

Goldwind (2208 HK)

GPM bottomed out; 2H19 rebound in sight

GWD's 1H19 earnings missed on 1) WTG margin squeezed to 11.3%; 2) higher-than-expected costs from sales & distribution and administration expenses. We see structural opportunities, however, as GWD released clear signal that WTG GPM had bottomed out. We expect market sentiment on GWD will improve on increasing ASP as well as improving costs. We upgrade GWD to BUY with TP raised to HK\$12.06.

- 1H19 WTG GPM squeezed to 11.3%.** Revenue surged 43.2% YoY to RMB15,700mn, mainly driven by 1) strong WTG sales growth of 45.7%; and 2) WPS revenue increase of 131.8%. GPM declined 10.5ppt YoY to 20.7%, however, as WTG GPM was further squeezed by 10ppt to 11.3%, and increasing low margin EPC services provision also dragged WPS GPM down by 11ppt to 8.7% only. Sales & distribution expenses/administrative costs also exhibited significant growth by 106.3%/29.5% respectively. Net profit recorded RMB1,134mn, down 24.1% YoY.
- Margin squeeze came to an end.** We estimate WTG ASP declined 4.4% during 1H19, indicating GWD also faced pressures from the costs end. According to mgmt., surging costs was driven by product type and component upgrade but not absolute increase in material costs. Mgmt. expects costs curve to improve in 2H19 and near future, as those upgraded components are in early product life cycles. As 1) low cost order gradually releases, and 2) new WTG tender price experienced increase, mgmt. expects WTG GPM to recover in 2H19 as well as 2020. GWD maintained FY19 WTG margin guidance of a 5ppt decline only. We believe WTG segment had bottomed out in 1H19.
- Get prepared for opportunities beyond 2020.** Mgmt. took active measures to consolidate existing product line from 46 to 22 product types by year end. New products will be grouped under 2.0s/2.5s/3.0s/6.0s platform series. We believe product consolidation will help GWD gain better costs control. Mgmt. emphasized that it had put efforts to enhance product capability to bridge through to the grid-parity opportunities beyond 2020.
- Upgrade to BUY on improving WTG outlook.** We trim GWD's FY19E EPS by 7.3% based on higher costs incurred, and raise FY20/21E EPS by 2.5%/2.1% to factor in improving WTG GPM. Our sensitivity analysis indicates each 1% improvement in WTG ASP/costs will bring along earnings growth of 5.4%/5.5% to FY20E earnings. Given improving GPM outlook, we expect market sentiment will turn positive towards GWD. **Raise TP by 30.4% to HK\$12.06 based on 11.8x FY20E PER. Upgrade to BUY rating.**

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	24,971	28,590	34,146	39,727	38,442
Net income (RMB mn)	2,984	3,145	2,859	3,860	4,311
EPS (RMB)	0.84	0.88	0.70	0.91	1.02
YoY growth (%)	0.6	5.4	-20.4	29.6	11.7
P/E (x)	9.5	9.0	11.4	8.8	7.8
P/B (x)	1.3	1.1	1.1	1.0	0.9
Yield (%)	2.5	3.1	2.1	2.7	3.1
ROE (%)	13.2	12.6	9.6	11.3	11.5
Net gearing (%)	66.7	69.3	61.3	69.4	74.9

Source: Company data, CMBIS estimates

BUY (Up)

Target Price **HK\$12.06**
(Previous TP **HK\$9.25**)
Up/Downside **+30.8%**
Current Price **HK\$9.22**

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	58,612
Avg 3 mths t/o (HK\$ mn)	35.23
52w High/Low (HK\$)	11.70/5.32
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	-5.3%	4.7%
3-mth	4.8%	11.7%
6-mth	-3.9%	7.6%
12-mth	-2.9%	4.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

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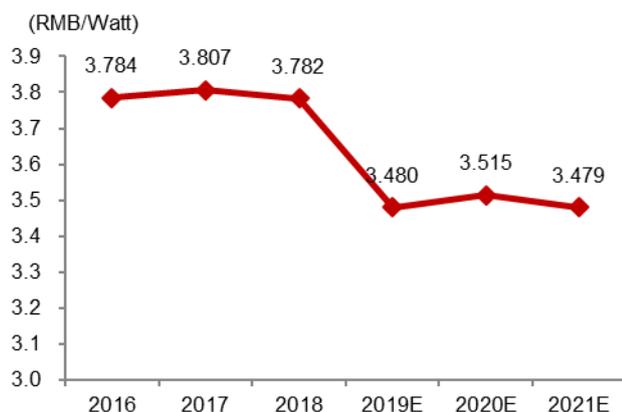
Figure 1: 1H19 earnings summary

(RMB mn)	1H18	1H19	YoY%	Our Comments
Revenue	10,961	15,700	43.2%	
WTG manufacturing	7,988	11,636	45.7%	WTG sales surged 54.2% to 3,191MW
Wind power services	620	1,437	131.8%	GWD had more EPC services provision
Wind farm investment and development	2,012	2,238	11.2%	
Others	341	389	14.2%	
Cost of sales	(7,536)	(12,442)	65.1%	
Gross profit	3,425	3,258	-4.9%	
Gross profit margin	31.2%	20.7%	-10.5 ppt	GPM squeezed mainly from WTG and Wind power services
Other income and gains	425	1,226	188.8%	
Selling and distribution expenses	(612)	(1,263)	106.3%	GWD recognized warranty provision for specific projects
Administrative expenses	(929)	(1,203)	29.5%	Surged associated with rights issue in 1H19
Other expenses	(265)	(254)	-3.9%	
Finance cost	(524)	(563)	7.5%	
Share of profit and losses of	275	223	-19.0%	
Joint ventures	241	216	-10.3%	
Associates	34	7	-80.1%	
Exceptional	0	0		
EBIT	2,043	1,764	-13.7%	
Profit before tax	1,794	1,423	-20.7%	
Income tax expense	(189)	(211)	11.4%	
Effective tax rate	10.6%	14.8%	40.5%	
Profit for the year	1,605	1,212	-24.5%	
Less:				
Non-controlling interests	75	28	-62.9%	
Perpetual MTN interest	35	50	42.3%	
Net income attributable to owner	1,495	1,134	-24.1%	Net profit missed consensus est.
Weighted average # of shares	3,556	3,845	8.1%	
EPS (Rmb)	0.42	0.30	-29.8%	

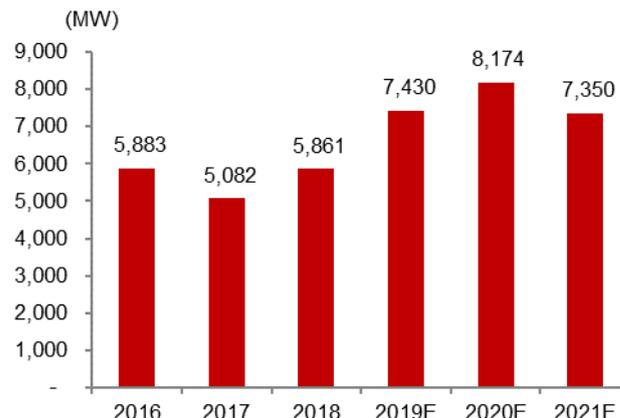
Operating Performance

Gross profit - RMB mn				
WTG manufacturing	1,704	1,315	-22.8%	
Wind power services	122	124	2.0%	
Wind farm investment and development	1,443	1,584	9.7%	
Others	144	234	62.5%	
GPM				
WTG manufacturing	21.3%	11.3%	-10.0 ppt	
Wind power services	19.7%	8.7%	-11.0 ppt	
Wind farm investment and development	71.7%	70.8%	-1.0 ppt	
Others	42.3%	60.2%	17.9 ppt	
WTG Shipment -MW	2,094.00	3,190.75	52.4%	
Number of WTG sales	1,033.00	1,416.00	37.1%	
Average capacity per WTG sales - MW	2.03	2.25	11.2%	Product model shifting to larger scale
Period ASP - RMB mn*	3.815	3.647	-4.4%	We estimate ASP decline 4.4% YoY

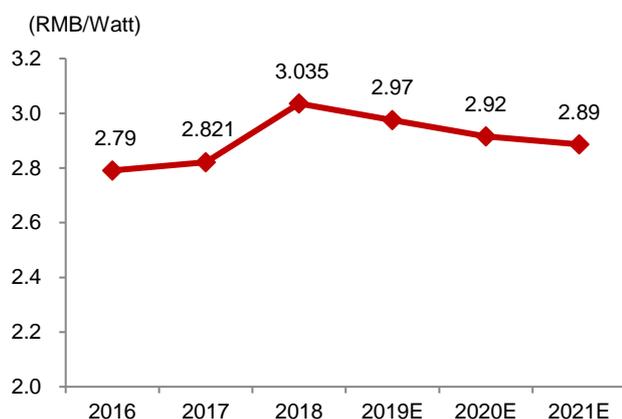
Source: Company data, CMBIS estimates

Figure 2: We currently only factor in 1% ASP growth in our financial estimates for FY20E


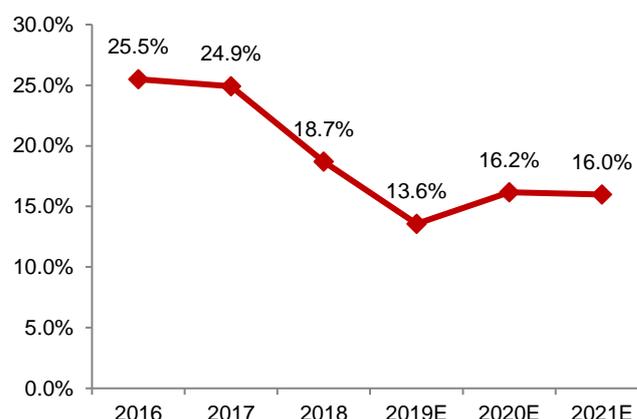
Source: CMBIS estimates

Figure 3: We expect WTG shipment to continue to be strong in FY20E


Source: Company data, CMBIS estimates

Figure 4: We expect average WTG costs to decline by 2.0% per year in FY19-20E


Source: CMBIS estimates

Figure 5: We expect WTG GPM to recover to 16.2% in FY20E


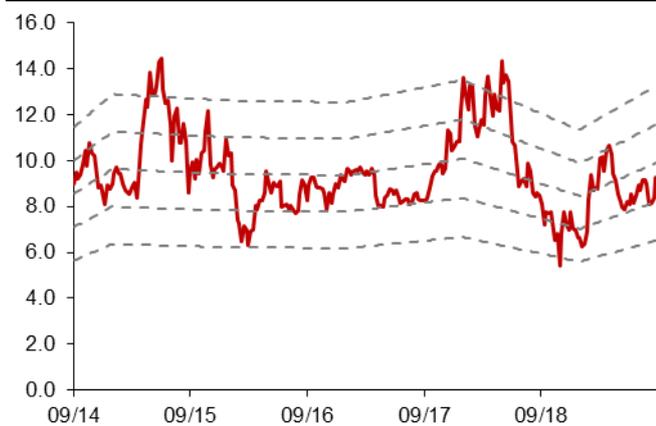
Source: Company data, CMBIS estimates

Figure 6: Earnings revision

	Old			New			est. change(%)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Wind turbine sales (MW)	8,092	9,386	8,759	7,430	8,174	7,350	-8.2%	-12.9%	-16.1%
Revenue (RMB mn)	36,112	37,764	42,683	34,146	39,727	38,442	-5.4%	5.2%	-9.9%
Net Income (RMB mn)	3,073	3,798	4,284	2,859	3,860	4,311	-7.0%	1.6%	0.6%
EPS (RMB)	0.76	0.90	1.01	0.70	0.91	1.02	-7.4%	1.6%	0.6%

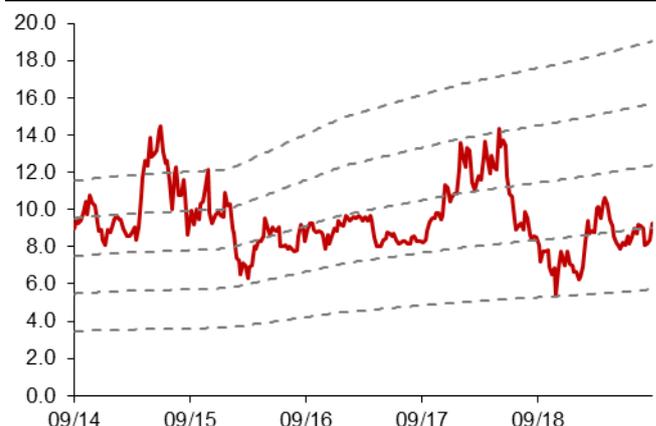
Source: CMBIS estimates

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIS

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	24,971	28,590	34,146	39,727	38,442
WTG manufacturing	19,346	22,169	25,856	28,730	25,573
Wind power services	2,057	1,647	2,518	3,075	2,852
Wind farm	3,247	3,904	4,554	6,338	7,958
Others	321	870	1,218	1,584	2,059
Cost of sales	(17,505)	(21,247)	(26,927)	(29,958)	(27,946)
Gross profit	7,466	7,344	7,219	9,768	10,496
Other income, net	1,631	2,073	2,370	1,295	818
Selling and distribution	(2,101)	(1,897)	(2,327)	(2,442)	(2,174)
Admin expense	(2,520)	(2,738)	(2,732)	(2,781)	(2,691)
Other expenses	(377)	(295)	(307)	(358)	(346)
EBIT	4,098	4,487	4,223	5,483	6,103
Finance costs, net	(818)	(1,071)	(1,094)	(1,220)	(1,323)
JV & associates	210	266	295	317	341
Exceptional	0	0	0	0	0
Pre-tax profit	3,491	3,682	3,423	4,580	5,122
Income tax	(342)	(400)	(394)	(550)	(640)
Profit for the year	3,149	3,283	3,030	4,031	4,482
Minority interests	(94)	(67)	(100)	(100)	(100)
Perpetual MTN distribution	(71)	(71)	(71)	(71)	(71)
Net profit	2,984	3,145	2,859	3,860	4,311

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	4,098	4,487	4,223	5,483	6,103
D&A	1,133	1,381	1,592	2,092	2,538
Change in working capital	(1,562)	2,667	1,061	(1,505)	(2,777)
Income tax paid	(480)	(348)	(399)	(409)	(559)
Others	1,483	2,887	(2,299)	3,162	2,580
Net cash from operating	3,023	3,125	5,639	7,726	5,667
Capex	(4,843)	(6,708)	(8,056)	(8,056)	(5,729)
Associated companies	(1,083)	(1,270)	(266)	(295)	(317)
Other	(1,172)	(1,837)	(2,850)	(3,420)	(3,078)
Net cash from investing	(7,098)	(6,114)	(11,17)	(11,77)	(9,124)
Equity raised	0	0	4,744	0	0
Change of Debts	3,794	450	4,582	1,098	3,530
Dividend paid	(547)	(711)	(889)	(686)	(926)
Others	135	1,463	0	0	0
Net cash from financing	3,382	1,201	8,437	412	2,604
Net change in cash	(693)	(1,787)	2,903	(3,632)	(852)
Cash at the beginning	7,526	6,746	5,012	7,915	4,283
Exchange difference	(88)	53	0	0	0
Cash at the end of the year	6,746	5,012	7,915	4,283	3,431
Pledged cash	983	38	98	101	103
Non-pledged time deposit	10	16	0	0	0
Cash at balance sheet	7,740	5,066	8,013	4,384	3,534

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	39,707	48,447	56,084	62,761	66,547
Fixed asset	22,838	25,509	32,019	38,032	41,273
Prepayments & deposits	1,555	1,407	1,856	1,916	1,886
Prepaid lease payments	302	292	313	334	353
Interest in JVs & associates	2,391	3,660	3,927	4,221	4,539
Other non-current assets	12,620	17,578	17,969	18,258	18,496
Current assets	33,081	32,918	36,243	36,280	35,076
Inventory	4,083	4,997	4,988	5,559	5,890
Cash	7,740	5,066	8,013	4,384	3,534
Account receivable	17,048	16,895	17,556	20,434	19,763
Prepayments	2,650	4,526	4,330	4,470	4,400
Other current assets	1,560	1,434	1,357	1,434	1,490
Current liabilities	29,600	31,601	34,184	37,115	33,842
Trade and bills payable	15,257	20,000	21,874	24,305	21,635
Other payables	6,360	6,372	6,054	6,652	6,437
Borrowings	5,999	3,470	4,896	5,055	5,168
Others	1,985	1,759	1,360	1,103	601
Non-current liabilities	19,713	23,288	25,530	26,039	28,410
Borrowings	15,886	18,865	22,020	22,959	26,377
Provision	2,097	1,983	1,509	912	38
Others non-current assets	1,730	2,441	2,001	2,167	1,995
Minority Interest	788	1514	1614	1714	1814
Perpetual MTN	1,495	1,495	1,495	1,495	1,495
Shareholder's equity	18,908	20,457	26,395	29,469	32,753
Total equity	21,192	23,466	29,504	32,678	36,062

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
WTG manufacturing	77.5	77.5	75.7	72.3	66.5
Wind power services	8.2	5.8	7.4	7.7	7.4
Wind farm	13.0	13.7	13.3	16.0	20.7
Others	1.3	3.0	3.6	4.0	5.4
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	29.9	25.7	21.1	24.6	27.3
Pre-tax margin	14.0	12.9	10.0	11.5	13.3
Net margin	11.9	11.0	8.4	9.7	11.2
Effective tax rate	9.8	10.9	11.5	12.0	12.5
Balance sheet ratios					
Current ratio (x)	1.1	1.0	1.1	1.0	1.0
Quick ratio (x)	1.0	0.9	0.9	1.0	0.9
Cash ratio (x)	0.2	0.2	0.2	0.1	0.1
Inventory turnover days	53.2	58.0	53.4	48.5	54.4
Debtors turnover days	247.0	216.7	184.1	174.5	190.8
Creditor turnover days	309.9	302.8	283.8	281.3	300.0
Total debt / equity ratio (%)	93.2	84.4	82.5	78.1	80.1
Net debt / equity ratio (%)	66.7	69.3	61.3	69.4	74.9
Returns (%)					
ROE	13.2	12.6	9.2	11.3	11.5
ROA	4.1	3.9	3.1	3.9	4.2
Per share					
EPS (RMB)	0.84	0.88	0.70	0.91	1.02
DPS (RMB)	0.20	0.25	0.17	0.22	0.24
BVPS (RMB)	6.38	7.02	7.33	8.08	8.87

Source: Company data, CMBIS estimates

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