

Suntien Green Energy (956 HK)

A share listing will be a potential catalyst

Suntien's 1H19 earnings missed due to higher tax expenses and minority distribution. We trim EPS estimated based on 1H results, but we are not too concerned about the EPS cut, as Suntien revealed possibility to achieve higher growth potential from gas distribution services in Hebei. We see A-share listing a catalyst in 2H19.

- 1H19 results slight missed.** Revenue surged 31.5% YoY to RMB6,361mn. Revenue growth was driven by 14.8%/27.3% power generation and gas sales volume growth YoY, respectively. GPM declined 2.4ppt due to higher contribution from gas distribution segment. Major expenses were in line. Operating profit increased 32.6% YoY to RMB1,769mn, beating our est. by 7.5%. Income tax came with surprise and surged 102.6% YoY, which led to bottom line miss by 8.5%. Net profit was RMB936mn, up 15.4% YoY.
- Prudent capacity expansion plan.** Suntien added 119.4MW wind farm during 1H19. Mgmt. maintained 400-500MW annual expansion target unchanged, and emphasized that Suntien had no intention to participate in installation rush as the Company has concerns on 1) WTG and construction pricing, 2) product delivery, and 3) WTG product quality. Given hurdle rate of levered IRR at 10%, Suntien would prefer grid-parity project to mitigate project risks from tariff and quality. Based on current ~600MW project under construction, mgmt. expects capacity growth in FY20E will trim to 300-400MW.
- Gas segment revealed potential to drive long-term growth.** Though gas sales growth exhibited somewhat shuffle in 2Q19, Suntien maintained FY19 gas volume growth target at above 20%. Mgmt. reemphasized mid-stream pipeline investment target to capture future gas sales opportunities 1) from downstream industrial clients; 2) through enriching upstream gas sources to sustain stable gas dollar margin; and 3) by expanding service coverage to areas with high potential such as northern Hebei and Xiongan New District. We expect Suntien's efforts in gas pipeline will be rewarded from end-2020.
- A-Share listing will be a strong catalyst in 2H19.** Based on 1H19 results, we trim FY19-21E EPS by 12.2-13.9% to RMB0.36/0.40/0.44 respectively for effective tax rate and minority profit distribution. We are not concerned about the EPS cut, and in the opposite, we see long-term growth driver from gas business in 1H19 earnings. We expect Suntien's A-share listing in 2H19 (ranking ~30 in pending approval list) will be a strong catalyst to trigger re-rating. Based on revised STOP valuation, we raise Suntien's TP slightly to HK\$2.74. **Reiterate BUY.**

Earnings Summary

| (YE 31 Dec) | FY17A | FY18A | FY19E | FY20E | FY21E |
|---------------------|-------|-------|--------|--------|--------|
| Revenue (RMB mn) | 7,058 | 9,975 | 12,731 | 15,436 | 18,210 |
| Net income (RMB mn) | 940 | 1,240 | 1,329 | 1,484 | 1,646 |
| EPS (RMB) | 0.25 | 0.33 | 0.36 | 0.40 | 0.44 |
| YoY growth (%) | 73.5 | 32.0 | 7.2 | 11.6 | 10.9 |
| P/E (x) | 6.9 | 5.2 | 4.9 | 4.4 | 3.9 |
| P/B (x) | 0.8 | 0.6 | 0.5 | 0.5 | 0.5 |
| Yield (%) | 5.9 | 7.2 | 8.2 | 9.2 | 10.2 |
| ROE (%) | 10.9 | 12.4 | 11.3 | 11.6 | 11.9 |
| Net gearing (%) | 195 | 190 | 214 | 249 | 256 |

Source: Company data, CMBIS estimates

BUY (Maintain)

| | |
|---------------|----------|
| Target Price | HK\$2.74 |
| (Previous TP) | HK\$2.69 |
| Up/Downside | +41.2% |
| Current Price | HK\$1.94 |

China Wind Sector

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn) | 7,207 |
| Avg 3 mths t/o (HK\$ mn) | 9 |
| 52w High/Low (HK\$) | 2.56/1.76 |
| Total Issued Shares (mn) | 1,839 |

Source: Bloomberg

Shareholding Structure

| | |
|-----------|-------|
| HECIC | 50.5% |
| Freefloat | 49.5% |

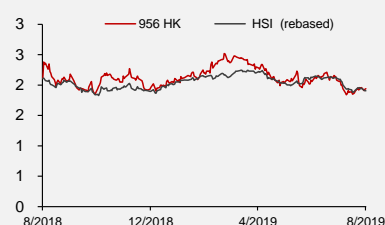
Source: HKEx

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | -7.2% | 2.7% |
| 3-mth | -6.3% | -0.4% |
| 6-mth | -12.3% | -1.7% |
| 12-mth | -11.1% | -2.0% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "Suntien Green Energy (956 HK) – 1H19 maintain decent growth" – 5 Aug 2019
- "Suntien Green Energy (956 HK) – Wind progress on track, while gas sales facing uncertainties" – 29 Aug 2019
- "Suntien Green Energy (956 HK) – Increasing CAPEX for natural gas expansion" – 14 Mar 2019

Figure 1: 1H19 operating summary vs. our estimates

| Company and segment | 1H18 | 1H19 | YoY growth (%) | FY18A | FY19E | 1H18/ | 1H19/ |
|---------------------------------|------------------------|------------------------|----------------|------------------------|------------------------|------------------------|--------------|
| | Power generation (GWh) | Power generation (GWh) | | Power generation (GWh) | Power generation (GWh) | Power generation (GWh) | FY18 (%) |
| Suntien - 956 HK | | | | | | | |
| Power generation total | 4,239 | 4,865 | 14.8% | 7,815 | 8,765 | 54.2% | 55.5% |
| Wind | 4,176 | 4,779 | 14.4% | 7,676 | 8,608 | 54.4% | 55.5% |
| Solar | 63 | 86 | 35.7% | 139 | 157 | 45.5% | n/a |
| Natural Gas Sales (mcbm) | 1,297 | 1,651 | 27.31% | 2,631 | 3,442 | 49.3% | 48.0% |
| Wholesale | 825 | 1,084 | 31.4% | 1,620 | 2,187 | 50.9% | 49.6% |
| Retail | 431 | 517 | 19.8% | 920 | 1,159 | 46.9% | 44.6% |
| CNG | 41 | 51 | 25.3% | 92 | 96 | 44.6% | 53.2% |

Source: Company data, CMBIS

Figure 2: Our 1H19 earnings estimates for Suntien

| | 1H18A | 1H19A | YoY Change% | 1H19E | 1H19E/ FY19E% | Our comments |
|-----------------------------------|----------------|--------------|----------------|--------------|----------------|--|
| | Revenue | 4,839 | 6,361 | 31.5% | 6,206 | |
| Wind & Solar | 1,841 | 2,106 | 14.4% | 2,152 | -2.1% | YoY 14.8% Power generation growth |
| Natural Gas | 2,998 | 4,254 | 41.9% | 4,054 | 5.0% | YoY 27.3% gas sales volume growth |
| Cost of sales | (3,255) | (4,431) | 36.1% | (4,398) | 0.8% | |
| Gross profit | 1,584 | 1,929 | 21.8% | 1,808 | 6.7% | |
| Gross profit margin | 32.7% | 30.3% | -2.4ppt | 29.1% | 1.2ppt | GPM change due to mix change |
| Other income and gains, net | 66 | 53 | -19.5% | 49 | 8.3% | |
| Selling and distribution expenses | (0) | (0) | 105.3% | (0) | 39.9% | |
| Administrative expenses | (173) | (218) | 26.1% | (195) | 11.5% | |
| Other expenses/gains | (143) | 4 | -103.1% | (15) | -129.2% | RMB115mn AR provision in 1H18 |
| Operating profit | 1,334 | 1,769 | 32.6% | 1,646 | 7.5% | Operating profit beat est. |
| Financial costs | (390) | (422) | 8.2% | (432) | -2.3% | |
| Share profit from | 134 | 111 | -17.8% | 148 | -25.1% | |
| Joint ventures | (4) | (6) | 47.4% | (1) | 319.8% | |
| Associates | 138 | 116 | -15.9% | 150 | -22.5% | Jintang LNG made high contribution |
| Exceptional | - | - | n/a | - | n/a | |
| Profit before Tax | 1,078 | 1,457 | 35.2% | 1,361 | 7.0% | |
| Income tax expense | (121) | (246) | 102.6% | (145) | 70.0% | Gas contributed more earnings |
| Effective tax rate | 11.3% | 16.9% | 5.6ppt | 10.6% | 6.3ppt | Some wind projects' tax holiday ended |
| Profit for the year | 957 | 1,211 | 26.6% | 1,217 | -0.4% | |
| Less: Non-controlling interests | 134 | 244 | 81.3% | 163 | 49.2% | Minority distribution higher than est. |
| Renewable green bond | 11 | 32 | 193.9% | 30 | 6.0% | |
| Net profit | 811 | 936 | 15.4% | 1,024 | -8.5% | In line if striped out AR provision |
| Net profit margin | 16.8% | 14.7% | -2.1ppt | 16.5% | -1.8ppt | |

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

| | Old | | | New | | | Change(%) | | |
|---------------------|--------|--------|--------|--------|--------|--------|-----------|--------|--------|
| | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| Revenue (RMB mn) | 12,323 | 14,947 | 17,607 | 12,731 | 15,436 | 18,210 | 3.3% | 3.3% | 3.4% |
| Net Income (RMB mn) | 1,513 | 1,720 | 1,911 | 1,329 | 1,484 | 1,646 | -12.2% | -13.7% | -13.9% |
| EPS (RMB) | 0.41 | 0.46 | 0.51 | 0.36 | 0.40 | 0.44 | -12.2% | -13.7% | -13.9% |

Source: CMBIS estimates

Figure 4: Our DCF valuation for wind and solar power generation

| DCF Valuation | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--------------------------------------|---------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| Grid Connected Capacity(MW) | 4,958 | 5,458 | 5,908 | 6,308 | 6,735 | 7,191 | 7,678 | 8,198 | 8,753 | 9,346 | 9,978 |
| Capacity growth | 12.5% | 10.1% | 8.2% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% | 6.8% |
| Additional capacity of that year(MW) | 550 | 500 | 450 | 400 | 427 | 456 | 487 | 520 | 555 | 593 | 633 |
| Turnover (Rmb mn) | 4,366 | 4,838 | 5,248 | 5,598 | 5,697 | 6,021 | 6,365 | 6,728 | 7,111 | 7,517 | 7,946 |
| Turnover growth | 10.2% | 10.8% | 8.5% | 6.7% | 1.8% | 5.7% | 5.7% | 5.7% | 5.7% | 5.7% | 5.7% |
| EBIT (Rmb mn) | 2,278 | 2,488 | 2,658 | 2,792 | 2,827 | 2,972 | 3,125 | 3,286 | 3,455 | 3,632 | 3,819 |
| EBIT margin (%) | 52.2% | 51.4% | 50.7% | 49.9% | 49.6% | 49.4% | 49.1% | 48.8% | 48.6% | 48.3% | 48.1% |
| Tax rate (%) | 11.8% | 12.3% | 12.8% | 13.3% | 14% | 15% | 16% | 16% | 17% | 18% | 19% |
| Depreciation (Rmb mn) | 1,504 | 1,693 | 1,866 | 2,022 | 2,101 | 2,221 | 2,347 | 2,481 | 2,623 | 2,772 | 2,930 |
| CAPEX (Rmb mn) | (5,500) | (3,250) | (2,925) | (2,600) | (2,748) | (2,905) | (3,071) | (3,246) | (3,431) | (3,626) | (3,833) |
| Change in working capital (Rmb mn) | 313 | (224) | (278) | (142) | (30) | (97) | (103) | (109) | (115) | (122) | (129) |
| Free cash flow | (1,674) | 402 | 982 | 1,702 | 1,754 | 1,752 | 1,814 | 1,878 | 1,944 | 2,012 | 2,081 |
| Years | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Discount factor | 0.93 | 0.87 | 0.81 | 0.75 | 0.70 | 0.65 | 0.60 | 0.56 | 0.52 | 0.49 | 0.45 |
| Discount free cash flow | (1,557) | 348 | 791 | 1,275 | 1,223 | 1,137 | 1,095 | 1,055 | 1,016 | 978 | 941 |
| Terminal value | 47,852 | | | | | | | | | | |
| Terminal perpetual growth | 3.00% | | | | | | | | | | |
| Terminal EV/EBITDA | 7.09 | | | | | | | | | | |

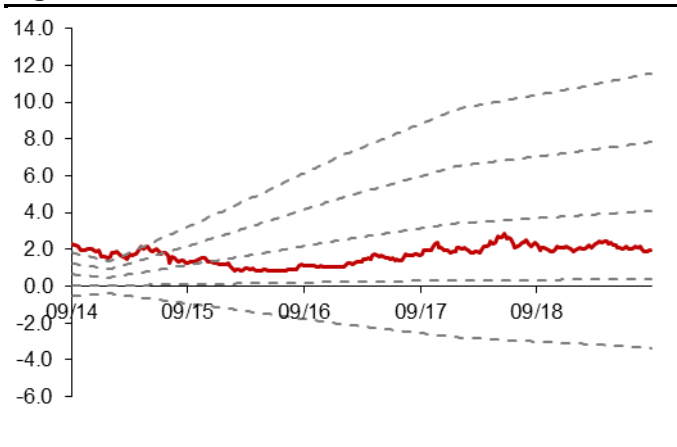
| Valuations (RMB mn) | WACC Calculations | | |
|-------------------------------|-------------------|------------------------|--------|
| Terminal value | 47,852 | Cost of debt | 4.80% |
| Terminal perpetual growth | 3.0% | Tax rate | 15% |
| Terminal EV/EBITDA | 7.09 | After tax cost of debt | 4.1% |
| Total discount FCF | 8,302 | Adjusted beta | 1.10 |
| Discount terminal value | 21,645 | Market risk premium | 14.40% |
| Segment value | 29,947 | Risk free rate | 1.8% |
| Discount FCF(% of total) | 28% | Cost of equity | 17.7% |
| Terminal value (% of total) | 72% | % of debt financing | 75% |
| Share fair value (Rmb) | 8.06 | WACC | 7.5% |
| Share fair value (HKD) | 8.96 | | |

Source: Company data, CMBIS estimates

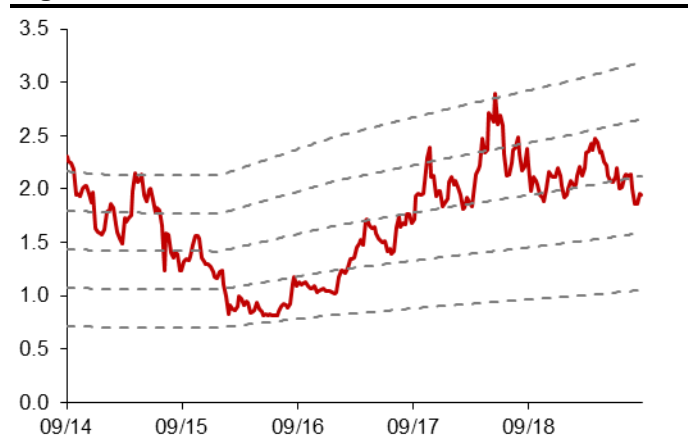
Figure 5: Our SOTP valuation of Suntien

| SOTP Valuation summary | Measure by | |
|--------------------------------|----------------------|-----------------|
| | The Company (RMB mn) | Per share (RMB) |
| Wind & Solar segment -DCF | 29,947 | 8.06 |
| Piped gas supply segment - PER | 7,279 | 1.96 |
| Total value | 37,226 | 10.02 |
| Less: Net debt | 25,268 | 6.80 |
| Minority Interest | 2,600 | 0.70 |
| Renewable corp bond | 1,500 | 0.05 |
| Equity Value of the firm | 9,359 | 2.46 |
| Per share value (HKD) | | 2.74 |

Source: Company data, CMBIS estimates

Figure 6: 12M forward P/E band

Source: Company data, CMBIS

Figure 7: 12M forward P/B band

Source: Company data, CMBIS

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|-----------------------------|----------------|----------------|----------------|-----------------|-----------------|
| Revenue | 7,058 | 9,975 | 12,731 | 15,436 | 18,210 |
| Wind & Solar | 3,100 | 3,422 | 3,961 | 4,366 | 4,838 |
| Natural Gas | 3,957 | 6,551 | 8,770 | 11,070 | 13,372 |
| Costs of sales | (4,750) | (7,116) | (9,453) | (11,651) | (13,884) |
| Other income and gains | 81 | 100 | 78 | 78 | 78 |
| Selling & distribution exps | (0) | (0) | (1) | (1) | (1) |
| Administrative expenses | (453) | (502) | (592) | (656) | (728) |
| Other expenses | (171) | (219) | (64) | (77) | (82) |
| Operating profit | 1,764 | 2,239 | 2,700 | 3,129 | 3,593 |
| Finance costs | (774) | (785) | (916) | (1,152) | (1,339) |
| JV & associates | 214 | 290 | 341 | 375 | 425 |
| Pre-tax profit | 1,204 | 1,743 | 2,191 | 2,472 | 2,798 |
| Income tax | (99) | (168) | (307) | (346) | (392) |
| Minority interests | (165) | (307) | (485) | (564) | (683) |
| Renewable green bond | - | (29) | (70) | (78) | (78) |
| Net profit | 940 | 1,240 | 1,329 | 1,484 | 1,646 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|------------------------------|----------------|----------------|----------------|-----------------|----------------|
| Profit before tax | 1,204 | 1,743 | 2,191 | 2,472 | 2,798 |
| D&A | 1,125 | 1,308 | 1,540 | 1,887 | 2,320 |
| Change in working capital | (75) | (147) | (1,861) | 313 | (224) |
| Taxation | (126) | (217) | (327) | (346) | (392) |
| Others | 496 | 91 | - | - | - |
| Operating cash flow | 2,642 | 2,778 | 1,542 | 4,325 | 4,503 |
| Capex & investments | (4,324) | (5,568) | (8,392) | (10,265) | (7,426) |
| Others | 754 | (12) | 12 | - | - |
| Investment cash flow | (3,570) | (5,580) | (8,381) | (10,265) | (7,426) |
| Equity raised | - | - | - | - | - |
| Perpetual MTN raised | - | 590 | 910 | - | - |
| Change of Debts | 2,963 | 2,673 | 6,502 | 6,883 | 3,872 |
| Others | (901) | 274 | - | - | - |
| Financing cash flow | 1,563 | 3,022 | 6,702 | 5,964 | 2,827 |
| Net change in cash | 634 | 220 | (136) | 25 | (95) |
| Cash at the beginning | 1,491 | 2,110 | 2,240 | 2,104 | 2,129 |
| Exchange difference | (15) | (89) | - | - | - |
| Cash at the end | 2,110 | 2,240 | 2,104 | 2,129 | 2,034 |
| Add: Acquired cash | - | - | - | - | - |
| Cash at balance sheet | 2,110 | 2,240 | 2,104 | 2,129 | 2,034 |

Balance sheet

| YE 31 Dec (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 28,755 | 32,743 | 39,327 | 47,428 | 52,533 |
| Fixed asset | 22,466 | 26,584 | 33,026 | 41,091 | 45,836 |
| Intangible assets | 1,870 | 1,757 | 1,673 | 1,574 | 1,475 |
| Interest in associates and JVs | 1,687 | 1,918 | 2,378 | 2,757 | 3,185 |
| Prepayments | 1,819 | 1,648 | 1,391 | 1,114 | 1,114 |
| Others | 913 | 837 | 859 | 892 | 923 |
| Current assets | 5,533 | 6,418 | 7,902 | 8,293 | 8,664 |
| Cash | 2,110 | 2,240 | 2,104 | 2,129 | 2,034 |
| Trade and bills receivables | 2,564 | 3,296 | 3,868 | 4,599 | 5,060 |
| Prepayments | 789 | 812 | 1,844 | 1,476 | 1,476 |
| Others | 70 | 70 | 86 | 90 | 94 |
| Current liabilities | 9,473 | 8,602 | 9,605 | 11,182 | 12,608 |
| Trade and bill payables | 576 | 148 | 1,018 | 1,235 | 1,457 |
| Other payables | 3,084 | 3,655 | 2,440 | 2,693 | 2,788 |
| Borrowings | 5,708 | 4,644 | 6,022 | 7,118 | 8,215 |
| Others | 49 | 70 | 50 | 50 | 50 |
| Non-current liabilities | 14,314 | 18,162 | 23,214 | 29,000 | 31,767 |
| Borrowings | 13,217 | 16,683 | 21,350 | 26,779 | 29,125 |
| Other payables | 69 | 184 | 102 | 112 | 116 |
| Others | - | 25 | 25 | 25 | 25 |
| Minority Interest | 1,896 | 2,360 | 2,600 | 2,776 | 3,008 |
| Renewable green bond | - | 590 | 1,000 | 1,000 | 1,000 |
| Shareholders' equity | 8,605 | 9,446 | 10,311 | 11,263 | 12,315 |
| Total Equity | 10,501 | 12,397 | 14,410 | 15,539 | 16,823 |

Key ratios

| YE 31 Dec | FY17A | FY18A | FY19E | FY20E | FY21E |
|-------------------------------|------------|------------|------------|------------|------------|
| Sales mix (%) | | | | | |
| Wind & Solar | 45.2 | 43.9 | 34.3 | 31.1 | 28.3 |
| Natural Gas | 54.6 | 56.1 | 65.7 | 68.9 | 71.7 |
| Total | 100 | 100 | 100 | 100 | 100 |
| P&L ratios (%) | | | | | |
| Gross profit margin | 32.9 | 32.7 | 28.7 | 0.26 | 24.5 |
| Operating margin | 28.0 | 25.0 | 22.4 | 21.2 | 20.3 |
| Pre-tax margin | 17.0 | 17.1 | 17.5 | 17.2 | 16.0 |
| Net margin | 12.4 | 13.3 | 12.4 | 10.4 | 9.6 |
| Effective tax rate | 13.0 | 8.2 | 9.6 | 14.0 | 14.0 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 0.49 | 0.58 | 0.75 | 0.82 | 0.74 |
| Quick ratio (x) | 0.49 | 0.58 | 0.74 | 0.82 | 0.74 |
| Cash ratio (x) | 0.19 | 0.22 | 0.26 | 0.22 | 0.19 |
| Debtors turnover days | 107. | 107. | 102. | 100. | 96.8 |
| Total debt / equity ratio (%) | 178. | 180. | 172. | 189. | 218. |
| Net debt / equity ratio (%) | 195. | 190. | 213. | 248. | 255. |
| Returns (%) | | | | | |
| ROE | 6.86 | 10.9 | 12.3 | 11.2 | 11.6 |
| ROA | 1.84 | 2.74 | 3.17 | 2.81 | 2.66 |
| Per share | | | | | |
| EPS (RMB) | 0.25 | 0.33 | 0.36 | 0.40 | 0.44 |
| DPS (RMB) | 0.10 | 0.13 | 0.14 | 0.16 | 0.18 |
| BVPS (RMB) | 2.32 | 2.70 | 3.18 | 3.44 | 3.72 |

Source: Company data, CMBIS estimates

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