

Goldwind (2208 HK)

Strong 1Q20 results; but headwind remains

GWD delivered 848MW WTG sales in 1Q20 amid impacts from COVID-19, down 8.7% YoY. The Company faced continued GPM squeezed during the first quarter as operating expenses increased outpace revenue growth. GWD managed to release earnings growth, however, through completion of selling several wind farm projects. Looking ahead, we think headwind remains, and we think COVID-19 may bring more uncertainties from the supply chain, as some downstream developers expressed wind blade may subject to delay for 1-2 months. Maintain HOLD.

- 1Q20 earnings surged 291.5% to RMB895mn.** Sales revenue recorded a 1.3% YoY increase to RMB5,467mn, while operating costs expand more rapidly at 8.4% YoY to RMB4,290mn, which led to a YoY GPM squeeze of 5.1ppt. The Company completed transactions of selling 49% shares of several wind farm projects, which helped boost investment income by 669% to RMB1,120mn. Overall, GWD realized net profit of RMB895mn, up 291.5% and accounting for 32.5% of our FY20E forecasts.
- WTG sales was 848MW in 1Q20, down 8.7% YoY.** We think GWD's 1Q20 WTG delivery was satisfactory given disruption caused by COVID-19. Mgmt. maintained annual shipment target at 12-14GW unchanged and disclosed there were still 4.3GW WTG tenders in 1Q20, of which 84% required to delivery within 2020. Given relatively a slow start of WTG sales, and potential disruption of supply chain mainly from wind blade material import, we think it would be challenging for GWD to fulfill the sales target.
- Selling and distribution costs still a concern.** The expenses increased 22.7% YoY during 1Q20, substantially faster than revenue growth. We had observed the expenses expanded quick associated with increasing warranty provision with several new WTG models in FY19. Mgmt. explained the costs was not distributed evenly with WTG sales, and some provision was explicitly incurred during 1Q20. In 2020, we think the costs will still be one of the key concerns of the market.
- GPM to see improvements in 2Q20.** Mgmt. expects WTG shipments to accelerate in 2Q20, with improvements in both order structure and several costs saving measures in the supply chain. GWD expected to have GPM to recover in 2Q20, implying WTG GPM had bottomed out.
- Maintained HOLD.** GWD's share price had rebounded 13.6% since our previous update. Given the headwinds in 2020 and uncertainties in 2021 and beyond, we remain conservative on the Company. At 13.0x FY20E PER, we think GWD is fairly valued. Maintain HOLD with TP unchanged at HK\$7.70.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,590	37,878	47,688	45,040	45,995
Net income (RMB mn)	3,145	2,109	2,757	4,154	3,974
EPS (RMB)	0.88	0.51	0.65	0.98	0.94
YoY growth (%)	5.4	-42.1	27.4	50.7	-4
Consensus EPS(RMB)	N/A	N/A	0.94	1.08	1.29
P/E (x)	9.6	16.5	13.0	8.6	9.0
P/B (x)	1.2	1.2	1.1	1.0	0.9
Yield (%)	3.0	1.9	2.3	3.5	3.3
ROE (%)	12.6	7.1	8.4	11.5	10.2
Net gearing (%)	69.3	48.6	64.2	63.7	67.2

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price **HK\$7.70**
 (Previous TP) **HK\$7.70**
Up/Downside **+1.18%**
Current Price **HK\$7.61**

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	43,716
Avg 3 mths t/o (HK\$ mn)	38.04
52w High/Low (HK\$)	10.50/5.55
Total Issued Shares (mn)	774(H) 3,451(A)

Source: Bloomberg

Shareholding Structure

China Three Gorges	24.3%
Anbang Insurance Group	13.5%
Free float	62.2%

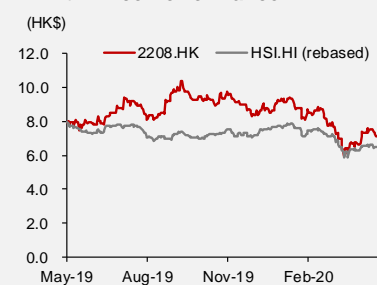
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.1%	8.6%
3-mth	-8.4%	-0.9%
6-mth	-20.5%	-11.1%
12-mth	-10.4%	9.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Goldwind (2208 HK) – Struggling at cycle bottom” – 3 Apr 2020
- Goldwind (2208 HK) - WTG business bottomed out in 3Q19” – 29 Oct 2019
- “Goldwind (2208 HK) - GPM bottomed out; 2H19 rebound in sight” – 29 Aug 2019

Figure 1: 1Q20 results summary

(RMB mn)	1Q19	1Q20	YoY(%)	Our comment
Total operating revenue	5396	5467	1.3%	WTG sales was 848MW in 1Q20
Total operating cost	(5282)	(5646)	6.9%	
Operating cost	(3959)	(4290)	8.4%	Implying significant margin squeeze from WTG sales
Business tax and surcharge	(23)	(21)	-7.5%	
Selling and distribution expenses	(392)	(481)	22.7%	Warranty provision will still be a key concern of the market
Administrative expenses	(351)	(352)	0.1%	
R&D expenses	(246)	(210)	-14.5%	
Finance expense	(310)	(281)	-9.2%	
Gross profit	1436	1177	-18.0%	
Overall GPM	26.6%	21.5%	-5.1ppt	GPM continues to experience squeeze in 1Q20
Other gain	58	25	-55.7%	
Investment income	146	1120	669.0%	GWD sold 49% shares of several wind farm projects
Gain or losses from changes in fair values	(13)	101	-885.1%	
Impairment	(56)	(63)	12.4%	
Disposal gain or (loss)	11	4	-59.3%	
Operating profit	259	1009	289.1%	
Operating profit margin	4.8%	18.5%	284.0%	
Non operating income	5.8	0.3	-94.5%	
Non operating expenses	(0)	(3)	1008.4%	
Pretax profit	265	1006	279.9%	
Income tax	-3.4	-91.8	2582.1%	
Effective tax rate	0.1%	1.7%	1.6ppt	
Less: Minority	32.9	19.8	-39.9%	
Net income	229	895	291.5%	
Net profit margin	4.2%	16.4%	12.1ppt	

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	28,590	37,878	47,688	45,040	45,995
WTG manufacturing	22,169	28,857	37,583	33,625	33,288
Wind power services	1,647	3,571	4,302	4,354	4,213
Wind farm	3,904	4,257	4,288	5,243	6,400
Others	870	1,193	1,514	1,818	2,094
Cost of sales	(21,247)	(30,915)	(38,398)	(34,700)	(34,828)
Gross profit	7,344	6,964	9,289	10,340	11,167
Other income, net	2,073	2,373	2,401	2,406	1,355
Selling and distribution	(1,897)	(2,804)	(3,683)	(3,127)	(2,830)
Admin expense	(2,738)	(2,637)	(3,100)	(2,928)	(2,990)
Other expenses	(295)	(587)	(715)	(676)	(690)
EBIT	4,487	3,309	4,192	6,016	6,012
Finance costs, net	(1,071)	(1,109)	(1,166)	(1,378)	(1,580)
JV & associates	266	361	320	345	371
Exceptional	0	0	0	0	0
Pre-tax profit	3,682	2,561	3,346	4,983	4,803
Income tax	(400)	(331)	(438)	(678)	(677)
Profit for the year	3,283	2,230	2,908	4,305	4,125
Minority interests	(67)	(20)	(50)	(50)	(50)
Perpetual MTN distribution	(71)	(101)	(101)	(101)	(101)
Net profit	3,145	2,109	2,757	4,154	3,974

Cash flow summary

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBIT	4,487	3,309	4,192	6,016	6,012
D&A	1,381	1,627	1,663	1,968	2,335
Change in working capital	2,667	(108)	2,742	2,481	1,160
Income tax paid	(348)	(393)	(342)	(462)	(678)
Others	2,887	1,100	(4,500)	(5,228)	(2,650)
Net cash from operating	3,125	5,929	6,839	7,717	8,017
Capex	(6,708)	(12,19)	(6,679)	(7,230)	(7,230)
Associated companies	(1,270)	(831)	203	(320)	(345)
Other	1,863	2,756	(3,700)	(954)	0
Net cash from investing	(6,114)	(10,26)	(10,17)	(8,504)	(7,574)
Equity raised	0	4,640	0	0	0
Change of Debts	450	(593)	3,911	4,686	3,544
Dividend paid	(711)	(1,056)	(676)	(827)	(1,246)
Others	1,463	3,141	(2,085)	(333)	(2,307)
Net cash from financing	1,201	6,131	1,149	3,526	(9)
Net change in cash	(1,787)	1,793	(2,187)	2,739	434
Cash at the beginning	6,746	5,012	6,807	4,621	7,359
Exchange difference	53	2	0	0	0
Cash at the end of the year	5,012	6,807	4,621	7,359	7,794
Pledged cash	38	427	128	140	149
Non-pledged time deposit	16	13	0	0	1
Cash at balance sheet	5,066	7,248	4,748	7,499	7,943

Balance sheet

YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
Non-current assets	48,447	53,443	64,083	69,821	75,238
Fixed asset	25,509	29,010	41,185	46,498	51,445
Prepayments & deposits	1,407	1,177	1,916	1,886	1,856
Prepaid lease payments	292	-	-	-	-
Interest in JVs & associates	3,660	4,491	4,288	4,608	4,953
Other non-current assets	17,578	18,765	16,695	16,830	16,984
Current assets	32,918	48,444	46,066	45,669	43,308
Inventory	4,997	8,124	7,503	7,705	6,557
Cash	5,066	7,248	4,748	7,499	7,943
Account receivable	16,895	17,993	24,514	21,011	19,282
Prepayments	4,526	6,214	4,470	4,400	4,330
Other current assets	1,434	8,865	4,831	5,055	5,197
Current liabilities	31,601	49,569	52,084	50,422	48,494
Trade and bills payable	20,000	25,428	30,029	29,395	28,162
Other payables	6,372	12,186	13,914	12,265	11,631
Borrowings	3,470	5,705	6,376	7,004	7,460
Others	1,759	6,250	1,766	1,758	1,241
Non-current liabilities	23,288	21,264	24,937	28,626	30,896
Borrowings	18,865	16,036	19,276	23,334	26,421
Provision	1,983	2,186	2,033	1,699	924
Others non-current assets	2,441	3,041	3,628	3,593	3,550
Minority Interest	1514	1549	1599	1649	1699
Perpetual MTN	1,993	1,993	1,993	1,993	1,993
Shareholder's equity	19,461	25,140	27,171	30,448	33,126
Total equity	22,968	28,682	30,763	34,090	36,818

Key ratios

YE 31 Dec	2018A	2019A	2020E	2021E	2022E
Sales mix (%)					
WTG manufacturing	77.5	76.2	78.8	74.7	72.4
Wind power services	5.8	9.4	9.0	9.7	9.2
Wind farm	13.7	11.2	9.0	11.6	13.9
Others	3.0	3.1	3.2	4.0	4.6
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	25.7	18.4	19.5	23.0	24.3
Pre-tax margin	12.9	6.8	7.0	11.1	10.4
Net margin	11.0	5.6	5.8	9.2	8.6
Effective tax rate	10.9	12.9	13.1	13.6	14.1
Balance sheet ratios					
Current ratio (x)	1.0	1.0	0.9	0.9	0.9
Quick ratio (x)	0.9	0.8	0.9	0.8	0.9
Cash ratio (x)	0.2	0.1	0.1	0.1	0.2
Inventory turnover days	58.0	63.2	59.8	61.6	56.6
Debtors turnover days	216.7	168.1	162.7	184.5	159.9
Creditor turnover days	302.8	268.2	263.6	312.5	301.6
Total debt / equity ratio (%)	84.4	67.5	74.7	80.4	83.6
Net debt / equity ratio (%)	69.3	48.6	64.2	63.7	67.2
Returns (%)					
ROE	12.6	6.9	8.4	11.5	10.2
ROA	3.9	2.0	2.5	3.6	3.3
Per share					
EPS (RMB)	0.88	0.51	0.65	0.98	0.94
DPS (RMB)	0.25	0.16	0.20	0.29	0.28
BVPS (RMB)	7.02	7.26	7.75	8.54	9.19

Source: Company data, CMBIS estimates

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