

Suntien Green Energy (956 HK)

1H21 beat; strong earnings momentum to continue in 2H21E

Suntien realized 1H21 attributable net profit (deducted perp. Interest) of RMB1,545mn, up 70% YoY and exceeded FY20 full year. Strong performance was driven by operating leverage from the wind segment and dollar margin recovery from the gas segment. Mgmt. gave conservative guidance in 2H21E, but we expect strong performance to continue as both wind power generation and gas sales will perform well during the off-season. We expect Suntien's A-share placement will come soon, which will support the LNG terminal project and ease financial pressure. We raised FY21/22E earnings by 19.7%/6.6%. **Maintain BUY with TP lifted to HK\$5.17.**

- 1H21 Net profit exceeded FY20 full year.** Revenue increased 27.6 % YoY to RMB8.4bn on the back of good performance from both wind and gas segments. Total operating costs expanded at slower pace than revenue at only 18.7% YoY, reflecting increasing operating leverage. Suntien realized RMB133mn investment gains, of which RMB88.7mn was from share profit from the Jingtang LNG terminal. Net profit (deducted perp. Interest) was RMB1,545mn, up 70.0% YoY, higher than FY20 full year net profit.
- 2H21 to maintain growth momentum.** 1H21 electricity/gas sales surged 46.7%/13.6% YoY to 7,024GWh/2,124mcbm respectively. Wind power enjoyed good wind resources with 1H21 average wind speed read of 6.8m/s, and gas dollar margin surprisingly recovered to RMB0.325/cbm due to rival energy LNG price exhibited a jump. Mgmt. gave conservative guidance for 2H21E. Based on good off-season operating data in Jul, however, we are optimistic on Suntien's earnings growth in 2H21E.
- LNG terminal construction on track.** Suntien intends to put both Caofeidian LNG terminal and ancillary pipelines on test running in winter 2022, implying the first ship of LNG is likely to land in 4Q22E. Based on strong gas demand and tightened supply outlook, the Company is now more confident on the utilization rate of the terminal since other terminals in Hebei and Tianjin are approaching design limit. Mgmt. believes phase 1 project will break even when utilization rate reaches above ~60%. We expect the project will contribute earnings in 2023, and we have not factored in those contribution in our financial model.
- Lifted TP by 24.6% to HK\$5.17; maintain BUY.** We expect Suntien to have A-share placement shortly after CSRC granted approval. Given recent good performance of A-share price, we expect share dilution will be less than 10%. Based on our SOTP valuation, we believe the placement will reduce net debt position and release value to H-share holder. We lifted our TP by 24.6% to HK\$5.17. Our TP represents FY21/22E 6.2/7.5x PER and 0.80/0.75x PBR. Maintain BUY rating.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	11,969	12,511	15,193	16,313	18,500
Net income (RMB mn)	1,344	1,433	2,367	2,150	2,193
EPS (RMB)	0.36	0.38	0.61	0.56	0.57
YoY growth (%)	8.4	4.7	62.3	-9.2	2.0
Consensus EPS (RMB)	N/A	N/A	0.43	0.47	0.51
P/E (x)	10.4	10.0	6.1	6.8	6.6
P/B (x)	1.18	1.10	0.80	0.75	0.70
Yield (%)	3.3	3.6	5.6	5.2	5.4
ROE (%)	11.3	11.1	13.0	11.1	10.6
Net gearing (%)	186	225	141	163	167

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$5.17**
 (Previous TP **HK\$3.43**)
 Up/Downside **+13.6%**
 Current Price **HK\$4.55**

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	41,736
Avg 3 mths t/o (HK\$ mn)	76.23
52w High/Low (HK\$)	4.94/1.68
Issued shares - H (mn)	1,839
Issued shares - A (mn)	2,011

Source: Bloomberg

Shareholding Structure

HECIC	48.7%
Free float	51.3%

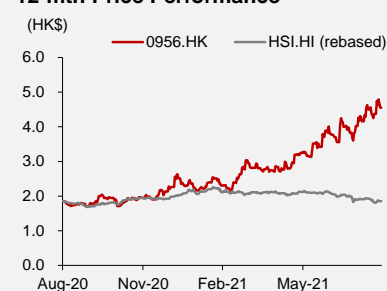
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	19.1%	19.4%
3-mth	40.0%	60.5%
6-mth	97.7%	125.4%
12-mth	145.5%	145.7%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

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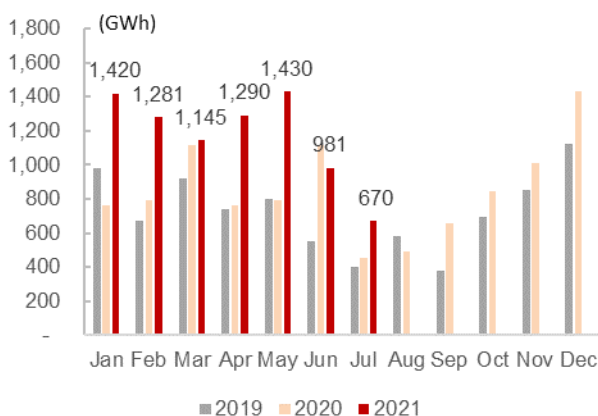
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- "Suntien Green Energy (956 HK) – Earnings growth to resume in 2021E" – 26 Mar 2021
- "Suntien Green Energy (956 HK) – Heading towards further re-rating opportunities" – 23 Feb 2021

Figure 1: Operating summary for May and 5M21

(RMB, mn)	1H20	2H20	FY20	1H21	2H21E	FY21E	1H21 YoY
Total operating income	6,587	5,924	12,511	8,404	6,789	15,193	27.6%
Natural gas segment	4,348	3,695	8,043	5,035	4,024	9,059	15.8%
Wind segment	2,239	2,225	4,463	3,368	2,762	6,129	50.4%
Others	1	4	5	1	3	5	147.8%
Total operating costs	(5,341)	(5,273)	(10,614)	(6,342)	(5,837)	(12,178)	18.7%
Operating cost	(4,687)	(4,413)	(9,101)	(5,494)	(4,810)	(10,304)	17.2%
Business tax & surcharge	(18)	(15)	(34)	(30)	(16)	(46)	62.5%
Selling expenses	(0)	(2)	(2)	(1)	(1)	(2)	226.3%
Administration expenses	(179)	(349)	(528)	(247)	(391)	(638)	38.4%
R&D expenses	(7)	(29)	(36)	(16)	(29)	(46)	123.9%
Finance costs	(448)	(464)	(913)	(552)	(590)	(1,142)	23.2%
Other gain or loss	36	38	75	73	12	85	101.5%
Investment gains	116	150	266	145	118	263	24.1%
Credit provisions	28	42	70	(8)	83	75	-129.8%
Asset provisions	-	(56)	(56)	-	(15)	(15)	n/a
Disposal gain/loss	0	(0)	0	(0)	0	-	-100.3%
Operating profit	1,427	825	2,252	2,272	(19)	2,252	59.2%
Non operating income	2	12	13	6	14	20	280.6%
Non operating expenses	(1)	(1)	(2)	(0)	(2)	(2)	-49.9%
Profit before tax	1,428	836	2,264	2,277	1,163	3,440	59.5%
Income tax expenses	(231)	(100)	(331)	(307)	(209)	(516)	32.6%
Effective tax rate	16.2%		14.6%	13.5%		15.0%	-2.7ppt
Profit for the period	1,197	736	1,933	1,971	954	2,924	64.7%
Less: Minorities	249	173	422	387	107	494	55.3%
Perpetual bond distribution	39	39	78	39	39	78	0.0%
Net profit for the period	908	524	1,433	1,545	808	2,352	70.0%

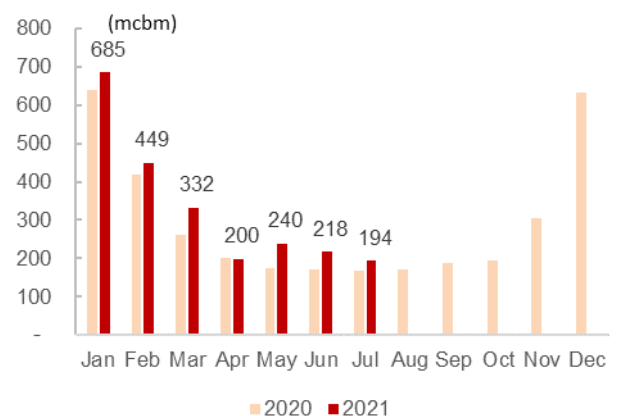
Source: Company data, CMBIS estimates

Figure 2: Monthly wind power generation



Source: Company data, CMBIS

Figure 3: Monthly gas sales volume



Source: Company data, CMBIS

Figure 4: We made slight revision on earnings estimates

	Old			New			Change(%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue (RMB mn)	14,456	15,888	18,049	15,193	16,313	18,500	5.1%	2.7%	2.5%
Net Income (RMB mn)	1,968	1,994	2,049	2,367	2,150	2,193	20.3%	7.9%	7.0%
EPS (RMB)	0.51	0.52	0.53	0.61	0.56	0.57	20.3%	7.9%	7.0%

Our est. vs. Consensus				Diff with consensus					
Consensus Earnings (RMB mn)				1,989	2,250	2,527	19.0%	-4.4%	-13.2%
Consensus EPS (RMB)				0.51	0.56	0.63	20.1%	-0.3%	-9.1%

Source: CMBIS estimates

Figure 5: Our SOTP valuation for wind and gas segment

SOTP Valuation summary	Measure by	
	The Company (RMB mn)	Per share (RMB)
Wind & Solar segment -DCF	41,229	9.72
Piped gas supply segment - PER	9,054	2.13
Total value	50,283	11.85
Less: Net debt	28,210	6.65
Minority Interest	3,687	0.87
Renewable corp bond	1,494	0.04
Equity Value of the firm	18,386	4.29
Per share value (HKD)		5.17

Source: CMBIS estimates

Figure 6: DCF valuation for wind power segment

DCF Valuation	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Grid Connected Capacity(MW)	6,522	7,072	7,638	8,249	8,909	9,621	10,391	11,222	12,120
Capacity growth	9.2%	8.4%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Additional capacity of that year(MW)	550	550	566	611	660	713	770	831	898
Turnover (Rmb mn)	6,173	6,717	7,218	7,756	8,335	8,957	9,625	10,343	11,114
Turnover growth	0.7%	8.8%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
EBIT (Rmb mn)	3,450	3,753	4,015	4,296	4,595	4,916	5,258	5,625	6,017
EBIT margin (%)	55.9%	55.9%	55.6%	55.4%	55.1%	54.9%	54.6%	54.4%	54.1%
Tax rate (%)	12.8%	13.3%	14%	15%	16%	16%	17%	18%	19%
Depreciation (Rmb mn)	1,927	2,094	2,310	2,521	2,750	3,000	3,272	3,568	3,890
CAPEX (Rmb mn)	-3,575	-3,575	-3,604	-3,814	-4,037	-4,273	-4,522	-4,786	-5,066
Change in working capital (Rmb mn)	-51	407	-150	-54	-58	-62	-67	-72	-77
Free cash flow	1,311	2,182	2,009	2,314	2,538	2,782	3,047	3,336	3,650
Years	1	2	3	4	5	6	7	8	9
Discount factor	0.91	0.84	0.77	0.70	0.64	0.59	0.54	0.49	0.45
Discount free cash flow	1,199	1,827	1,539	1,622	1,628	1,633	1,636	1,639	1,641
Terminal value	59,765								
Terminal perpetual growth	3.00%								
Terminal EV/EBITDA	6.03								

Valuations (RMB mn)		WACC Calculations	
Terminal value	59,765	Cost of debt	4.70%
Terminal perpetual growth	3.0%	Tax rate	20%
Terminal EV/EBITDA	6.03	After tax cost of debt	3.8%
Total discount FCF	14,363	Adjusted beta	1.20
Discount terminal value	26,866	Market risk premium	14.76%
Segment value	41,229	Risk free rate	1.0%
Discount FCF(% of total)	35%	Cost of equity	18.7%
Terminal value (% of total)	65%	% of debt financing	63%
Share fair value (Rmb)	9.72	WACC	9.3%
Share fair value (HKD)	11.07		

Source: CMBIS estimates

Figure 7: PEER's valuation

Company	Ticker	Market cap HK\$ mn	Stock Price	YTD	EPS			EPS-CAGR 19-21E	PER			PBR		
					20	21E	22E		20	21E	22E	20	21E	22E
HK listed Wind power operators														
CHINA LONGYUAN-H	916 HK	94,570	14.16	82.2	0.59	0.74	0.84	19.2%	15.9	16.0	14.1	1.7	1.6	1.4
CHINA DATANG C-H	1798 HK	12,876	2.13	74.6	0.16	0.22	0.26	25.7%	8.0	7.9	6.9	0.9	0.6	0.6
CHINA SUNTIEN-H	956 HK	34,744	4.55	91.2	0.38	0.52	0.57	22.5%	6.9	7.3	6.6	1.0	0.9	0.8
CGN NEW ENERGY H	1811 HK	15,155	4.25	248.4	0.04	0.05	0.13	81.8%	10.6	11.9	4.4	2.0	1.8	1.6
CONCORD NE	182 HK	5,424	0.78	66.0	0.08	0.10	0.13	23.6%	7.6	6.5	5.2	0.9	0.7	0.6
Average									9.5	7.8	7.0	1.0	0.8	0.8

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	11,969	12,511	15,193	16,313	18,500
Natural gas	7,996	8,043	9,059	10,135	11,778
Wind & Solar	3,985	4,463	6,129	6,173	6,717
Others	4	5	5	5	5
Operating cost	(8,638)	(9,101)	(10,304)	(11,428)	(13,138)
Business tax & surcharge	(39)	(34)	(46)	(51)	(59)
Selling expenses	(1)	(2)	(2)	(2)	(3)
Administration expenses	(554)	(528)	(638)	(685)	(777)
R&D expenses	(10)	(36)	(46)	(49)	(55)
Finance costs	(869)	(913)	(1,125)	(1,198)	(1,367)
Other gain or loss	96	75	85	85	85
Investment income	222	266	263	287	312
Provisions & disposal	(35)	70	75	75	75
Operating profit	2,136	2,252	3,440	3,331	3,558
Non-operating income	50	13	20	20	20
Non-operating expenses	(2)	(2)	(2)	(2)	(2)
Profit before tax	2,184	2,264	3,458	3,349	3,576
Income tax	(356)	(331)	(519)	(527)	(590)
Profit for the period	1,828	1,933	2,939	2,821	2,986
Less: Minorities	413	422	494	593	715
Perpetual distribution	71	78	78	78	78
Net profit	1,344	1,433	2,367	2,150	2,193

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	2,184	2,303	3,461	3,407	3,672
DD&A	1,542	1,461	2,029	2,547	3,022
Working cap change	438	1,453	(1,761)	(51)	407
Taxation	(272)	(378)	(615)	(566)	(618)
Others	(158)	(929)	40	-	(0)
Operating cash flow	3,732	3,899	3,154	5,337	6,483
Capex & investments	(6,075)	(12,478)	(8,655)	(11,380)	(9,191)
Others	(28)	2,664	219	-	-
Investment cash flow	(6,103)	(9,814)	(8,436)	(11,380)	(9,191)
Net change in cash	47	423	5,110	-	-
Cash at the beginning	904	-	-	-	-
Exchange difference	1,674	7,218	6,210	7,203	4,545
Cash at the end of the	(710)	(331)	(852)	(1,204)	(1,231)
Cash at balance sheet	1,849	(1,872)	-	-	-
Net change in cash	2,465	5,438	10,468	5,999	3,314
Net change in cash	93	(477)	5,186	(44)	606
Cash at the beginning	2,245	2,358	1,887	7,073	7,029
Exchange difference	19	6	-	-	-
Cash at the end of the	2,358	1,887	7,073	7,029	7,635
Cash at balance sheet	2,358	1,887	7,073	7,029	7,635

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	38,531	48,582	55,444	64,021	69,927
Fixed asset	28,269	39,601	46,030	54,634	60,551
Intangible assets	2,249	2,210	2,146	2,082	2,017
Associates & JVs	2,302	2,476	2,729	3,014	3,323
Prepayments	2,904	1,854	2,287	2,031	1,767
Others	377	460	260	259	257
Current assets	7,484	8,634	14,845	15,116	16,440
Cash	2,358	1,898	7,073	7,029	7,635
Receivables	3,983	5,287	6,464	6,914	7,770
Prepayments	1,081	1,391	1,232	1,094	952
Others	63	58	77	80	83
Current liabilities	10,551	13,536	15,421	16,855	18,557
Trade and bill payables	137	181	227	243	276
Other payables	6,341	8,306	8,008	8,064	8,925
Borrowings	3,920	4,912	7,057	8,397	9,186
Others	153	136	120	130	140
Non-current liabilities	20,706	27,026	31,110	36,975	40,767
Borrowings	19,093	25,922	28,226	33,588	36,744
Other payables	225	316	334	336	372
Others	46	50	50	50	50
Minority Interest	2,936	3,531	3,687	3,885	4,125
Renewable green bond	1,494	1,494	1,494	1,494	1,494
Shareholders' equity	10,360	11,671	18,577	19,929	21,424
Total Equity	14,759	16,654	23,758	25,307	27,043

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Wind & Solar	66.8	64.3	59.6	62.1	63.7
Natural Gas	33.3	35.7	40.3	37.8	36.3
Others	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100
P&L ratios (%)					
Gross profit margin	32.7	28.7	27.7	28.4	32.2
Operating margin	17.8	18.0	22.6	20.4	19.2
Pre-tax margin	18.2	18.1	22.8	20.5	19.3
Net margin	11.2	11.5	15.6	13.2	11.9
Effective tax rate	16.3	14.6	15.0	15.8	16.5
Balance sheet ratios					
Current ratio (x)	0.75	0.71	0.64	0.96	0.90
Quick ratio (x)	0.74	0.70	0.63	0.96	0.89
Cash ratio (x)	0.26	0.22	0.14	0.46	0.42
Debtors turnover days	111.2	139.0	141.1	149.7	144.9
Total debt/equity ratio (%)	182.3	164.7	189.1	148.5	165.9
Net debt/equity ratio (%)	185.5	225.4	140.5	163.1	167.0
Returns (%)					
ROE	12.4	11.3	11.1	12.7	11.1
ROA	3.2	2.9	2.5	3.3	2.7
Per share					
EPS (RMB)	0.36	0.38	0.61	0.56	0.57
DPS (RMB)	0.13	0.14	0.22	0.20	0.20
BVPS (RMB)	3.19	3.42	4.73	5.05	5.40

Source: Company data, CMBIS estimates

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