

# Goldwind (2208 HK)

## 3Q21 results slight beat; wind farm disposal to sustain earnings performance in 2022

GWD delivered strong set of 3Q21 results with net profit of RMB1,164mn, up 46.6%/32.9% YoY/QoQ. We believe earnings figures slightly beat market estimates. 9M21 overall GPM was 26.3%, implying 3Q21 GPM of 24.3%, up 7.2ppt/ down 3.4ppt YoY/QoQ. On the back of high margin offshore WTG shipment, mgmt. was confident to deliver 18% WTG GPM in FY21. Looking ahead in 2022, we think the outlook is a bit cloudy due to sharp decline in WTG tender price. However, as GWD was taking rational market competition strategies, we expect the Company to suffer less hit by low price order, and will be able to smooth earnings performance through wind farm disposal. Based on 18x FY22E PER, we lift GWD's TP by 14.7% to HK\$20.20. Maintain BUY.

- WTG GPM on track to mgmt. guidance.** GWD's overall GPM was 26.3% in 9M21, and 3Q21 GPM was 24.3%. WTG margin was on track to mgmt.'s full year guidance of above 18.0% in FY21 on the back of high margin offshore WTG shipment. Looking ahead in FY22, since offshore WTG shipment is going to decline with tariff cut and potential material costs pressure, we expect GWD's GPM will likely to decline with ~30% ASP cut. By far, although we believe WTG model to scale up could bring cost saving, we think visibility is low due to various uncertainties from the upstream.
- Selling wind farm would be a better way.** Market may once have had concerns for GWD's lose in market shares as the Company exhibited declining bid winning rate. We argue that was GWD's strategic decision in view of irrational pricing, especially in 1Q21. According to our estimates based on GWD's wind farm disposal history in 2017-2020 (see. Fig. 4), we think wind farm disposal offers significantly higher unit earnings performance. On the back of increasing project acquisition demand from SOEs and high energy consumption industries, we believe selling wind farm will be a better way to realize GWD's WTG value than participating in price war.
- Highly visible wind farm demand.** Given WTG tender price decline during 2021, we now think on shore grid-parity projects offer better IRR compared with solar farm with substantial increasing module. In 9M21, there were 41.9GW open market tender for WTG. By end-3Q21, GWD still held 15.1GW order backlog, remained leading in the league table. We think wind farm installation will accelerate with high visibility in 2022.
- Lift TP by 14.7% to HK\$20.2; maintain BUY.** Based on our revised model, we made only slight adjustment on FY21-23E earnings. GWD's share price performance lagged behind WTG manufacturing peers in China but offered attractive ROE and 18.5% earnings CAGR in FY21-23E. Based on 15x FY22E PER, we lift TP by 14.7% to HK\$20.20. Maintain BUY.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	37,878	56,146	48,732	44,289	54,033
Net income (RMB mn)	2,109	2,843	4,054	4,721	5,653
EPS (RMB)	0.51	0.67	0.96	1.12	1.34
YoY growth (%)	-37.8	31.4	42.6	16	19.8
Consensus EPS(RMB)	N/A	N/A	0.92	0.97	1.1
P/E (x)	28.5	21.7	15.2	13.1	10.9
P/B (x)	2.0	1.8	1.8	1.6	1.4
Yield (%)	1.1	1.7	2.0	2.3	2.8
ROE (%)	7.1	8.3	11.5	12.2	13.2
Net gearing (%)	52.0	57.2	71.3	83.5	82.7

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$20.20
(Previous TP)	HK\$17.60)
Up/Downside	+14.7%
Current Price	HK\$17.60

### China Wind Sector

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#### Stock Data

Mkt Cap (HK\$ mn)	92,066
Avg 3 mths t/o (HK\$ mn)	181.58
52w High/Low (HK\$)	19.05/9.06
Total Issued Shares (mn)	<b>774(H)</b> 3,451(A)

Source: Bloomberg

#### Shareholding Structure

China Three Gorges	24.3%
Anbang Insurance Group	13.5%
Free float	62.2%

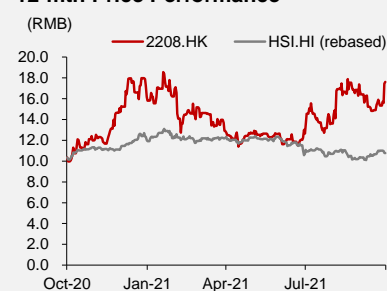
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	1.3%	-2.9%
3-mth	39.2%	38.8%
6-mth	36.7%	55.5%
12-mth	87.9%	81.7%

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: GWD's quarterly earnings performance**

(RMB mn)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	9M21	3Q YoY	3Q QoQ
<b>Total operating revenue</b>	<b>5,467</b>	<b>13,958</b>	<b>17,606</b>	<b>19,234</b>	<b>6,822</b>	<b>11,081</b>	<b>15,647</b>	<b>33,550</b>	<b>-11.1%</b>	<b>41.2%</b>
Total operating cost	(5,646)	(13,566)	(16,753)	(18,390)	(6,246)	(10,220)	(14,229)	(30,695)	-15.1%	39.2%
Operating cost	(4,290)	(11,755)	(14,594)	(15,651)	(4,885)	(8,010)	(11,838)	(24,733)	-18.9%	47.8%
Business tax and surcharge	(21)	(44)	(49)	(111)	(33)	(58)	(56)	(147)	14.0%	-3.6%
Selling and distribution expenses	(481)	(940)	(1,125)	(1,105)	(466)	(1,064)	(1,250)	(2,780)	11.0%	17.4%
... as % to total revenue	8.8%	6.7%	6.4%	5.7%	6.8%	9.6%	8.0%	8.3%	1.6ppt	-1.6ppt
Administrative expenses	(352)	(448)	(436)	(546)	(383)	(485)	(436)	(1,305)	0.0%	-10.1%
... as % to total revenue	6.4%	3.2%	2.5%	2.8%	5.6%	4.4%	2.8%	3.9%	0.3ppt	-1.6ppt
R&D expenses	(210)	(213)	(230)	(824)	(245)	(268)	(312)	(825)	35.4%	16.2%
... as % to total revenue	3.9%	1.5%	1.3%	4.3%	3.6%	2.4%	2.0%	2.5%	0.7ppt	-0.4ppt
Finance expense	(281)	(176)	(318)	(153)	(234)	(334)	(337)	(905)	5.9%	0.9%
<b>Gross profit</b>	<b>1,177</b>	<b>2,203</b>	<b>3,012</b>	<b>3,583</b>	<b>1,937</b>	<b>3,072</b>	<b>3,809</b>	<b>8,818</b>	<b>26.4%</b>	<b>24.0%</b>
<b>Overall GPM</b>	<b>21.5%</b>	<b>15.8%</b>	<b>17.1%</b>	<b>18.6%</b>	<b>28.4%</b>	<b>27.7%</b>	<b>24.3%</b>	<b>26.3%</b>	<b>7.2ppt</b>	<b>-3.4ppt</b>
Other gain	25	46	64	94	54	77	90	1	40.2%	16.8%
Investment income	1120	215	284	67	581	340	327	1249	15.1%	-3.8%
Gain or losses from changes in fair values	101	(40)	39	(90)	25	39	1	65	-97.6%	-97.6%
Impairment	(63)	(188)	(299)	(25)	(36)	(177)	(439)	(652)	46.9%	147.7%
Disposal gain or (loss)	4	7	3	1	(2)	5	(2)	1	-157.0%	-136.7%
<b>Operating profit</b>	<b>1009</b>	<b>431</b>	<b>945</b>	<b>890</b>	<b>1198</b>	<b>1146</b>	<b>1396</b>	<b>3740</b>	<b>47.8%</b>	<b>21.8%</b>
<b>Operating profit margin</b>	<b>18.5%</b>	<b>3.1%</b>	<b>5.4%</b>	<b>4.6%</b>	<b>17.6%</b>	<b>10.3%</b>	<b>8.9%</b>	<b>11.1%</b>	<b>0.7ppt</b>	<b>-0.4ppt</b>
Non operating income	<b>0.3</b>	<b>7.0</b>	5.0	12.0	<b>7.0</b>	<b>-3.9</b>	11.1	14.1	121.8%	-381.1%
Non operating expenses	(3)	(9)	(8)	(11)	(3)	(12)	(8)	(23)	1.7%	-30.5%
<b>Pretax profit</b>	<b>1006</b>	<b>429</b>	<b>942</b>	<b>891</b>	<b>1203</b>	<b>1130</b>	<b>1399</b>	<b>3731</b>	<b>48.6%</b>	<b>23.8%</b>
Income tax	(92)	(54)	(139)	(170)	(212)	(221)	(240)	(673)	73.4%	8.9%
<b>Effective tax rate</b>	<b>9.1%</b>	<b>12.6%</b>	<b>14.7%</b>	<b>19.0%</b>	<b>17.6%</b>	<b>19.5%</b>	<b>17.2%</b>	<b>18.0%</b>	<b>0.7ppt</b>	<b>-0.4ppt</b>
Less: Minority	19.8	-5.2	8.8	-6.9	18.3	32.9	-5.6	45.5	-163.7%	-117.1%
<b>Net income</b>	<b>895</b>	<b>380</b>	<b>794</b>	<b>729</b>	<b>972</b>	<b>876</b>	<b>1164</b>	<b>3013</b>	<b>46.6%</b>	<b>32.9%</b>
<b>Net profit margin</b>	<b>16.4%</b>	<b>2.7%</b>	<b>4.5%</b>	<b>3.8%</b>	<b>14.3%</b>	<b>7.9%</b>	<b>7.4%</b>	<b>9.0%</b>	<b>0.7ppt</b>	<b>-0.4ppt</b>
Less: Perpetual interest*	24.9	25.2	30.4	38.6	<b>25</b>	<b>25</b>	<b>24</b>	<b>75</b>	<b>-20.3%</b>	<b>-4.6%</b>
<b>NI attributable to common shareholders</b>	<b>870</b>	<b>355</b>	<b>764</b>	<b>690</b>	<b>947</b>	<b>851</b>	<b>1140</b>	<b>2938</b>	<b>49.2%</b>	<b>34.0%</b>

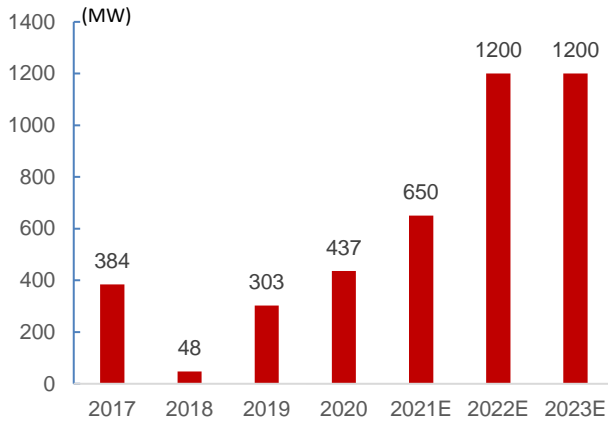
Source: Company data, CMBIS estimates

**Figure 2: Earnings revision**

	Old			New			est. change(%)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Wind turbine sales (MW)	10,824	12,014	13,913	9,958	12,311	14,457	-8.0%	2.5%	3.9%
Revenue (RMB mn)	53,688	48,971	55,708	48,732	44,289	54,033	-9.2%	-9.6%	-3.0%
Gross profit margin	23.2	24.0	24.8	23.7	24.4	24.8	0.5ppt	0.3ppt	0.0ppt
Operating profit margin	12.0	14.9	16.5	8.2	9.5	10.0	-3.8ppt	-5.4ppt	-6.5ppt
Net Income (RMB mn)	4069	4741	5568	4054	4739	5690	-0.4%	0.0%	2.2%
EPS (RMB)	0.96	1.12	1.32	0.96	1.12	1.35	-0.4%	0.0%	2.2%

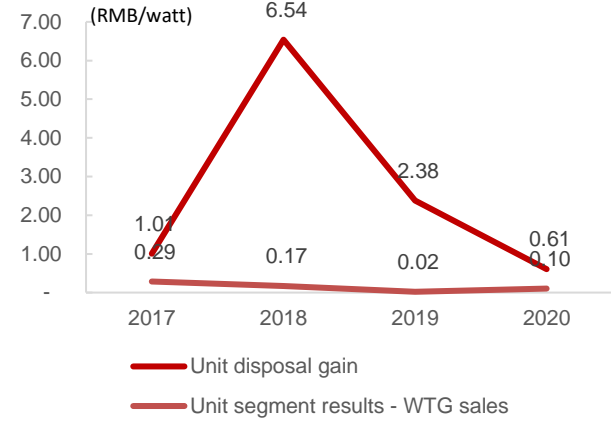
Source: Company data, CMBIS estimates

**Figure 3: GWD's wind farm capacity disposal history and our projection**



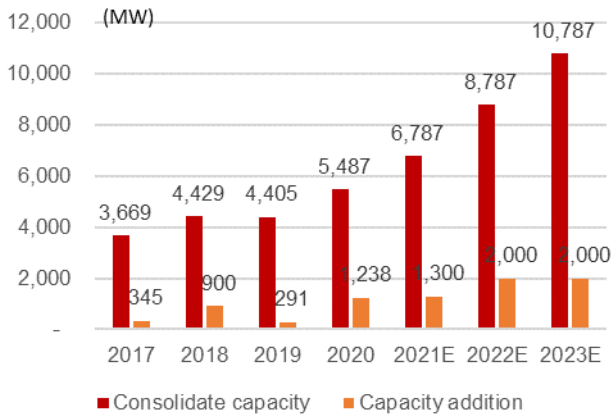
Source: Company data, CMBIS estimates

**Figure 4: We think capacity disposal offered better economics than selling WTG**



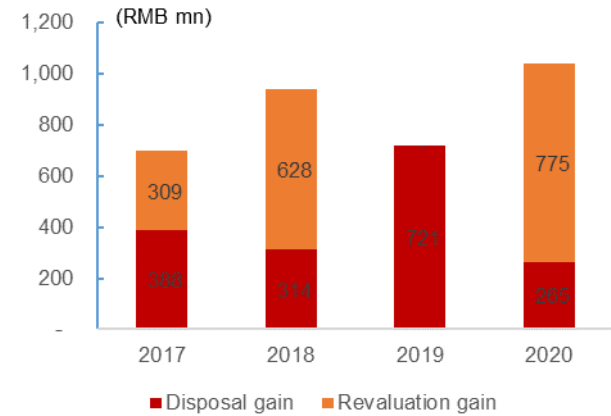
Source: CMBIS estimates

**Figure 5: We expect GWD to accelerate wind farm installation in 2021-23E**



Source: Company data, CMBIS estimates

**Figure 6: GWD recognized project disposal gain through two parts, namely disposal gain and remaining shares' revaluation gain**



Source: CMBIS estimates

**Figure 7: Grid parity wind farm return at current WTG price**

Item	Unit	Assumptions
Project scale	MW	100
Operating life	Years	20
Tariff (VAT incl)	RMB/Kwh	0.32
Utilization hours	Hours/yr	2500
CAPEX per watt	RMB/w	5.5
Maintenance cost	RMB/Kwh	0.065
Other OPEX (subject to inflation adj.)	RMB mn/Yr	1.5
Loan terms	Years	15
Interest rate		4.3%
Debt to asset ratio		70%
Total investment/capex		105%
Discount rate		4.3%
<b>Project economics estimates</b>		<b>Results</b>
Project IRR		<b>7.4%</b>
Equity IRR		<b>10.9%</b>
Average ROE in first 10 year		6.4%
Payback period		9

Source: Company data, CMBIS estimates

**Figure 8: Grid parity solar farm return is now lower than grid parity wind farm**

Item	Unit	Assumptions
Project scale	MW	100
Operating life	Years	20
Tariff (VAT incl)	RMB/Kwh	0.4
Utilization hours	Hours/yr	1300
CAPEX per watt	RMB/w	4.6
Maintenance cost	RMB/Kwh	0.055
Other OPEX (subject to inflation adj.)	RMB mn/Yr	1
Loan terms	Years	15
Interest rate		4.3%
Debt to asset ratio		70%
Total investment/capex		105%
Discount rate		4.3%
<b>Project economics estimates</b>		<b>Results</b>
Project IRR		<b>5.5%</b>
Equity IRR		<b>6.1%</b>
Average ROE in first 10 year		3.7%
Payback period		11

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	2019A	2020A	2021E	2022E	2023E
<b>Revenue</b>	<b>37,878</b>	<b>56,146</b>	<b>48,732</b>	<b>44,289</b>	<b>54,033</b>
WTG manufacturing	28,857	46,659	37,796	31,316	38,269
Wind power services	3,571	4,434	4,413	4,845	5,378
Wind farm	4,257	4,019	5,445	7,007	9,219
Others	1,193	1,035	1,078	1,122	1,167
Cost of sales	(30,915)	(46,498)	(37,176)	(33,502)	(40,606)
<b>Gross profit</b>	<b>6,964</b>	<b>9,647</b>	<b>11,556</b>	<b>10,787</b>	<b>13,426</b>
Other income, net	2,373	2,147	1,341	1,910	1,948
Selling and distribution	(2,804)	(3,651)	(3,553)	(2,944)	(3,597)
Admin expense	(2,637)	(3,485)	(3,411)	(3,100)	(3,782)
Other expenses	(587)	(768)	(710)	(631)	(748)
<b>EBIT</b>	<b>3,309</b>	<b>3,890</b>	<b>5,222</b>	<b>6,022</b>	<b>7,246</b>
Finance costs, net	(1,109)	(881)	(1,023)	(1,162)	(1,386)
JV & associates	361	263	467	499	534
Exceptional	0	0	0	0	0
<b>Pre-tax profit</b>	<b>2,561</b>	<b>3,273</b>	<b>4,666</b>	<b>5,359</b>	<b>6,395</b>
Income tax	(331)	(308)	(467)	(536)	(639)
<b>Profit for the year</b>	<b>2,230</b>	<b>2,964</b>	<b>4,200</b>	<b>4,823</b>	<b>5,755</b>
Minority interests	(20)	(2)	(50)	(50)	(50)
Perpetual MTN distribution	(101)	(119)	(96)	(52)	(52)
<b>Net profit</b>	<b>2,109</b>	<b>2,843</b>	<b>4,054</b>	<b>4,721</b>	<b>5,653</b>

### Cash flow summary

YE 31 Dec (RMB mn)	2019A	2020A	2021E	2022E	2023E
<b>Profit before tax</b>	<b>2,561</b>	<b>3,273</b>	<b>4,666</b>	<b>5,359</b>	<b>6,395</b>
Depreciation and	2,087	2,328	2,768	3,273	3,987
Change in working capital	4,167	1,906	(2,068)	(2,388)	94
Income tax paid	(221)	(194)	(460)	(474)	(546)
Others	(2,665)	(1,934)	0	0	0
<b>Net cash from operating</b>	<b>5,929</b>	<b>5,377</b>	<b>4,907</b>	<b>5,771</b>	<b>9,930</b>
Capex	(9,231)	(9,363)	(9,006)	(11,76)	(11,80)
Others	(1,036)	3,644	1,857	954	956
<b>Net cash from investing</b>	<b>(10,26)</b>	<b>(5,719)</b>	<b>(7,149)</b>	<b>(10,80)</b>	<b>(10,84)</b>
Equity raised	4,418	52	0	(0)	(0)
Change of Debts	(2,828)	3,907	1,748	5,764	4,788
Others	4,541	(2,489)	(3,100)	(1,218)	(1,418)
<b>Net cash from financing</b>	<b>6,131</b>	<b>1,470</b>	<b>(1,352)</b>	<b>4,546</b>	<b>3,370</b>
<b>Net change in cash</b>	<b>1,793</b>	<b>1,128</b>	<b>(3,594)</b>	<b>(490)</b>	<b>2,456</b>
Cash at the beginning of the	5,012	6,807	7,705	4,111	3,621
Exchange difference	2	(230)	0	0	0
<b>Cash at the end of the year</b>	<b>6,807</b>	<b>7,705</b>	<b>4,111</b>	<b>3,621</b>	<b>6,077</b>
Pledged cash	(427)	(565)	(684)	(769)	(854)
Non-pledged time deposit	(13)	(4)	0	0	0
<b>Cash at balance sheet</b>	<b>6,807</b>	<b>7,705</b>	<b>4,111</b>	<b>3,621</b>	<b>6,077</b>

### Balance sheet

YE 31 Dec (RMB mn)	2019A	2020A	2021E	2022E	2023E
<b>Non-current assets</b>	<b>53,443</b>	<b>62,485</b>	<b>65,783</b>	<b>74,040</b>	<b>81,656</b>
Fixed asset	29,010	33,380	39,430	47,262	54,361
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	17,801	17,790	17,838
<b>Current assets</b>	<b>48,444</b>	<b>44,038</b>	<b>40,322</b>	<b>37,173</b>	<b>44,984</b>
Inventory	8,124	5,718	4,913	4,071	4,975
Cash	7,248	8,274	4,795	4,390	6,931
Account receivable	17,993	22,977	20,900	18,965	23,162
Prepayments	6,214	4,465	4,400	4,330	4,260
Other current assets	8,865	2,605	5,313	5,417	5,656
<b>Current liabilities</b>	<b>49,569</b>	<b>47,845</b>	<b>46,377</b>	<b>43,053</b>	<b>49,925</b>
Trade and bills payable	25,428	28,610	23,339	20,825	25,449
Other payables	12,186	10,949	14,219	12,922	14,714
Borrowings	5,705	5,612	6,802	7,643	8,483
Others	6,250	2,673	2,018	1,663	1,279
<b>Non-current liabilities</b>	<b>21,264</b>	<b>26,320</b>	<b>26,449</b>	<b>31,464</b>	<b>35,876</b>
Borrowings	16,036	19,943	21,691	27,455	32,243
Provision	2,186	2,917	1,983	1,358	641
Others non-current assets	3,041	3,460	2,775	2,651	2,992
<b>Minority Interest</b>	<b>1,549</b>	<b>805</b>	<b>855</b>	<b>905</b>	<b>955</b>
<b>Perpetual MTN</b>	<b>1,993</b>	<b>2,991</b>	<b>994</b>	<b>994</b>	<b>994</b>
<b>Shareholders' equity</b>	<b>25,140</b>	<b>27,382</b>	<b>32,326</b>	<b>35,781</b>	<b>39,968</b>
<b>Total equity</b>	<b>28,682</b>	<b>31,178</b>	<b>34,175</b>	<b>37,680</b>	<b>41,917</b>

### Key ratios

YE 31 Dec	2019A	2020A	2021E	2022E	2023E
<b>Sales mix (%)</b>					
WTG manufacturing	76.2	83.1	77.6	70.7	70.8
Wind power services	9.4	7.9	9.1	10.9	10.0
Wind farm	11.2	7.2	11.2	15.8	17.1
Others	3.1	1.8	2.2	2.5	2.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	18.4	17.2	23.7	24.4	24.8
Pre-tax margin	6.8	5.8	9.6	12.1	11.8
Net margin	5.6	5.1	8.3	10.7	10.5
Effective tax rate	12.9	9.4	10.0	10.0	10.0
<b>Balance sheet ratios</b>					
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	40	37	31
Debtors turnover days	168	133	164	164	142
Creditor turnover days	268	212	255	241	208
Total debt / equity ratio (%)	67.5	73.1	79.1	88.7	92.8
Net debt / equity ratio (%)	52.0	57.2	71.3	83.5	82.7
<b>Returns (%)</b>					
ROE	7.1	8.3	11.5	12.2	13.2
ROA	2.0	2.6	3.7	4.1	4.4
<b>Per share</b>					
EPS (RMB)	0.51	0.67	0.96	1.12	1.34
DPS (RMB)	0.16	0.25	0.29	0.34	0.40
BVPS (RMB)	7.26	8.09	8.32	9.15	10.2

Source: Company data, CMBIS estimates

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