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SWS RESEARCH

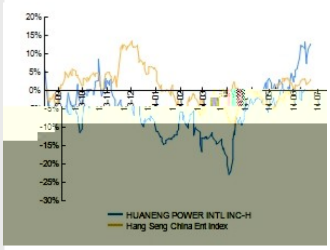
Utilities | Company Research

Bringing China to the World

2014 年 11 月 7 日

# (902:HK)

| | |
|---|---|
| Closing Price (HK$) | |
| Price Target (HK$) | 8.92 |
| HSCEI | 10,569 |
| HSCCI | 4,449 |
| 52-week High/Low (HK$) | 9.38/6.12 |
| Market Cap (US$m) | 16,170 |
| Market Cap (HK$m) | 125,371 |
| Shares Outstanding (m) | 14,055 |
| Exchange Rate (Rmb-HK$) | 1.26 |




*Source: Bloomberg*

| | 2012 | 2013 | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|
| Revenue (RMB million) | 133,966.66 | 133,832.87 | 130,619.20 | 135,368.77 | 142,354.93 |
| YOY (%) | 0.41 | (0.10) | (2.40) | 3.64 | 5.16 |
| Net income (RMB million) | 6,366.42 | 12,900.02 | 12,818.54 | 15,239.88 | 17,958.17 |
| YOY (%) | 439.07 | 102.63 | (0.63) | 18.89 | 17.84 |
| EPS (RMB) | 0.39 | 0.74 | 0.77 | 0.92 | 1.01 |
| Diluted EPS (RMB) | 0.39 | 0.74 | 0.77 | 0.92 | 1.01 |
| ROE (%) | 9.65 | 17.16 | 16.53 | 18.15 | 19.50 |
| Debt/asset (%) | 74.54 | 71.33 | 68.95 | 66.70 | 64.22 |
| Dividend Yield (%) | 2.82 | 5.10 | 5.97 | 7.10 | 8.36 |
| P/E (x) | 18.98 | 10.04 | 9.67 | 8.14 | 7.38 |
| P/B (x) | 1.59 | 1.39 | 1.38 | 1.28 | 1.17 |
| EV/EBITDA (x) | 6.21 | 5.35 | 5.00 | 4.58 | 4.16 |

*Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.*

11 5 3.65 H
HK$8.6 11 5 8.3%
2.6% 2.53% 31

huangzhe@swsresearch.com

92.8 94

13 PE4.9 PB1.0 14
- 9.4 PE 1.3 PB 9.5GW
7.2GW 2.3GW 14
14.4% 2.3GW 2015
15 16.5% 21

2.53%
14-16
0.77/0.92/1.01 14-16 PE 9.6 8.1 7.3
HK$10.53 18%

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**Share placement announcement.** On Tuesday 5th November, Huaneng Power International (HPI) announced a share placement plan. The company plans to issue 365m H-shares at HK$8.6/share (8.3% discount to its closing price of HK$9.38 on 5 November). The new shares will account for 2.6% of the total issued shares and 2.53% of enlarged shares. The net proceeds from the placement (approximately HK$3.1bn) will be used to supplement the working capital of the company.

**Positive impact.** We believe the true purpose of the share placement is to fund the assets purchase from HPI's parents company. The total consideration of the purchase is Rmb9.28bn, the company will finance this using its available cash. Given that the current cash was Rmb9.4bn, HPI may raise cash for its daily operation. We believe the share placement will solve the tight cash position after the company finishing the assets purchase and made the purchase more easily executed.

**Secured growth.** The total assets the company is going to purchase are priced at 4.9x 13A PE and 1.0 13APB. We believe this is a good bargain (the company is currently trading at 9.4x 14E PE and 1.3x 14E PB). The total capacity addition from its assets purchase is 9.5GW (7.2GW operating capacity and 2.3GW capacity in construction), a 14.4% increase from its current capacity (the company announced that the constructed capacity will be put in operation in 2015). We believe net profit could see upside of 16.5% in 2015, since we estimate the earnings from the assets purchase to be Rmb2.1bn during the same period.

**Minimal dilution.** Given that the placing share accounts for just 2.53% of enlarged shares, the dilution of earnings could be minimal. After the placement, we forecast EPS of Rmb0.77 for 14E, Rmb0.92 in 15E and Rmb1.01 in 16E. The stock is currently trading at 9.6x 14E PE, 8.1x 15E PE and 7.3x 16E PE. Given the dilution, we revise down our target price from HK$10.81 to HK$10.53. With 18% upside, we downgrade the rating to Outperform.

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## Consolidated Cash Flow Statement

| | | | | | |
|---|---|---|---|---|---|
| Profit Before Taxation | 8,877 | 17,423 | 17,594 | 20,941 | 24,662 |
| Depr And Amortisation | 11,256 | 11,546 | 13,292 | 14,225 | 15,137 |
| Finance Cost | 8,897 | 7,787 | 7,645 | 7,344 | 7,153 |
| Losses From Investments | 1 | 6 | 0 | 0 | 0 |
| Change In Working Capital | -176 | 6,778 | -1,708 | -1,522 | -719 |
| Others | -1,928 | -3,308 | -5,239 | -6,201 | -7,277 |
| CF From Operating Activities | 26,928 | 40,239 | 31,584 | 34,787 | 38,956 |
| Capex | 15,475 | 17,691 | 14,587 | 15,117 | 15,897 |
| Other CF From Investing Activities | 165 | -1,363 | 0 | 0 | 0 |
| CF From Investing Activities | -15,310 | -19,054 | -14,587 | -15,117 | -15,897 |
| Equity Financing | 665 | 868 | 0 | 0 | 0 |
| Net Change In Liabilities | -681 | -10,918 | -12,135 | -3,101 | -3,211 |
| Dividend And Interest Paid | -10,105 | -11,782 | -12,986 | -13,766 | -14,796 |
| Other CF From Financing Activities | 304 | 232 | 0 | 0 | 0 |
| CF From Financing Activities | -9,817 | -22,240 | -25,122 | | |

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## Key Financial Ratios

| | | | | | |
|---|---|---|---|---|---|
| Ratios per share (Rmb) | | | | | |
| Earnings per share | 0.39 | 0.74 | 0.77 | 0.92 | 1.01 |
| Operating CF Per Share | 0.39 | 0.74 | 0.77 | 0.92 | 1.01 |
| Dividend Per Share | 1.92 | 2.86 | 2.19 | 2.41 | 2.70 |
| Key Operating Ratios (%) | 0.21 | 0.38 | 0.45 | 0.53 | 0.62 |
| Net Assets Per Share | 4.69 | 5.35 | 5.38 | 5.83 | 6.39 |
| ROIC | | | | | |
| ROE | 14.6 | 18.7 | 19.9 | 22.2 | 24.7 |
| Gross Margin | 9.7 | 17.2 | 16.6 | 18.2 | 19.5 |
| Ebitda Margin | 38.0 | 44.1 | 47.6 | 49.6 | 51.2 |
| Ebit Margin | 35.9 | 40.6 | 44.9 | 46.6 | 48.0 |
| Growth Rate Of Revenue | 20.9 | 26.5 | 28.9 | 30.7 | 32.3 |
| Growth Rate Of Profit | 0.4 | -0.1 | -2.4 | 3.6 | 5.2 |
| Debt To Asset Ratio | 439.1 | 102.6 | -0.4 | 19.0 | 17.8 |
| Turnover Rate Of Net Assets | 74.5 | 71.3 | 68.9 | 66.7 | 64.2 |
| Turnover Rate Of Total Assets | 203.1 | 178.0 | 168.4 | 161.1 | 154.4 |
| Effective Tax Rate | 51.7 | 51.0 | 52.3 | 53.7 | 55.3 |
| Dividend Yield | 9.0 | 12.8 | 12.6 | 13.6 | 14.5 |
| Valuation Ratios (x) | 2.82 | 5.10 | 5.98 | 7.12 | 8.39 |
| PE | | | | | |
| PB | 19.0 | 10.0 | 9.7 | 8.1 | 7.4 |
| EV Sale | 1.6 | 1.4 | 1.4 | 1.3 | 1.2 |
| EV/Ebitda | 2.2 | 2.2 | 2.2 | 2.1 | 2.0 |

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Security Investment Rating：
When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:
Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.
BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.
Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.
Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.
Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.
SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.
Industry Investment Rating:
When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:
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Equal weight： Industry performs about the same as that of the whole market；
Underweight：Industry performs worse than that of the whole market.

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