

China / Hong Kong Company Update

China Longyuan Power

Bloomberg: 916 HK Equity | Reuters: 0916.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Jan 2022

BUY

Last Traded Price (6 Jan 2022): HK\$16.40 (HSI : 23,073)
Price Target 12-mth: HK\$21.00 (28% upside) (Prev HK\$18.60)

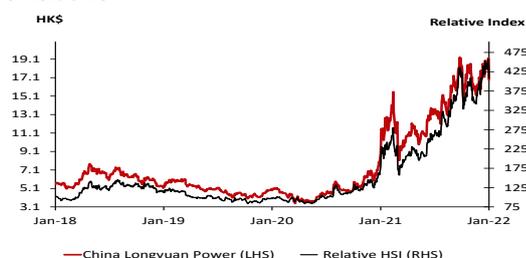
Analyst

Patricia YEUNG +852 36684189 patricia_yeung@dbs.com
Ian CHUI CFA, +852 36684174 ianchui@dbs.com

What's New

- Wind turbine ASP cuts should drive IRR improvements via CAPEX savings
- Beneficiary of policy support for wind farm upgrades
- Adding c.2GW of wind capacity upon completion of transaction with Pingzhuang Energy and CHN
- Latest positives not yet in price, reiterate BUY on higher TP of HK\$21

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	28,667	36,437	39,875	44,299
EBITDA	18,503	22,001	25,084	28,605
Pre-tax Profit	6,921	9,087	10,648	12,333
Net Profit	4,726	6,383	7,586	8,868
EPS (RMB)	0.59	0.79	0.91	1.06
EPS (HK\$)	0.72	0.97	1.11	1.29
EPS Gth (%)	9.3	35.1	13.9	16.9
Diluted EPS (HK\$)	0.72	0.97	1.11	1.29
DPS (HK\$)	0.14	0.19	0.22	0.26
BV Per Share (HK\$)	8.77	9.55	10.72	11.76
PE (X)	22.8	16.9	14.8	12.7
P/Cash Flow (X)	8.8	7.6	4.2	12.3
P/Free CF (X)	nm	nm	63.8	nm
EV/EBITDA (X)	10.9	9.7	8.5	8.4
Net Div Yield (%)	0.9	1.2	1.3	1.6
P/Book Value (X)	1.9	1.7	1.5	1.4
Net Debt/Equity (X)	1.3	1.3	1.1	1.3
ROAE(%)	8.5	10.6	11.1	11.5

Earnings Rev (%)		3	3	New
Consensus EPS (RMB)		0.77	0.89	1.05
Other Broker Recs:		B:26	S:1	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Lower turbine prices to improve ROE

Investment Thesis

Maintain BUY, TP raise to HK\$21 TP. China Longyuan Power (CLYP) is currently trading at 15x FY22F PE, and 1x PEG ratio (based on FY21-23F earnings CAGR of c.16%). We reckon the market has yet to recognize the positive developments from lower wind turbine prices and incremental revenue growth from wind infrastructure upgrades.

Wind turbine ASP cuts to help drive CAPEX savings.

In Dec-21, Chinese wind turbine manufacturers began cutting their selling prices on the back of stiff competition. CLYP stands to directly benefit in the form of CAPEX savings as it expands its wind capacity. We estimate CLYP could see IRR enhancements of 1.5-2ppts on its new wind projects.

Wind farm upgrades to help top line growth. China is eyeing upgrades for its aging wind infrastructure. The NEA is mulling policy support to upgrade wind farms which have operated for >15 years. The new policy should help CLYP extract more power out of its existing facilities, helping to drive top-line growth. As CLYP is one of China's largest and oldest wind farm operators, it stands benefit disproportionately from future upgrades.

Valuation:

We raise our TP for CLYP to HK\$21 by rolling our valuation basis forward to FY22. Our new target price is based on 1.25x PEG ratio and implies c.19x FY22 PE. This is also near 2-standard deviations above the 1-year average PE of c.13x.

Where we differ:

We are slightly more positive than the market with FY22F net income 4% higher than the consensus estimates.

Key Risks to Our View:

Downside risks: Lower-than-expected wind speed and utilization; delays in new installed capacity connecting to the grid; slowdown in subsidy collection.

At A Glance

Issued Capital (m shrs)	8,036
Mkt Cap (HK\$m/US\$m)	131,790 / 16,895
Major Shareholders (%)	
Wellington Management Company, LLP	9.0
Lazard Asset Management, L.L.C.	5.0
Free Float (%)	86.0
3m Avg. Daily Val. (US\$m)	62.61
GICS Industry: Utilities / Independent Power and Renewabl	



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China Longyuan Power

WHAT'S NEW

Beneficiary of lower turbine ASP; Wind farm upgrade cycle to help drive revenue growth.

Heading into 2022, China Longyuan Power (CLYP) is positioned to benefit from three new positive developments. First, wind turbine manufacturers are beginning to cut prices, which should directly lift the IRR of CLYP's future projects. Second, the Chinese government has issued policy guidance regarding the upgrade of aging wind infrastructure. Large scale upgrades should help generate further upside in generation capacity. Third, CLYP is in the process of a multi-leg transaction with Pingzhuang Energy, Pingzhuang Coal Group, and CLYP's parent CHN Energy. The transaction should result in CLYP's dual A-H listing and an expansion in wind generation capacity. Given these positive developments, we **maintain our BUY recommendation on CLYP and lift our TP to HK\$21 TP.**

CLYP to enjoy CAPEX savings from competition-led ASP cut among wind turbine manufacturers.

In Dec-21, Chinese media reported that prices at wind auctions were declining. In an auction for a wind development project held by Huaneng Power, turbine manufacturers had bid as low as Rmb2,300/kw, down c.25% y-o-y from Rmb3,100/kw in Jan-21. Cheaper turbines should directly benefit downstream wind power operators such as CLYP via CAPEX savings. This should translate to higher project IRR as CLYP continues to expand its wind generation capacity. CLYP's total construction cost for its onshore wind projects was c.Rmb7,800/kw in 2021, of which wind turbines accounted for c.Rmb3,300/kw. Should wind turbine prices decline towards Rmb2,300, **we estimate IRRs of new projects can expand by c.1.5-2ppts.** Key assumptions include a 20-year useful life, tariff of Rmb0.5/kwh, and tariff declines of 1% per year. We reckon the IRR enhancements should result in higher ROE for CLYP going forward, which has yet to be fully reflected in the share price.

CLYP a key beneficiary and pioneer of wind farm upgrades.

Besides supporting ongoing growth of new wind capacity, China is also eyeing upgrades for its older wind infrastructure. The first generation of China's wind turbines is entering the final stages of their useful life. Aging wind turbines require more maintenance which result in suboptimal usage of wind resources. In Dec-21 China's National Energy Administration (NEA) released a consultation document regarding the "upgrade and decommissioning of aging wind farms." In this consultation document, the government aims to upgrade wind farms which have been operating for >15 years. The focus of this series of upgrades is to replace smaller turbines with larger models. Besides upgrading turbines to models with larger blades, the upgrades will also involve transformers and

transmission lines. In terms of pricing, the tariff on the original capacity will remain unchanged. Tariff on the additional capacity will be subject to the latest policy benchmark. We expect the upgrades will enhance project efficiency and profitability in the long run. As one of the largest wind farm operators, some of CLYP's wind farms are also among the oldest. Therefore, CLYP stands to benefit disproportionately from the wind farm upgrades compared to peers. CLYP is a pioneer in wind farm upgrades. In Dec-21, the company completed an upgrade project in Ningxia province, the first project of its kind in China. This project involved the replacement of the original 79.5MW capacity with new turbines and additional capacity of 240MW. Further upgrades should benefit CLYP's revenue as the company can extract more power from existing wind infrastructure. For reference, CLYP had wind capacity of c.2GW in 2008, which will be eligible for upgrades by 2023. This represents c.9% of CLYP's latest total wind generation capacity. We reckon CLYP's share price has not fully recognized the potential from the upgrades.

CLYP is currently engaged in the merger and absorption of Inner Mongolia Pingzhuang Energy. The transaction has three legs - merger, asset disposal, and asset injection. The first leg was approved in Dec-21 by the CSRC. CLYP had proposed to issue c.345.57m A-shares at Rmb11.30/sh for the absorption and merger of Inner Mongolia Pingzhuang Energy (000780.CH). For each share of Pingzhuang Energy, shareholders are entitled to receive 0.3407 CLYP A-shares. In return, CLYP will absorb the entire share capital of Pingzhuang Energy at Rmb3.85/sh. CLYP will be dual-listed on both A-share and H-share markets after the merger. For the second leg, Pingzhuang Energy has agreed to sell certain assets to its parent Pinzhuang Coal Group for Rmb3.44bn. For the final leg, CLYP has agreed to acquire 1.99GW of wind generation assets from parent CHN Energy for Rmb5.77bn. As at Dec-21, the transaction is pending further regulatory approval from authorities including the Shenzhen Stock Exchange.

CLYP's capacity growth remains highly visible. As at Sep-21, CLYP had 24.9GW of total generation capacity, consisting of 22.4GW of wind, 1.875GW of coal, and 603MW of other renewables. After the transaction involving Pingzhuang Energy, CLYP is expected to increase its wind capacity to 24.4GW, bringing total generation capacity to c.27GW. Looking forward, the company continues to maintain its installation target of 30GW of renewable capacity by 2025, consisting of c.40-50% of wind and c.50-60% of solar.

China Longyuan Power

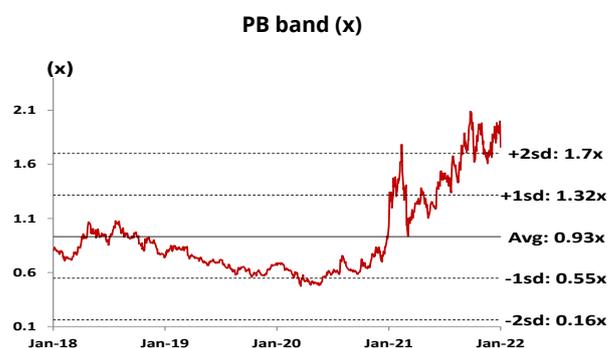
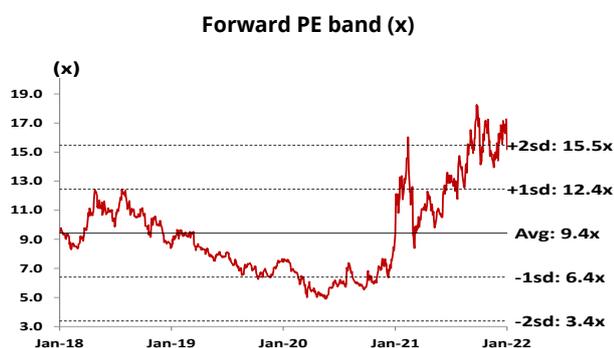
We raise our TP for China Longyuan to HK\$ 21. Our new target price is based on 1.25x PEG ratio, which implies c.19x FY22 PE. This is also near 2-standard deviations above the 1-year average PE of c.13x. Further news flow regarding wind turbine price cuts and wind farm upgrades in CLYP's portfolio point to improving ROE going forward. This should help lift sentiment towards the shares. The upcoming dual listing in the A-share market should help broaden CLYP's shareholder base and support the company's aggressive expansion plan.

Company Background

China Longyuan Power (CLYP) is China's largest wind farm operator. As at Sep-21, CLYP had 24.9GW of total generation capacity, consisting of 22.4GW of wind, 1.875GW of coal, and 603MW of other renewables.

The company, previously known as China Longyuan Electric Power Group, was established on 1 March 1993, and is among the earliest SOE IPPs to engage in renewable energy development in China. Longyuan was listed on the Hong Kong Stock Exchange on 10 December 2009 and is parent China Energy Investment Corporation's sole platform to develop and operate wind farms.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Longyuan Power

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Wind power average tariff (Rmb/kWh)	0.5	0.5	0.5	0.5	0.5
Coal-fired power average tariff (Rmb/kWh)	0.3	0.3	0.3	0.3	0.3
Wind power capacity (GW)	20,031.8	22,302.6	24,102.6	26,102.6	28,102.6
Wind farm utilisation hours	2,189.0	2,239.0	2,438.4	2,462.7	2,487.4
Wind power generation (GWh)	40,731.8	43,683.0	53,747.6	59,039.4	64,717.7

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Wind power sales	18,981	20,403	25,843	28,388	31,118
Coal-fired power sales	2,976	2,721	3,395	3,457	3,457
Other renewable	387	308	862	1,467	2,919
Sales of coal	3,657	3,784	4,768	4,863	4,960
Others	1,540	1,451	1,569	1,700	1,845
Total	27,541	28,667	36,437	39,875	44,299

Source: Company, DBS HK

China Longyuan Power

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	27,541	28,667	36,437	39,875	44,299
Cost of Goods Sold	(14,488)	(14,774)	(18,155)	(19,349)	(20,927)
Gross Profit	13,053	13,893	18,282	20,526	23,372
Other Opg (Exp)/Inc	(3,107)	(3,837)	(5,481)	(5,692)	(6,318)
Operating Profit	9,947	10,056	12,801	14,834	17,054
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(10)	(51)	(50)	(48)	(47)
Net Interest (Exp)/Inc	(3,486)	(3,083)	(3,665)	(4,138)	(4,675)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,451	6,921	9,087	10,648	12,333
Tax	(1,131)	(1,236)	(1,623)	(1,902)	(2,202)
Minority Interest	(995)	(959)	(1,081)	(1,160)	(1,262)
Preference Dividend	0	0	0	0	0
Net Profit	4,325	4,726	6,383	7,586	8,868
Net Profit before Except.	4,325	4,726	6,383	7,586	8,868
EBITDA	17,570	18,503	22,001	25,084	28,605
Growth					
Revenue Gth (%)	4.4	4.1	27.1	9.4	11.1
EBITDA Gth (%)	5.8	5.3	18.9	14.0	14.0
Opg Profit Gth (%)	7.6	1.1	27.3	15.9	15.0
Net Profit Gth (%)	10.2	9.3	35.1	18.8	16.9
Margins & Ratio					
Gross Margins (%)	47.4	48.5	50.2	51.5	52.8
Opg Profit Margin (%)	36.1	35.1	35.1	37.2	38.5
Net Profit Margin (%)	15.7	16.5	17.5	19.0	20.0
ROAE (%)	8.5	8.5	10.6	11.1	11.5
ROA (%)	2.9	2.8	3.4	3.6	3.8
ROCE (%)	5.9	5.5	6.2	6.4	6.6
Div Payout Ratio (%)	20.0	20.0	20.0	20.0	20.0
Net Interest Cover (x)	2.9	3.3	3.5	3.6	3.6

Source: Company, DBS HK

China Longyuan Power

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	114,607	124,918	142,918	157,788	183,367
Invt in Associates & JVs	4,328	4,056	3,467	2,879	2,292
Other LT Assets	14,838	15,128	16,516	17,026	17,811
Cash & ST Invt	3,158	5,530	5,257	23,424	9,965
Inventory	819	806	1,047	1,116	1,207
Debtors	18,328	24,434	25,951	17,747	29,586
Other Current Assets	724	414	414	414	414
Total Assets	156,803	175,286	195,570	220,395	244,643
ST Debt	28,965	37,875	43,375	48,875	53,875
Creditors	3,411	3,615	3,427	3,653	3,951
Other Current Liab	11,162	11,417	14,767	16,161	17,954
LT Debt	48,881	52,598	58,098	64,098	73,098
Other LT Liabilities	3,728	3,332	3,507	3,539	3,582
Shareholder's Equity	52,923	57,688	62,794	73,549	80,643
Minority Interests	7,732	8,761	9,601	10,520	11,540
Total Cap. & Liab.	156,803	175,286	195,570	220,395	244,643
Non-Cash Wkg. Capital	5,298	10,622	9,217	(536)	9,303
Net Cash/(Debt)	(74,688)	(84,944)	(96,216)	(89,549)	(117,008)
Debtors Turn (avg days)	210.0	272.2	252.4	200.0	195.0
Creditors Turn (avg days)	145.6	204.3	144.3	142.8	148.7
Inventory Turn (avg days)	44.5	47.3	38.0	43.6	45.4
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	0.5	0.6	0.5	0.6	0.5
Quick Ratio (x)	0.5	0.6	0.5	0.6	0.5
Net Debt/Equity (X)	1.2	1.3	1.3	1.1	1.3
Net Debt/Equity ex MI (X)	1.4	1.5	1.5	1.2	1.5
Capex to Debt (%)	15.1	25.7	26.5	22.0	29.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	6,451	6,921	9,087	10,648	12,333
Dep. & Amort.	7,633	8,498	9,249	10,298	11,597
Tax Paid	(1,064)	(1,236)	(1,623)	(1,902)	(2,202)
Assoc. & JV Inc/(loss)	10	51	50	48	47
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(3,553)	(5,889)	(1,946)	8,361	(11,632)
Other Operating CF	3,038	3,927	(664)	(886)	(978)
Net Operating CF	12,515	12,273	14,152	26,567	9,163
Capital Exp.(net)	(11,787)	(23,262)	(26,860)	(24,805)	(36,837)
Other Invt.(net)	(136)	(54)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	540	540	540	540	540
Other Investing CF	609	2,797	(1,777)	(874)	(1,125)
Net Investing CF	(10,774)	(19,979)	(28,097)	(25,139)	(37,422)
Div Paid	(785)	(945)	(1,276)	(1,517)	(1,774)
Chg in Gross Debt	2,642	12,627	11,000	11,500	14,000
Capital Issues	0	0	0	4,686	0
Other Financing CF	(3,557)	(1,685)	3,948	2,070	2,572
Net Financing CF	(1,700)	9,997	13,672	16,739	14,799
Currency Adjustments	7	27	0	0	0
Chg in Cash	47	2,318	(272)	18,167	(13,460)
Opg CFPS (RMB)	2.00	2.26	2.00	2.17	2.48
Free CFPS (RMB)	0.09	(1.37)	(1.58)	0.21	(3.30)

Source: Company, DBS HK

China Longyuan Power

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	19-Jan-21	HK\$11.18	HK\$13.80	Buy
2:	1-Apr-21	HK\$10.56	HK\$12.00	Buy
3:	30-Apr-21	HK\$11.44	HK\$12.00	Hold
4:	31-Aug-21	HK\$16.26	HK\$18.60	Buy

Source: DBS HK

Analyst: Patricia YEUNG

Ian CHUI CFA,

China Longyuan Power

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 7 Jan 2022 12:56:43 (HKT)

Dissemination Date: 7 Jan 2022 13:03:37 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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China Longyuan Power

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DBS Bank (Hong Kong) Limited

 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

China Longyuan Power

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu

13th Floor One Island East,

18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square,

8 Jalan Munshi Abdullah 50100, Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: general@alliancedbs.com

Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand