debt	4.7%
Tax rate	25.0%

Segments WACC	Debt/Asset	WACC	Terminal Growth
Hydro	35%	11.6%	2%
Coal-fired	75%	6.6%	2%
Wind	75%	6.6%	3%
Other business	75%	6.6%	3%
Nuclear	0%	16.0%	2%

Source: CMBIS estimates

Figure 11: Our SOTP valuation for HDFX

Hydro power valuation (Rmb,mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	1,306	1,451	1,632	1,400	1,414	1,428	1,442	1,457	1,471	1,486
Depreciation	490	544	612	525	530	535	541	546	552	557
Tax rate	0.25	0.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
CAPEX	(1,000)	(1,000)	(1,000)	(400)	(400)	(400)	(400)	(400)	(400)	(400)
Increase in WC	-400.00	-	-	-	-	-	-	-	-	-
Free cash flow	69	632	(796)	1,175	1,191	1,206	1,223	1,239	1,255	1,272
Terminal value										13,503
Terminal EV/EBITDA										6.61
	1	2	3	4	5	6	7	8	9	10
Discount factor	0.90	0.80	0.72	0.64	0.58	0.52	0.46	0.42	0.37	0.33
Discounted free cash flow	62	507	(573)	757	688	624	567	515	467	4,927
Total discounted FCF	8,542									
Equity value per share	1.02									
Equity value per share -HKD	1.13									

Coal-fired power valuation (Rmb,mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	1,086	1,117	1,149	722	722	722	722	722	722	722
Depreciation	999	999	999	979	979	979	979	979	979	979
Tax rate	25%	25%	125%	25%	25%	25%	25%	25%	25%	25%
CAPEX	(400)	(400)	(400)	(590)	(590)	(590)	(590)	(590)	(590)	(590)
Increase in WC	(100)	(100)	(100)	-	-	-	-	-	-	-
Free cash flow	1,313	1,337	212	930	930	930	930	930	930	930
Terminal value										20,482
Terminal EV/EBITDA										12.04
	1	2	3	4	5	6	7	8	9	10
Discount factor	0.94	0.88	0.82	0.77	0.73	0.68	0.64	0.60	0.56	0.53
Discounted free cash flow	1,232	1,176	175	720	675	633	593	557	522	11,265
Total discounted FCF	17,547									
Equity value per share	2.09									
Equity value per share -HKD	2.32									

Wind power valuation (Rmb,mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	3,820	4,115	4,416	4,405	4,412	4,633	4,863	5,104	5,356	5,618
Depreciation	3,423	3,608	3,792	3,963	4,038	4,361	4,709	5,086	5,493	5,933
Tax rate	14%	14%	15%	15%	16%	16%	17%	17%	17%	17%
CAPEX per watt	7.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
CAPEX	(3,250)	(3,250)	(3,250)	(905)	(6,106)	(6,594)	(7,122)	(7,691)	(8,307)	(8,971)
incremental Cost excl depr at 0.077 per watt	73	39	39	36	16	67	73	79	85	92
Increase in WC	(137)	(81)	(82)	(74)	(18)	(107)	(115)	(125)	(134)	(145)
Free cash flow	3,338	3,812	4,232	6,725	1,638	1,547	1,529	1,528	1,520	1,503
Terminal value										42,604
Terminal EV/EBITDA										3.69
	1	2	3	4	5	6	7	8	9	10
Discount factor	0.94	0.88	0.82	0.77	0.73	0.68	0.64	0.60	0.56	0.53
Discounted free cash flow	3,130	3,353	3,490	5,201	1,188	1,052	975	914	853	23,205
Total discounted FCF	43,362									
Equity value per share	5.16									
Equity value per share -HKD	5.73									

Others business valuation (Rmb,mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	7,214	7,685	8,169	9,331	10,063	10,854	11,708	12,631	13,627	14,703
EBIT	987	1,054	1,145	1,335	1,441	1,555	1,679	1,813	1,957	2,113
Depreciation	1,182	1,246	1,289	1,495	1,612	1,739	1,875	2,022	2,182	2,353
Tax rate	15%	15%	115%	15%	15%	15%	15%	15%	15%	15%
CAPEX	(2,060)	(2,060)	(1,000)	(2,028)	(2,185)	(2,355)	(2,539)	(2,737)	(2,952)	(3,183)
Increase in WC	(335)	(71)	(73)	(174)	(110)	(119)	(128)	(138)	(149)	(161)
Free cash flow	(374)	11	45	427	542	586	635	687	744	805
Terminal value										17,717
Terminal EV/EBITDA										3.97
	1	2	3	4	5	6	7	8	9	10
Discount factor	0.94	0.88	0.82	0.77	0.73	0.68	0.64	0.60	0.56	0.53
Discounted free cash flow	(351)	10	37	331	393	399	405	411	417	9,745
Total discounted FCF	11,796									
Equity value per share	1.40									
Equity value per share -HKD	1.56									

Nuclear Investment valuation (Rmb,mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Share of profit	1,032	1,445	1,504	1,504	1,504	1,504	1,504	1,504	1,504	1,504
Capital injection	-	-	-	-	-	-	-	-	-	-
Terminal value										10,157
	1	2	3	4	5	6	7	8	9	10
Discount factor	0.86	0.74	0.64	0.55	0.48	0.41	0.35	0.31	0.26	0.23
Discounted cash flow	890	1,074	965	832	717	619	534	460	397	2,653
Total discounted FCF	9,141									
Equity value per share	1.09									
Equity value per share -HKD	1.21									

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	18,330	19,776	20,461	25,303	26,697
Hydro	1,693	2,704	2,646	2,721	3,022
Coal-fired	6,116	6,023	5,710	7,330	7,413
Wind	7,083	6,902	7,082	7,995	8,534
Others	3,437	4,148	5,023	7,257	7,728
Cost of sales	(10,975)	(10,676)	(11,647)	(15,210)	(15,907)
Gross profit	7,355	9,100	8,814	10,093	10,789
Other income, net	343	324	290	290	290
Admin expense	(422)	(368)	(415)	(512)	(540)
Personnel costs	(1,599)	(1,831)	(2,291)	(2,449)	(2,612)
Other expenses	(867)	(2,168)	(912)	(1,115)	(1,173)
EBIT	4,809	5,057	5,486	6,308	6,754
Finance costs, net	(2,991)	(2,624)	(2,744)	(3,018)	(3,055)
JVs & associates	940	801	1,053	1,209	1,649
Exceptional	-	-	-	-	-
Pre-tax profit	2,758	3,234	3,795	4,499	5,349
Income tax	(285)	(542)	(512)	(652)	(829)
Minority interests	(204)	(276)	(359)	(337)	(346)
Perpetual int distribution	(274)	(528)	(514)	(346)	(25)
Net profit	1,995	1,887	2,409	3,164	4,149

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	1,995	1,887	2,409	3,164	4,149
D&A	4,759	4,932	5,297	6,080	6,378
Change in working capital	(821)	(2,378)	(2,694)	(2,007)	564
Others	374	644	(229)	(207)	(267)
Cash flow from operation	6,306	5,085	4,784	7,029	10,824
Capex	(4,558)	(6,016)	(14,305)	(6,789)	(6,792)
Associated companies	(795)	(1,082)	(1,785)	(1,648)	(1,970)
Other	-	-	-	-	-
Cash flow from investment	(5,352)	(7,098)	(16,091)	(8,437)	(8,762)
Equity raised	5,104	3,595	-	-	-
Change of Debts	(4,132)	(2,235)	10,986	2,663	(666)
Dividend paid	(467)	(478)	(454)	(542)	(712)
Others	4	244	165	173	181
Cash flow from financing	508	1,127	10,696	2,294	(1,196)
Net change in cash	1,462	(886)	(610)	886	865
Cash at the beginning of the year	2,122	3,598	2,655	2,045	2,931
Exchange difference	14	(56)	-	-	-
Cash at the end of the year	3,598	2,655	2,045	2,931	3,796
Pledged cash	6	22	26	25	26
Cash at balance sheet	3,604	2,480	2,071	2,956	3,822

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	96,146	98,652	109,720	112,376	115,085
Fixed asset	80,930	81,929	90,823	91,556	91,996
Prepaid lease payments	1,428	-	-	-	-
Interest in joint ventures	8,985	10,066	11,852	13,500	15,470
Other non-current assets	4,805	6,657	7,045	7,319	7,619
Current assets	12,157	13,559	16,042	18,724	19,126
Cash	3,604	2,480	2,071	2,956	3,822
Account receivable	5,970	9,515	11,666	13,430	12,936
Prepayments	2,154	1,281	1,914	1,925	1,931
Other current assets	430	282	391	413	437
Current liabilities	19,345	22,275	24,446	24,797	24,758
Trade and other payable	1,104	1,449	1,432	1,771	1,869
Other payables	7,220	7,037	7,250	6,697	6,697
Borrowings	10,868	13,579	15,533	16,092	15,952
Others	153	209	231	237	240
Non-current liabilities	55,857	51,585	60,845	63,037	62,569
Borrowings	54,096	49,466	58,435	60,537	60,011
Obligation under financial lease	291	-	-	-	-
Others non-current assets	1,470	2,118	2,410	2,500	2,558
Minority Interest	3,047	3,291	3,455	3,628	3,809
Perpetual Instrument	8,970	12,567	12,567	12,567	12,567
Shareholders' equity	21,086	22,494	24,449	27,071	30,508
Total equity	33,102	38,351	40,471	43,266	46,884

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Hydro	9.2	13.7	12.9	10.8	11.3
Coal-fired	33.4	30.5	27.9	29.0	27.8
Wind	38.6	34.9	34.6	31.6	32.0
Others	18.8	21.0	24.5	28.7	28.9
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	42.0	47.7	44.5	41.0	41.5
Pre-tax margin	15.0	16.4	18.5	17.8	20.0
Net margin	10.9	9.5	11.8	12.5	15.5
Effective tax rate	10.3	16.8	13.5	14.5	15.5
Balance sheet ratios					
Current ratio (x)	0.6	0.6	0.7	0.8	0.8
Quick ratio (x)	0.6	0.6	0.6	0.7	0.8
Cash ratio (x)	0.2	0.1	0.1	0.1	0.2
Inventory turnover days	8.2	5.2	6.9	5.8	5.8
Debtors turnover days	118.9	175.6	208.1	193.7	176.9
Creditor turnover days	37.9	51.1	46.0	43.3	43.7
Total debt / equity ratio (%)	2.0	1.6	1.8	1.8	1.6
Net debt / equity ratio (%)	205.2	172.7	194.4	186.0	167.6
Returns (%)					
ROE	9.5	8.4	9.9	11.7	13.6
ROA	1.8	1.7	1.9	2.4	3.1
Per share					
EPS (RMB)	0.24	0.22	0.29	0.38	0.49
DPS (RMB)	0.06	0.05	0.06	0.08	0.11
BVPS (RMB)	2.51	2.68	2.91	3.22	3.63

Source: Company data, CMBIS estimates

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