

Goldwind (2208 HK)

1H21 results beat; accelerating wind farm sales to boost earnings growth

GWD recorded 1H21 net profit (deducted perpetual interests) of RMB1,746mn, up 42.6% YoY. Key highlight of 1H21 results was WTG segment, with GPM rebounded by 8.2ppt YoY to 20.3% on improved product mix and costs reduction efforts, significantly higher than market expectation. Looking ahead in 2H21E, GWD expects WTG GPM to decline a bit with increasing onshore product shipments. The Company tried to avoid excessive price competition and intended to accelerate wind farm construction and sales pace. We think it is an effective way to support WTG sales while sustaining good profit margin. We lifted PE multiple slightly to 13x and rolled over valuation to FY22 earnings. We lifted TP by 48% to HK\$17.6 per share, maintain BUY.

- 1H21 net profit beat market expectation.** Revenue declined 7.8% YoY to RMB17.9bn, mainly dragged by less WTG shipments and wind power EPC service after installation rush in 2020. GPM came with surprise with a surged 10.4ppt YoY, which was led by WTG GPM expansion by 8.2ppt YoY to 20.3%. GWD realized equity interests and wind farm project disposal gain with an aggregate amount of RMB622.9mn. Net profit (deducted perp. interests) was RMB1,746mn, up 42.6% YoY.
- WTG GPM to reach 18.0% in FY21E.** WTG shipment was 2.96GW, down 27.7% YoY. In terms of product mix, high price offshore WTG product shipment was 795MW, which delivered GPM as high as 26% and pulled up overall GPM performance. Looking ahead in 2H21E, mgmt. expected offshore product mix to decline, and guiding full year GPM to be ~18%. In 2022, GWD expects offshore WTG demand to decline significantly while onshore WTG is facing aggressive competition. We estimate FY22 WTG GPM to slide to 15.9%, implying continuous costs reduction pressure to GWD.
- Another way to work around.** In 1H21, we think GWD forwent some of the domestic tenders in view of irrational pricing competition. We do appreciate GWD's selection for profitability and product quality. By 1H21, GWD was holding 2.5GW wind farm project under construction, reflecting significantly accelerating pace in wind farm project development. Mgmt. expressed that downstream developers are having increasingly interest in project acquisition to expand renewables capacity rather than buying WTG for in-house project development. We think it would be a smart way to work around pricing completion, and is likely to have higher contribution to earnings growth.
- Lifted TP by 45% to HK\$17.60.** We lifted FY22/23E earnings by 8.6%/22.3% to RMB4,741/5,568mn respectively mainly on revised wind farm disposal gain outlook. Based on 13x FY22E PER, our TP is lifted by 45% to HK\$17.60 per share. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	37,878	56,146	53,688	48,971	55,708
Net income (RMB mn)	2,109	2,843	4,069	4,741	5,568
EPS (RMB)	0.51	0.67	0.96	1.12	1.32
YoY growth (%)	-42.1	31.4	43.1	16	17.4
Consensus EPS(RMB)	N/A	N/A	0.85	0.89	0.97
P/E (x)	25.0	19.0	13.3	11.4	9.7
P/B (x)	1.8	1.6	1.5	1.4	1.2
Yield (%)	1.3	2.0	2.3	2.6	3.1
ROE (%)	7.1	8.3	11.3	11.9	12.7
Net gearing (%)	48.6	52.2	63.9	80.3	84.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$17.60
(Previous TP)	HK\$12.10)
Up/Downside	+21.0%
Current Price	HK\$14.56

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	66,653
Avg 3 mths t/o (HK\$ mn)	109.36
52w High/Low (HK\$)	19.05/6.0
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%

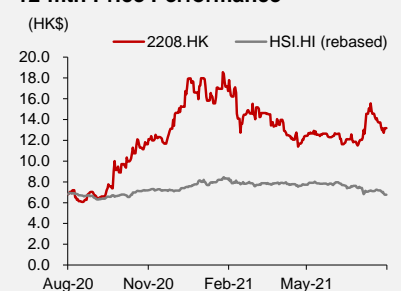
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.6%	23.4%
3-mth	5.9%	21.3%
6-mth	-21.4%	-4.1%
12-mth	92.8%	94.8%

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: 1H21 results summary

RMB mn	1H20	2H20	FY20A	1H21	2H20E	FY21A	1H21 YoY
Revenue	19,366	36,780	56,146	17,853	35,835	53,688	-7.8%
WTG manufacturing	14,566	32,093	46,659	12,872	30,355	43,228	-11.6%
Wind power services	2,228	2,206	4,434	1,645	2,212	3,856	-26.2%
Wind farm investment and development	2,101	1,918	4,019	2,780	2,721	5,501	32.3%
Others	472	563	1,035	555	547	1,103	17.7%
Cost of sales	-16,049	-30,450	-46,498	-12,934	-28,281	-41,215	-19.4%
Gross profit	3,317	6,330	9,647	4,919	7,554	12,473	48.3%
<i>Gross profit margin</i>	<i>17.1%</i>	<i>17.2%</i>	<i>17.2%</i>	<i>27.6%</i>	<i>21.1%</i>	<i>23.2%</i>	<i>10.4ppt</i>
WTG shipment	4,100	8,832	12,932	2,966	8,358	11,324	-27.7%
<i>WTG ASP - RMB/watt</i>	<i>3.553</i>	<i>3.634</i>	<i>3.608</i>	<i>4.340</i>	<i>3.632</i>	<i>3.817</i>	<i>22.2%</i>
Other income and gains	1,550	598	2,147	1,040	366	1,407	-32.9%
Selling and distribution expenses	-1,518	-2,133	-3,651	-1,530	-2,533	-4,063	0.8%
<i>as % to revenue</i>	<i>7.8%</i>	<i>5.8%</i>	<i>6.5%</i>	<i>8.6%</i>	<i>7.1%</i>	<i>7.6%</i>	<i>0.7ppt</i>
Impairment losses	-228	79	-150	-111	-14	-125	-51.2%
Administrative expenses	-1,288	-2,197	-3,485	-1,472	-2,286	-3,758	14.3%
<i>as % to revenue</i>	<i>6.7%</i>	<i>6.0%</i>	<i>6.2%</i>	<i>8.2%</i>	<i>6.4%</i>	<i>7.0%</i>	<i>1.6ppt</i>
Other expenses	-201	-417	-618	-289	-356	-644	43.8%
<i>as % to revenue</i>	<i>1.0%</i>	<i>1.1%</i>	<i>1.1%</i>	<i>1.6%</i>	<i>1.0%</i>	<i>1.2%</i>	<i>0.6ppt</i>
Finance cost	-439	-442	-881	-503	-512	-1,015	14.7%
Share of profit and losses of	242	21	263	279	187	467	15.5%
Joint ventures	221	26	247	247	107	354	11.6%
Associates	21	-4	16	32	80	113	56.4%
EBIT	1,632	2,259	3,890	2,556	2,733	5,289	56.7%
Profit before tax	1,435	1,838	3,273	2,333	2,408	4,740	62.6%
Income tax expense	-146	-163	-308	-433	-41	-474	197.4%
<i>Effective tax rate</i>	<i>10.1%</i>	<i>8.8%</i>	<i>9.4%</i>	<i>18.6%</i>	<i>1.7%</i>	<i>10.0%</i>	<i>8.4ppt</i>
Profit for the period	1,289	1,675	2,964	1,900	2,367	4,266	47.3%
Less:							
Non-controlling interests	15	-13	2	51	-1	50	250.7%
Perpetual MTN interest	50	69	119	103	21	124	104.3%
Net income attributable to owner	1,225	1,619	2,843	1,746	2,347	4,093	42.6%
<i>Net margin</i>	<i>6.3%</i>	<i>4.4%</i>	<i>5.1%</i>	<i>9.8%</i>	<i>6.5%</i>	<i>7.6%</i>	<i>3.5ppt</i>

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

	Old			New			est. change(%)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Wind turbine sales (MW)	8,508	8,508	8,508	10,824	12,014	13,913	27.2%	41.2%	63.5%
Revenue (RMB mn)	43,618	44,334	45,506	53,688	48,971	55,708	23.1%	10.5%	22.4%
Gross profit margin	23.1	24.4	25.2	23.2	24.0	24.8	0.1ppt	-0.4ppt	-0.4ppt
Operating profit margin	12.4	15.4	17.3	12.0	14.9	16.5	-0.4ppt	-0.5ppt	-0.8ppt
Net Income (RMB mn)	4073	4364	4552	4069	4741	5568	-0.1%	8.6%	22.3%
EPS (RMB)	0.96	1.03	1.08	0.96	1.12	1.32	-0.1%	8.6%	22.3%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	2019A	2020A	2021E	2022E	2023E
Revenue	37,878	56,146	53,688	48,971	55,708
WTG manufacturing	28,857	46,659	43,228	36,467	40,459
Wind power services	3,571	4,434	3,856	4,255	4,698
Wind farm	4,257	4,019	5,501	7,078	9,311
Others	1,193	1,035	1,103	1,171	1,241
Cost of sales	(30,915)	(46,498)	(41,215)	(37,204)	(41,874)
Gross profit	6,964	9,647	12,473	11,766	13,834
Other income, net	2,373	2,147	1,366	1,880	1,851
Selling and distribution	(2,804)	(3,651)	(4,063)	(3,428)	(3,803)
Admin expense	(2,637)	(3,485)	(3,758)	(3,428)	(3,900)
Other expenses	(587)	(768)	(769)	(688)	(768)
EBIT	3,309	3,890	5,248	6,103	7,214
Finance costs, net	(1,109)	(881)	(1,023)	(1,165)	(1,392)
JV & associates	361	263	467	499	534
Exceptional	0	0	0	0	0
Pre-tax profit	2,561	3,273	4,692	5,437	6,356
Income tax	(331)	(308)	(469)	(544)	(636)
Profit for the year	2,230	2,964	4,222	4,894	5,721
Minority interests	(20)	(2)	(50)	(50)	(50)
Perpetual MTN distribution	(101)	(119)	(103)	(103)	(103)
Net profit	2,109	2,843	4,069	4,741	5,568

Cash flow summary

YE 31 Dec (RMB mn)	2019A	2020A	2021E	2022E	2023E
EBIT	3,309	3,890	5,248	6,103	7,214
D&A	1,661	1,888	2,435	2,964	3,703
Change in working capital	(108)	1,749	250	(601)	(1,193)
Income tax paid	(393)	(329)	(324)	(477)	(553)
Others	1,067	(2,150)	(5,384)	(4,061)	(3,439)
Net cash from operating	5,929	5,377	2,799	3,804	5,093
Capex	(12,19)	(9,552)	(8,072)	(10,80)	(10,80)
Associated companies	(831)	(1,911)	(263)	(467)	(499)
Other	2,756	5,745	1,650	2,240	2,500
Net cash from investing	(10,26)	(5,719)	(6,685)	(9,028)	(8,801)
Equity raised	4,640	0	0	0	0
Change of Debts	(593)	3,814	2,977	6,685	5,709
Dividend paid	(1,056)	(676)	(1,056)	(1,221)	(1,422)
Others	3,141	(2,085)	(333)	(2,307)	0
Net cash from financing	6,131	1,470	1,588	3,158	4,287
Net change in cash	1,793	1,128	(2,298)	(2,067)	579
Cash at the beginning	5,012	6,807	7,705	5,407	3,340
Exchange difference	2	(230)	0	0	0
Cash at the end of the year	6,807	7,705	5,407	3,340	3,919
Pledged cash	427	569	685	771	857
Non-pledged time deposit	13	0	0	0	0
Cash at balance sheet	7,248	8,274	6,092	4,111	4,776

Balance sheet

YE 31 Dec (RMB mn)	2019A	2020A	2021E	2022E	2023E
Non-current assets	53,443	62,485	65,961	74,383	82,137
Fixed asset	29,010	33,380	39,573	47,536	54,759
Prepayments & deposits	1,177	2,536	1,886	1,856	1,826
Prepaid lease payments	-	-	-	-	-
Interest in JVs & associates	4,491	6,403	6,666	7,132	7,632
Other non-current assets	18,765	20,166	17,837	17,860	17,922
Current assets	48,444	44,038	44,570	39,785	44,074
Inventory	8,124	5,718	5,620	4,741	5,260
Cash	7,248	8,274	6,092	4,111	4,776
Account receivable	17,993	22,977	23,039	20,980	23,874
Prepayments	6,214	4,465	4,400	4,330	4,260
Other current assets	8,865	2,605	5,419	5,623	5,905
Current liabilities	49,569	47,845	49,164	44,221	47,784
Trade and bills payable	25,428	28,610	25,599	22,281	24,720
Other payables	12,186	10,949	14,620	12,383	13,003
Borrowings	5,705	5,612	6,808	7,661	8,513
Others	6,250	2,673	2,136	1,895	1,547
Non-current liabilities	21,264	26,320	27,073	32,214	36,644
Borrowings	16,036	19,943	21,725	27,557	32,413
Provision	2,186	2,917	2,157	1,695	1,049
Others non-current assets	3,041	3,460	3,192	2,962	3,182
Minority Interest	1,549	805	855	905	955
Perpetual MTN	1,993	2,991	1,994	2,000	2,000
Shareholders' equity	25,140	27,382	31,342	34,806	38,901
Total equity	28,682	31,178	34,191	37,711	41,856

Key ratios

YE 31 Dec	2019A	2020A	2021E	2022E	2023E
Sales mix (%)					
WTG manufacturing	76.2	83.1	80.5	74.5	72.6
Wind power services	9.4	7.9	7.2	8.7	8.4
Wind farm	11.2	7.2	10.2	14.5	16.7
Others	3.1	1.8	2.1	2.4	2.2
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	18.4	17.2	23.2	24.0	24.8
Pre-tax margin	6.8	5.8	8.7	11.1	11.4
Net margin	5.6	5.1	7.6	9.7	10.0
Effective tax rate	12.9	9.4	10.0	10.0	10.0
Balance sheet ratios					
Current ratio (x)	1.0	0.9	0.9	0.9	0.9
Quick ratio (x)	0.8	0.9	0.8	0.9	0.8
Cash ratio (x)	0.1	0.2	0.1	0.1	0.1
Inventory turnover days	63	45	39	39	33
Debtors turnover days	168	133	156	164	147
Creditor turnover days	268	212	240	235	205
Total debt / equity ratio (%)	67.5	73.1	77.0	86.7	91.3
Net debt / equity ratio (%)	48.6	52.2	63.9	80.3	84.4
Returns (%)					
ROE	6.9	8.3	11.2	11.9	12.7
ROA	2.0	2.6	3.6	4.1	4.3
Per share					
EPS (RMB)	0.51	0.67	0.96	1.12	1.32
DPS (RMB)	0.16	0.25	0.29	0.34	0.40
BVPS (RMB)	7.26	8.09	8.56	9.40	10.4

Source: Company data, CMBIS estimates

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