

# China Longyuan (916 HK)

## 1H21 results preview: earnings to boom with good power generation performance

We expect CLY's 1H21E earnings to boom on the back of outstanding wind power generation performance. The Company attributed good performance to good wind resources, and we believe improved wind turbine technology also made considerable contributions. Given unexpected low wind turbine pricing in FY21E, we now have more positive outlook for grid-parity wind project. We expect CLY's return to A-share market and potential renewables asset injection from CNH Energy group to be catalysts in 2H21E. We lifted our DCF TP by 31.0% to HK\$17.0. Maintain BUY rating.

- 7M21 wind power generation surged 21.5% YoY.** CLY's 1H21 wind power generation was significantly better than our expectation. We expect effective wind capacity to grow by 8.8% YoY, while 1H21 wind power generation grew by 20.4% YoY and further accelerated to 21.5% in 7M21. The Company attributed the good operating performance to wind resources, and curtailment rate improved to multi-year low of 2.3% in Jul. We also believe newly installed high-efficient wind turbine made considerable contributions. Based on CLY's 1H21 operating performance, we lifted FY21 wind utilization hours by 8% to 2,428 hours, boosting FY21E wind power generation by 18.0% YoY.
- Coal power segment likely to bring some drag.** 1H21 coal-power generation also surged 32.6% YoY to 5,259GWh, driven by rapid growing electricity demand and tightened supply in the eastern coastal areas. We think CLY's coal-power segment is likely facing pressure from high coal price, as we estimate average coal price surged by 40% YoY in 1H21, and high coal cost may sustain in 2H21E.
- Significant marginal earnings contribution in 1H21E.** We expect CLY's 1H21E earnings to boom on the back of good wind resources bringing substantial marginal earnings contribution. With reference to historical costs distributions, we estimate 1H21E net profit to increase by 42.1% to RMB4,561mn, close to FY20 earnings of RMB4.726mn.
- Lift TP by 31% to HK\$17.0. Maintain BUY.** Based on assumptions update, we raised FY21-23E earnings projection by 10.7-12.9% to RMB6,194/6,773/7,848mn, respectively. Our projection shows positive return outlook from new grid-parity projects, which we think could ease the overhang of subsidy delay concerns. Based on our revised DCF valuation, we lifted CLY's TP by 31.0% to HK\$17.0, reflecting 18.3x/2.0x FY21E PER/PBR respectively.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	27,541	28,667	32,446	35,312	39,577
Net income (RMB mn)	4,325	4,726	6,194	6,773	7,848
EPS (RMB)	0.54	0.59	0.77	0.84	0.98
EPS CHG (%)	10.22	9.3	31.0	9.4	15.9
Consensus EPS	N/A	0.60	0.68	0.77	0.9
P/E (x)	22.3	20.4	15.6	14.3	12.3
P/B (x)	2.02	1.87	1.70	1.55	1.40
Yield (%)	0.9	1.0	1.3	1.4	1.6
ROE (%)	9.0	9.2	10.9	10.9	11.4
Net gearing (%)	156	165	175	189	199.3

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$17.0**  
(Previous TP **HK\$12.98**)  
Up/Downside **+17.4%**  
Current Price **HK\$14.48**

### China Wind Sector

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### Stock Data

Mkt Cap (HK\$ mn)	116,367
Avg 3 mths t/o (HK\$ mn)	225.8
52w High/Low (HK\$)	15.82/3.40
Total Issued Shares (mn)	8,036

Source: Bloomberg

### Shareholding Structure – H share

Wellington Mgmt Group	11.9%
BlackRock Inc.	9.9%

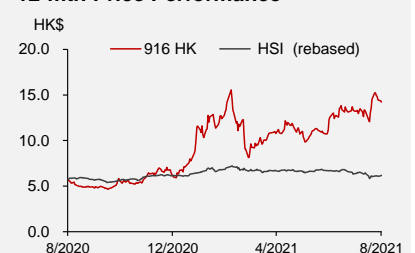
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	7.4%	10.4%
3-mth	29.3%	38.9%
6-mth	6.1%	19.8%
12-mth	150.8%	129.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

**Auditor: Ernst & Young**

### Related Reports

"China Longyuan (916 HK) – FY20 results in line; cloudy subsidy collection outlook" – 1 Apr 2021

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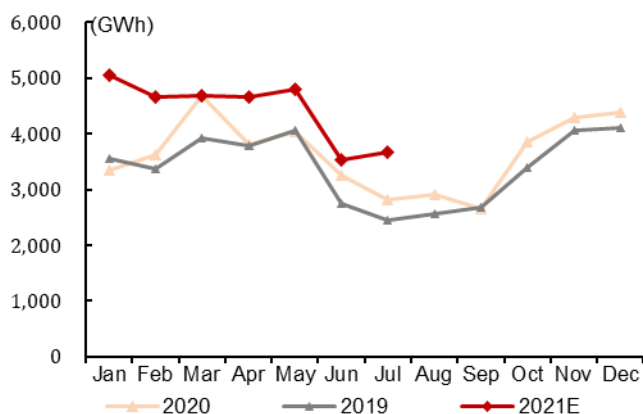
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Figure 1: Our 1H21E earnings projection

(Rmb, mn)	1H20	2H20	FY20	1H20/ FY20%	1H21E	2H21E	FY21E	1H21/ FY20%
<b>Revenue</b>	<b>14,218</b>	<b>14,449</b>	<b>28,667</b>	<b>49.6%</b>	<b>16,942</b>	<b>15,505</b>	<b>32,446</b>	<b>52.2%</b>
Wind	10,602	9,802	20,403	52.0%	12,726	11,285	24,011	53.0%
Coal-fired	3,330	4,263	7,593	43.9%	3,927	3,880	7,807	50.3%
Others	174	184	358	48.5%	289	339	628	46.0%
Concession revenue	113	200	313	36.0%	-	-	-	N/A
<b>Other net income</b>	<b>423</b>	<b>864</b>	<b>1,287</b>	<b>44.4%</b>	<b>467</b>	<b>555</b>	<b>1,022</b>	<b>45.7%</b>
<b>Operating expenses</b>	<b>-8,303</b>	<b>-11,595</b>	<b>-19,898</b>	<b>41.7%</b>	<b>-9,358</b>	<b>-11,714</b>	<b>-21,072</b>	<b>44.4%</b>
Depreciation and amortisation	-3,862	-3,873	-7,735	48.6%	-4,170	-4,410	-8,580	48.6%
Coal consumption	-862	-1,133	-1,994	46.1%	-1,357	-1,532	-2,889	47.0%
Coal sales costs	-1,554	-2,084	-3,639	50.0%	-1,709	-1,751	-3,460	49.4%
Service concession construction costs	-113	-200	-313	-	-	-	-	-
Personnel costs	-900	-1,745	-2,645	37.7%	-1,080	-1,763	-2,843	38.0%
Material costs	-83	-86	-169	43.0%	-121	-154	-276	44.0%
Repairs and maintenance	-357	-567	-924	35.1%	-363	-675	-1,038	35.0%
Administration expenses	-198	-409	-607	29.5%	-213	-474	-687	31.0%
Other operating expenses	-374	-1,497	-1,871	26.7%	-343	-955	-1,298	26.4%
<b>Operating profit -EBIT</b>	<b>6,338</b>	<b>3,718</b>	<b>10,056</b>	<b>63.0%</b>	<b>8,051</b>	<b>4,346</b>	<b>12,397</b>	<b>64.9%</b>
<i>Operating profit margin</i>	<i>42.8%</i>	<i>25.7%</i>	<i>35.1%</i>	<i>n/a</i>	<i>42.8%</i>	<i>28.0%</i>	<i>38.2%</i>	<i>n/a</i>
Finance income	33	342	374	53.4%	107	103	210	51.0%
Finance expenses	-1,765	-1,693	-3,458	47.3%	-1,833	-1,985	-3,818	48.0%
<b>Net finance expenses</b>	<b>-1,732</b>	<b>-1,351</b>	<b>-3,083</b>	<b>46.9%</b>	<b>-1,725</b>	<b>-1,882</b>	<b>-3,608</b>	<b>47.1%</b>
Share of profits/(loss)	-11	-40	-51	43.6%	-19	-24	-43	44.6%
<b>Profit before tax</b>	<b>4,594</b>	<b>2,327</b>	<b>6,922</b>	<b>66.4%</b>	<b>6,306</b>	<b>2,440</b>	<b>8,746</b>	<b>72.1%</b>
Income tax	-818	-418	-1,236	66.2%	-1,179	-447	-1,626	72.5%
<i>Effective tax rate</i>	<i>17.8%</i>	<i>18.0%</i>	<i>17.9%</i>	<i>n/a</i>	<i>18.7%</i>	<i>18.3%</i>	<i>18.6%</i>	<i>n/a</i>
Profit for the year	3,776	1,909	5,685	66.4%	5,127	1,993	7,120	72.0%
Less: non-controlling interests	-445	-215	-661	53.4%	-445	-215	-661	54.3%
Perpetual bond	-121	-178	-299	50.0%	-121	-145	-266	50.0%
<b>Net income</b>	<b>3,210</b>	<b>1,517</b>	<b>4,726</b>	<b>67.9%</b>	<b>4,561</b>	<b>1,633</b>	<b>6,194</b>	<b>73.6%</b>
<i>Net margin</i>	<i>22.6%</i>	<i>10.5%</i>	<i>16.5%</i>	<i>n/a</i>	<i>26.9%</i>	<i>10.5%</i>	<i>19.1%</i>	<i>n/a</i>

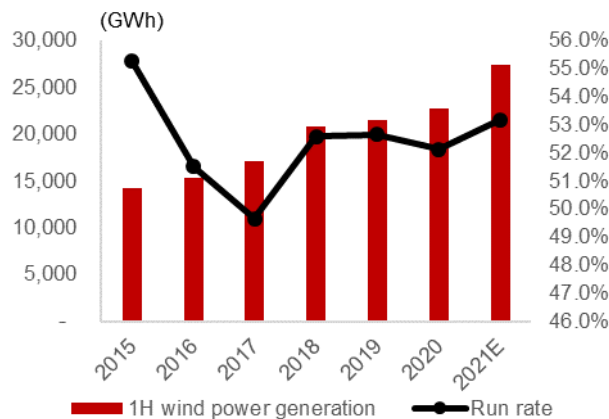
Source: Company data, CMBIS estimates

Figure 2: Wind power generation performed well in 7M21

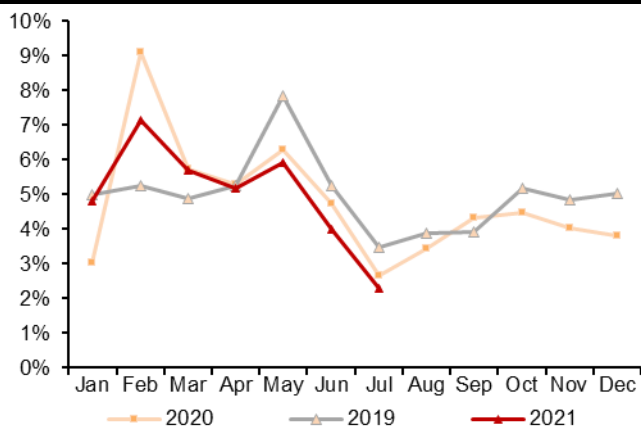


Source: Company data, CMBIS

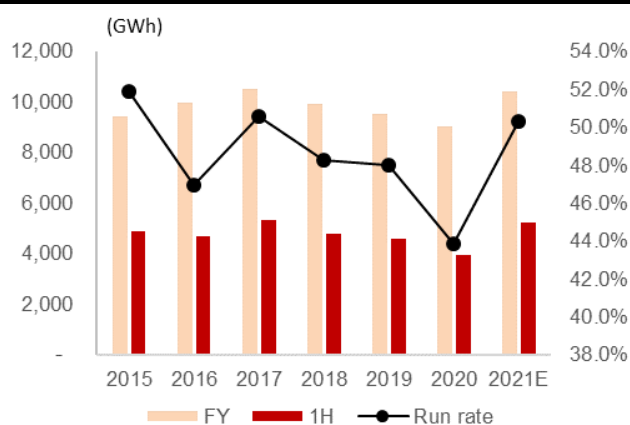
Figure 3: 1H21 wind power generation was running at high run rate



Source: Company data, CMBIS estimates

**Figure 4: Curtailment rate declined to 3-year low in Jul-21**


Source: Frost &amp; Sullivan

**Figure 5: Coal-fired power generation also exhibited significant rebound**


Source: Frost &amp; Sullivan, CMBIS

**Figure 6: We made slight adjustments on 2021-23E earnings**

	Old			New			Change(%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Wind power generation(GWh)	47,709	53,737	59,827	51,526	56,083	62,433	8.0%	4.4%	4.4%
Coal-fired power generation (GWh)	9,495	9,353	9,294	10,445	10,500	10,500	10.0%	12.3%	13.0%
Revenue (RMB mn)	30,430	33,460	37,300	32,446	35,312	39,577	6.6%	5.5%	6.1%
Net Income (RMB mn)	5,488	6,117	6,891	6,194	6,773	7,848	12.9%	10.7%	13.9%
EPS (RMB)	0.683	0.761	0.857	0.771	0.843	0.977	12.9%	10.7%	13.9%
Our est. vs consensus									
Consensus earnings (RMB mn)				5,808	6,940	8,083	6.6%	-2.4%	-2.9%
Consensus EPS (RMB)				0.726	0.824	0.946	6.2%	2.3%	3.2%

Source: Bloomberg, CMBIS estimates

**Figure 7: Our DCF valuation for CLY**

DCF Valuation (RMB, mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Turnover</b>	<b>35,312</b>	<b>39,577</b>	<b>44,341</b>	<b>49,343</b>	<b>53,466</b>	<b>59,096</b>	<b>64,708</b>	<b>70,304</b>	<b>75,889</b>
Turnover growth (%)	9%	12%	12%	11%	8%	11%	9%	9%	8%
<b>EBIT</b>	<b>13,653</b>	<b>15,785</b>	<b>18,087</b>	<b>20,529</b>	<b>23,774</b>	<b>26,256</b>	<b>28,662</b>	<b>30,991</b>	<b>33,247</b>
EBIT margin	39%	40%	41%	42%	44%	44%	44%	44%	44%
Tax rate (%)	18%	18%	18%	19%	19%	20%	20%	21%	21%
Depreciation	9,932	11,594	13,447	15,333	17,608	19,883	22,158	24,433	26,707
CAPEX	(32,189)	(36,507)	(37,124)	(37,831)	(35,959)	(34,180)	(32,490)	(30,884)	(29,359)
Change in working capital	(3,285)	(2,901)	(4,234)	(3,586)	(412)	(563)	(561)	(560)	(558)
<b>Free cash flow</b>	<b>-7,796</b>	<b>-9,141</b>	<b>-4,700</b>	<b>-2,214</b>	<b>1,280</b>	<b>7,360</b>	<b>13,112</b>	<b>18,695</b>	<b>24,118</b>
<b>Years</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
Discount factor	0.92	0.85	0.78	0.72	0.66	0.61	0.56	0.52	0.48
Discount free cash flow	-7,185	-7,764	-3,679	-1,597	851	4,510	7,404	9,729	11,567
<b>Terminal value</b>	<b>451,087</b>								
<b>Terminal perpetual growth</b>	<b>3%</b>								
<b>Terminal EV/EBITDA</b>	<b>7.52</b>								
<b>Valuations (RMB mn)</b>									
<b>Terminal value</b>	451,087								
Terminal perpetual growth	3.0%								
Terminal EV/EBITDA	7.52								
Total discount FCF	13,835								
Discount terminal value	216,342								
Firm value	230,177								
Discount FCF(% of total)	6.0%								
Terminal value (% of total)	94.0%								
Add: Cash & cash equivalent	3,822								
Less: Debt	103,508								
Non-controlling interest	8,911								
Perpetual MTN note	6,045								
Equity Value - RMB	115,534								
<b>Share fair value (RMB)</b>	<b>14.38</b>								
<b>Exchange rate (HKD/RMB)</b>	<b>0.83</b>								
<b>Share fair value (HKD)</b>	<b>17.00</b>								

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>27,541</b>	<b>28,667</b>	<b>32,446</b>	<b>35,312</b>	<b>39,577</b>
Wind	18,981	20,403	24,011	25,850	28,502
Coal-fired	7,784	7,593	7,807	7,971	7,968
Others	657	358	628	1,491	3,107
Concession revenue	118	313	-	-	-
Cost of sales	(14,488)	(14,774)	(16,244)	(17,499)	(19,206)
<b>Gross profit</b>	<b>13,053</b>	<b>13,893</b>	<b>16,202</b>	<b>17,813</b>	<b>20,371</b>
Other income, net	843	1,287	1,022	1,095	1,207
Admin expense	(564)	(607)	(687)	(748)	(838)
Personnel costs	(2,352)	(2,645)	(2,843)	(3,095)	(3,372)
Other expenses	(1,034)	(1,871)	(1,298)	(1,412)	(1,583)
<b>EBIT</b>	<b>9,946</b>	<b>10,056</b>	<b>12,397</b>	<b>13,653</b>	<b>15,785</b>
Finance costs, net	(3,486)	(3,083)	(3,608)	(4,268)	(5,045)
Associates & JVs	(10)	(51)	(43)	21	21
Exceptional	-	-	-	-	-
<b>Pre-tax profit</b>	<b>6,450</b>	<b>6,922</b>	<b>8,746</b>	<b>9,406</b>	<b>10,761</b>
Income tax	(1,131)	(1,236)	(1,626)	(1,706)	(1,987)
Less:					
Minority interests	753	661	661	661	661
Perp. MTN	242	299	266	266	266
<b>Net profit</b>	<b>4,325</b>	<b>4,726</b>	<b>6,194</b>	<b>6,773</b>	<b>7,848</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	<b>4,325</b>	<b>4,726</b>	<b>6,194</b>	<b>6,773</b>	<b>7,848</b>
DD&A	7,786	7,968	8,819	10,130	11,730
WC change	(1,865)	(5,665)	(10,08)	(3,285)	(2,901)
Others	2,270	83	441	10	16
<b>Operating CF</b>	<b>12,515</b>	<b>7,112</b>	<b>5,368</b>	<b>13,629</b>	<b>16,693</b>
Capex	(9,799)	(18,030)	(19,160)	(30,639)	(34,724)
Associates inv.	221	272	(178)	(21)	(21)
Other	(1,196)	779	(924)	(81)	(79)
<b>Investment CF</b>	<b>(10,77)</b>	<b>(16,97)</b>	<b>(20,26)</b>	<b>(30,74)</b>	<b>(34,82)</b>
Equity raised	-	904	-	-	-
Change of Debts	3,286	12,392	13,010	19,703	18,914
Dividend paid	(785)	(865)	(945)	(1,239)	(1,355)
Others	(4,202)	1,029	150	150	150
<b>Financing CF</b>	<b>(1,700)</b>	<b>13,459</b>	<b>12,214</b>	<b>18,614</b>	<b>17,709</b>
<b>Net change in cash</b>	<b>41</b>	<b>3,593</b>	<b>(2,680)</b>	<b>1,502</b>	<b>(422)</b>
Cash at beginning	2,861	2,908	6,501	3,822	5,324
Exchange difference	(7)	-	-	-	-
<b>Cash at the end</b>	<b>2,908</b>	<b>5,226</b>	<b>3,822</b>	<b>5,324</b>	<b>4,903</b>
Pledged cash	523	361	373	444	512
Time deposit	-	-	-	-	-
<b>Cash at balance sheet</b>	<b>3,432</b>	<b>5,588</b>	<b>4,194</b>	<b>5,768</b>	<b>5,415</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>133,77</b>	<b>144,10</b>	<b>153,96</b>	<b>174,39</b>	<b>197,30</b>
Fixed asset	114,60	124,91	135,43	156,25	179,55
Prepaid lease payments	-	-	-	-	-
Interest in JVs	4,328	4,056	4,234	4,255	4,277
Others	11,683	12,267	11,113	10,727	10,335
<b>Current assets</b>	<b>23,029</b>	<b>31,184</b>	<b>35,672</b>	<b>39,522</b>	<b>42,572</b>
Cash	3,432	5,588	4,193	5,765	5,409
Account receivable	16,365	21,603	27,591	29,671	32,855
Prepayments	1,963	2,831	2,567	2,648	2,740
Others	1,269	1,162	1,321	1,437	1,568
<b>Current liabilities</b>	<b>43,538</b>	<b>52,907</b>	<b>52,226</b>	<b>59,118</b>	<b>67,206</b>
Trade and other payable	3,411	3,615	2,049	2,049	2,049
Other payables	10,840	11,064	8,480	7,474	7,978
Borrowings	28,965	37,875	41,403	49,312	56,902
Others	230	328	225	222	223
<b>Non-current liabilities</b>	<b>52,610</b>	<b>55,930</b>	<b>65,563</b>	<b>77,266</b>	<b>88,497</b>
Borrowings	48,881	52,598	62,105	73,968	85,353
Obligation under financial	-	-	-	-	-
Others non-current assets	2,984	2,756	2,952	2,852	2,752
<b>Minority Interest</b>	<b>7,732</b>	<b>8,761</b>	<b>8,911</b>	<b>9,061</b>	<b>9,211</b>
<b>Perpetual MTN</b>	<b>4,991</b>	<b>6,045</b>	<b>6,045</b>	<b>6,045</b>	<b>6,045</b>
<b>Shareholders' equity</b>	<b>47,932</b>	<b>51,642</b>	<b>56,891</b>	<b>62,425</b>	<b>68,918</b>
<b>Total Equity</b>	<b>60,655</b>	<b>66,449</b>	<b>71,848</b>	<b>77,532</b>	<b>84,175</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Wind	68.9	71.2	74.0	73.2	72.0
Coal-fired	28.3	26.5	24.1	22.6	20.1
Others	2.4	1.2	1.9	4.2	7.8
Concession revenue	0.4	1.1	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Operating margin	36.1	35.1	38.2	38.7	39.9
Pre-tax margin	23.4	24.1	27.0	26.6	27.2
Net margin	15.7	16.5	19.1	19.2	19.8
Effective tax rate	17.5	17.9	18.6	18.1	18.5
<b>Balance sheet ratios</b>					
Current ratio (x)	0.53	0.59	0.68	0.67	0.63
Quick ratio (x)	0.51	0.57	0.66	0.65	0.61
Cash ratio (x)	0.07	0.10	0.07	0.09	0.07
Inventory turnover days	11.1	10.3	10.3	11.1	11.1
Debtors turnover days	178.3	241.7	276.7	295.9	288.3
Creditor turnover days	68.9	86.8	63.6	42.7	38.9
Total debt / equity ratio (%)	162.4	175.2	181.9	197.5	206.4
Net debt / equity ratio (%)	156.3	165.1	175.2	189.0	199.3
<b>Returns (%)</b>					
ROE	9.0	9.2	10.9	10.9	11.4
ROA	2.8	2.7	3.3	3.2	3.3
<b>Per share</b>					
EPS (RMB)	0.54	0.59	0.77	0.84	0.98
DPS (RMB)	0.11	0.12	0.15	0.17	0.20
BVPS (RMB)	5.96	6.43	7.08	7.77	8.58

Source: Company data, CMBIS estimates

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