

# Suntien Green Energy (956 HK)

## 1H20 results beat; earnings to pick up in 2H

Suntien beat our expectation with flat 1H20 earnings, indicating its resilient performance. In view of massive CAPEX for LNG terminal investments, the Company plans to raise additional capital through A-share market after 6 months from IPO, while mgmt. also intends to maintain stable dividend payout to stabilize investors' expectation. Looking ahead to 2H20, we expect earnings growth to pick up on additional wind capacity and normalization of gas transmission fee. Valuation lacks catalyst in near term, but we remain positive for attractive dividend yield. **Maintain BUY with TP unchanged at HK\$2.84.**

- **1H20 earnings was flat.** Net profit (deducted perp. distribution) was RMB908mn, down 2.9% YoY, beating our estimate by 6.9%. Results beat was mainly on better-than-expected administrative expenses and other gains and gross profit margin decline of only 1.6ppt to 28.7%, which was 1.5ppt higher than our estimate. Revenue and other major expenses were largely in line. We think Suntien has proved its resilience through 1H20 results.
- **Pending to raise more funding for CAPEX acceleration.** Suntien had RMB4.9bn CAPEX in 1H20, mostly for wind capacity addition. Mgmt. maintains full year RMB10bn CAPEX budget unchanged, and expects most of funding in 2H20 will be spent on Tangshan LNG terminal. The Company added 321MW wind capacity in 1H20, and expects to have another 180MW wind farm to commence operation in 2H20. For Tangshan LNG terminal, we expect the Company to invest another RMB25bn in 2020-22E, which is likely to bring pressures on cash flow. Mgmt. plans to raise capital through A-share placement, and we observed the Company had entered storage tank cooperation to share investment costs.
- **Maintain stable dividend payout.** Suntien intends to maintain dividend payout ratio to stabilize investors' expectation (35-41% in 2017-19). Based on 35% payout assumption, we estimate FY20E dividend yield at 7.0% at current share price, which we see attractive among wind and gas peers.
- **Earnings to pick up in 2H20.** Mgmt. guided 10TWh power generation and gas volume growth to increase 10% YoY with slight improved gas dollar margin outlook in 2020. We revised our FY20-22E EPS slightly by 0.6%/-1.8%/-2.0% to reflect operating update. We maintain our view that earnings will resume growth track on the back of additional wind farm contribution and normalization of gas transmission fee.
- **Maintain TP at HK\$2.84.** After A-share listing, inclusion into Southbound trading, and declaration of FY19 dividend, we think Suntien is running out of short-term catalyst. Our view shifts to longer-term growth. Suntien is still undervalued for its resilient earnings and attractive dividend yield, as well as long term growth potential driven by its LNG terminal business. **Maintain BUY.**

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,975	11,943	13,281	15,445	17,633
Net income (RMB mn)	41.3	19.7	11.2	16.3	14.2
EPS (RMB)	1,240	1,344	1,444	1,618	1,769
YoY growth (%)	0.33	0.36	0.38	0.42	0.46
Consensus EPS (RMB)	32.0	8.4	5.5	10.1	9.3
P/E (x)	N/A	N/A	0.39	0.43	0.47
P/B (x)	5.6	5.2	4.9	4.5	4.1
Yield (%)	0.7	0.6	0.5	0.5	0.4
ROE (%)	6.7	6.7	7.0	7.9	8.6
Net gearing (%)	12.4	11.4	10.6	10.8	11.0

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$2.84**  
 (Previous TP **HK\$2.84**)  
 Up/Downside **+29.1%**  
 Current Price **HK\$2.08**

### China Wind Sector

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### Stock Data

Mkt Cap (HK\$ mn)	25,565
Avg 3 mths t/o (HK\$ mn)	50.62
52w High/Low (HK\$)	2.95/1.24
Issued shares - H (mn)	1,839
Issued shares - A (mn)	2,011

Source: Bloomberg

### Shareholding Structure-H

HECIC	48.7%
Freefloat	51.3%

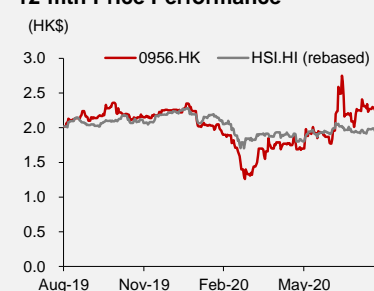
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-0.5%	-3.0%
3-mth	22.4%	11.3%
6-mth	9.5%	12.5%
12-mth	7.2%	8.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

**Auditor: Ernst & Young**

### Related Reports

1. "Suntien Green Energy (956 HK) – Stable operating performance in 1H20" – 30 Jul 2020
2. "Suntien Green Energy (956 HK) – A-share listing is coming close" – 12 Jun 2020
3. "Suntien Green Energy (956 HK) – A-share listing is top priority" – 23 Mar 2020

Figure 1: 1H20 results summary

(RMB mn)	1H19A	2H19A	FY19A	1H20A	YoY	1H20E	Diff %	Our comments
<b>Revenue</b>	<b>6,361</b>	<b>5,583</b>	<b>11,943</b>	<b>6,575</b>	<b>3.4%</b>	<b>6,692</b>	<b>-1.7%</b>	Largely in line
Wind & Solar	2,106	1,843	3,949	2,241	6.4%	2,254	-0.6%	
Natural Gas	4,254	3,727	7,981	4,334	1.9%	4,438	-2.4%	
Cost of sales	(4,431)	(4,206)	(8,638)	(4,687)	5.8%	(4,871)	-3.8%	
<b>Gross profit</b>	<b>1,929</b>	<b>1,376</b>	<b>3,305</b>	<b>1,888</b>	<b>-2.1%</b>	<b>1,821</b>	<b>3.7%</b>	Decline slightly with GPM -1.6ppt YoY
<b>Gross profit margin</b>	<b>30.3%</b>	<b>24.7%</b>	<b>27.7%</b>	<b>28.7%</b>	<b>-1.6ppt</b>	<b>27.2%</b>	<b>1.5ppt</b>	
Other income and gains, net	53	118	171	59	12.5%	71	-16.0%	
Selling and distribution expenses	(0)	(0)	(1)	(0)	209.4%	(0)	167.6%	
Administrative expenses	(218)	(369)	(587)	(201)	-7.6%	(255)	-21.2%	Admin exps b-t-e
Other expenses/gains	4	(49)	(44)	28	529.4%	(7)	n/a	Provision w rote back
<b>Operating profit</b>	<b>1,769</b>	<b>1,076</b>	<b>2,845</b>	<b>1,774</b>	<b>0.3%</b>	<b>1,630</b>	<b>8.9%</b>	Operating profit beat est.
Financial costs	(422)	(453)	(875)	(450)	6.6%	(444)	1.5%	
Share profit from	111	104	215	104	-5.8%	107	-2.4%	
Joint ventures	(6)	(1)	(7)	1	-109.1%	(2)	-126.0%	
Associates	116	106	222	104	-10.9%	109	-4.7%	Jintang LNG profit declined slightly
<b>Profit before Tax</b>	<b>1,457</b>	<b>727</b>	<b>2,184</b>	<b>1,428</b>	<b>-2.0%</b>	<b>1,293</b>	<b>10.5%</b>	
Income tax expense	(246)	(110)	(356)	(231)	-5.9%	(199)	16.5%	Gas contributed more earnings
<b>Effective tax rate</b>	<b>16.9%</b>	<b>15.2%</b>	<b>16.3%</b>	<b>16.2%</b>	<b>-0.7ppt</b>	<b>15.4%</b>	<b>0.8ppt</b>	Some wind projects' tax holiday ended
Profit for the period	1,211	617	1,828	1,197	-1.2%	1,094	9.4%	
Less: Non-controlling interests	244	170	413	249	2.3%	205	21.5%	Minority distribution higher than est.
Renewable green bond	32	39	71	39	23.4%	39	0.0%	
<b>Net profit</b>	<b>936</b>	<b>408</b>	<b>1,344</b>	<b>908</b>	<b>-2.9%</b>	<b>850</b>	<b>6.9%</b>	Bottom line slight beat
<b>Net profit margin</b>	<b>14.7%</b>	<b>7.3%</b>	<b>11.3%</b>	<b>13.8%</b>	<b>-0.9ppt</b>	<b>12.7%</b>	<b>1.1ppt</b>	

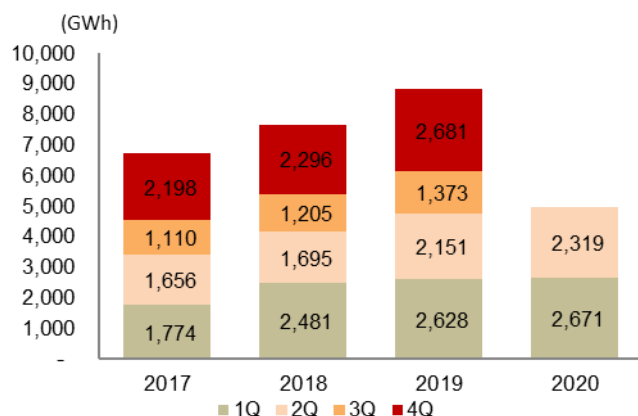
Source: Company data, CMBIS estimates

Figure 2: 1H20 operating summary

	1Q19	2Q19	1H19	1Q20	2Q20	1H20	1H20 YoY	FY20E	Run rate
<b>Wind Power Generation (GWh)</b>	<b>2,628</b>	<b>2,151</b>	<b>4,779</b>	<b>2,671</b>	<b>2,319</b>	<b>4,990</b>	<b>4.4%</b>	<b>9,963</b>	<b>50.1%</b>
Hebei	2,162	1,639	3,801	2,093	1,726	3,819	0.5%		
Shanxi	97	65	163	110	108	218	34.1%		
Xinjiang	30	74	104	38	75	113	8.3%		
Yunnan	229	189	418	212	173	385	-7.9%		
Shandong	20	23	43	21	23	44	3.5%		
Inner Mongolia	90	87	177	90	106	196	11.1%		
Guangxi	-	57	57	45	37	82	44.0%		
Jiangsu	-	10	10	47	44	91	770.2%		
Henan	-	7	7	16	27	43	505.1%		
<b>Solar Power Generation</b>	<b>39</b>	<b>35</b>	<b>74</b>	<b>41</b>	<b>51</b>	<b>93</b>	<b>25.7%</b>	<b>159</b>	<b>58.3%</b>
<b>Total gas sales (mn cbm)</b>	<b>1,173</b>	<b>478</b>	<b>1,651</b>	<b>1,326</b>	<b>547</b>	<b>1,873</b>	<b>13.4%</b>	<b>3,800</b>	<b>49.3%</b>
Wholesale	847	237	1,084	928	240	1,168	7.8%	2,244	52.1%
Retail	301	216	516	380	290	670	29.7%	1,476	45.4%
CNG/LNG	26	25	51	17	17	35	-32.4%	81	42.9%

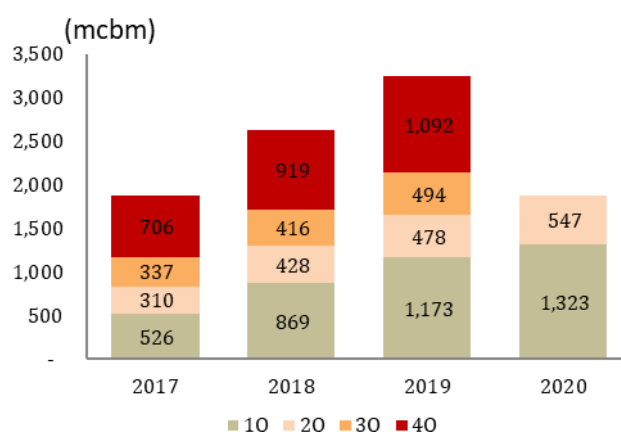
Source: Company data, CMBIS

Figure 3: Wind power generation



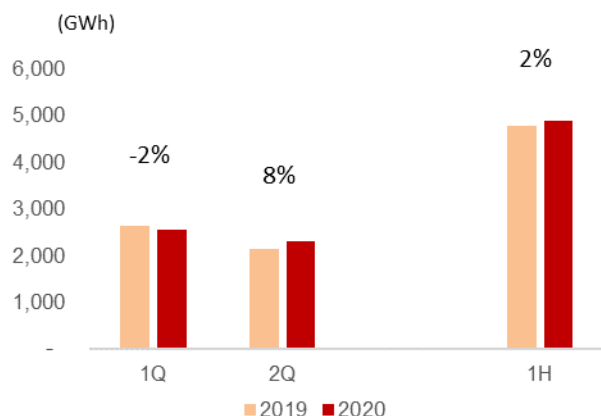
Source: Bloomberg, CMBIS

Figure 4: Gas sales volume



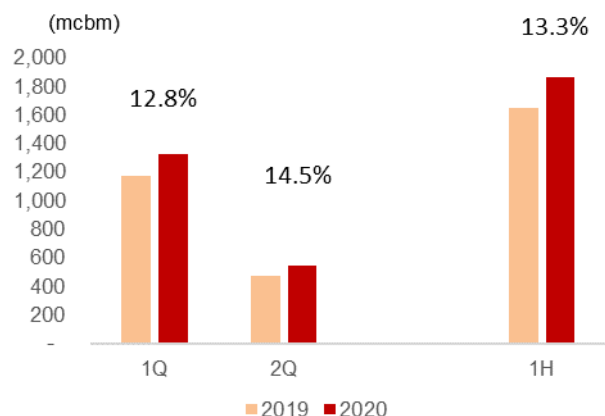
Source: Bloomberg, CMBIS

Figure 5: 1H20 wind power generation performance



Source: Bloomberg, CMBIS

Figure 6: 1H20 gas sales performance



Source: Bloomberg, CMBIS

Figure 7: Earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Revenue (RMB mn)	13,526	15,777	18,007	13,281	15,445	17,633	-1.8%	-2.1%	-2.1%
Net Income (RMB mn)	1,436	1,648	1,806	1,444	1,618	1,769	0.6%	-1.8%	-2.0%
EPS (RMB)	0.38	0.43	0.47	0.38	0.42	0.46	0.6%	-1.8%	-2.0%

Our est. vs. Consensus				Diff with consensus		
Consensus Earnings (RMB mn)				1,513	1,639	1,822
Consensus EPS (RMB)				0.39	0.43	0.47
				-4.6%	-1.3%	-2.9%
				-3.1%	-1.4%	-1.6%

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>9,975</b>	<b>11,943</b>	<b>13,281</b>	<b>15,445</b>	<b>17,633</b>
Wind & Solar	3,422	3,949	4,501	5,025	5,598
Natural Gas	6,551	7,981	8,776	10,415	12,030
<b>Costs of sales</b>	<b>(7,116)</b>	<b>(8,638)</b>	<b>(9,701)</b>	<b>(11,325)</b>	<b>(12,924)</b>
Other income & gains	100	171	157	164	173
Selling & distribution	(0)	(1)	(1)	(1)	(1)
Administrative expenses	(502)	(587)	(626)	(697)	(761)
Other expenses	(219)	(44)	(14)	(18)	(27)
<b>Operating profit</b>	<b>2,239</b>	<b>2,845</b>	<b>3,096</b>	<b>3,568</b>	<b>4,094</b>
Finance costs	(785)	(875)	(986)	(1,194)	(1,435)
Joint ventures & associates	290	215	213	263	287
<b>Pre-tax profit</b>	<b>1,743</b>	<b>2,184</b>	<b>2,324</b>	<b>2,637</b>	<b>2,946</b>
Income tax	(168)	(356)	(383)	(440)	(498)
Minority interests	(307)	(413)	(419)	(501)	(601)
Renewable green bond	(29)	(71)	(78)	(78)	(78)
<b>Net profit</b>	<b>1,240</b>	<b>1,344</b>	<b>1,444</b>	<b>1,618</b>	<b>1,769</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>1,743</b>	<b>2,184</b>	<b>2,324</b>	<b>2,637</b>	<b>2,946</b>
DD&A	1,308	1,540	1,718	2,045	2,509
Working cap change	(147)	(909)	(2,268)	(60)	(384)
Taxation	(217)	(325)	(375)	(430)	(488)
Others	474	1,240	10	0	-
<b>Operating cash flow</b>	<b>3,156</b>	<b>3,732</b>	<b>1,409</b>	<b>4,192</b>	<b>4,582</b>
Capex & investments	(5,568)	(6,041)	(8,554)	(10,812)	(10,423)
Others	1,601	(62)	115	-	-
<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>
Equity raised	-	-	563	-	-
Perpetual MTN raised	590	910	-	-	-
Change of Debts	2,673	3,037	7,193	7,354	7,438
Others	(939)	533	-	-	-
<b>Financing cash flow</b>	<b>945</b>	<b>2,465</b>	<b>7,425</b>	<b>6,514</b>	<b>6,471</b>
<b>Net change in cash</b>	<b>135</b>	<b>93</b>	<b>396</b>	<b>(106)</b>	<b>630</b>
Cash at beginning	2,110	2,240	2,332	2,728	2,622
Exchange difference	(4)	(2)	-	-	-
<b>Cash at the end</b>	<b>2,240</b>	<b>2,332</b>	<b>2,728</b>	<b>2,622</b>	<b>3,252</b>
Restricted cash	-	9	-	-	-
<b>Cash at balance sheet</b>	<b>2,240</b>	<b>2,341</b>	<b>2,728</b>	<b>2,622</b>	<b>3,252</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>32,743</b>	<b>38,499</b>	<b>45,168</b>	<b>53,148</b>	<b>60,698</b>
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	2,467	2,729	3,014
Prepayments	1,648	2,904	2,852	2,065	1,700
Others	837	377	262	260	259
<b>Current assets</b>	<b>6,418</b>	<b>7,455</b>	<b>9,218</b>	<b>10,553</b>	<b>11,226</b>
Cash	2,240	2,341	2,728	2,622	3,252
Receivables	3,296	3,966	4,516	5,118	5,642
Prepayments	812	1,083	1,901	2,737	2,253
Others	70	65	74	77	80
<b>Current liabilities</b>	<b>8,602</b>	<b>10,532</b>	<b>11,199</b>	<b>13,382</b>	<b>14,317</b>
Trade and bill payables	148	137	152	177	202
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
<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>
Borrowings	16,683	19,093	24,045	29,457	34,868
Other payables	184	225	168	194	167
Others	25	46	46	46	46
<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>Renewable green bond</b>	<b>590</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>
<b>Shareholders' equity</b>	<b>9,446</b>	<b>10,316</b>	<b>12,323</b>	<b>13,436</b>	<b>14,639</b>
<b>Total Equity</b>	<b>12,397</b>	<b>14,750</b>	<b>16,845</b>	<b>18,123</b>	<b>19,526</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Wind & Solar	43.9	34.3	33.1	33.9	32.5
Natural Gas	56.1	65.7	66.8	66.1	67.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	32.7	28.7	0.28	27.0	0.27
Operating margin	25.0	22.4	23.8	23.3	23.1
Pre-tax margin	17.1	17.5	18.3	17.5	17.1
Net margin	13.3	12.4	11.3	10.9	10.5
Effective tax rate	8.2	9.6	16.3	16.5	16.7
<b>Balance sheet ratios</b>					
Current ratio (x)	0.58	0.75	0.71	0.82	0.79
Quick ratio (x)	0.58	0.74	0.70	0.82	0.78
Cash ratio (x)	0.22	0.26	0.22	0.24	0.20
Debtors turnover days	107.2	111.0	116.5	113.8	111.4
Total debt/equity ratio (%)	190.0	182.3	175.1	183.0	208.4
Net debt/equity ratio (%)	202.7	198.6	203.2	235.2	256.8
<b>Returns (%)</b>					
ROE	10.9	12.3	11.3	10.6	10.8
ROA	2.74	3.17	2.92	2.65	2.54
<b>Per share</b>					
EPS (RMB)	0.33	0.36	0.38	0.42	0.46
DPS (RMB)	0.13	0.13	0.13	0.15	0.16
BVPS (RMB)	2.70	3.18	3.59	3.88	4.19

Source: Company data, CMBIS estimates

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