

China Longyuan (916 HK)

Strong momentum to drive re-rating in 4Q21E

We think China State Council's power tariff market trading policy update will be a positive catalyst to sustain China Wind Operators' re-rating. Among peers, we believe 1) CLY will benefit more from higher proportion of electricity market direct sales; 2) the Company gets closer to returning to A-share as it completed the first round Q&A for CSRC. Given recent power supply shortage in China, we think market will place more focus on wind power output data, especially for high wind season in 4Q21E. We also expect market to price in further expectation for green electricity with higher project return outlook and overall earnings performance. We maintain our TP unchanged at HK\$19.0. Reiterate BUY.

- Wind tariff to increase with new market trading policy.** CLY recorded electricity direct market sales of 24.75%/29.78% in sales mix in 1H21/2020, respectively. Those direct market sales came with significant discount (20-30%) to baseline coal-power tariff, and we expect the discount level will be narrowed or even traded at premium in view of tightening electricity supply. We believe CLY's earnings performance will improve with potential tariff increment.
- On track to return to A-share market.** CLY released announcements on 8 Oct for the first round CSRC Q&A. CSRC raised 27 questions. We think most of them were general inquiries, and CLY had made detailed responses. We believe CLY steps closer to A-share listing, on track to its plan with a potential time frame to be set by end-2021.
- Market sentiment to be strengthened.** Under the backdrop of recent power shortage, we think surging wind power output in 4Q could be one of the cures for short term. Moreover, we also think market has increasing expectation for wind operators to realize better tariff and return outlook through "Green Electricity" trading as China adopts tightening energy consumption controls. Renewable power generation/consumption will play a more important role in realizing GDP growth for provincial governments and capacity expansion for corporates.
- Reiterate BUY.** We think CLY had accumulated several catalysts to support further re-rating in short term. In a longer-term outlook, we expect CLY to add 30GW new capacity and at least 17GW through parent company's assets injection by end-2025, reflecting ~25% capacity CAGR compared to its current renewable capacity of 23GW. Our TP remains unchanged at HK\$19.0. Reiterate BUY rating.

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(RMB)	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\$19.00
(Previous TP)	HK\$19.00)
Up/Downside	+15.3%
Current Price	HK\$16.46

China Wind Sector

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Stock Data

Mkt Cap (HK\$ mn)	132,279
Avg 3 mths t/o (HK\$ mn)	358.4
52w High/Low (HK\$)	20.25/5.08
Total Issued Shares (mn)	8,036

Source: Bloomberg

Shareholding Structure – H share

Wellington Mgmt Group	13.0%
BlackRock Inc.	7.0%
Free float	80.0%

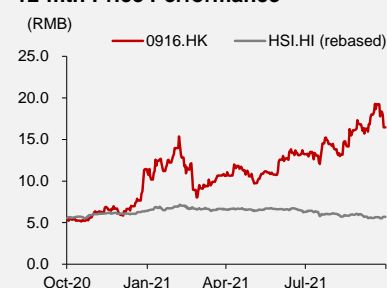
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.1%	3.2%
3-mth	24.3%	36.9%
6-mth	54.7%	78.7%
12-mth	196.7%	188.1%

Source: Bloomberg

12-mth Price Performance



Source: Wind

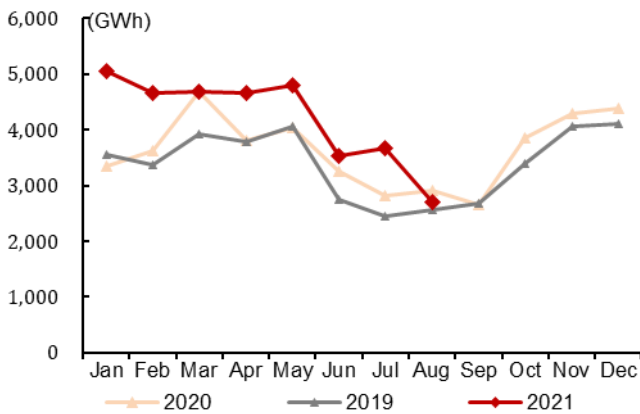
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Related Reports

- "China Longyuan (916 HK) – 9M20 results on track; seeing silver lining for accelerating subsidy collection" – 28 Oct 2020
- "China Longyuan (916 HK) – 1H20 results in line; await subsidies funding resolve plan" – 13 Aug 2020

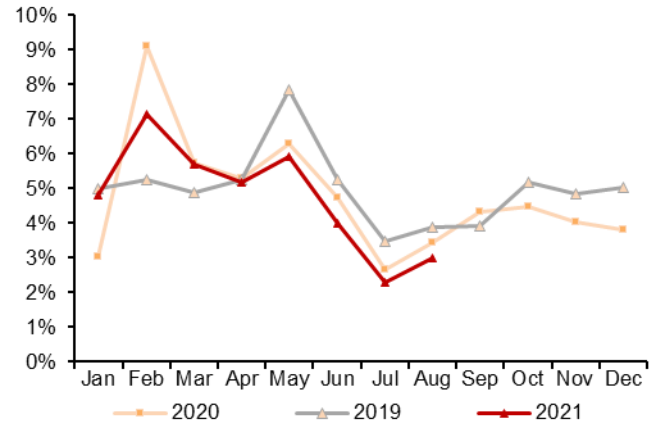
Focus Charts

Figure 1: CLY's seasonal wind power generation performance



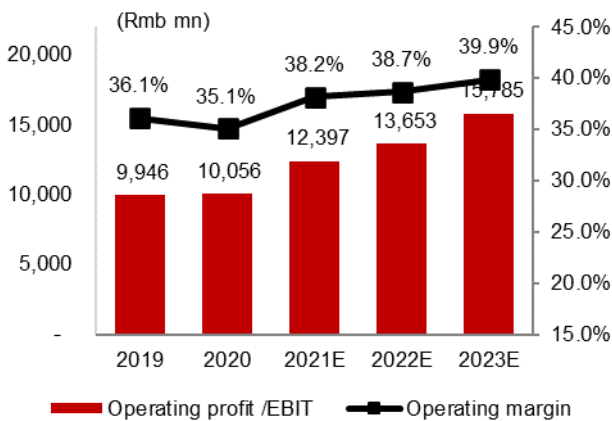
Source: Company data, CMBIS

Figure 2: CLY's wind curtailment rate was at 3-yr low in 2021



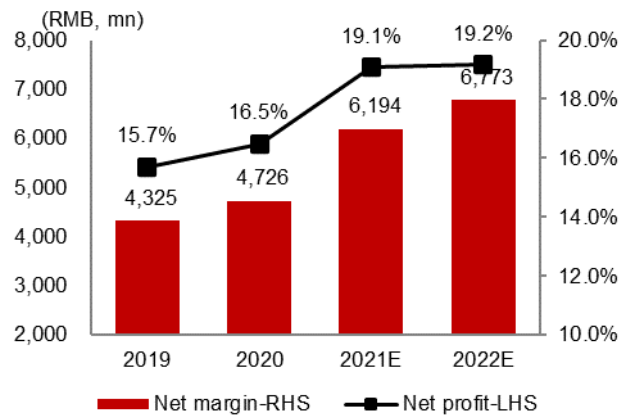
Source: Company data, CMBIS

Figure 3: Operating profit vs. OP margin



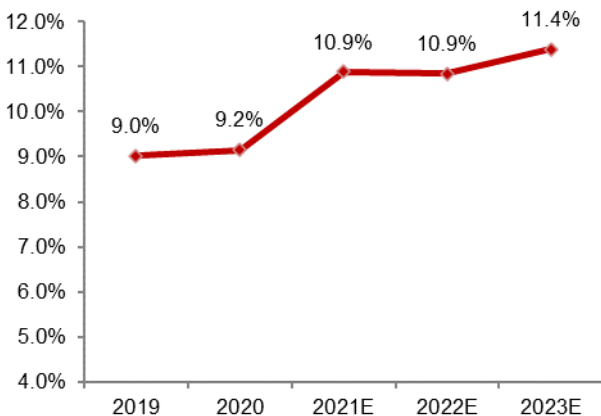
Source: Company data, CMBIS

Figure 4: Net profit vs. Net margin



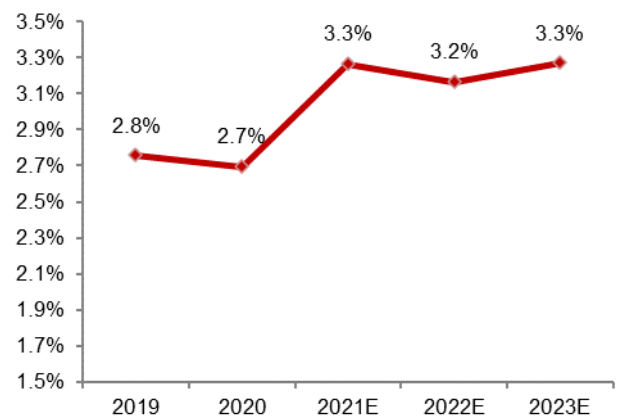
Source: Company data, CMBIS

Figure 5: ROE



Source: Company data, CMBIS

Figure 6: ROA



Source: Company data, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	27,541	28,667	32,446	35,312	39,577	Net income	4,325	4,726	6,194	6,773	7,848
Wind	18,981	20,403	24,011	25,850	28,502	DD&A	7,786	7,968	8,819	10,130	11,730
Coal-fired	7,784	7,593	7,807	7,971	7,968	WC change	(1,865)	(5,665)	(10,08)	(3,285)	(2,901)
Others	657	358	628	1,491	3,107	Others	2,270	83	440	8	14
Concession revenue	118	313	-	-	-	Operating CF	12,515	7,112	5,367	13,627	16,690
Cost of sales	(14,488)	(14,774)	(16,244)	(17,499)	(19,206)	Capex	(9,799)	(18,030)	(19,160)	(30,639)	(34,724)
Gross profit	13,053	13,893	16,202	17,813	20,371	Associates inv.	221	272	(178)	(21)	(21)
Other income, net	843	1,287	1,022	1,095	1,207	Other	(1,196)	779	(924)	(81)	(79)
Admin expense	(564)	(607)	(687)	(748)	(838)	Investment CF	(10,77)	(16,97)	(20,26)	(30,74)	(34,82)
Personnel costs	(2,352)	(2,645)	(2,843)	(3,095)	(3,372)	Equity raised	-	904	-	-	-
Other expenses	(1,034)	(1,871)	(1,298)	(1,412)	(1,583)	Change of Debts	3,286	12,392	13,010	19,703	18,914
EBIT	9,946	10,056	12,397	13,653	15,785	Dividend paid	(785)	(865)	(945)	(1,239)	(1,355)
Finance costs, net	(3,486)	(3,083)	(3,608)	(4,268)	(5,045)	Others	(4,202)	1,029	150	150	150
Associates & JVs	(10)	(51)	(43)	21	21	Financing CF	(1,700)	13,459	12,214	18,614	17,709
Exceptional	-	-	-	-	-	Net change in cash	41	3,593	(2,681)	1,500	(424)
Pre-tax profit	6,450	6,922	8,746	9,406	10,761	Cash at beginning	2,861	2,908	6,501	3,821	5,321
Income tax	(1,131)	(1,236)	(1,626)	(1,706)	(1,987)	Exchange difference	(7)	-	-	-	-
Less:						Cash at the end	2,908	5,226	3,821	5,321	4,897
Minority interests	753	661	661	661	661	Pledged cash	523	361	373	444	512
Perp. MTN	242	299	266	266	266	Time deposit	-	-	-	-	-
Net profit	4,325	4,726	6,194	6,773	7,848	Cash at balance sheet	3,432	5,588	4,193	5,765	5,409
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	133,77	144,10	153,96	174,39	197,30	Sales mix (%)					
Fixed asset	114,60	124,91	135,43	156,25	179,55	Wind	68.9	71.2	74.0	73.2	72.0
Prepaid lease payments	-	-	-	-	-	Coal-fired	28.3	26.5	24.1	22.6	20.1
Interest in JVs	4,328	4,056	4,234	4,255	4,277	Others	2.4	1.2	1.9	4.2	7.8
Others	11,683	12,267	11,113	10,727	10,335	Concession revenue	0.4	1.1	-	-	-
Current assets	23,029	31,184	35,672	39,522	42,572	Total	100.0	100.0	100.0	100.0	100.0
Cash	3,432	5,588	4,193	5,765	5,409	Profit & loss ratios (%)					
Account receivable	16,365	21,603	27,591	29,671	32,855	Operating margin	36.1	35.1	38.2	38.7	39.9
Prepayments	1,963	2,831	2,567	2,648	2,740	Pre-tax margin	23.4	24.1	27.0	26.6	27.2
Others	1,269	1,162	1,321	1,437	1,568	Net margin	15.7	16.5	19.1	19.2	19.8
Current liabilities	43,538	52,907	52,226	59,118	67,206	Effective tax rate	17.5	17.9	18.6	18.1	18.5
Trade and other payable	3,411	3,615	2,049	2,049	2,049	Balance sheet ratios					
Other payables	10,840	11,064	8,480	7,474	7,978	Current ratio (x)	0.53	0.59	0.68	0.67	0.63
Borrowings	28,965	37,875	41,403	49,312	56,902	Quick ratio (x)	0.51	0.57	0.66	0.65	0.61
Others	230	328	225	222	223	Cash ratio (x)	0.07	0.10	0.07	0.09	0.07
Non-current liabilities	52,610	55,930	65,563	77,266	88,497	Inventory turnover days	11.1	10.3	10.3	11.1	11.1
Borrowings	48,881	52,598	62,105	73,968	85,353	Debtors turnover days	178.3	241.7	276.7	295.9	288.3
Obligation under financial	-	-	-	-	-	Creditor turnover days	68.9	86.8	63.6	42.7	38.9
Others non-current assets	2,984	2,756	2,952	2,852	2,752	Total debt / equity ratio (%)	162.4	175.2	181.9	197.5	206.4
Minority Interest	7,732	8,761	8,911	9,061	9,211	Net debt / equity ratio (%)	156.3	165.1	175.2	189.0	199.3
Perpetual MTN	4,991	6,045	6,045	6,045	6,045	Returns (%)					
Shareholders' equity	47,932	51,642	56,891	62,425	68,918	ROE	9.0	9.2	10.9	10.9	11.4
Total Equity	60,655	66,449	71,848	77,532	84,175	ROA	2.8	2.7	3.3	3.2	3.3
						Per share					
						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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