

# China Longyuan (916 HK)

## 1H21 rapid earnings growth in line; 2H21E to maintain decent growth

CLY's 1H21 results were in line with our estimates. The Company maintained excellent operation and execution and added significant renewables capacity reserve to support expansions in the 14th FYP period. We expect CLY to maintain decent earnings growth in 2H21, supported by good momentum of wind power generation. Our TP is lifted by 12% to HK\$19.0. We expect re-rating to continue. Maintain BUY.

- 1H21 net profit surged 37.7%.** Revenue grew by 25.7% YoY to RMB17.8bn. Wind and coal-fired power segments were key growth drivers, and coal power revenue beat out estimates on higher coal power trading. Major expenses were largely in line, while net financial costs declined by 4.2% YoY, reflecting excellent financial management. Net profit (deducted perp. interest) was RMB4,420mn, up 37.7% YoY, in line with our estimates and close to FY20 full year level.
- 2H21E to maintain decent growth.** Wind power generation read 27,407GWh during 1H21, up 20.4% YoY, with wind utilization hours increased 110 hours to 1,297 hours. Good wind segment performance was driven by favorable wind resources and newly added capacity. Mgmt. guided wind power generation target of 46.9TWh in FY21E. We think the guidance is a bit conservative, since wind power generation growth did not slow down in traditional off-season in Jul (7M21: +21.5% YoY with a run rate exceeding 60%). We expect 2H21E wind power segment to maintain decent growth.
- Coal power beat estimates.** Coal power recorded segment profit of RMB272mn, reflecting YoY growth despite the fact that coal fuel costs surged 24.5% YoY. We think coal trading was the key reason behind the stronger-than-expected results.
- Subsidy receivables rolled to RMB29.3bn.** CLY collected only RMB133mn subsidies during 1H21. Mgmt. disclosed subsidy collection accelerated from Jul, and expected full year collection to reach RMB4.3bn. We expect the figure to continue to expand and exceed RMB30bn by end-2021.
- Lift TP to HK\$19.0; maintain BUY.** Following China's net-zero target, CLY had experienced sector re-rating in 2021 and share price had doubled YTD. We continue to prefer CLY for its leading renewables capacity position and excellent operation and execution among peers. We believe CCER and carbon trading could be potential solution of subsidy shortfall, and contribute to additional renewables project revenue. Our DCF TP is lifted by 12% to HK\$19.0. Maintain BUY.

### 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	N/A	0.74	0.84	1.0
P/E (x)	25.6	23.5	17.9	16.4	14.1
P/B (x)	2.31	2.15	1.95	1.78	1.61
Yield (%)	0.8	0.9	1.1	1.2	1.4
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\$19.0
(Previous TP)	HK\$17.0)
Up/Downside	+16.9%
Current Price	HK\$16.26

### China Wind Sector

**Robin Xiao**  
 (852) 3900 0849  
 robinxiao@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	113,795
Avg 3 mths t/o (HK\$ mn)	235.93
52w High/Low (HK\$)	15.62/4.48
Total Issued Shares (mn)	8,036

Source: Bloomberg

### Shareholding Structure – H share

Wellington Mgmt Group	11.9%
BlackRock Inc.	9.9%

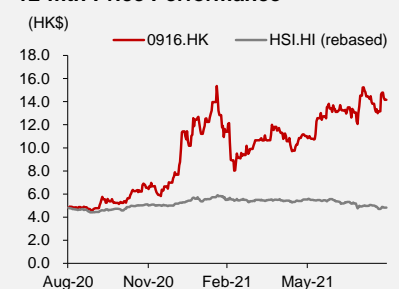
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	4.1%	7.8%
3-mth	28.5%	47.3%
6-mth	24.3%	41.8%
12-mth	193.4%	193.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

**Auditor: Ernst & Young**

### Related Reports

- "1H21 results preview: earnings to boom with good power generation performance" – 12 Aug 2021
- "FY20 results in line; cloudy subsidy collection outlook" – 1 Apr 2021

Figure 1: CLY's 1H21 results summary

(Rmb, mn)	1H20	2H20	FY20	1H21	2H21E	FY21E	1H21 YoY	1H21E	Diff
<b>Revenue</b>	<b>14,218</b>	<b>14,449</b>	<b>28,667</b>	<b>17,877</b>	<b>14,570</b>	<b>32,446</b>	<b>25.7%</b>	<b>16,942</b>	<b>5.5%</b>
Wind	10,602	9,802	20,403	12,738	11,273	24,011	20.2%	12,726	0.1%
Coal-fired	3,330	4,263	7,593	4,826	2,981	7,807	44.9%	3,927	22.9%
Others	174	184	358	241	387	628	39.0%	289	-16.5%
Concession revenue	113	200	313	71	-	-	n/a	-	N/A
<b>Other net income</b>	<b>423</b>	<b>864</b>	<b>1,287</b>	<b>555</b>	<b>468</b>	<b>1,022</b>	<b>31.1%</b>	<b>467</b>	<b>18.8%</b>
<b>Operating expenses</b>	<b>-8,303</b>	<b>-11,595</b>	<b>-19,898</b>	<b>-10,322</b>	<b>-10,750</b>	<b>-21,072</b>	<b>24.3%</b>	<b>-9,358</b>	<b>10.3%</b>
Depreciation and amortisation	-3,862	-3,873	-7,735	-4,045	-4,535	-8,580	4.7%	-4,170	-3.0%
Coal consumption	-862	-1,133	-1,994	-1,371	-1,518	-2,889	59.1%	-1,357	1.0%
Coal sales costs	-1,554	-2,084	-3,639	-2,497	-963	-3,460	60.7%	-1,709	46.1%
Service concession construction costs	-113	-200	-313	-71	71	-	-	-	N/A
Personnel costs	-900	-1,745	-2,645	-1,192	-1,650	-2,843	32.5%	-1,080	10.4%
Material costs	-83	-86	-169	-79	-197	-276	-5.4%	-121	-35.2%
Repairs and maintenance	-357	-567	-924	-391	-647	-1,038	9.7%	-363	7.7%
Administration expenses	-198	-409	-607	-230	-457	-687	15.9%	-213	7.9%
Other operating expenses	-374	-1,497	-1,871	-446	-852	-1,298	19.1%	-343	29.8%
<b>Operating profit -EBIT</b>	<b>6,338</b>	<b>3,718</b>	<b>10,056</b>	<b>8,109</b>	<b>4,287</b>	<b>12,397</b>	<b>28.0%</b>	<b>8,051</b>	<b>0.7%</b>
<i>Operating profit margin</i>	<i>42.8%</i>	<i>25.7%</i>	<i>35.1%</i>	<i>42.8%</i>	<i>29.4%</i>	<i>38.2%</i>	<i>0.0ppt</i>	<i>42.8%</i>	<i>0.0ppt</i>
Finance income	33	342	374	204	6	210	528.0%	107	90.3%
Finance expenses	-1,765	-1,693	-3,458	-1,863	-1,955	-3,818	5.6%	-1,833	1.7%
<b>Net finance expenses</b>	<b>-1,732</b>	<b>-1,351</b>	<b>-3,083</b>	<b>-1,659</b>	<b>-1,949</b>	<b>-3,608</b>	<b>-4.2%</b>	<b>-1,725</b>	<b>-3.9%</b>
Share of profits/(loss)	-11	-40	-51	-76	33	-43	581.2%	-19	297.4%
<b>Profit before tax</b>	<b>4,594</b>	<b>2,327</b>	<b>6,922</b>	<b>6,375</b>	<b>2,372</b>	<b>8,746</b>	<b>38.8%</b>	<b>6,306</b>	<b>1.1%</b>
Income tax	-818	-418	-1,236	-1,125	-501	-1,626	37.6%	-1,179	-4.6%
<i>Effective tax rate</i>	<i>17.8%</i>	<i>18.0%</i>	<i>17.9%</i>	<i>17.7%</i>	<i>21.1%</i>	<i>18.6%</i>	<i>-0.2ppt</i>	<i>18.7%</i>	<i>-1.0ppt</i>
Profit for the period	3,776	1,909	5,685	5,249	1,871	7,120	39.0%	5,127	2.4%
Less: non-controlling interests	-445	-215	-661	-710	49	-661	59.3%	-445	59.3%
Perpetual bond	-121	-178	-299	-119	-146	-266	-1.4%	-121	-1.4%
<b>Net income</b>	<b>3,210</b>	<b>1,517</b>	<b>4,726</b>	<b>4,420</b>	<b>1,774</b>	<b>6,194</b>	<b>37.7%</b>	<b>4,561</b>	<b>-3.1%</b>
<i>Net margin</i>	<i>22.6%</i>	<i>10.5%</i>	<i>16.5%</i>	<i>24.7%</i>	<i>12.2%</i>	<i>19.1%</i>	<i>2.2ppt</i>	<i>26.9%</i>	<i>-2.2ppt</i>

Source: Company data, CMBIS estimates

Figure 2: Our DCF valuation for CLY

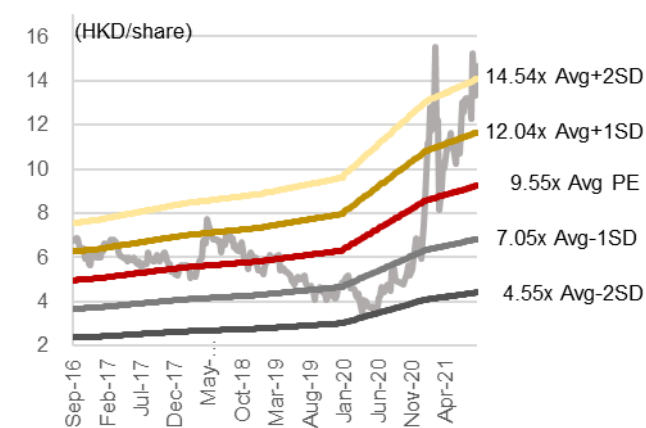
DCF Valuation (RMB, mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Turnover</b>	<b>35,312</b>	<b>39,577</b>	<b>44,341</b>	<b>49,343</b>	<b>53,466</b>	<b>59,096</b>	<b>64,708</b>	<b>70,304</b>	<b>75,889</b>
Turnover growth (%)	9%	12%	12%	11%	8%	11%	9%	9%	8%
<b>EBIT</b>	<b>13,653</b>	<b>15,785</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	0.79	0.72	0.67	0.62	0.57	0.53	0.48
Discount free cash flow	-7,194	-7,783	-3,693	-1,605	856	4,543	7,468	9,825	11,695
<b>Terminal value</b>	<b>462,223</b>								
<b>Terminal perpetual growth</b>	<b>3%</b>								
<b>Terminal EV/EBITDA</b>	<b>7.71</b>								

Valuations (RMB mn)	
<b>Terminal value</b>	462,223
Terminal perpetual growth	3.0%
Terminal EV/EBITDA	7.71
Total discount FCF	14,111
Discount terminal value	224,138
Firm value	238,249
Discount FCF(% of total)	5.9%
Terminal value (% of total)	94.1%
Add: Cash & cash equivalent	3,821
Less: Debt	103,508
Non-controlling interest	8,911
Perpetual MTN note	6,045
Equity Value - RMB	123,605
<b>Share fair value (RMB)</b>	<b>15.38</b>
<b>Exchange rate (HKD/RMB)</b>	<b>0.83</b>
<b>Share fair value (HKD)</b>	<b>19.00</b>

WACC Calculations	
Cost of debt	4.5%
Tax rate	20.0%
After tax cost of debt	3.2%
Cost of equity	16.5%
Adjusted beta	0.99
Market risk premium	15.8%
Risk free rate	0.8%
% of debt financing	61.0%
<b>WACC</b>	<b>8.4%</b>

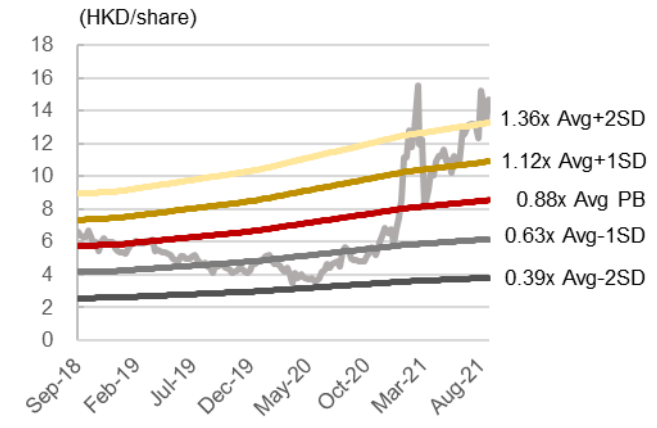
Source: CMBIS estimates

Figure 3: 5-YR PE Band



Source: Bloomberg, CMBIS

Figure 4: 5-YR PB Band



Source: Bloomberg, CMBIS

## 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

# Disclosures & Disclaimers

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## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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