

24 November 2014

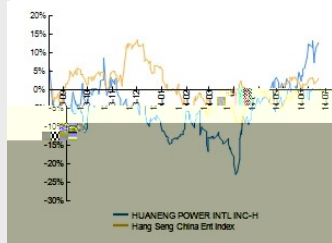
**BUY**  
**Upgrade**

(902:HK)

**Market Data: Nov, 21**

Closing Price (HK\$)	8.64
Price Target (HK\$)	10.69
HSC EI	10,447
HSC CI	4,353
52-week High/Low (HK\$)	9.38/6.12
Market Cap (US\$m)	15,663
Market Cap (HK\$m)	121,435
Shares Outstanding (m)	14,420
Exchange Rate (Rmb-HK\$)	1.26

**Price Performance Chart:**



Source: Bloomberg

**Analyst**

**Daniel Huang**  
**A0230513030001**  
**BDQ227**  
[huangzhe@swsresearch.com](mailto:huangzhe@swsresearch.com)

**Financial summary and valuation**

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	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 (Rmbm)	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
PE (x)	18.98	10.04	9.67	8.14	7.38
PB (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.

	1	25	40	
		25	14	1.8%
	195%			
	28			
	9.5GW	7.2GW	2.3GW	
	13	1.0	PB	4.8
	15			PE
		13.3%		
			15	1.9%
	16	1.6%	183	156
	0.2%	129	14-16	14
			0.77/0.94/1.03	
	HK\$10.69		24%	

**Related Reports**

"HUANENG POWER INTL INC-H (902:HK)—Assets acquisition" Nov 7,2014

"HUANENG POWER INTL INC-H (902:HK)—New growth" Oct 13,2014

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### Investment Highlights:

**Interest rate cuts.** The People's Bank of China (PBoC) cut the benchmark interest rate for one-year deposits by 25bps and the one-year lending rate by 40bps. Given Huaneng Power's high gearing ratio, we believe the company will be the main beneficiary of the rate cuts in the independent power producer (IPP) sector.

**Positive impact.** We calculate a boost to Huaneng's earnings of 1.8% from the 25bps interest rate cut. Its gearing, at 195% by end-3Q14, made its earnings sensitive to the rate cuts.

**More catalysts to come.** On 28 November, shareholders will vote to approve its acquisition of assets from its parent company, with total capacity of 9.5GW (7.2GW already in operation and 2.3GW in pipeline capacity). We believe that the price at which the assets are offered, representing 1.0x 13A PB and 4.8x 13A PE, is attractive and will win approval from a majority of shareholders. As such, we forecast capacity growth in 15E may be as much as 13.3% YoY.

**Upgrade to BUY.** To factor in the upside to the company's earnings from the rate cuts, we revise up our 14E earnings forecast by 0.2% to Rmb12.9bn, 15E earnings up by 1.9% to Rmb15.6bn, and 16E earnings by 1.6% to Rmb18.3bn. We maintain our EPS forecast of Rmb0.77 in 14E, raise our forecast from Rmb0.92 to Rmb0.94 in 15E and from Rmb1.01 to Rmb1.03 in 16E. We revise up our target price from HK\$10.53 to HK\$10.69. With 24% upside, we upgrade our recommendation from Outperform to BUY.

**Interest rate cuts.** The People's Bank of China (PBOC), China's central bank Friday cut the benchmark interest rate for one-year deposits by 25 basis points (bps) and the one-year lending rate by 40 bps from Saturday. Given that HPI's high gearing ratio, we believe it could among the biggest beneficiary of the rate cuts.

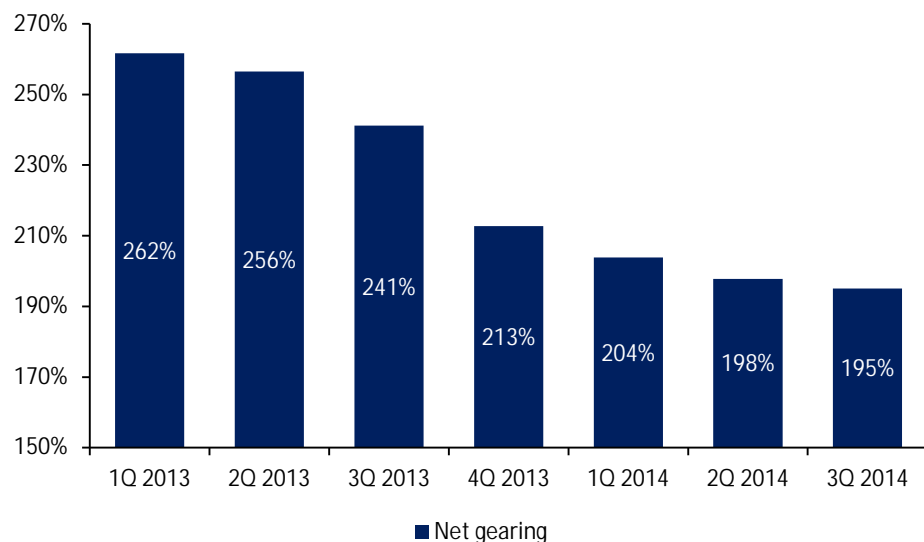
**Positive impact.** We estimate that 25 bps interest rate cuts could increase HPI's earnings by 1.8%. Its higher gearing ratio (195% by 3Q14) made its earnings are sensitive to the rate cuts.

Figure 1: HPI's earnings sensitivity

HPI FY14E NP sensitivity	2014E
Base case NP (Rmbm)	12,869
Case 1. net profit change with extra 1% decrease in average fuel cost YoY (%)	13,311 3.8%
Case 2. net profit change with extra 1% rise in utilization hours YoY (%)	13,215 3.0%
Case 3. net profit change with extra 1% rise in on-grid tariff YoY (%)	13,662 6.5%
Case 4. net profit change with extra 25bp interest rate cut YoY (%)	13,063 1.8%

Source: Company data, SWS Research

Figure 2: HPI's gearing ratio continue to decrease



Source: Company data, SWS Research

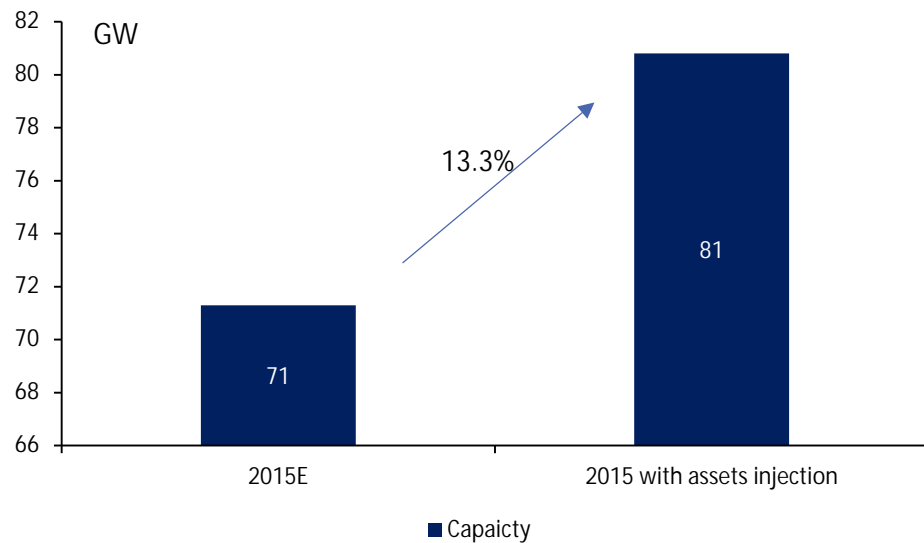
**More catalysts to come.** By 28<sup>th</sup> November 2014, the shareholders are going to vote to approve its acquisition of assets from its parent company, with total capacity amount to 9.5GW (7.2GW operation capacity and 2.3GW pipeline capacity). We believe as these assets were price at 1.0x 13 PB and 4.8x 13 PE, the minority shareholders could vote to approve the acquisition. Therefore the additional growth of capacity in 15E could be 13.3%.

**Figure 2: Assets for injection**

	Equity	May 2014 (Rmb m)			First 5 moth of 2014 (Rmb m)		2013 (Rmb m)		Capacity (MW)	
		Assets	Liability	Equity	Rev	Profit	Rev	Profit	In operation	In construction
Yingcheng plants	100%	1,144	938	206						400
Wuhan plants	75%	5,088	3,609	1,479	1,765	269	4,493	789	2,460	
Ruijin plants	100%	2,462	2,208	254	527	45	1,352	84	700	
Suzhou plants	53%	618	269	349	202	26	485	48	120	
Hainan plants	92%	9,840	7,059	2,781	2,730	520	6,267	829	2,598	
Chaohu plants	60%	3,030	1,987	1,043	983	114	2,560	237	1,200	
Dalongtan hydro	97%	333	249	84	15	-9	37	41	38	
Anyuan plants	100%	2,345	2,444	-100	76	-48	468	-92	0	1,200
Hualiangting hydro	100%	46	42	4	6	-30	23	0	40	
Jinmen plants	100%	1,798	1,410	388	0	0	0	0	0	700
<b>Total</b>		<b>26,703</b>	<b>20,217</b>	<b>6,486</b>	<b>6,304</b>	<b>886</b>	<b>15,685</b>	<b>1,936</b>	<b>7,155</b>	<b>2,300</b>

Source: Company data, SWS Research

**Figure 3: HPI's capacity growth pick after the assets injection**



Source: Company data, SWS Research

**Upgrade to BUY.** We factor in the positive of the rate cuts, and adjust our 15E earnings up by 1.9% to Rmb15.6b, and 16E earnings up by 1.6% to Rmb18.3b. We slightly upward revised 14E earnings by 0.2% to Rmb12.9b. We forecast new EPS of Rmb0.77 for 14E, Rmb0.94 for 15E and Rmb1.03 for 16E. We revised up our target price to HK\$10.69. With 24% upside, we upgrade our recommendation to BUY.



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### Consolidated Balance Sheet

Rmbm	2012	2013	2014E	2015E	2016E
Current Assets	36,086	33,629	25,044	28,561	34,612
Bank Balances And Cash	10,624	9,433	1,243	4,331	9,526
Trade And Other Receivables	15,300	15,562	15,867	15,959	16,663
Inventories	7,022	6,469	5,886	5,610	5,645
Other Current Assets	3,139	2,165	2,047	2,660	2,777
Long Term Investment	17,650	19,790	18,278	16,940	15,760
PPE	177,014	181,415	183,219	184,111	184,871
Intangible And Other Assets	28,351	27,398	23,240	22,916	22,690
Total Assets	259,100	262,233	249,780	252,527	257,933
Current Liabilities	189,044	183,219	168,987	164,974	162,101
Borrowings	167,398	155,800	143,665	140,564	137,353
Trade And Other Payables	19,993	25,321	23,310	22,216	22,353
Other Current Liabilities	1,653	2,098	2,013	2,194	2,394
Long Term Liabilities	4,096	3,821	3,205	3,205	3,206
Total Liabilities	193,140	187,040	172,192	168,179	165,306
Minority Interests	9,830	12,742	14,469	16,559	20,035
Shareholder Equity	0	0	0	0	0
Share Capital	14,055	14,055	14,055	14,055	14,055
Reserves	24,769	23,615	22,607	25,319	28,147

### Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Ratios per share (Rmb)					
Earnings per share	0.39	0.74	0.77	0.94	1.03
Operating CF Per Share	0.39	0.74	0.77	0.94	1.03
Dividend Per Share	1.92	2.86	2.19	2.40	2.69
Key Operating Ratios (%)	0.21	0.38	0.45	0.54	0.63
Net Assets Per Share	4.69	5.35	5.38	5.85	6.42
ROIC					
ROE	14.6	18.7	19.9	22.2	24.8
Gross Margin	9.7	17.2	16.6	18.5	19.8
Ebitda Margin	38.0	44.1	47.6	49.6	51.2
Ebit Margin	35.9	40.6	44.9	46.3	47.7
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	-0.2	21.1	17.4
Turnover Rate Of Net Assets	74.5	71.3	68.9	66.6	64.1
Turnover Rate Of Total Assets	203.1	178.0	168.4	160.5	153.7
Effective Tax Rate	51.7	51.0	52.3	53.6	55.2
Dividend Yield	9.0	12.8	12.6	13.9	14.7
Valuation Ratios (x)	3.06	5.54	6.51	7.88	9.25
PE					
PB	17.5	9.2	8.9	7.3	6.7
EV Sale	1.5	1.3	1.3	1.2	1.1
EV/Ebitda	2.2	2.1	2.1	2.0	1.9

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- Outperform With a markup 5% to 20% better than that of the market
- Neutral with a markup less than 5% better or worse than that of the market
- Underperform with a markup more than 5% worse than that of the market.
- Sell with a markup more than 20% worse than that of the market.

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