

### SECTOR UPDATE

## Renewable Energy – China

Another Upbeat Year For Renewables

In line with the “Dual Carbon Goal”, the Chinese government continued to roll out supportive policies for the renewables sector in 1H22 and we expect robust new installations in 2022. Most of the listed renewables companies are still guiding robust production lines and capacity expansion targets after the 1Q22 results, although we saw some delays in solar projects as well as margin pressure on wind turbine manufacturers. As such, we prefer operator names in wind and prefer names that have higher exposure to polysilicon in solar. Maintain OVERWEIGHT.

### WHAT'S NEW

- **Sector still on uptrend with further supportive policies towards the “Dual Carbon Goal”.** To achieve the objectives of peak carbon emission by 2030 and carbon neutrality by 2060, the Chinese government continues to promote the development of renewable energy. In Mar 22, National Energy Administration (NEA) released the Notice of 2022 Energy Work Instruction, targeting to consume 17.3% of non-fossil fuel energy in 2022 (vs 16.3% in 2021). Of this, 12.2% of the energy consumption will be generated from wind and solar.

In addition, National Development and Reform Commission (NDRC) also revealed “the 14th Five-Year Plan for Modern Energy System” in Mar 22, proposing to accelerate the development of large-scale wind and solar farms in the Gobi Desert, boost the development of off-shore wind projects in southeast coastal areas and promote the usage of distributed solar power in industrial parks and urban areas. Furthermore, the document emphasised strengthening the inter-provincial energy transmission ability and increasing investment in UHV construction, while prioritising the transmission of renewable energy with the target of no less than 50% of inter-state energy transmission for the newly build power grids.

- **Solar: Polysilicon supply to remain tight until 2H22.** The super cycle of polysilicon (increased 3x from Rmb59/kg to Rmb247/kg since Jun 20) driven by supply shortage is expected to last till at least 3Q22 due to delays in capacity expansion amid the on-going lockdown measures, according to our channel checks. Despite the China Photovoltaic Industry Association (CPIA) expecting the production volume of polysilicon to increase 38.6% from 505,000 tonnes in 2021 to over 700,000 tonnes in 2022, Longi (601020 CH/Not-rated) expects the worldwide module demand in 2022 would stand at 260-270GW during its quarterly briefings, implying a 53% yoy growth. Therefore, we believe the ASP of polysilicon would remain above the Rmb240/kg level in 3Q22 due to the existing unsolved structural shortage in the supply chain. As such, we prefer polysilicon > solar wafer/cell = solar module = solar glass, as polysilicon makers are currently reaping most of the profits along the solar supply chain due to supply shortages. Meanwhile, downstream manufactures will have more difficulties in passing down costs given the relatively rigid power tariff prices. Nevertheless, the expected tariff hikes in China, along with increased demand from overseas and distribution projects will be able to lift some of the pricing pressure along the mid to downstream solar value chain going forward.
- **Wind: Cost of electricity decreased, driven by lower WTG prices.** From 2022, both newly constructed onshore and offshore projects will receive no subsidies from the central government, although several coastal provincial governments have announced local subsidies for offshore projects, including Guangdong, Zhejiang and Shandong. On the equipment side, we are seeing intensifying competition in the WTG market, and wind turbine generator's (WTG) national average bidding prices plunged 35% yoy to Rmb1,876/kW in 1Q22. As such, we prefer wind operator > wind turbine manufacturer, due to: a) lower equipment ASP which can boost profitability of wind projects, b) operating efficiency improvement (eg higher utilisation hours) thanks to technology upgrades and digitalisation, and c) margin squeeze for WTG makers due to ASP decline and raw material cost hike.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 12 Apr 22 (HK\$)	Target Price (HK\$)	Upside/ (Downside) to TP (%)	Market Cap (HK\$m)	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	EV/EBITDA 2022F (x)	EV/EBITDA 2023F (x)	ROE (%)	Net Gearing (%)
Longyuan Power	916 HK	BUY	15.48	22.20	43.4	124,403	13.7	12.2	1.7	1.6	9.4	8.4	11.4	152.8
Goldwind	2208 HK	BUY	11.28	12.80	13.5	47,659	12.4	11.8	1.1	1.0	11.4	11.2	11.4	88.0
Xinyi Solar	968 HK	BUY	11.88	14.50	22.1	105,622	22.9	14.5	3.2	2.9	15.1	10.1	27.0	4.6
Singyes	750 HK	BUY	1.07	1.80	70.1	2,698	8.6	6.1	0.6	0.5	8.3	8.2	12.8	108.0

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT (Maintained)

### SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
Longyuan	916 HK	BUY	15.48	22.20

Source: UOB Kay Hian

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- Potential one-off payment of the delayed subsidy.** According to the government's 2022 central and local budget plans, the budget on renewable sector is no longer separately disclosed, and at the same time "other government fund expenses" surged 4.87x yoy to Rmb452.8b, which is largely in line with the shortfall of renewable subsidy payment of ~Rmb400b. Coupled with NDRC's request to all power generation companies to conduct self-review on the tariff subsidy before 15 Apr 22, it is very likely that the central government will seek to resolve the shortfall in subsidy funds. We believe that the potential sizeable amount of subsidy payment can help with: a) paying down debts and hence lowering interest expense, b) providing capex for new renewable projects, and c) improving cash flow. For Longyuan and XYS, we estimate a full subsidy collection by end-22 can boost its 2023 earnings by 4.0%/0.6% respectively if used on debt reduction.

### ESSENTIALS

- Maintain OVERWEIGHT,** as we believe the renewable sector is poised to benefit from the robust demand for renewable energy globally. Currently we estimate 55/75GW in newly installed capacity for wind/solar in China, representing 15.6/36.7% yoy growth respectively. Our new installed capacity forecast of solar is close to the low-end of the industry target, as we factored in the possibility of projects being delayed due to the elevated module price.

### ACTION

- Longyuan Power (916 HK/BUY/Target: HK\$22.20)** remains our top pick in the renewable sector, primarily thanks to its robust installations expansion plan and backed by parent SOE (China Energy Investment). In addition, Longyuan would be the main beneficiary of the potential subsidy released, given its substantial Rmb25.8b subsidy receivable (~6.3x that of cash on hand). Our DCF-based target price implies 18.4x 2022F PE.
- Goldwind (2208 HK/BUY/Target: HK\$12.80).** We remain cautious regarding the sustained ASP declines on WTG, but at the same time the product mix improvements along with strong sales volume would support Goldwind's earnings. Maintain BUY as current valuation of 10.4 forward PE is undemanding at 1SD below mean. Our target price implies 14.7x 2022F PE, pegged to its three-year average mean valuation.
- Xinyi Solar (968 HK/BUY/Target: HK\$14.50).** According to our talks with management, the inventory level for the solar industry is decreasing and at a healthy <1 month, supported by robust demand from distributed solar projects and overseas. Although there is no production impact caused by lockdown measures, the company did see impact on logistics and deliveries. The recent natural gas price hikes will also pressure its profitability, as natural gas/soda ash accounted for 25-30/15% in expenses for solar glass production. As such, we lower our 2022F solar GPM forecast from 34.6% to 30.8% to reflect the recent price hike. We cut the 2022-24 earnings by 10.7/1.1/0.9% and lower Xinyi Solar's target price to HK\$14.50, based on SOTP valuation. Maintain BUY.

### RISKS

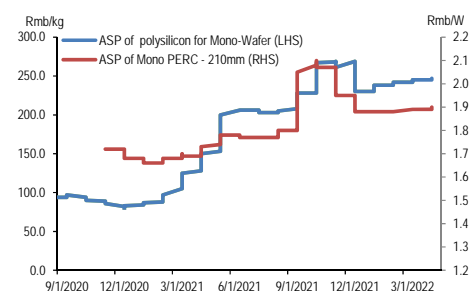
- Upside:** a) Accelerating subsidies payment, b) better-than-expected capacities installation, and c) increasing exports exposure to fulfil the robust worldwide demand.
- Downside:** a) virulent price competition as intensifying competition, b) a new market tariff mechanism below the coal-fire benchmark, and c) worse-than-expected installation due to raw material cost hike.

### SUBSIDIES RECEIVABLE

Company	Ticker	Subsidy receivable (As of end of 21) (Rmb m)
Longyuan	916 HK	25,800
Datong	1798 HK	15,374
Suntien	956 HK	6,676
CR Power	836 HK	14,300
China Power	2380 HK	1,224
XYE	3868 HK	4,522

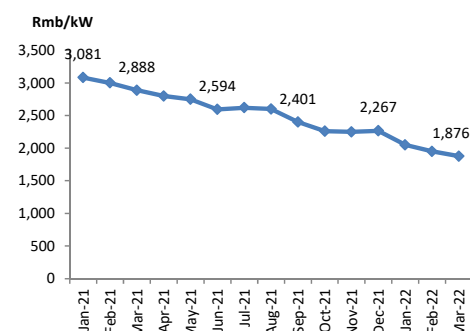
Source: Respective companies, UOB Kay Hian

### POLYSILICON AND SOLAR MODULE PRICE



Source: PV infolink, UOB Kay Hian

### WTG NATIONAL AVERAGE BIDDING PRICE



Source: Goldwind, UOB Kay Hian

### 1Q22 GUIDANCE UPDATES ON MAJOR RENEWABLE COMPANIES

Companies	Ticker	Main Business Nature	2022F PE (X)	2022F NP Growth (%)	2022 Guidance Update
<b>Wind Power</b>					
Longyuan	916 HK	Wind Farm Operator	13.7	31.5	3GW in new wind capacity in 2022 vs 1.45GW in 2021
Goldwind	2208 HK	WTG Manufacturer	12.4	-7.2	16GW WTG shipment vs 10.6GW in 2021
<b>Solar Power</b>					
Singyes	750 HK	Solar Farm Operator	8.6	41.1	1GW in new renewable capacity in 2022 vs 0.14GW in 2021
Xinyi solar	968 HK	Solar Glass Manufacturer	22.9	-1.1	5.65m tonnes total annual effective operating capacity vs 4.25m tonnes in 2021
Xinte Energy	1799 HK	Polysilicon Manufacturer	2.4	49.6	110-120k tonnes annual polysilicon shipment vs 78k tonnes in 2021
GCL Tech	3800 HK	Polysilicon Manufacturer	6.1	69.0	170k tonnes annual polysilicon shipment vs 40k tonnes in 2021
LONGi	601012 CH	Wafer and Module Manufacturer	26.2	56.5	90-100GW/50-60GW wafer and module shipment in 2022 vs 70GW/39GW in 2021
Jinko	JKS US	Solar Module Manufacturer	18.7	117.2	35-40GW annual shipment in 2022 vs 25.2GW in 2021
Daqo	DQ US	Polysilicon Manufacturer	2.6	73.0	120-125k tonnes production volume vs 86.6k tonnes in 2021

Source: Bloomberg, UOB Kay Hian

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