

Goldwind (2208 HK)

WTG margin to bottom out in 2H20

GWD's net profit (excl. perpetual int.) was up 8.0% YoY to RMB1,225mn, missed consensus estimates. WTG GPM recovery pace was slower than expected, due to drags from overseas orders. We saw some positives on GWD's recovery path, as WTG GPM stepped out of the shadow of price war. Looking ahead, we expect the improvement to continue at graduate pace, and WTG shipment to accelerate in 2H20. **We raise GWD's rating from Hold to BUY on cheap valuation. TP remains unchanged at HK\$7.70.**

- 1H20 net profit was RMB1,225mn, missed consensus estimates.** Revenue grew by 23.4% to RMB19.4bn, mainly boosted by WTG sales reaching 4.1GW in 1H20, up 28.5%. Overall GPM declined 3.6ppt YoY to 17.1% but exhibited a slight recovery of 0.4ppt HoH. Selling expense/administrative expense to revenue rate declined 0.2/1.0ppt respectively, reflecting GWD's effort on cost control. However, other expense to revenue rate expanded 0.6ppt, partially offset those gains from cost control. Aggregate those three major expense to revenue rates was 16.7%, reflecting tiny margin left from GWD's operating business. Net profit excluded perpetual distribution was RMB1,225mn. GWD's 2Q20 performance was significantly lower than consensus estimates, in our view.
- FY20 WTG shipment guidance maintained 12-14GW.** We think WTG shipment a highlight, as the Company managed to deliver 3.25GW in 2Q20, despite various challenges brought by COVID-19. Mgmt. saw optimistic sign for product delivery, easing market concerns for tighten supply chain. GWD maintained full year WTG shipment at 12-14GW, reflecting >30% growth YoY.
- Slight recovery in WTG GPM.** GPM of WTG read 12.1%, reflecting 0.74ppt recovery YoY. GPM recovery was mainly on improving price/cost structure as GWD gradually digested those extremely low price orders. However, we think the recovery pace was slower than market expectation, as 1H20 GPM was lower than mgmt. guidance level of 15% in FY20. GWD explained lockdown measures are likely to bring challenge to GPM recovery for overseas projects, which would lead to 1ppt margin squeeze from previous target. Mgmt. maintained 15% GPM target for domestic orders in 2020. Overall, despite impacts from overseas orders, we still saw GPM expanding in 1H20. We think the segment has finally stepped out of the shadow of price war.
- Upgrade to BUY on cheap valuation.** We are still conservative on GWD's earnings recovery outlook. Our FY20E EPS estimates is 17.8% lower than consensus estimates. After sharp correction in short term, however, we think GWD's investment value begins to emerge. We raise GWD's rating from Hold to BUY. TP remains unchanged at HK\$7.70, reflecting 10.7x/7.3x FY20/21E PER.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	28,590	37,878	48,995	42,855	43,807
Net income (RMB mn)	3,145	2,109	2,743	4,018	4,381
EPS (RMB)	0.88	0.51	0.65	0.95	1.04
YoY growth (%)	5.4	-42.1	26.8	46.5	9
Consensus EPS(RMB)	N/A	N/A	0.79	0.84	0.87
P/E (x)	6.8	11.7	9.2	6.3	5.8
P/B (x)	0.9	0.8	0.8	0.7	0.6
Yield (%)	4.2	2.7	3.2	4.8	5.2
ROE (%)	12.6	7.1	8.4	11.2	11.2
Net gearing (%)	69.3	48.6	61.7	69.3	68.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Up)

Target Price	HK\$7.70
(Previous TP)	HK\$7.70)
Up/Downside	+15.4%
Current Price	HK\$6.67

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	47,812
Avg 3 mths t/o (HK\$ mn)	69.3
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%

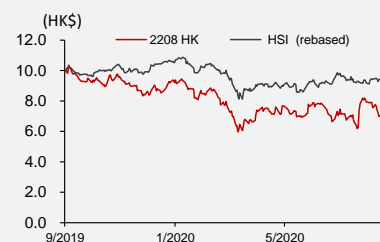
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.5%	-16.5%
3-mth	-4.4%	-12.9%
6-mth	-13.8%	-10.6%
12-mth	-27.7%	-26.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "Goldwind (2208 HK) - Strong 1Q20 results; but headwind remains" – 4 May 2020
- Goldwind (2208 HK) – Struggling at cycle bottom" – 3 Apr 2020
- Goldwind (2208 HK) - WTG business bottomed out in 3Q19" – 29 Oct 2019

Figure 1: 1H20 results summary

RMB mn	1H19	2H19	FY19A	1H20	YoY	Our Comments
Revenue	15,700	22,178	37,878	19,366	23.4%	
WTG manufacturing	11,636	17,221	28,857	14,566	25.2%	WTG sales surged 28.5% to 4,100MW
Wind power services	1,437	2,135	3,571	2,228	55.0%	GWD had made EPC provision for overseas project
Wind farm investment and development	2,238	2,019	4,257	2,101	-6.1%	
Others	389	803	1,193	472	21.2%	
Cost of sales	(12,442)	(18,472)	(30,915)	(16,049)	29.0%	
Gross profit	3,258	3,706	6,964	3,317	1.8%	
<i>Gross profit margin</i>	<i>20.7%</i>	<i>16.7%</i>	<i>18.4%</i>	<i>17.1%</i>	<i>-3.6ppt</i>	<i>GPM squeezed mainly from WTG and Wind power services</i>
Other income and gains	1,226	1,147	2,373	1,550	26.4%	Sold 226MW wind farm
Selling and distribution expenses	(1,263)	(1,541)	(2,804)	(1,518)	20.2%	GWD recognized warranty provision for specific projects
<i>as % to revenue</i>	<i>8.0%</i>	<i>6.9%</i>	<i>7.4%</i>	<i>7.8%</i>	<i>-0.2ppt</i>	
Administrative expenses	(1,203)	(1,434)	(2,637)	(1,288)	7.1%	
<i>as % to revenue</i>	<i>7.7%</i>	<i>6.5%</i>	<i>7.0%</i>	<i>6.7%</i>	<i>-1.0ppt</i>	
Other expenses	(254)	(357)	(611)	(429)	68.7%	
<i>as % to revenue</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.6%</i>	<i>2.2%</i>	<i>0.6ppt</i>	
Finance cost	(563)	(546)	(1,109)	(439)	-22.1%	
Share of profit and losses of	223	138	361	242	8.6%	
Joint ventures	216	132	348	221	2.4%	
Associates	7	6	13	21	208.1%	
EBIT	1,764	1,545	3,309	1,632	-7.5%	
Profit before tax	1,424	1,138	2,561	1,435	0.8%	
Income tax expense	(211)	(120)	(331)	(146)	-31.1%	
<i>Effective tax rate</i>	<i>14.8%</i>	<i>10.6%</i>	<i>12.9%</i>	<i>10.1%</i>	<i>-4.7ppt</i>	
Profit for the period	1,212	1,017	2,230	1,290	6.4%	
Less:						
Non-controlling interests	28	(8)	20	15	-47.5%	
Perpetual MTN interest	50	51	101	50	0.3%	
Net income attributable to owner	1,135	974	2,109	1,225	7.9%	Net profit missed consensus est.
<i>Net margin</i>	<i>7.2%</i>	<i>4.4%</i>	<i>5.6%</i>	<i>6.3%</i>	<i>-0.9ppt</i>	

Source: Company data, CMBIS

Figure 2: 1H20 key operating & segment margin summary

	1H19	2H19	FY19A	1H20	YoY	Our Comments
Operating Performance & GPM						
Gross profit - RMB mn						
WTG manufacturing	1,315	2,255	3,570	1,745	32.6%	GP expanded with increase sales volume
Wind power services	124	99	224	-192	-254.0%	WPS recorded EPC provision for overseas projects
Wind farm investment and development	1,584	1,063	2,646	1,495	-5.6%	
Others	234	289	523	269	14.9%	
GPM						
WTG manufacturing	11.3%	13.1%	12.4%	12.0%	0.7ppt	WTG GPM expanded 0.7ppt YoY
Wind power services	8.7%	4.7%	6.3%	-8.6%	-17.3ppt	WPS GPM turned negative due to provision
Wind farm investment and development	70.8%	52.6%	62.2%	71.2%	0.4ppt	
Others	60.2%	35.9%	43.8%	57.0%	-3.2ppt	
WTG Shipment -MW	3,191	4,980	8,171	4,100	28.5%	
Number of WTG sales	1,416	2,112	3,528	1,677.0	n/a	
Average capacity per WTG sales - MW	2.25	2.36	2.32	2.4	n/a	Product model shifting to larger scale
<i>Period ASP - RMB mn*</i>	<i>3,647</i>	<i>3,458</i>	<i>3,532</i>	<i>3,553</i>	<i>-2.6%</i>	<i>We estimate ASP declined 2.6% YoY</i>

Source: Company data, CMBIS

Figure 3: Earnings revision

	Old			New			est. change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Wind turbine sales (MW)	10,135	8,890	8,890	10,488	8,308	8,308	3.5%	-6.5%	-6.5%
Revenue (RMB mn)	47,688	45,040	45,995	48,995	42,855	43,807	2.7%	-4.9%	-4.8%
Gross profit margin	19.5	23.0	24.3	19.4	23.2	24.7	-0.1ppt	0.3ppt	0.4ppt
Operating profit margin	7.2	12.4	15.2	7.0	12.7	16.0	-0.3ppt	0.3ppt	0.8ppt
Net Income (RMB mn)	2757	4154	3974	2743	4018	4381	-0.5%	-3.3%	10.2%
Net profit margin	5.8	9.2	8.6	5.6	9.4	10.0	-3.2%	1.7%	15.7%
EPS (RMB)	0.65	0.98	0.94	0.65	0.95	1.04	-0.5%	-3.3%	10.2%

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E	YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	28,590	37,878	48,995	42,855	43,807	EBIT	4,487	3,309	4,177	5,859	6,486
WTG manufacturing	22,169	28,857	38,891	31,424	31,110	D&A	1,381	1,627	1,663	1,968	2,335
Wind power services	1,647	3,571	4,302	4,369	4,203	Change in working capital	2,667	(108)	3,137	908	1,804
Wind farm	3,904	4,257	4,288	5,243	6,400	Income tax paid	(348)	(393)	(342)	(458)	(665)
Others	870	1,193	1,514	1,818	2,094	Others	2,887	1,100	(4,436)	(4,692)	(3,241)
Cost of sales	-21,247	-30,915	-39,502	-32,908	-32,984	Net cash from operating	3,125	5,929	7,678	4,950	9,187
Gross profit	7,344	6,964	9,493	9,946	10,822	Capex	(6,708)	(12,19)	(6,679)	(7,230)	(7,230)
Other income, net	2,073	2,373	2,415	2,389	1,812	Associated companies	(1,270)	(831)	203	(320)	(345)
Selling and distribution	-1,897	-2,804	-3,811	-3,048	-2,644	Other	1,863	2,756	(3,700)	(954)	0
Admin expense	-2,738	-2,637	-3,185	-2,786	-2,847	Net cash from investing	(6,114)	(10,26)	(10,17)	(8,504)	(7,574)
Other expenses	-295	-587	-735	-643	-657	Equity raised	0	4,640	0	0	0
EBIT	4,487	3,309	4,177	5,859	6,486	Change of Debts	450	(593)	3,911	4,686	3,544
Finance costs, net	-1,071	-1,109	-1,166	-1,378	-1,580	Dividend paid	(711)	(1,056)	(676)	(823)	(1,205)
JV & associates	266	361	320	345	371	Others	1,463	3,141	(2,085)	(333)	(2,307)
Exceptional	0	0	0	0	0	Net cash from financing	1,201	6,131	1,149	3,530	32
Pre-tax profit	3,682	2,561	3,331	4,826	5,276	Net change in cash	(1,787)	1,793	(1,348)	(24)	1,645
Income tax	-400	-331	-436	-656	-744	(Cash at the beginning)	6,746	5,012	6,807	5,459	5,435
Profit for the year	3,283	2,230	2,894	4,169	4,532	Exchange difference	53	2	0	0	0
Minority interests	-67	-20	-50	-50	-50	Cash at the end of the year	5,012	6,807	5,459	5,435	7,080
Perpetual MTN distribution	-71	-101	-101	-101	-101	Pledged cash	38	427	128	140	149
Net profit	3,145	2,109	2,743	4,018	4,381	Non-pledged time deposit	16	13	0	0	1
						Cash at balance sheet	5,066	7,248	5,587	5,575	7,229

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	2018A	2019A	2020E	2021E	2022E	YE 31 Dec	2018A	2019A	2020E	2021E	2022E
Non-current assets	48,447	53,443	64,105	69,794	75,199	Sales mix (%)					
Fixed asset	25,509	29,010	41,185	46,498	51,445	WTG manufacturing	77.5	76.2	79.4	73.3	71.0
Prepayments & deposits	1,407	1,177	1,916	1,886	1,856	Wind power services	5.8	9.4	8.8	10.2	9.6
Prepaid lease payments	292	-	-	-	-	Wind farm	13.7	11.2	8.8	12.2	14.6
Interest in JVs & associates	3,660	4,491	4,288	4,608	4,953	Others	3.0	3.1	3.1	4.2	4.8
Other non-current assets	17,578	18,765	16,717	16,803	16,945	Total	100	100	100	100	100
Current assets	32,918	48,444	47,605	42,968	41,182	Profit & loss ratios (%)					
Inventory	4,997	8,124	7,503	7,973	6,128	Gross margin	25.7	18.4	19.4	23.2	24.7
Cash	5,066	7,248	5,587	5,575	7,229	Pre-tax margin	12.9	6.8	6.8	11.3	12.0
Account receivable	16,895	17,993	25,189	19,984	18,359	Net margin	11.0	5.6	5.6	9.4	10.0
Prepayments	4,526	6,214	4,470	4,400	4,330	Effective tax rate	10.9	12.9	13.1	13.6	14.1
Other current assets	1,434	8,865	4,857	5,037	5,137	Balance sheet ratios					
Current liabilities	31,601	49,569	53,538	47,922	46,159	Current ratio (x)	1.0	1.0	0.9	0.9	0.9
Trade and bills payable	20,000	25,428	31,074	27,471	26,319	Quick ratio (x)	0.9	0.8	0.9	0.7	0.9
Other payables	6,372	12,186	14,295	11,670	11,077	Cash ratio (x)	0.2	0.1	0.1	0.1	0.2
Borrowings	3,470	5,705	6,376	7,004	7,460	Inventory turnover days	58	63	58	66	59
Others	1,759	6,250	1,793	1,777	1,302	Debtors turnover days	217	168	161	192	160
Non-current liabilities	23,288	21,264	25,059	28,543	30,764	Creditor turnover days	303	268	261	325	298
Borrowings	18,865	16,036	19,276	23,334	26,421	Total debt / equity ratio (%)	84.4	67.5	74.7	80.7	83.0
Provision	1,983	2,186	2,077	1,756	925	Net debt / equity ratio (%)	69.3	48.6	61.7	69.3	68.5
Others non-current assets	2,441	3,041	3,705	3,453	3,417	Returns (%)					
Minority Interest	1,514	1,549	1,599	1,649	1,699	ROE	12.6	6.9	8.4	11.2	11.2
Perpetual MTN	1,993	1,993	1,993	1,993	1,993	ROA	3.9	2.0	2.4	3.5	3.7
Shareholders' equity	19,461	25,140	27,157	30,303	33,428	Per share					
Total equity	22,968	28,682	30,749	33,945	37,121	EPS (RMB)	0.88	0.51	0.65	0.95	1.04
						DPS (RMB)	0.25	0.16	0.19	0.29	0.31
						BVPS (RMB)	7.02	7.26	7.75	8.51	9.26

Source: Company data, CMBIS estimates

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