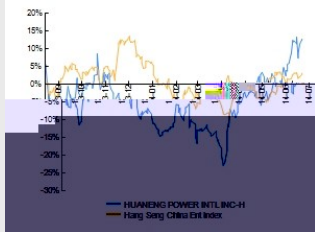


Company Research

Market Data: Nov, 28

Price Performance Chart:



Source: Bloomberg

Analyst

Daniel Huang

A0230513030001

BDQ227

Related Reports

"HUANENG POWER INTL INC-H (902:HK)— Shifting gear " Nov 24,2014

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

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

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	133,966.66	133,832.87	130619.20	151478.63	158948.10
YoY (%)	0.41	(0.10)	(2.40)	15.97	4.93
Net income (Rmbm)	6,366.42	12,900.02	12869.41	18571.69	21499.23
YoY (%)	439.07	102.63	(0.24)	44.31	15.76
EPS (Rmb)	0.39	0.74	0.77	1.08	1.21
Diluted EPS (Rmb)	0.39	0.74	0.77	1.08	1.21
ROE (%)	9.65	17.16	16.59	21.28	22.13
Debt/asset (%)	74.54	71.33	68.94	66.02	63.37
Dividend Yield (%)	2.82	5.10	6.19	8.93	10.33
PE (x)	18.98	10.04	9.34	6.67	5.97
PB (x)	1.59	1.39	1.31	1.16	1.04
EV/Ebitda (x)	6.21	5.35	5.27	4.86	4.21

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 28	9.5GW	7.2GW	2.3GW	9.5GW
13 4.9	PE	1.0	PB	99
2015 1 1	15	21	15	2015
156	14	111	40%	

67GW	5	15GW	
5	12.8%		
15	25	15	1%
22%			

15	1.08/1.21	0.94/1.03	40%/11.6%	15/16
HK\$12.49	14	0.77	4.2%	
HK\$10.53			37%	

Investment Highlights:

Assets injection approval. On Friday 28 November, shareholders of Huaneng Power International approved the company's proposal to acquire assets with total installed capacity of 9.5GW from its parent (7.2GW operating capacity and 2.3GW capacity in construction). The total assets to be purchased are priced at 4.9x 13A PE and 1.0 13A PB with consideration of Rmb9.9bn.

Earnings enhancement. Huaneng will consolidate the earnings of these assets on 1 January 2015. Since all the capacity under construction will be put into operation in 1H15, we expect the earnings contribute Rmb2.1bn in 2015 (total earnings to shareholders of Rmb15.6bn), a 40% upside from 2014 (Rmb11.1bn).

More assets injection to come. We believe the company would keep acquiring assets from parent company to achieve decent growth. The parent company has c.67GW assets to be waited to inject to the listco. With annual acquisition of 15GW, the process could last for around five years. The five years Cagr of capacity of HPI could be 12.8%.

More upside. We expect more interest rate cuts to come in 1H15, lowering the financial expense and enhance HPI's profits. We estimate 25bp interest rate cut could lead HPI's earnings to increase by 1%. Electricity reform could also benefit the company. Equipping more efficient power generation units, HPI could win more power sale contracts when IPP compete at market power price. Therefore its utilization could increase by large extent. Though the power sale price (on grid tariff) may lower due to competition, the spike of utilisation could enhance the company's earnings by 22% by our forecasts.

Maintain BUY. With this approval, we believe the earnings growth could be higher than our previous expectations. We raise our EPS forecasts from Rmb0.94 to Rmb1.08 in 15E (+40% YoY) and from Rmb1.03 to Rmb1.21 in 16E (+11.6% YoY). Since the injection will be completed in 2015, we maintain our EPS forecast of Rmb0.77 in 14E (+4.2% YoY). We revise up our target price from HK\$10.53 to HK\$12.49. With 37% upside, we maintain BUY recommendation.

Assets injection approval. On Friday 28 November, shareholders of Huaneng Power International approved the company’s proposal to acquire assets with total installed capacity of 9.5GW from its parent (7.2GW operating capacity and 2.3GW capacity in construction). The total assets to be purchased are priced at 4.9x 13A PE and 1.0 13A PB with consideration of Rmb9.9bn.

Figure 1: 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
Total		26,703	20,217	6,486	6,304	886	15,685	1,936	7,155	2,300

Source: Company data, SWS Research

Earnings enhancement. Huaneng will consolidate the earnings of these assets on 1 January 2015. Since all the capacity under construction will be put into operation in 1H15, we expect the earnings contribute Rmb2.1bn in 2015 (total earnings to shareholders of Rmb15.6bn), a 40% upside from 2014 (Rmb11.1bn).

Fig 2: Capacity growth pick up due to the assets acquisition

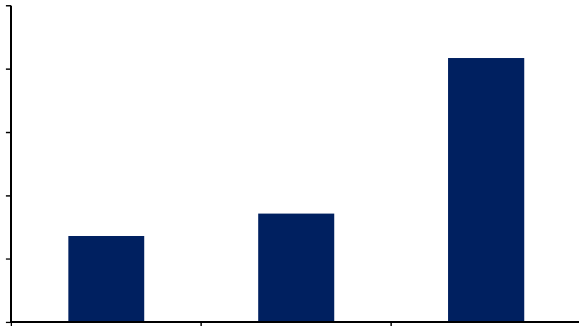
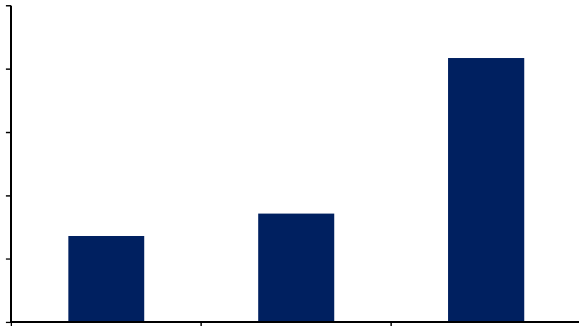


Fig 3: Earnings increase due to the assets acquisition





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Fig 6: Listed IPPs capacity structure

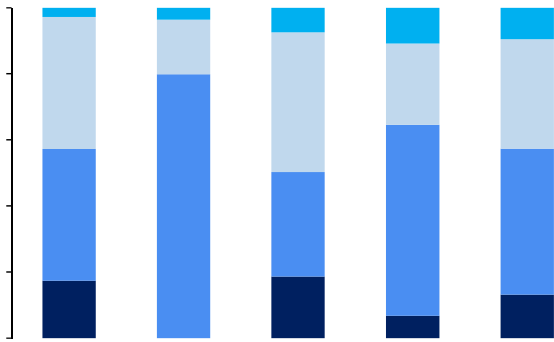


Fig 7: Earnings impact, by IPP

Appendix

Consolidated Cash Flow Statement

Rmbm	2012	2013	2014E	2015E	2016E
	-		-	-	-
	-	-	-	-	-
		-			
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
		-	-		

Consolidated Balance Sheet

Rmbm

2012

Information Disclosure

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

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Introduction of Share Investment Rating

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.



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