



Time to catch up; Buy

Four reasons to buy IPPs

First, IPPs are the cheapest power stocks in the world and the cheapest in their 10-year trading history. Second, there will be a potential tariff hike for gas-fired plants. Third, IPPs have scope to raise dividend payout. Fourth, asset injection will return in 2014. After a mediocre share performance despite a strong earnings recovery in 2013, it is time to catch up. We have Buys on all five IPPs with Huadian/Huaneng as top picks given their 1) more attractive valuation, 2) stronger asset injection potential, and 3) more upside from gas plant tariff hike.

IPPs are significantly undervalued

Following a mediocre performance in 2013 despite 60-156% EPS growth, IPPs are trading at the lowest PE multiples and highest dividend yield over the past ten years. Across the global power utility stocks, China IPPs have the highest average dividend yield and the lowest average PE. Among the China utilities sector, the China IPPs are trading at 6.3x FY14E P/E and 0.9x FY14E P/B vs. Gas at 20.6x FY14E P/E and 2.8x FY14E P/B, Water at 26.9x FY14E P/E and 3.4x FY14E P/B and Wind at 16.2x FY14E P/E and 1.5x FY14E P/B.

Tariff hike for gas-fired plants; dividend payout to rise

We expect a tariff hike for gas-fired plants to address the gas price hike and supply shortage, which will be particularly positive to Huaneng, Datang and Huadian. With better cashflow and reduced capex, IPPs are likely to raise payouts, such as Huadian and CR Power with payout ratio of 32/33% in 2013. Moreover, IPPs are on the fast track to de-leveraging.

Asset injection is the key theme in 2014

As we have argued, China IPPs uniquely positioned with significant assets at the parentco level that are scheduled to be put into listco over the next few years. For example, at end-2013, Huaneng Group had 137GW vs. Huaneng Power's 67GW; Huadian Group had 100GW vs. Huadian Power's 37GW. In 2013, asset injection was done on a small scale by CR Power and CPI. We expect more scalable injection in 2014 after profitability improves in 2013.

Update on tariff, coal, demand and utilization assumptions

We tweak up 2014 coal price assumption while removing the previous 4% tariff cut assumed in 1Q14. As a result, the spread is largely unchanged. We now expect power demand growth at 7.6% in 2013, 8.0% in 2014 and 8.0% in 2015. We forecast utilization would rise modestly in 2014-16.

DCF-based target prices; key risks

We value IPPs using DCF through 2020E, assuming WACCs of 8.9-9.6%. Major risks: adverse change in coal price without a corresponding tariff adjustment that cause downside to our assumed spread, weaker power demand, low hydro conditions, interest rate hike and downside to non-power businesses.

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Key Changes

Company	Target Price	Rating
0836.HK	29.40 to 28.80(HKD)	-
2380.HK	4.30 to 4.50(HKD)	-
0991.HK	4.40 to 4.80(HKD)	-
1071.HK	5.60 to 5.50(HKD)	-
0902.HK	12.10 to 11.10(HKD)	-

Source: Deutsche Bank

Top picks

Huaneng Power Intl (0902.HK),HKD7.20	Buy
Huadian Power (1071.HK),HKD3.12	Buy

Source: Deutsche Bank

Companies Featured

Huaneng Power Intl (0902.HK),HKD7.20	Buy
CR Power (0836.HK),HKD17.56	Buy
Datang Int'l Power (0991.HK),HKD3.55	Buy
China Power Int'l (2380.HK),HKD2.68	Buy
Huadian Power (1071.HK),HKD3.12	Buy

Source: Deutsche Bank

This report changes ratings, target price and/or estimates for several companies under coverage. For details, please see Figure 34



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Four reasons to buy IPPs

Significantly undervalued: the cheapest power stocks in the world

Key points

- Following a mediocre performance in 2013 despite 60-156% yoy EPS growth, IPPs are trading at the lowest PE multiples and highest dividend yield over the last ten years.
- Among the China utilities sector, the China IPPs are trading at significant valuation discounts to gas, wind, and water utilities.
- Across the global power utility universe, China IPPs have the highest FY13E dividend yield and the lowest FY14E P/E.

Significantly underperforming other utility peers in China in 2013

During the year, the five China IPPs recorded a -7%–21% share price change, which was in sharp contrast to the 60-156% yoy EPS growth expected. On the other hand, other utility peers have demonstrated strong performance, such as China gas utilities' average 51% appreciation, China wind developers' average 107% appreciation and China water/waste operators' 154% appreciation. Although it can be explained by structural tailwind for clean and green theme stocks, we believe the market has underappreciated IPPs' cyclical earnings recovery amid a low coal price environment.

Figure 1: China IPPs' share price performances in 2013

Company	Ticker	Price as of 12/31/2012	Price as of 12/31/2013	Price Chg.
CR Power	0836.HK	19.78	18.38	(7%)
Huaneng	0902.HK	7.17	7.01	(2%)
Datang	0991.HK	2.96	3.58	21%
Huadian	1071.HK	2.72	3.03	11%
China Power Int'l	2380.HK	2.46	2.76	12%
China Gas Utilities				51%
China Wind Developers				107%
China Water/Waste Operators				154%
HSCEI Index		11,436	10,816	(5%)

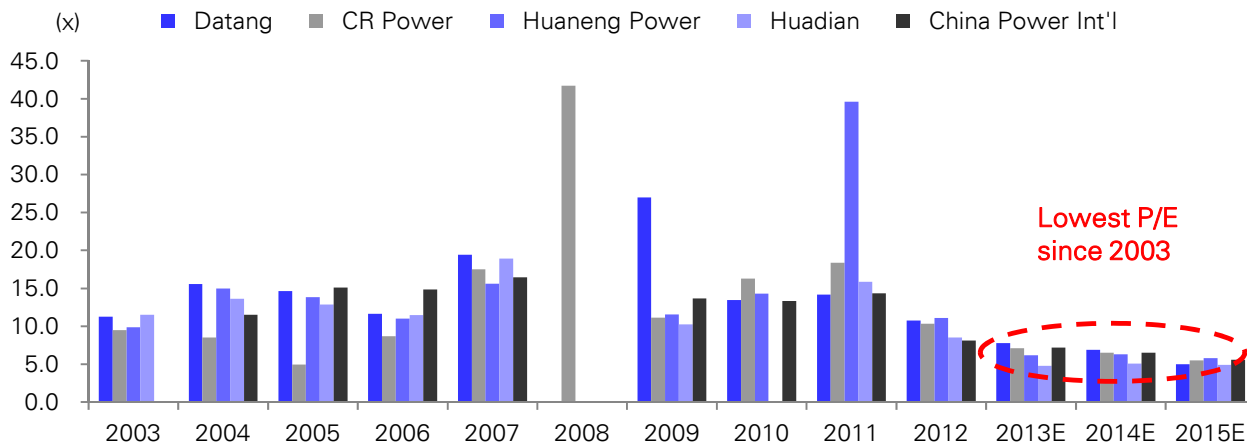
Source: Bloomberg, Deutsche Bank, China Gas utilities include ENN, CR Gas, BEH, Kunlun Energy, China Gas and Towngas China; China Wind Developers include Longyuan, Huaneng Renewables, Datang Renewable, China Water/Waste Operators include BEWG and CEI

Significantly undervalued relative to historical valuation range

As a result of strong EPS growth, coupled with mediocre share performance, IPPs are now trading at the lowest PEs and the highest dividend yields since 2003, as shown in Figure 2 and Figure 3.

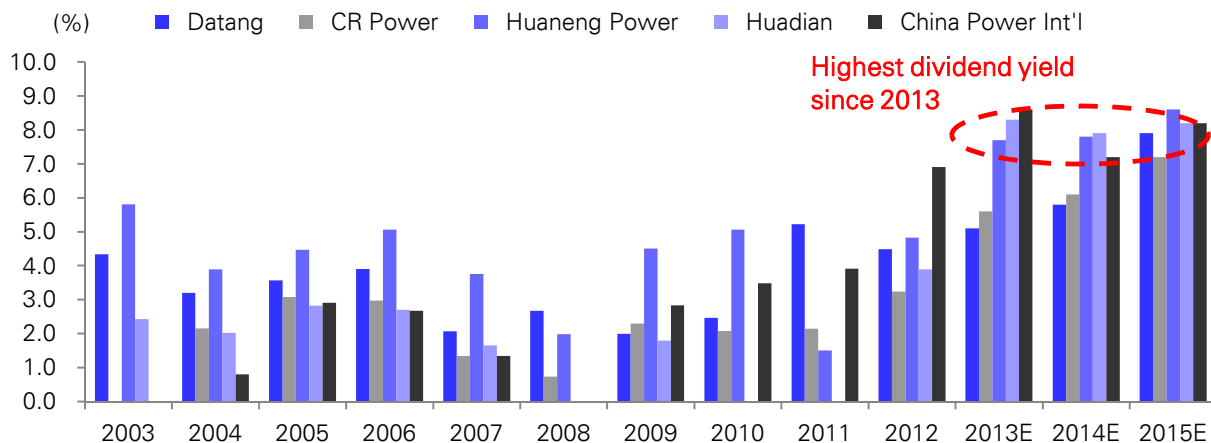


Figure 2: China IPPs: lowest P/E since 2003



Source: Deutsche Bank estimates, Company data, Datastream

Figure 3: China IPPs: highest dividend yield since 2003



Source: Deutsche Bank estimates, Company data, Datastream

Significantly undervalued relative to other China utility peers

As shown in Figure 4, the China IPPs are trading at 6.3x FY14E P/E and 0.9x FY14E P/B vs. Gas at 20.6x FY14E P/E and 2.8x FY14E P/B, Water at 26.9x FY14E P/E and 3.4x FY14E P/B and Wind at 16.2x FY14E P/E and 1.5x FY14E P/B.

To some extent, we think gas, wind and water stocks deserve some valuation premium due to their more stable margin trend, which is less exposed to commodity price volatility; such a valuation discount is way too much considering a likely persisting low coal price environment and the tariff-fuel pass-through policy, which is in place in principle (although its implementation is not perfect). The market is too concerned about tariff/fuel risk and has not given any credit about the asset injection potential for the power sector, which is lacking for gas, wind and water/waste stocks. Despite substantially higher revenue base, China IPPs' market cap looks significantly under-represented in China's utility and renewable space.



Figure 4: Valuation comparison of China utilities

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Company	Ticker	Price	Rating	Price	% to	Mkt. Cap.	P/E			P/BV	Yield	EPS growth			
				target	target		US\$m	13F	14F			15F	14F	13F	2012
China IPPs															
Datang	0991.HK	HK\$3.48	Buy	HK\$4.80	38%	5,853	7.8	6.9	5.0	0.8	5.1	40%	68%	13%	37%
CR Power	0836.HK	HK\$17.34	Buy	HK\$28.80	66%	10,597	7.1	6.5	5.5	1.1	5.6	100%	60%	9%	18%
Huaneng	0902.HK	HK\$7.15	Buy	HK\$11.10	55%	12,833	6.2	6.3	5.8	1.1	7.7	367%	93%	-2%	8%
Huadian	1071.HK	HK\$3.11	Buy	HK\$5.50	77%	2,724	4.8	5.1	4.9	0.7	8.3	157%	156%	-5%	3%
CPI	2380.HK	HK\$2.68	Buy	HK\$4.50	68%	1,772	7.2	6.5	5.6	0.7	8.6	101%	47%	11%	15%
Average							6.6	6.3	5.4	0.9	7.1				
China Gas															
Towngas China	1083.HK	HK\$9.30	Hold	HK\$6.60	-29%	2,998	24.8	21.3	18.5	1.8	0.8	33%	17%	17%	15%
BJ Enterprises	0392.HK	HK\$69.85	Buy	HK\$64.90	-7%	10,767	22.5	17.8	14.1	1.8	1.7	21%	25%	26%	26%
ENN Energy	2688.HK	HK\$56.25	Hold	HK\$40.80	-27%	7,890	27.3	23.9	21.2	4.0	1.1	15%	17%	14%	13%
China Gas*	0384.HK	HK\$11.50	Hold	HK\$7.00	-39%	7,059	30.3	25.7	NA	3.4	1.1	80%	16%	18%	NA
Kunlun Energy	0135.HK	HK\$13.28	Buy	HK\$14.80	11%	13,874	15.2	12.8	11.2	1.9	2.2	7%	6%	19%	14%
CR Gas	1193.HK	HK\$25.80	Hold	HK\$16.10	-38%	7,472	26.0	21.9	19.8	3.6	0.9	34%	28%	19%	10%
Average							24.4	20.6	14.1	2.8	1.3				
China Water/Waste															
China EB Int'l	0257.HK	HK\$10.50	Sell	HK\$3.90	-63%	5,427	34.4	28.7	23.7	4.0	0.9	9%	26%	20%	21%
BEWG	0371.HK	HK\$4.72	Buy	HK\$5.10	8%	4,240	33.0	25.2	18.8	2.8	1.2	21%	34%	31%	34%
Average							33.7	26.9	21.2	3.4	1.0				
China Wind															
Longyuan Power	0916.HK	HK\$9.84	Buy	HK\$10.60	8%	10,177	22.1	15.8	12.2	1.8	1.3	2%	0%	40%	29%
Huaneng Renewables	0958.HK	HK\$3.69	Hold	HK\$3.20	-13%	4,020	22.4	16.7	13.1	1.7	1.2	-58%	91%	34%	28%
Datang Renewable	1798.HK	HK\$1.62	Hold	HK\$1.70	5%	1,557	25.9	16.2	10.8	1.0	0.9	-91%	383%	60%	50%
Average							23.5	16.2	12.0	1.5	1.1				

*Note: China Gas financial year end Mar 31, 13F, 14F and 15F stands for FY14F, FY15F and FY16F
Source: Deutsche Bank estimates, company data, Bloomberg Finance LP; price as of 7 Jan 2014

Significantly undervalued relative to global power utility peers

As shown in Figure 5, China IPPs are also the lowest valued across global power utility stocks. They are not only cheaper than power utilities in developed market such as the US and Europe, but also cheaper than power utilities in emerging markets such as Russia, Latin America, India, Malaysia and the Philippines.

As shown in Figure 6 and Figure 7, China IPPs have the lowest average FY14E P/E and the highest average FY13E dividend yield, respectively, across global power utility stocks.

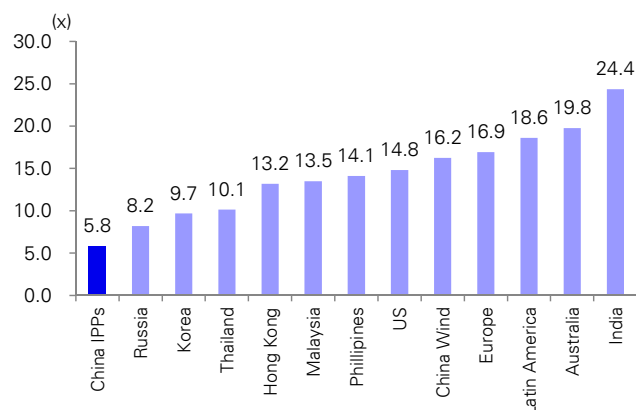


Figure 5: Global power utility stock comps

Company	Valuations						Returns & Gearing (%)					
	P/E		EV/EBITDA		P/BV		RoE		RoCE		Gearing	Yield
	13F	14F	13F	14F	13F	14F	13F	14F	13F	14F	13F	13F
Australia	21.4	19.8	8.8	9.0	1.3	1.3	7.1	7.3	5.9	6.1	106.1	5.2
China IPPs	6.3	5.8	6.5	5.9	0.9	0.8	16.5	15.9	7.8	8.0	231.5	6.5
China Wind	23.5	16.2	10.6	9.3	1.6	1.5	7.3	9.6	6.1	6.8	227.3	0.8
Hong Kong	13.9	13.2	20.8	17.3	1.7	1.6	12.8	12.4	10.9	10.4	32.6	4.2
India	20.6	24.4	16.4	9.5	1.4	1.2	2.6	5.7	5.3	6.5	245.8	1.6
Korea	NM	9.7	7.6	5.4	0.5	0.4	(1.3)	4.6	1.6	4.2	107.8	0.0
Malaysia	10.7	13.5	5.4	6.4	1.4	1.6	13.2	14.0	10.3	11.0	41.6	3.3
Philippines	11.9	14.1	8.5	9.0	2.3	2.1	17.5	19.5	15.1	14.9	72.5	3.9
Thailand	10.8	10.1	10.7	11.0	1.5	1.4	14.1	14.1	9.0	9.1	72.0	4.7
US	15.8	14.8	8.5	8.2	1.7	1.6	10.7	10.8	6.5	6.5	142.6	4.1
Europe	11.7	16.9	7.9	7.9	1.8	1.7	12.4	12.0	6.3	6.5	120.6	4.7
Latin America	39.6	18.6	9.6	7.6	1.8	1.8	12.3	15.6	6.1	7.8	55.4	5.7
Russia	10.6	8.2	3.9	3.7	0.3	0.3	5.6	5.9	5.5	5.6	30.9	2.5

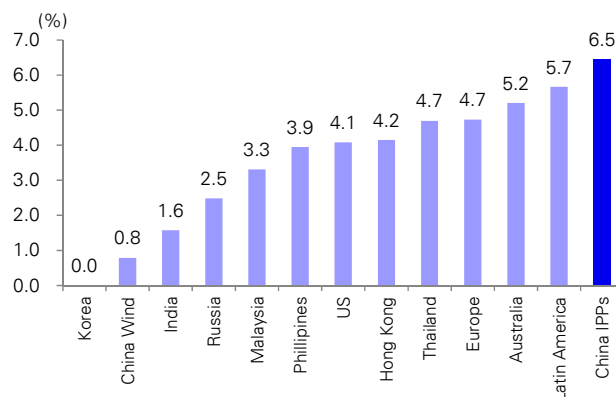
Source: Deutsche Bank, Company data, Bloomberg Finance LP, price as of 6 Jan 2014

Figure 6: China IPPs: the lowest FY14E P/E



Source: Deutsche Bank, Company data, Bloomberg Finance LP

Figure 7: China IPPs: the highest FY13E dividend yield



Source: Deutsche Bank, Company data, Bloomberg Finance LP

Potential tariff hike for gas-fired power plants

Key points

- Besides tariff cut for coal-fired plants, the market is also concerned about margin squeeze and low utilization of IPPs' gas plants following gas price hike and gas supply shortage.
- We expect further tariff hike for gas-fired plants to address gas price hike and supply shortage, which will be particularly positive to Huaneng, Datang and Huadian that own higher gas capacity mix.

Gas plants now earn lower return than coal plants

The market is negative on the earnings outlook for IPPs' gas-fired plants due to 1) gas price hike in July 2013, especially for those relying on "incremental" gas supplies which incurred a sharper increase, 2) natural gas supply shortage which caused low utilization of some newly completed gas plants.

Below, we list the tariff, gas cost, spark spread and utilization for some gas-fired plants in China. As shown in Figure 8, some plants have very low spread compared to an average of Rmb0.15/KWh for coal-fired plants.



Take Datang's Jiangbing gas plant in Zhejiang as an example: its current tariff is Rmb0.90/KWh, while its gas cost is now Rmb3.22/cubic meter from Rmb2.47/cubic meter after the gas price increase in July 2013. The unit fuel cost is Rmb0.64/KWh given one cubic meter gas can generate 5KWh electricity. Although the spark spread is Rmb0.26/KWh, the profit level could remain in question with low utilization level of 1,000 hours (not enough gas supply) hardly cover other operating costs. According to local news media, the gas shortage is prevalent in Zhejiang province which saw c. 3GW gas-fired plants added in 2012-13.

Figure 8: Tariff, cost, spread and utilization for selective gas-fired plants

Province	Plant	MW	Utilization hours (2013E)	Tariff (Rmb/kWh)	Gas cost (Rmb/cum)	Spark spread (Rmb/KWh)
Shanghai	Huaneng Shanghai	3x400	1835	0.72	2.72	0.18
Shanghai	Shenneng Lingang	1646	1797	0.72	2.72	0.18
Shanghai	Shenneng Caojing	658	1835	0.72	2.72	0.18
Jiangsu	Huadian Wangting	780	3090	0.61	2.42	0.12
Jiangsu	Huadian Qishuyan	780	3055	0.61	2.60	0.09
Jiangsu	Huaneng Jinling	2x390	3500	0.61	2.20	0.17
Jiangsu	Huadian Qishuyan	2x200	5000	0.70	3.30	0.04
Jiangsu	Huadian Yizheng	660	5223	0.68	3.30	0.02
Jiangsu	Guoxin Huaian Gas-fired	360	5528	0.64	3.30	-0.02
Zhejiang	Datang Jiangbin Gas-fire	2x452	1000	0.90	3.22	0.26
Zhejiang	Datang Jiangshan Gas-fire	2x115	1000	0.96	3.22	0.32
Zhejiang	Huadian Banshan	2x395	3100	0.90	3.13	0.28
Zhejiang	Zheneng Changxing	2x390	3000	0.90	3.22	0.26
Henan	Zhengzhou Gas-fired	2x350	3500	0.61	2.22	0.16
Fujian	CNOOC Putian LNG	2100	3059	0.51	1.41	0.23

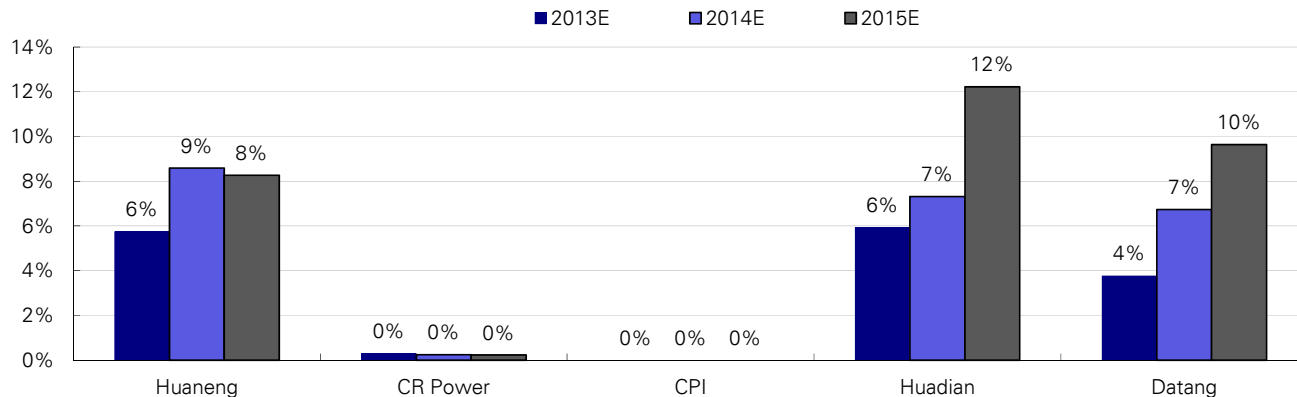
Source: Deutsche Bank, NDRC, company data

Huaneng, Datang, and Huadian have higher gas-fired capacity mix

Among the five HK-listed IPPs, Huadian, Datang and Huaneng are more exposed to gas plants profit uncertainty due to their higher capacity mix (Figure 9). In particular, Huadian and Datang will have a higher portion of newly completed gas plants in 2014-15E which are more likely to rely on more expensive "incremental" gas or facing inadequate gas supply. If these problems persist, these new gas plants could lead to negative earnings impact. Some IPPs have pushed back the construction schedule of their gas plants, pending further supporting policies on tariff or utilization fronts.



Figure 9: China IPPs' gas capacity mix



Source: Company data, Deutsche Bank estimates

Further tariff hike in consideration

According to our channel checks, the government is treating gas plant tariff issue as priority over tariffs for coal-fired plants. Besides calling for more local government subsidy, it is likely to see an on-grid tariff hike for gas-fired plants that will be passed through to end users.

Upside to dividend payout

Key points

- With better operating cashflow and reduced capex level, some IPPs are likely to raise dividend payout ratio, such as Huadian and CR Power with payout ratio of 32/33% in 2013.
- Moreover, IPPs are on the fast track of de-leveraging which should reduce the market aversion to the sector for fear of high-gearing.

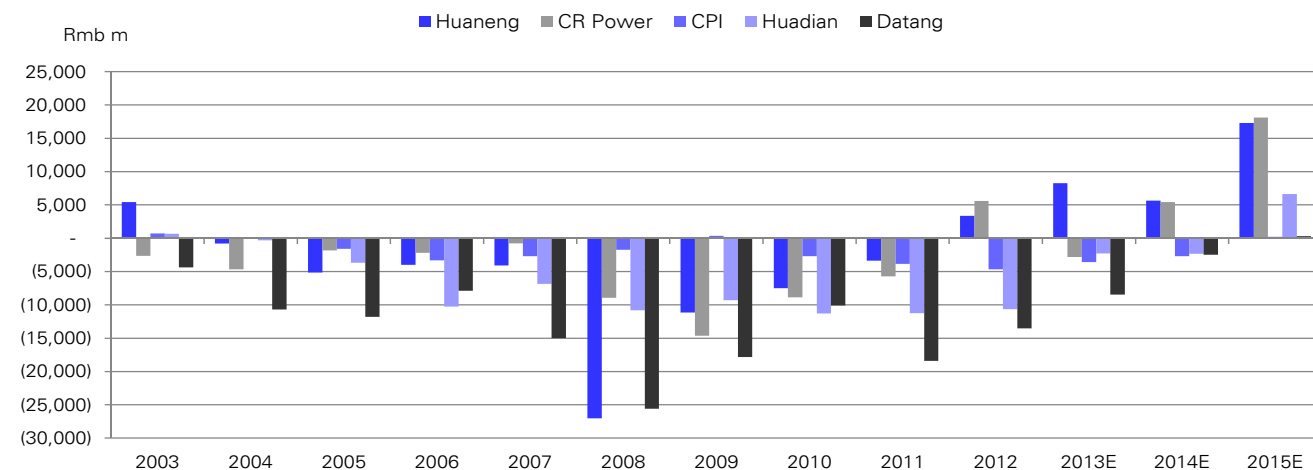
Improving operating and free cashflow

Besides visible earnings recovery and stable margin ahead, we also see a return to free cashflow (FCF) as encouraging, especially given that it is the first time since 2003, and a long-desired outcome by investors. As Figure 10 shows, all five HK-listed IPPs experienced negative FCF in 2004-2011. In 2012, Huaneng and CR Power returned to FCF positive. Though Datang/Huadian/CPI are likely still FCF negative in 2014, the amount of negative FCF should be greatly reduced (Figure 10). We expect Huadian to turn FCF positive in 2015.

This, in turn, is likely to lead to higher dividend payout, especially Huadian and CR Power with payout ratio less than 40% in the past. Meanwhile, the ongoing economic reform in China is also calling for higher payout ratio for SOEs. The strong free cashflow and commitment to payout ratios will act as robust support for the forecast dividend payment.

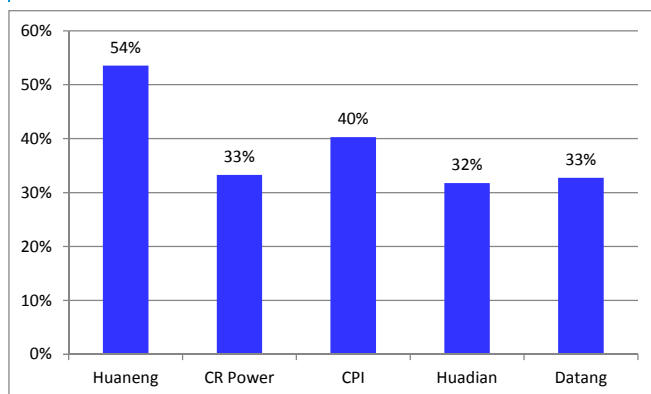


Figure 10: China IPPs FCF trend since 2003



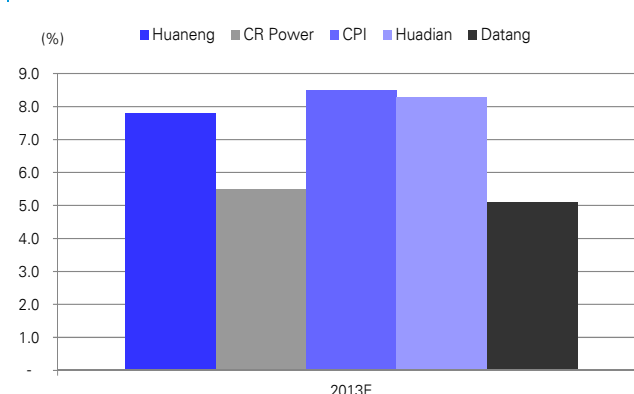
Source: Deutsche Bank, Company data; Note* For CR Power, the data is in HK\$m

Figure 11: Dividend payout in 2013



Source: Deutsche Bank, company data, Datang's payout is distorted by one-off gain its FY12 earnings. Adjusted payout on recurring earnings should be 50%

Figure 12: 2013E dividend yield



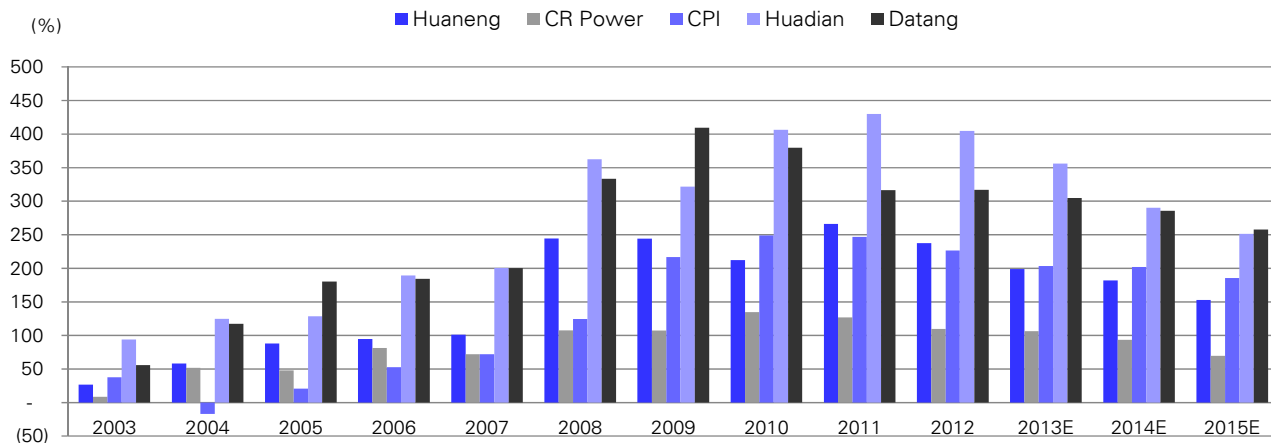
Source: Deutsche Bank, * 2013E dividend to be paid in mid 2014

De-leveraging on track

One of the reasons that IPPs have been under-weighted by investors is their highly leveraged balance sheet. As shown in Figure 13, we expect IPPs' gearing to gradually come down to a healthier level (150~200%) by the end of 2014. Together with lower gearing, IPPs' earnings risk to interest rate changes should also be alleviated.



Figure 13: China IPPs net gearing trend since 2003



Source: Deutsche Bank estimates, Company data

Asset injection is key story for the sector in 2014

Key points

- China IPPs stand uniquely with significant assets at the parentco level which are scheduled to be put into listco over the next few years.
- There is significant scope of asset injection considering the vast size of parentco. For example, at end-2013, Huaneng Group had 137GW vs. Huaneng Power's 67GW; Huadian Group had 100GW vs. Huadian Power's 37GW.
- In 2013, asset injection was done on a small scale by CR Power (wind assets) and CPI (thermal asset). We expect more scalable asset injection in 2014, following a substantial profitability improvement in 2013.

Listed IPPs designated as platform for parentcos' conventional power assets

Of the key strategic sectors owned by the government, China IPPs stand out in terms of a potential asset injection to listed vehicles. IPPs, such as Huaneng Power, Datang Power, Huadian Power and China Power International, have said that their parent companies will continue to inject traditional coal-fired and hydro assets into the listcos in the next few years when the profitability of the assets improves and relevant conditions are met. Given the significant capacity retained at the parentco level (Figure 14), there is plenty of room for potential asset injections into the listcos.

Figure 14: Capacity of listcos and parentcos

end-2013, GW	Huaneng	CPI	Huadian	Datang
Capacity of the group	137	80	100	120
Capacity of core HK listco	67	17	37	40

Source: Deutsche Bank, Company data

Asset injection potential not priced in at all

We believe the asset injection theme will act as a key driver for the sector in 2014-15, in view of 1) a conducive policy environment for SOE reform for which "whole group listing" is a key element, 2) improving asset quality following a sharp coal price decline in 2012-13, 3) slowing organic capacity growth and lack of margin expansion to drive fast earnings growth in 2014-15 and 4) the sheer size of available assets given the existence of large parentcos.



We highlight the potential acquisition targets below (Figure 15). Among IPPs, We believe Huaneng, Huadian and CPI offer the greater upside potential on this front.

Figure 15: Potential acquisition targets in 2014

Company	Scale of asset injection (Deutsche Bank estimates)	Potential targets (Deutsche Bank estimate)
Huaneng	5~10GW	Thermal assets in Shandong, Xinjiang, Hainan and hydro assets
CPI	1-3GW	Thermal assets in Shanghai, Jiangxi, Guizhou, Liaoning, hydro assets, nuclear assets
Huadian	3-5GW	Thermal assets in Jiangsu, Xinjiang and hydro assets

Source: Deutsche Bank estimates, Company data

Case study: CPI's Wuhu plant injection in 2013

In October 2013, CPI announced the acquisition of Wuhu coal-fired power (2x630MW) in Anhui Province from its parentco for Rmb1.45bn. 85% of the payment is settled through the issue of new shares and the remaining 15% (Rmb217.5m) through cash payment. The acquisition was approved by independent shareholders on 15 November 2013. Following the acquisition, CPI's attributable capacity increased from 12.9GW to 14.3GW.

The acquisition price looks attractive as it is only 4.5x FY13E P/E based on annualized 1H13 earnings. Though P/B is at 1.9x, 1H13 annualized ROE was 43%. After accounting for a c.9% dilution from the share placement, we estimate 4% FY14 EPS accretion from the asset injection.

CPI's announcement of the asset injection will be the first of many to come, in our view. It still has several other prospective candidates including Shanghai Power (600021 CH, non-rated), thermal plants in Guizhou, Jiangxi and Liaoning, Yellow River Upstream Hydro and Hongyanhe Nuclear Plant.



Coal price and tariff update

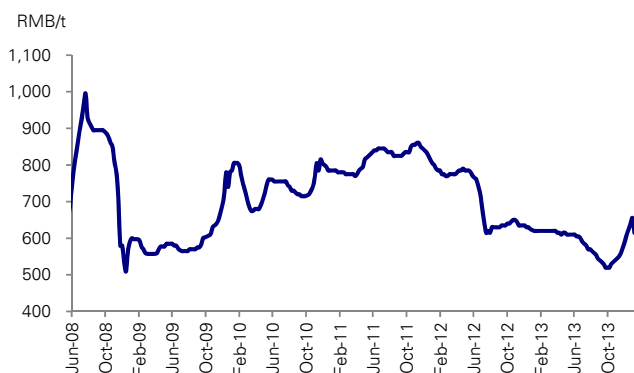
Big spike in QHD spot coal price in 4Q13 set to retreat

A 20% spike in QHD spot coal price in 4Q13

Since the last round of tariff cuts in late September 2013, spot coal prices at Qinhuangdao (QHD) port have rallied 26% to Rmb655/t as of end-2013. For the same period, the mine-mouth coal price hike has been relatively mild, but still up c.12.5% to Rmb405/t as of end-2013.

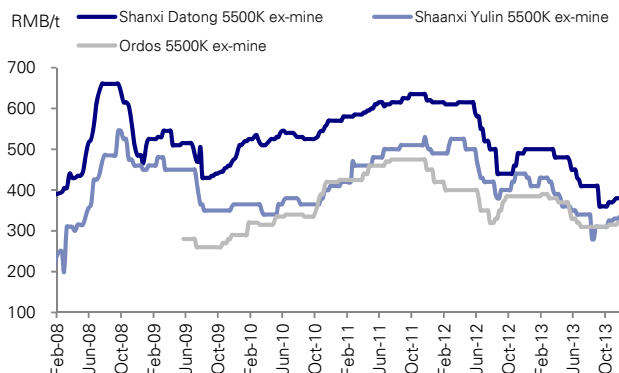
In our view, the QHD coal price rebound of Rmb100/ton in 4Q13 is temporary – a reflection of seasonality and to some extent manipulated in preparation for the year-end contract coal negotiation and power tariff review. Although inventory at Qinhuangdao port retreated to below 5m tons in December 2013, inventory at major IPPs are still sufficient with inventory days at 20 days vs. the five-year average of 17 days. In addition, most IPPs' procured coal prices have been much less volatile than spot price index movement.

Figure 16: 5,500kcal QHD coal price trend



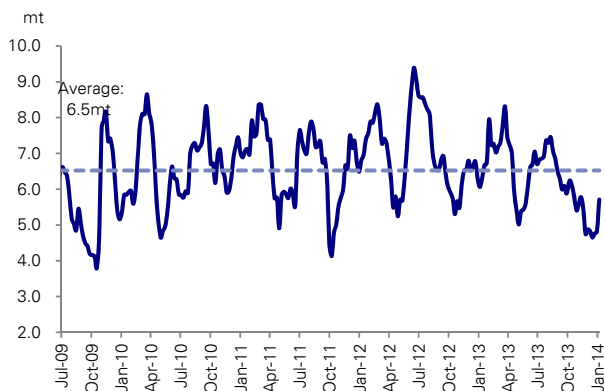
Source: Wind, Sxcoal, Deutsche Bank

Figure 17: Mine-mouth coal price trend



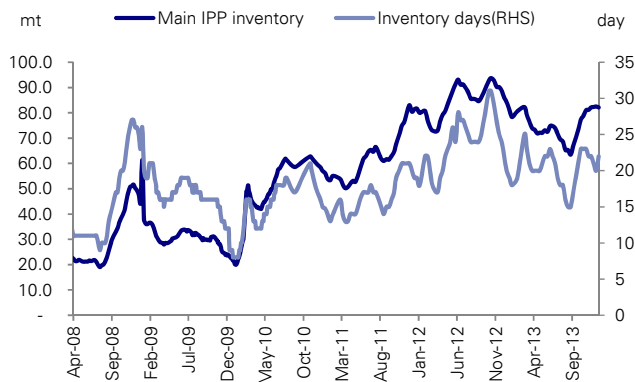
Source: Sxcoal, Deutsche Bank

Figure 18: Thermal coal inventory at Qinhuangdao port



Source: Wind, Deutsche Bank

Figure 19: Thermal coal inventory at power plants



Source: Sxcoal, Deutsche Bank



Coal price more likely to range bound over Rmb550~600/ton

Entering into the first week of 2014, spot coal price has reversed the three-month uptrend and recorded a Rmb40/ton decline to Rmb605/ton as of 7 January (QHD, 5,500kcal). Also, coal inventory at QHD port has risen to 5.8m tons.

Nevertheless, we believe it is unlikely to see coal price retreat to the bottom level of August-September 2013, when the QHD spot price hit Rmb520/ton. The May 2014 future coal contract at Zhengzhou Commodity Exchange quoted Rmb558/ton as of 3 January 2013. According to media reports, China's largest coal producer, Shenhua, set the contract coal price for 2014 at Rmb590/ton, while its spot coal prices quoted for January 2014 is Rmb614/ton.

Build in 2014 spot coal price of Rmb580/ton with no tariff change in models

Our coal analyst, James Kan, currently forecasts an average QHD (Shanxi – 5,500kcal/g) spot coal price of Rmb540/ton for 2014, with a still bearish view on demand and supply. However, based on current spot price of Rmb600/ton and what we believe as a reasonable spread, we build in a price of Rmb580/ton with no tariff cut in our IPP models.

As shown in Figure 20, our assumed 2014 coal price Rmb580/ton is c.8% below the December 2012 coal price. Despite lack of official confirmation, we take the December 2012 coal price as the benchmark point for the fuel cost pass-through mechanism, as the government re-introduced the mechanism in that month. As such, the 3.5% tariff cut in September 2013 was largely an effective implementation versus the 8% lower coal price under the pass-through mechanism (a 1% tariff cut can be compensated by a c.2% coal price decline).

In that sense, after lifting coal price by 7% to Rmb580/ton from Rmb540/ton for the average of 2014, we have removed the 4% tariff cut in 1Q14. Overall, the earnings impact on 2014 earnings is small as the 7% higher coal price is largely offset by the removal of a 4% tariff cut. .

Figure 20: QHD spot coal price trend

	Shanxi Premium (5,500kcal)
Assumed coal price in 2014 w/o tariff change	580
Average 2013	587
Average 2012	705
December 2012	630
2014E vs. 2013	-1%
2014E vs. December 2012	-8%
2013 vs. 2012	-17%

Source: Deutsche Bank, Wind

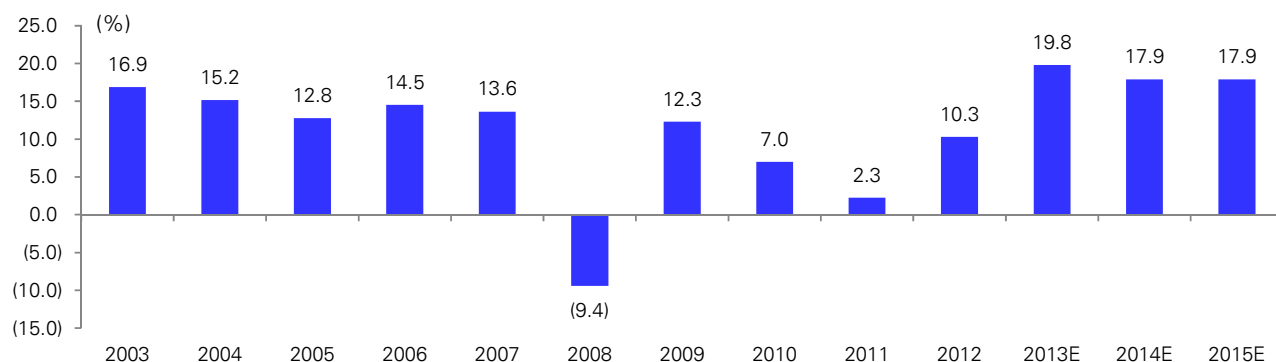
IPPs are not making super normal profits

In our view, a tariff cut is unlikely under our coal price assumptions as current high-teen ROE is achieved through higher financial leverage. It is incorrect to believe IPPs are making super normal profit.



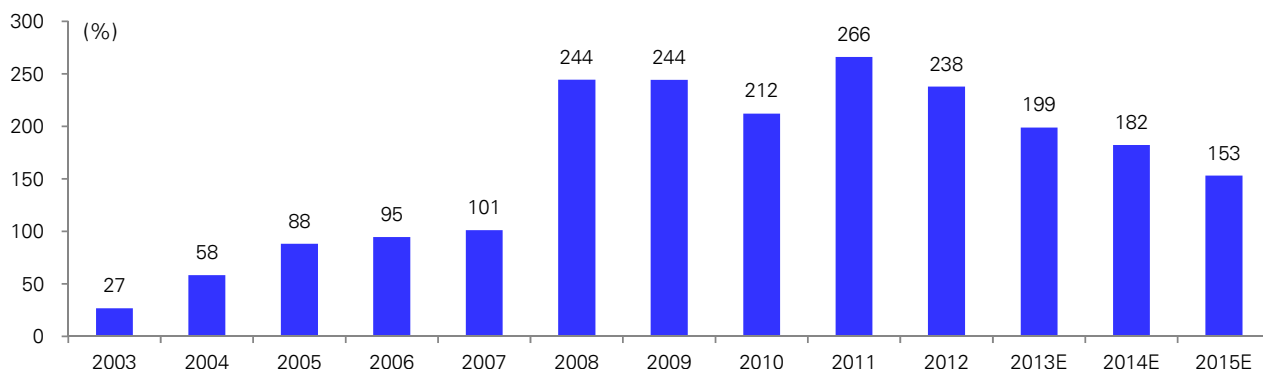
Under our assumption of no tariff cuts and a Rmb580/ton coal price, China's largest listed IPP – Huaneng Power – will earn a 18% ROE, similar to the last historical high of 17% in 2003 (Figure 21). However, despite similar level of ROE achieved, Huaneng's gearing ratio is much higher at 182% at end-2014E vs. 26.7% at end-2003 (Figure 22). Moreover, we recall that the company adopted a less aggressive depreciation policy in 2012. As such, ROE is actually not comparable to ten years ago. The sector's more accurate operating profitability metric – dark spread margin (tariff minus unit fuel cost), independent of capital structure, is still below the level in 2003 (Figure 23).

Figure 21: Huaneng's ROE (2003-15E)



Source: Deutsche Bank estimates, Company data

Figure 22: Huaneng's net debt/equity(2003-15E)



Source: Deutsche Bank estimates, Company data

Figure 23: Huaneng's dark spread evolution (2003-14E)

Rmb/MWh	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
Unit Tariff	326	333	346	346	380	406	415	410	459	458	455	457
Unit Fuel Cost	105	140	142	157	173	254	215	247	270	250	220	229
Dark Spread Margin	173	145	153	138	152	94	140	103	122	142	169	162

Source: Deutsche Bank estimates, Company data



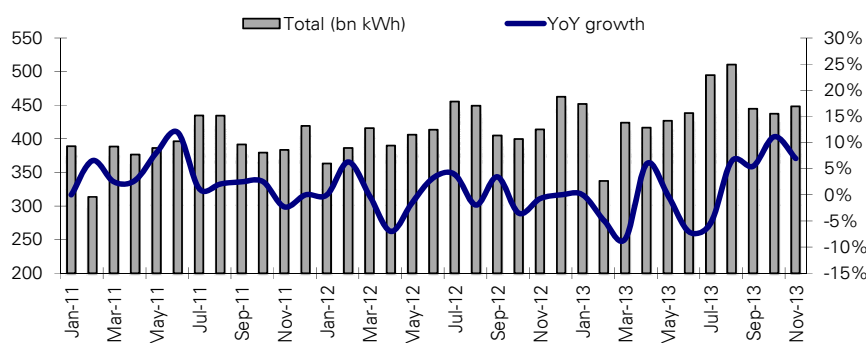
Power demand and supply update

Power consumption update

Growth picked up again in 3Q13

In 1-11M13, total power consumption in China reached 4,831bn kWh, up 7.5% yoy (2.4ppt higher than yoy growth in 1-11M12). Compared to +5.1% yoy in 1H13, the growth picked up again in 2H13.

Figure 24: Monthly power consumption growth

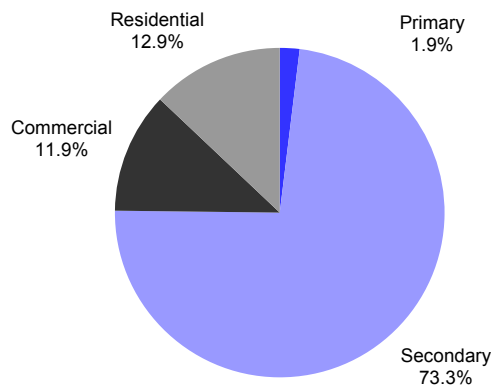


Source: Deutsche Bank, WIND

Commercial and residential growing faster than industrial

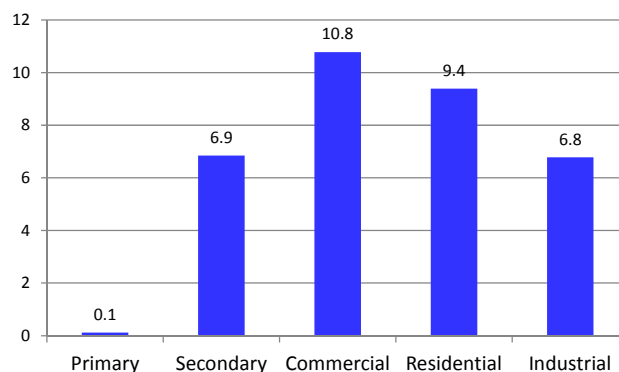
By industry, primary industry consumption increased 0.1% yoy to 93.5bn kWh, accounting for 1.9% of total consumption; second industry consumption increased by 6.8% yoy to 3,539.1bn kWh, 73.3% of total consumption; tertiary industry consumption increased by 10.8% yoy to 573.1bn kWh, 11.9% of total consumption; residential user consumption increased by 9.4% yoy to 625.4bn kWh, 12.9% of total consumption.

Figure 25: Power consumption mix (1-11M13)



Source: Deutsche Bank, WIND

Figure 26: Power consumption growth (1-11M13)



Source: Deutsche Bank, WIND



Western provinces growing fastest and northeastern provinces slowest

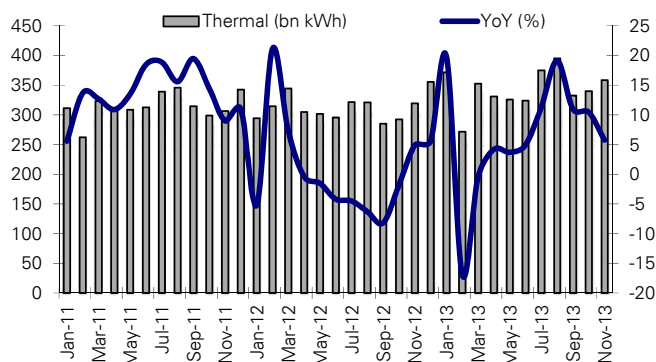
By region, in 1-11M13, 13 provinces recorded power consumption growth higher than the national average of 7.5%. Among which, five provinces saw yoy power consumption growth higher than 10%, including Xinjiang (32.4%), Chongqing (12.6%), Qinghai (12.5%), Anhui (12.5%) and Yunnan (10.6%). Provinces with lowest yoy power consumption growth are Heilongjiang (2.2%), Jilin (2.5%) and Shanxi (3.8%).

Power generation update: wind growing at the fastest pace

In 1-11M13, hydro power generation in China increased by 3.4% yoy to 712.7bn kWh; thermal power generation increased by 6.8% to 3,812.6bn kWh; nuclear power generation increased by 12.3% yoy to 100.3bn kWh; wind power generation (6MW and above) increased by 39.2% yoy to 125.2bn kWh.

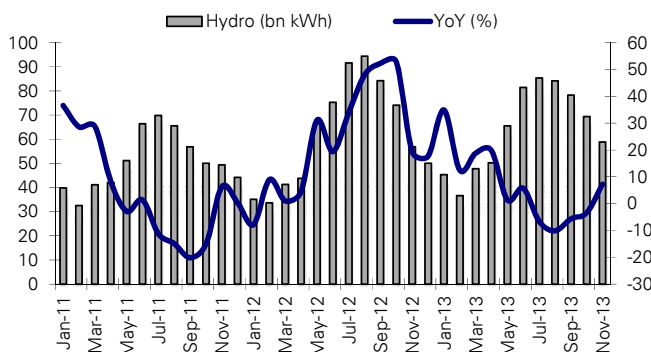
In 1-11M13, inter-provincial power transmission increased by 17.5% yoy to 218.7bn kWh.

Figure 27: Monthly thermal power generation



Source: Deutsche Bank, WIND

Figure 28: Monthly hydro power generation



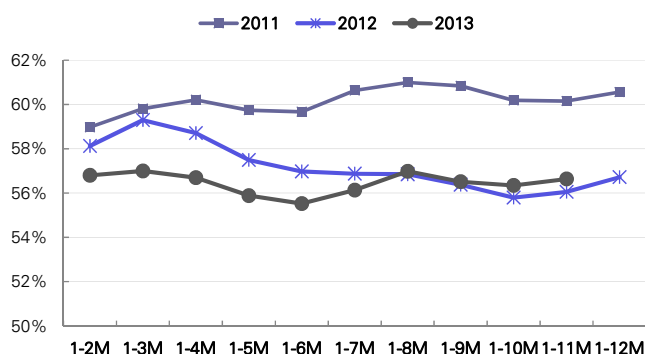
Source: Deutsche Bank, WIND

Utilization hour update: wind saw the biggest improvement

In 1-11M13, accumulated utilization hours in China averaged at 4,132 hours, down 46 hours yoy. Breaking down the numbers, hydro utilization hours declined by 258 hours to 3,095 hours; thermal utilization hours increased by 28 hours to 4,540 hours; wind utilization hours improved by 157 hours to 1,889 hours.

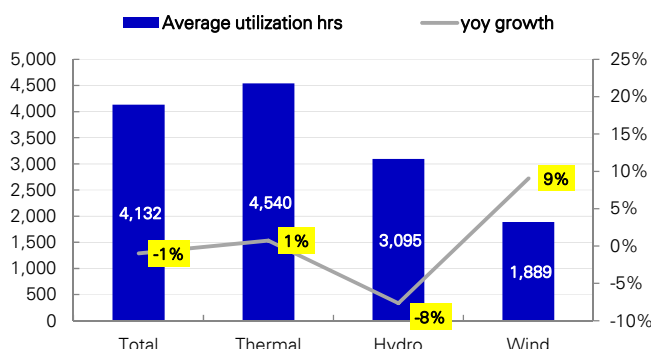


Figure 29: Monthly thermal plant utilization



Source: Deutsche Bank, WIND

Figure 30: Yoy utilization hour change (1-11M13)



Source: Deutsche Bank, WIND

New capacity update: thermal down and non-thermal up

In 1-11M13, China added 69.3GW new generating capacity, up 12.0GW yoy. Specifically, newly installed capacity was 24.7GW for hydro (+11.6GW yoy), 2.2GW for nuclear (+2.2GW yoy), 8.8GW for wind (+0.6GW yoy) and 4.0GW for solar (+3.6GW). Thermal newly installed capacity was 29.6GW in 1-11M13, down 6.0GW yoy.

Power demand and supply forecast

- We now expect power demand growth at 7.6% in 2013, 8.0% in 2014 and 8.0% in 2015, up from 5.7% in 2012, but much lower than 11.9% in 2011 due to growth shift to less power intensive industries and over-capacity in traditional power intensive industries, such as steel, cement and aluminum.
- We expect new coal capacity to 40-45GW in 2014-16, from 36GW in 2013, but lower than c.50GW in 2011-12 and c.60-70GW in previous years due to development of non-fossil fuel capacity, stricter environmental control and slower power demand growth.
- We expect significant new nuclear capacity addition in 2014 (8.4GW) and in 2015 (13.5GW) from 2.2GW in 2013.
- We expect c.9GW annual gas capacity, c.10GW annual solar new capacity, c.18GW annual wind new capacity and c.20GW annual hydro new capacity in 2014-16; new coal capacity will account for less than 40% new capacity in 2014-16, compared to 65% existing capacity base in 2013.
- We forecast coal utilization to rise modestly in 2014-16 by treating it as a plug in generation after prioritized dispatch of non-fossil fuel capacity; overall, we expect a balanced power supply for the nation but conditional on normalized hydro power generation. Nevertheless, there could be large disparity in provincial power supply situations due to variance on power demand and supply growth by provinces and relatively limited inter-connection capacity.
- Our detailed utilization forecast and power capacity forecast are shown in Figure 31 and Figure 32.



Figure 31: China's power demand and supply balance

	2011	2012	2013E	2014E	2015E
Power consumption(TWh)	4,693	4,959	5,336	5,763	6,224
Consumption % chg	11.9%	5.7%	7.6%	8.0%	8.0%
Power capacity (GW)	1,056	1,144	1,244	1,357	1,476
Capacity % chg	9.4%	8.3%	8.8%	9.1%	8.7%
Utilization (hrs)					
Coal	5,294	4,965	5,100	5,262	5,266
Hydro	3,028	3,555	3,300	3,350	3,350
Wind	1,903	1,893	2,010	2,050	2,150
Nuclear	7,772	7,838	7,750	7,600	7,600
Gas	N.A	N.A	3,300	3,000	3,000
Soar	1,200	1,200	1,200	1,200	1,200
Biomass	2,000	2,000	2,000	2,000	2,000
Total	4,731	4,572	4,624	4,584	4,545

Source: Deutsche Bank, WIND

Figure 32: China's power capacity mix evolution forecast: 2011-20E

Capacity addition	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net capacity additions	90.4	87.9	100.2	113.4	118.5	106.0	104.0	104.0	104.0	103.0
- Gross capacity addition	95.4	90.9	104.2	115.4	120.5	108.0	106.0	106.0	106.0	105.0
Coal	49.6	48.1	36.0	42.0	45.0	40.0	40.0	40.0	40.0	40.0
Hydro	14.5	18.4	23.5	21.0	19.0	19.0	19.0	19.0	19.0	19.0
Wind	16.1	15.8	15.5	18.0	18.0	18.0	18.0	18.0	18.0	17.0
Nuclear	1.8	0.0	2.2	8.4	13.5	7.0	7.0	7.0	7.0	7.0
Gas	6.2	5.6	11.0	10.0	9.0	8.0	6.0	6.0	6.0	6.0
Solar & Biomass	1.9	0.0	12.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Solar	1.9	5.9	8.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Biomass	0.0	-5.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
- Small plants closure	-5	-3	-4	-2	-2	-2	-2	-2	-2	-2
YoY chg	9.4%	8.3%	8.8%	9.1%	8.7%	7.2%	6.6%	6.2%	5.8%	5.4%

End of year capacity (GW)	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Coal	730	778	814	856	901	941	981	1021	1061	1101
Oil	3	3	3	3	3	3	3	3	3	3
Hydro	231	249	272	293	312	331	350	369	388	407
Nuclear	13	13	15	23	37	44	51	58	65	72
Gas	33	38	49	59	68	76	82	88	94	100
Wind	45	61	76	94	112	130	148	166	184	201
Solar & Biomass	2	8	20	34	48	62	76	90	104	118
Solar	2	8	16	26	36	46	56	66	76	86
Biomass/Waste Energy	0	0	4	8	12	16	20	24	28	32
Total	1,056	1,149	1,250	1,363	1,481	1,587	1,691	1,795	1,899	2,002

Fuel Mix (end of year)	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Coal	69.1%	67.7%	65.1%	62.8%	60.8%	59.3%	58.0%	56.9%	55.9%	55.0%
Oil	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%
Hydro	21.8%	21.7%	21.8%	21.5%	21.1%	20.9%	20.7%	20.6%	20.4%	20.3%
Nuclear	1.2%	1.1%	1.2%	1.7%	2.5%	2.7%	3.0%	3.2%	3.4%	3.6%
Gas	3.1%	3.3%	3.9%	4.3%	4.6%	4.8%	4.9%	4.9%	5.0%	5.0%
Wind	4.3%	5.3%	6.1%	6.9%	7.6%	8.2%	8.8%	9.3%	9.7%	10.1%
Solar & Biomass	0.2%	0.7%	1.6%	2.5%	3.2%	3.9%	4.5%	5.0%	5.5%	5.9%
Solar	0.2%	0.7%	1.3%	1.9%	2.4%	2.9%	3.3%	3.7%	4.0%	4.3%
Biomass	0.0%	0.0%	0.3%	0.6%	0.8%	1.0%	1.2%	1.3%	1.5%	1.6%

Source: Deutsche Bank estimates, WIND, NDRG





Forecast changes, comps and earnings sensitivity

Key changes across the sector

- Coal price: We raise our coal price assumption to a c.12-15% yoy decline in the 2013 unit fuel cost and a -3%~3% change in 2014 vs. a 15% yoy decline in 2013 and a 7% decline in 2014 previously.
- Tariff: We remove the previously assumed 4% tariff cut at the end of 1Q14 as coal prices have rallied recently and we see lower chances of tariff cut.
- We summarize the changes to our earnings forecasts in Figure 33.
- Compared with consensus, we are more bullish across all the IPPs on both 2013E (5-13% higher) and 2014E earnings (9-27% higher). We believe the Street has been overly concerned about the tariff cuts, which is unlikely after the recent coal price rebound.

Key operating assumptions

Figure 33: China IPPs model assumptions

Model assumptions	Huaneng 902.HK	Datang 991.HK	Huadian 1071.HK	CR Power 836.HK	CPI 2380.HK
2013					
yoy fuel cost chg. (%)	-14.0%	-15.0%	-15.0%	-13.5%	-12.0%
2014					
yoy tariff chg. (%)	0.00%	0.00%	0.00%	0.00%	0.00%
yoy thermal utilization chg. (ppt)	1ppt	1ppt	1.5ppt	2.0ppt	2.0ppt
yoy fuel cost chg. (%)	0.0%	3.0%	-2.0%	0.0%	-3.0%

Source: Deutsche Bank estimates

CR Power (836 HK, Buy)

- Unit fuel cost: We adjust unit fuel cost assumption in 2013 from a 15% yoy decline to a 13.5% yoy decline to factor in the coal price rebound in 4Q13. For 2014, we assume flat unit fuel cost instead of 7.0% decline. For 2015, we assume flat unit fuel cost on a same plant basis.
- Tariff: We remove our previous 4% tariff cut assumption at end of 1Q14 and assume flat tariff in 2014 and 2015.
- Others: We factor in acquisition of Elite Wing (wind power assets from CR Group) in May 2013.
- Valuation: We roll over DCF valuation to FY2014, update WACC with new Deutsche Bank cost of equity.



Huaneng Power (902 HK, Buy)

- Unit fuel cost: We adjust unit fuel cost assumption in 2013 from a 15% yoy decline to a 14% yoy decline to factor in coal price rebound in 4Q13. For 2014, we assume flat unit fuel cost instead of a 7.0% decline. For 2015, we assume flat unit fuel cost on a same plant basis.
- Tariff: We remove our previous 4% tariff cut assumption at end of 1Q14 and assume flat tariff in 2014 and 2015.
- Utilization: We assume 1.5ppt decrease in thermal utilization rate in 2013 (from 2ppt decrease) to factor in the power demand pick up in 2H13; for 2014, assume 1ppt increase in utilization (from 2ppt).
- We factor in goodwill impairment of Rmb900m in 2013 and Rmb400m in 2014 to reflect Rmb580m impairment in 3Q13 and likely further impairment from Tuas Power in 4Q13 and 2014.
- Valuation: We roll over DCF valuation to FY2014, update WACC with new Deutsche Bank cost of equity.

Datang Power (991 HK, Buy)

- Unit fuel cost: We adjust unit fuel cost assumption in 2014 from a 7% yoy decline to a 3% increase; for 2015, we assume flat unit fuel cost on same plant basis.
- Tariff: We remove our previous 4% tariff cut assumption at end of 1Q14 and assume flat tariff in 2014 and 2015.
- Utilization: We assume 3.5ppt decrease in thermal utilization rate in 2013 (from 2.0ppt decrease) to reconcile with its 1-9M13 results; for 2014, we assume 1ppt increase in utilization (from 3ppt).
- Others: Factor in the impairment loss of Gaojing; factor in start-up of Keqi coal-to-gas from 2014 with newly set price of Rmb2.75/cum; fine-tune assumptions on other non-thermal power projects including Duolun coal chemistry, Fuxin coal-to-gas and Ningde nuclear.
- Valuation: Roll over DCF valuation to FY2014, update WACC with new Deutsche Bank cost of equity.

Huadian Power (1071 HK, Buy)

- Unit fuel cost: We adjust unit fuel cost assumption in 2014 to 2% yoy decline from 7.0% yoy decline; for 2015, we assume flat unit fuel cost on a same plant basis.
- Tariff: We remove our previous 4% tariff cut assumption at the end of 1Q14 and assume flat tariff in 2014 and 2015.
- Utilization: We assume 1.5ppt decrease in thermal utilization rate in 2013 (from 3ppt decrease) to reconcile with 1-9M13 output; for 2014, assume 1.5ppt increase in utilization (from 2ppt).
- Others: We factor in newly approved power plants.
- Valuation: We roll over DCF valuation to FY2014, update WACC with new Deutsche Bank cost of equity.



China Power Int'l (2380 HK, Buy)

- Unit fuel cost: We adjust unit fuel cost assumption in 2013 to a 12% yoy decline from a 15% yoy decline, in line with management guidance; for 2014, we assume a 3% yoy decrease in unit fuel cost instead of a 7% yoy decrease; for 2015, we assume flat unit fuel cost on a same plant basis.
- Tariff: We remove our previous 4% tariff cut assumption at the end of 1Q14 and assume flat tariff in 2014 and 2015.
- Utilization: We assume a 2ppt decrease in thermal utilization rate in 2013 (from 1.5ppt decrease) and assume a 2.5ppt decrease in hydro utilization rate from flat to factor in the hydro output incline in 2H13; for 2014, assume a 2ppt increase in thermal utilization (from 2.5ppt).
- Others: We factor in Wuhu asset injection and corresponding share issuance; factor in Rmb771m pre-tax disposal gain in 2013 relating to Hemifeng pump hydro plant.
- Valuation: We roll over DCF valuation to FY2014, update WACC with new Deutsche Bank cost of equity.

Figure 34: Earnings estimates and target price changes for China IPPs

	DB Net Profit (CNYm, HKDm)									Rating		Target Price HK\$		
	2013E			2014E			2015E							
	Before	Current	% change	Before	Current	% change	Before	Current	% change	Before	Current	Before	Current	% change
Huaneng	13,207	12,030	(9%)	13,977	12,217	(13%)	13,859	13,460	(3%)	Buy	Buy	12.10	11.10	(8%)
Datang	5,174	4,640	(10%)	5,657	5,226	(8%)	6,338	7,167	13%	Buy	Buy	4.40	4.80	9%
Huadian	3,712	3,709	(0%)	4,132	3,944	(5%)	3,864	4,218	9%	Buy	Buy	5.60	5.50	(2%)
CPI	2,095	2,602	24%	2,326	2,380	2%	2,394	2,730	14%	Buy	Buy	4.30	4.50	5%
CR Power*	11,649	11,629	(0%)	12,593	12,645	0%	14,060	14,955	6%	Buy	Buy	29.40	28.80	(2%)

Source: Deutsche Bank, * CR Power in HKDm, note earnings estimate based on reported earnings

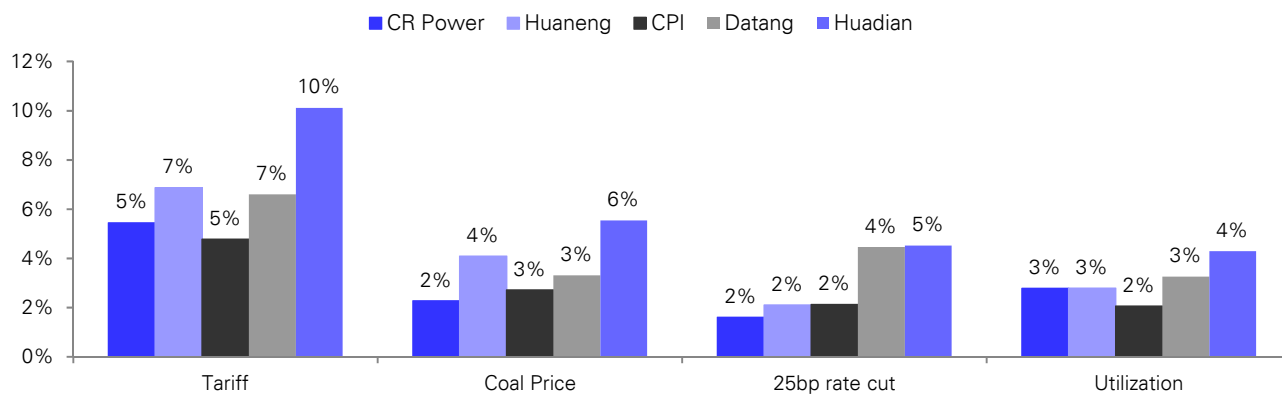
Figure 35: Deutsche Bank earnings estimates vs. consensus estimates

	Stock		Price	DB estimate		Consensus estimate		DB vs. consensus		Analyst Rating		
Company	code	Rating	target	2013E	2014E	2013E	2014E	2013E	2014E	Buy	Hold	Sell
Net income												
CR Power	0836.HK	Buy	HK\$28.80	11,629	12,645	10,297	10,711	13%	18%	23	6	0
Huaneng	0902.HK	Buy	HK\$11.10	12,030	12,217	10,731	10,894	12%	12%	23	7	0
Datang	0991.HK	Buy	HK\$4.80	4,640	5,226	4,439	4,797	5%	9%	13	15	2
Huadian	1071.HK	Buy	HK\$5.50	3,709	3,944	3,273	3,110	13%	27%	18	6	0
China Power Int'l	2380.HK	Buy	HK\$4.50	2,602	2,380	2,303	2,096	13%	14%	19	0	0

Source: Deutsche Bank estimates, note earnings estimate based on reported earnings



Figure 36: FY14E EPS sensitivity



Source: Deutsche Bank estimates



Stock views: investment outlook, valuation methodology, risks

CR Power (Buy, target price HK\$28.8)

We have a Buy rating on CR Power on several grounds:

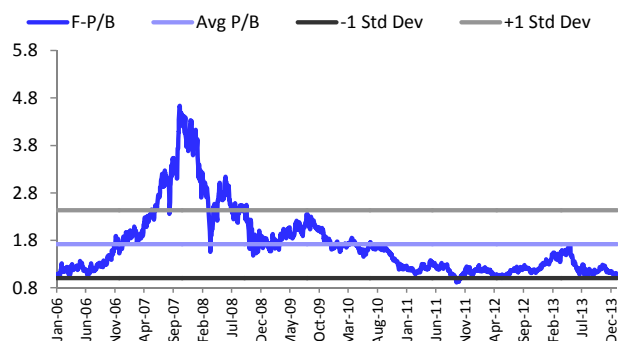
We like the company for its stronger power volume growth in 2014-15 thanks to higher capacity growth. On our forecast, CR Power will record a 14% and 17% power output growth in 2014 and 2015 respectively, compared to 8% power consumption growth expected for China. In addition, we see scope of higher dividend payout from 33% in 2013 with a strong balance sheet and improving free cashflow. Although the ongoing lawsuit from small minority shareholders could be an overhang, the risk is fully aware by the market and we expect potential impact on the company to be limited. The stock valuation looks very attractive after a share price correction since May 2013. The tariff cut is less likely after recent coal price rally. The fuel tariff pass-through mechanism, although not perfect in implementation, is in place in principle. While the market demands a more transparent and credible fuel-tariff pass-through mechanism, current valuation has overly discounted such imperfection.

Valuation Our target price is based on a DCF analysis of operating cashflow through 2020E, assuming WACC of 9.2% (risk-free rate of 4.3%, market premium of 5.6%, after-tax cost of debt of 4.9% and beta of 1.45). We estimate that, on a full-year basis, a 1% higher-than-expected tariff cut would affect FY14E earnings by 5.4%, and a 1% lower-than-expected coal price decline would affect FY14E earnings by 2.3%.

Risk Key downside risks are adverse coal price change without a corresponding tariff adjustment, lack of clarity on tariff review polity, a lower-than-expected plant utilization rate, corporate governance risk associated with ongoing lawsuit by minority shareholders, and interest rate hike.

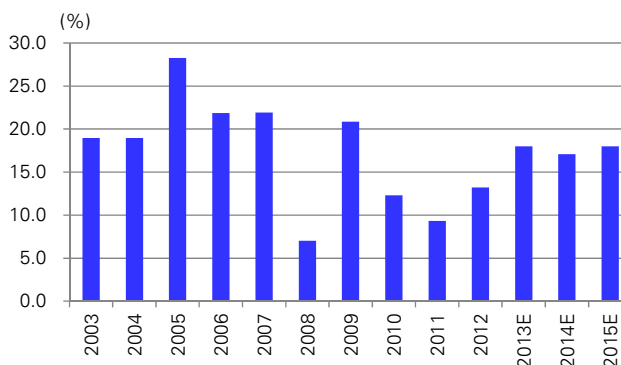


Figure 37: CR Power – 1-year forward P/B



Source: Datastream, Deutsche Bank estimates

Figure 38: CR Power – ROE trend



Source: Company data, Deutsche Bank estimates

Huaneng Power (Buy, target price HK\$11.1)

We have a Buy rating on Huaneng Power on several grounds:

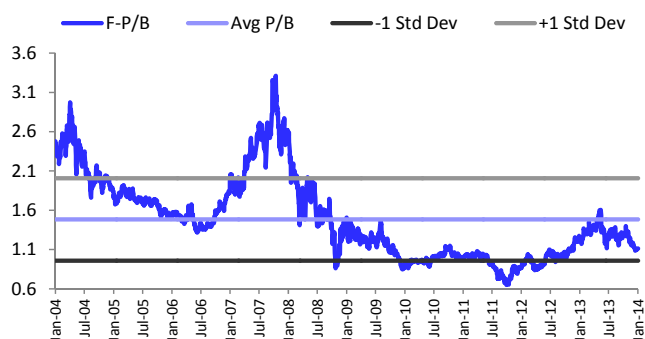
We like the company for its stronger asset injection potential given its parentco capacity size of 137GW, relative to 67GW of Huaneng Power. There is a high chance of thermal, hydro and nuclear (under construction) assets to be injected in 2014, which will drive further earnings growth on top of projected 12% organic output growth in 2014. Meanwhile, we believe the likely tariff hike for gas-fired plants will be a positive for the company given gas accounting for 9% total capacity. It also has a committed dividend payout of 50%. The stock valuation looks very attractive after a share price correction since May 2013. The tariff cut is less likely after recent coal price rally. The fuel tariff pass-through mechanism, although not perfect in implementation, is in place in principle. While the market demands a more transparent and credible fuel-tariff pass-through mechanism, current valuation has overly discounted such imperfection.

Valuation Our target price is based on a DCF of operating cashflow through 2020E, beyond which we assume zero terminal growth. We assume WACC of 8.9%, based on a 6.5% pre-tax cost of debt, a 4.3% risk-free rate, a 5.6% equity risk premium, a beta of 1.3 and a 40% target debt-to-capital ratio. We estimate that, on a full-year basis, a 1% higher-than-expected tariff cut would affect FY14E earnings by 6.9%, and a 1% lower-than-expected coal price decline would affect FY14E earnings by 4.1%.

Risk Key downside risks are adverse coal price change without a corresponding tariff adjustment, lack of clarity on tariff review polity, a lower-than-expected plant utilization rate, earnings downside or goodwill impairment of Tuas Power due to intensifying local market competition, and interest rate hike.

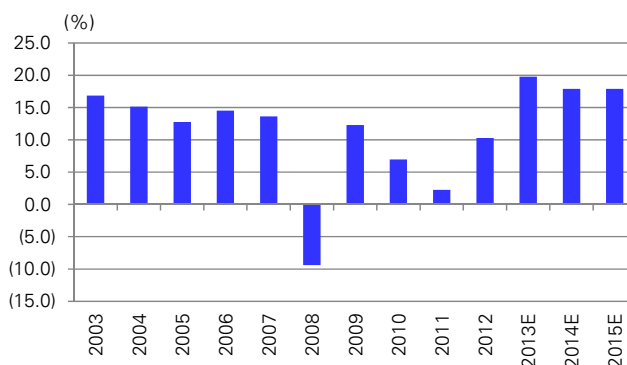


Figure 39: Huaneng – 1-year forward P/B



Source: Datastream, Deutsche Bank estimates

Figure 40: Huaneng – ROE trend



Source: Company data, Deutsche Bank estimates

Datang Power (Buy, target price HK\$4.8)

We have a Buy rating on Datang Power on several grounds:

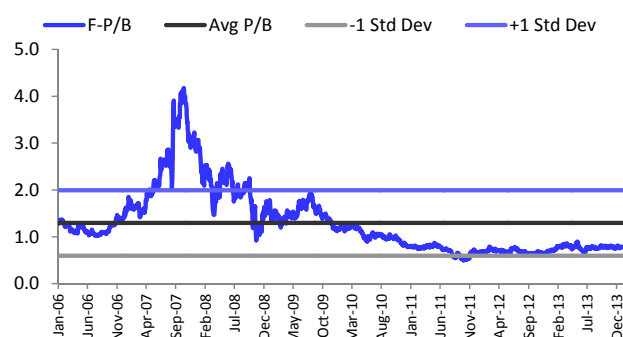
We like the company as its Keqi coal-to-gas project is set to generate good return with a settled selling price of Rmb2.75/cubic meter and strong earnings growth in 2014-15 when project capacity ramps up. Also, it is the only IPP with nuclear power exposure and we expect investment in Ningde nuclear will bear fruit with another three units to be operational in 2014-16. While its Duolun coal chemistry project is still struggling, the market is fully aware of the risk and the loss can be absorbed by strong earnings contribution from other businesses. In addition, we believe the likely tariff hike for gas-fired plants will be a positive for the company given gas accounting for 9% of total capacity. The stock valuation looks very attractive after a share price correction since May 2013. The tariff cut is less likely after recent coal price rally. The fuel tariff pass-through mechanism, although not perfect in implementation, is in place in principle. While the market demands a more transparent and credible fuel-tariff pass-through mechanism, current valuation has overly discounted such imperfection.

Valuation Our target price is derived from a DCF of operating cashflow of power plants and the company's non-power businesses through 2020E, assuming WACC of 9.6% (risk-free rate of 4.3%, market premium of 5.6%, after-tax cost of debt of 4.9% and a beta of 1.5). We estimate that, on a full-year basis, a 1% higher-than-expected tariff cut would affect FY14E earnings by 6.6%, and a 1% lower-than-expected coal price decline would affect FY14E earnings by 3.3%.

Risk Key downside risks are adverse coal price change without a corresponding tariff adjustment, lack of clarity on tariff review polity, a lower-than-expected plant utilization rate, and interest rate hike given its relatively higher gearing. We also see uncertainties for the Duolun Coal-to-PP project on several fronts: 1) a continued low utilization; 2) PP price volatility; and 3) PP demand and supply.

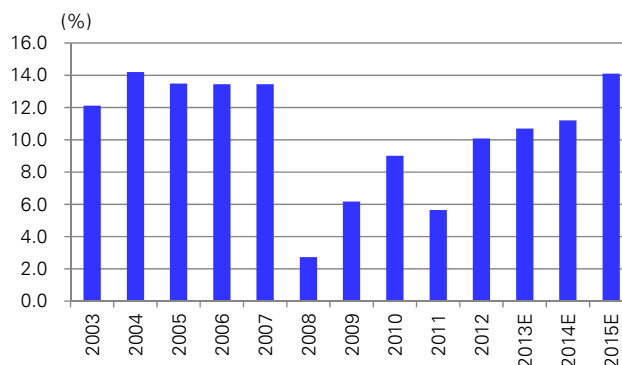


Figure 41: Datang – 1-year forward P/B



Source: Datastream, Deutsche Bank estimates

Figure 42: Datang – ROE trend



Source: Company data, Deutsche Bank estimates

China Power International (Buy, target price HK\$4.5)

We have a Buy rating on China Power Int'l on several grounds:

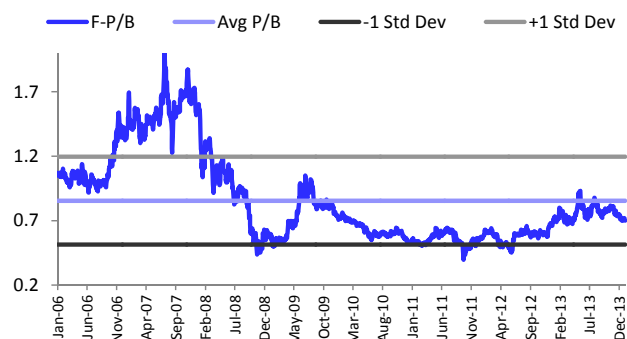
We like the company for its strongest organic growth in 2014-15 among peers, thanks to strong project pipeline. On our forecast, the company will record 26% and 21% generation output growth in 2014 and 2015 respectively, based on approved project pipelines and recent acquisition of the Wuhu plant. In addition, we see further asset injection potential given its parentco vast capacity size. With a more balanced capacity mix combining thermal and hydro, it is less exposed to fuel cost volatility amid an imperfect sector regulatory environment. The stock valuation looks very attractive after a share price correction since May 2013. The tariff cut is less likely after recent coal price rally. The fuel tariff pass-through mechanism, although not perfect in implementation, is in place in principle. While the market demands a more transparent and credible fuel-tariff pass-through mechanism, current valuation has overly discounted such imperfection.

Valuation Our target price is based on a DCF of operating cashflow from existing and approved new projects only. We use WACC of 8.9% and zero growth in cashflow to arrive at a terminal value. Our WACC incorporates cost of equity of 11.6%, a beta of 1.3, an after-tax cost of debt of 4.9% and a 40:60 debt/equity target capital structure. We estimate that, on a full-year basis, a 1% higher-than-expected tariff cut would affect FY14E earnings by 4.8%, a 1% lower-than-expected coal price decline would affect FY14E earnings by 2.7%, and that 1% lower-than-expected hydro utilization and thermal utilization would affect FY14E earnings by 1.0% and 2.1%, respectively.

Risk Key downside risks are adverse coal price change without a corresponding tariff adjustment, lack of clarity on tariff review polity, a lower-than-expected plant utilization rate, and waterflow risk to its hydropower plants.

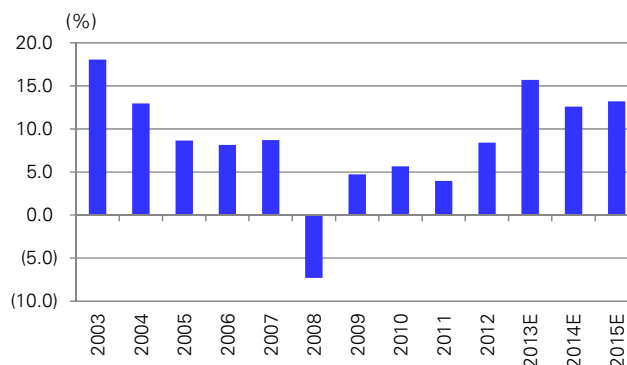


Figure 43: CPI – 1-year forward P/B



Source: Datastream, Deutsche Bank estimates

Figure 44: CPI – ROE trend



Source: Company data, Deutsche Bank estimates

Huadian Power (Buy, target price HK\$5.5)

We have a Buy on Huadian for the following reasons:

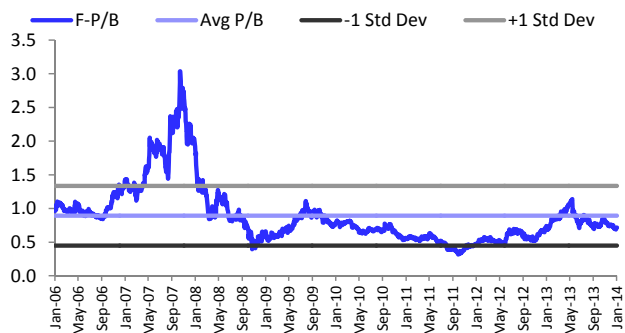
We like the company for its asset injection potential given its parentco capacity size of 110GW, relative to 37GW of Huadian Power. There is a high chance of thermal and hydro assets to be injected in 2014-15. Meanwhile, we believe the likely tariff hike for gas-fired plants will be a positive for the company given gas accounting for 10% total capacity. In addition, we see scope of higher dividend payout from 32% in 2013 with a strong balance sheet and improving free cashflow. The stock valuation looks very attractive after a share price correction since May 2013. The tariff cut is less likely after recent coal price rally. The fuel tariff pass-through mechanism, although not perfect in implementation, is in place in principle. While the market demands a more transparent and credible fuel-tariff pass-through mechanism, current valuation has overly discounted such imperfection.

Valuation To arrive at our NPV for the company, we use a discounted cashflow approach through to 2020E, beyond which we conservatively assume zero terminal growth. Our WACC of 9.2% incorporates a cost of equity of 12.7% (4.3% risk-free rate, 5.6% market risk premium, 1.5 beta), after-tax cost of debt of 4.9% and a 45/55 debt/equity target capital structure. We estimate that, on a full-year basis, a 1% higher-than-expected tariff cut would affect FY14E earnings by 10.1%, a 1% lower-than-expected coal price decline would affect FY14E earnings by 5.5%, and that 1% lower-than-expected thermal utilization would affect FY14E earnings by 4.3%.

Risk Key downside risks are adverse coal price change without a corresponding tariff adjustment, lack of clarity on tariff review polity, a lower-than-expected plant utilization rate. Given its lower margin and higher gearing, Huadian's earnings are highly leveraged to changes in the coal price, tariff and interest rate.

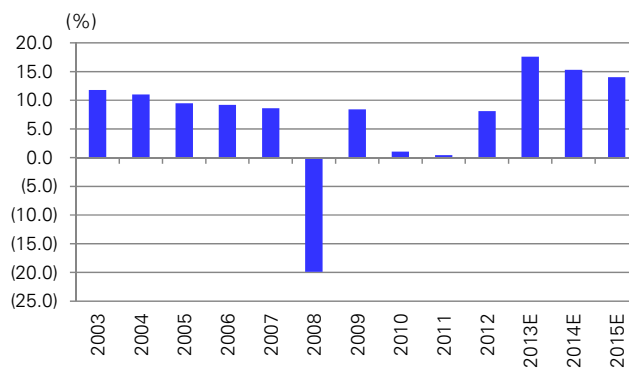


Figure 45: Huadian – 1-year forward P/B



Source: Datastream, Deutsche Bank estimates

Figure 46: Huadian – historical ROE trend



Source: Company data, Deutsche Bank estimates



Model updated: 03 January 2014

Running the numbers

Asia

China

Utilities

Huaneng Power Intl

Reuters: 0902.HK

Bloomberg: 902 HK

Buy

Price (3 Jan 14) HKD 7.07

Target Price HKD 11.10

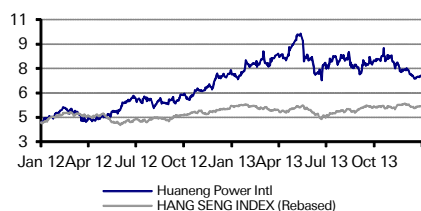
52 Week range HKD 6.78 - 9.64

Market Cap (m) HKDm 99,372
USDm 12,816

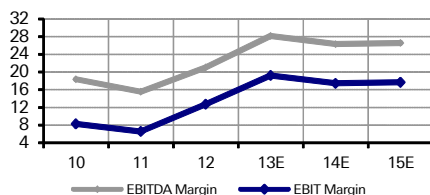
Company Profile

Huaneng Power International, Inc. develops, constructs, owns and operates mainly thermal power plants throughout China. The company is the largest IPP in Asia, with over 60GW capacity in operation at end-2012. In addition, the company owns a 2,670MW power plant in Singapore. China Huaneng Group is the ultimate parent of the company, owning more than 100GMW of operating capacity.

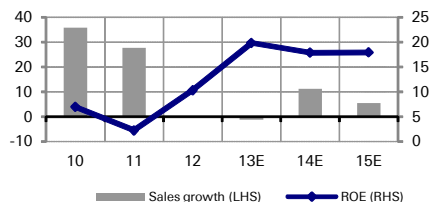
Price Performance



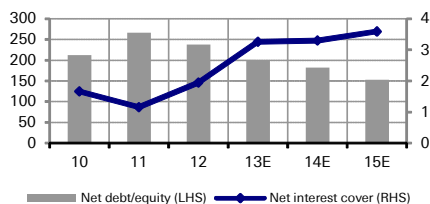
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2010	2011	2012	2013E	2014E	2015E
DB EPS (CNY)	0.27	0.10	0.47	0.90	0.89	0.96
Reported EPS (CNY)	0.28	0.08	0.39	0.86	0.87	0.96
DPS (CNY)	0.20	0.05	0.21	0.43	0.43	0.48
BVPS (CNY)	4.4	3.6	4.0	4.6	5.1	5.6
Weighted average shares (m)	12,107	14,055	14,055	14,055	14,055	14,055
Average market cap (CNYm)	47,857	46,731	61,219	77,546	77,546	77,546
Enterprise value (CNYm)	178,121	201,049	213,241	225,069	226,497	216,448

Valuation Metrics

P/E (DB) (x)	14.6	33.2	9.3	6.1	6.2	5.8
P/E (Reported) (x)	14.3	39.6	11.1	6.4	6.3	5.8
P/BV (x)	0.81	0.95	1.46	1.19	1.09	0.98
FCF Yield (%)	nm	nm	5.5	10.7	7.2	22.3
Dividend Yield (%)	5.1	1.5	4.8	7.8	7.9	8.7
EV/Sales (x)	1.7	1.5	1.6	1.7	1.5	1.4
EV/EBITDA (x)	9.3	9.7	7.6	6.1	5.9	5.3
EV/EBIT (x)	20.6	23.0	12.6	8.9	8.9	7.9

Income Statement (CNYm)

Sales revenue	104,170	132,937	133,295	131,656	146,410	154,447
Gross profit	19,117	20,655	28,031	37,112	38,554	41,051
EBITDA	19,117	20,655	28,031	37,112	38,554	41,051
Depreciation	10,447	11,867	11,033	11,789	12,969	13,718
Amortisation	41	41	41	41	41	41
EBIT	8,629	8,748	16,957	25,282	25,544	27,292
Net interest income(expense)	-5,194	-7,570	-8,722	-7,765	-7,752	-7,610
Associates/affiliates	569	704	622	778	778	778
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	160	169	20	187	187	187
Profit before tax	4,164	2,050	8,878	18,483	18,757	20,647
Income tax expense	843	869	2,510	4,655	4,714	5,176
Minorities	-27	1	855	1,798	1,826	2,011
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	3,348	1,180	5,512	12,030	12,217	13,460
DB adjustments (including dilution)	-66	228	1,073	675	300	0
DB Net profit	3,282	1,408	6,585	12,705	12,517	13,460

Cash Flow (CNYm)

Cash flow from operations	12,784	13,213	18,031	25,840	26,295	28,505
Net Capex	-20,283	-16,588	-14,674	-17,576	-20,675	-11,208
Free cash flow	-7,499	-3,375	3,357	8,264	5,620	17,298
Equity raised/(bought back)	10,280	0	0	0	0	0
Dividends paid	-2,528	-2,807	-703	-2,952	-6,015	-6,108
Net inc/(dec) in borrowings	11,324	10,695	-226	-7,093	-631	-6,487
Other investing/financing cash flows	-6,663	-4,978	-431	-461	-461	-461
Net cash flow	4,914	-465	1,997	-2,241	-1,485	4,242
Change in working capital	1,834	534	-176	961	21	52

Balance Sheet (CNYm)

Cash and other liquid assets	9,548	8,670	10,624	8,384	6,898	11,140
Tangible fixed assets	155,225	177,968	177,014	182,801	190,506	187,996
Goodwill/intangible assets	12,641	13,890	14,418	14,418	14,418	14,418
Associates/investments	11,973	13,588	14,597	15,375	16,153	16,931
Other assets	38,552	43,300	42,448	40,813	43,347	44,591
Total assets	227,938	257,416	259,100	261,790	271,321	275,075
Interest bearing debt	142,003	167,113	167,487	160,394	159,763	153,276
Other liabilities	23,510	30,745	25,653	25,021	27,616	28,954
Total liabilities	165,513	197,858	193,140	185,414	187,379	182,230
Shareholders' equity	53,789	50,883	56,130	65,208	71,410	78,762
Minorities	8,636	8,675	9,830	11,167	12,532	14,083
Total shareholders' equity	62,425	59,558	65,960	76,375	83,942	92,845
Net debt	132,455	158,443	156,862	152,010	152,865	142,136

Key Company Metrics

Sales growth (%)	35.8	27.6	0.3	-1.2	11.2	5.5
DB EPS growth (%)	-32.6	-63.0	367.6	92.9	-1.5	7.5
EBITDA Margin (%)	18.4	15.5	21.0	28.2	26.3	26.6
EBIT Margin (%)	8.3	6.6	12.7	19.2	17.4	17.7
Payout ratio (%)	72.3	59.5	53.5	50.0	50.0	50.0
ROE (%)	7.0	2.3	10.3	19.8	17.9	17.9
Capex/sales (%)	19.9	12.5	11.0	13.3	14.1	7.3
Capex/depreciation (x)	2.0	1.4	1.3	1.5	1.6	0.8
Net debt/equity (%)	212.2	266.0	237.8	199.0	182.1	153.1
Net interest cover (x)	1.7	1.2	1.9	3.3	3.3	3.6

Source: Company data, Deutsche Bank estimates

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Model updated: 03 January 2014

Running the numbers

Asia

China

Utilities

CR Power

Reuters: 0836.HK

Bloomberg: 836 HK

Buy

Price (3 Jan 14) HKD 17.66

Target Price HKD 28.80

52 Week range HKD 16.80 - 25.40

Market Cap (m) HKDm 84,112
USDm 10,848

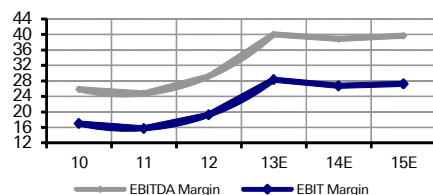
Company Profile

China Resources Power Holdings Company Limited (CR Power) operates and invests in power generation capacity and coal mines in various provinces in China. The company had 25GW of attributable capacity at end-2012. It is owned by parent China Resources (Holdings) Company Limited, which is a Hong Kong based conglomerate with trading, retail, services, finance, insurance, energy and other businesses in the PRC. CR Power has an impressive track record in adding capacity and in operating plants efficiently.

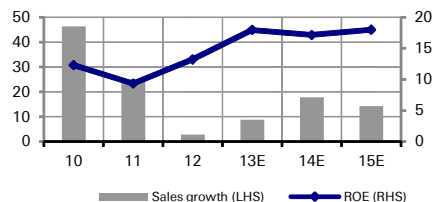
Price Performance



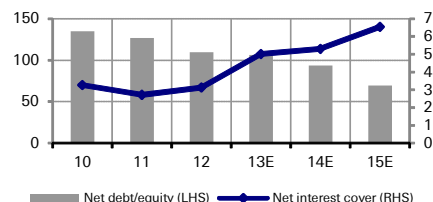
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2010	2011	2012	2013E	2014E	2015E
DB EPS (HKD)	0.97	0.76	1.52	2.44	2.65	3.14
Reported EPS (HKD)	1.04	0.94	1.58	2.44	2.65	3.14
DPS (HKD)	0.33	0.30	0.51	0.98	1.06	1.26
BVPS (HKD)	8.9	11.2	12.6	14.6	16.4	18.5
Weighted average shares (m)	4,660	4,695	4,716	4,763	4,763	4,763
Average market cap (HKDm)	73,933	65,532	74,218	84,112	84,112	84,112
Enterprise value (HKDm)	133,375	132,422	139,647	158,822	158,484	146,038

Valuation Metrics

P/E (DB) (x)	16.3	18.4	10.3	7.2	6.7	5.6
P/E (Reported) (x)	15.3	14.9	10.0	7.2	6.7	5.6
P/BV (x)	1.58	1.33	1.57	1.21	1.08	0.95
FCF Yield (%)	nm	nm	7.6	nm	6.5	21.5
Dividend Yield (%)	2.1	2.1	3.2	5.5	6.0	7.1
EV/Sales (x)	2.7	2.2	2.2	2.3	2.0	1.6
EV/EBITDA (x)	10.6	8.8	7.7	5.8	5.1	4.0
EV/EBIT (x)	16.2	13.9	11.6	8.3	7.4	5.9

Income Statement (HKDm)

Sales revenue	48,578	60,709	62,436	67,908	80,040	91,448
Gross profit	11,398	12,563	16,482	25,583	29,514	34,690
EBITDA	12,528	15,042	18,189	27,162	31,087	36,274
Depreciation	4,275	5,502	6,183	7,915	9,704	11,380
Amortisation	0	0	0	0	0	0
EBIT	8,253	9,540	12,006	19,247	21,383	24,894
Net interest income/(expense)	-2,527	-3,516	-3,836	-3,842	-4,034	-3,807
Associates/affiliates	790	837	1,734	1,406	1,308	1,308
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	6,517	6,862	9,904	16,811	18,658	22,396
Income tax expense	755	1,243	1,179	3,527	3,978	5,107
Minorities	858	900	827	1,233	1,611	1,910
Other post-tax income/(expense)	0	-269	-418	-423	-423	-423
Net profit	4,904	4,450	7,479	11,629	12,645	14,955
DB adjustments (including dilution)	-299	-848	-246	0	0	0
DB Net profit	4,604	3,602	7,232	11,629	12,645	14,955

Cash Flow (HKDm)

Cash flow from operations	8,294	9,059	15,129	18,027	24,121	27,655
Net Capex	-17,159	-14,786	-9,512	-20,838	-18,679	-9,541
Free cash flow	-8,865	-5,726	5,618	-2,811	5,442	18,114
Equity raised/(bought back)	159	39	0	0	0	0
Dividends paid	-1,771	-1,549	-1,414	-2,405	-4,652	-5,058
Net inc/(dec) in borrowings	17,756	3,475	-3,572	10,003	586	-10,783
Other investing/financing cash flows	-6,935	1,153	-768	0	0	0
Net cash flow	344	-2,609	-137	4,788	1,377	2,273
Change in working capital	-555	-1,440	2,032	-1,766	1,046	296

Balance Sheet (HKDm)

Cash and other liquid assets	7,132	4,801	4,647	5,435	6,812	9,085
Tangible fixed assets	84,274	96,419	103,818	120,741	129,716	127,877
Goodwill/intangible assets	13,885	14,737	17,966	17,966	17,966	17,966
Associates/investments	14,308	22,383	20,789	22,195	23,503	24,812
Other assets	23,411	30,026	30,570	29,136	31,957	34,720
Total assets	143,011	168,366	177,790	195,473	209,955	214,460
Interest bearing debt	74,911	82,987	80,267	90,270	90,857	80,074
Other liabilities	17,839	23,806	28,627	25,427	29,294	32,352
Total liabilities	92,750	106,794	108,894	115,698	120,151	112,426
Shareholders' equity	42,164	53,373	59,940	69,587	78,004	88,324
Minorities	8,096	8,199	8,956	10,189	11,800	13,710
Total shareholders' equity	50,260	61,572	68,896	79,776	89,804	102,034
Net debt	67,779	78,187	75,620	84,835	84,045	70,988

Key Company Metrics

Sales growth (%)	46.3	25.0	2.8	8.8	17.9	14.3
DB EPS growth (%)	-34.5	-21.9	100.5	60.2	8.7	18.3
EBITDA Margin (%)	25.8	24.8	29.1	40.0	38.8	39.7
EBIT Margin (%)	17.0	15.7	19.2	28.3	26.7	27.2
Payout ratio (%)	31.4	31.7	32.2	40.0	40.0	40.0
ROE (%)	12.3	9.3	13.2	18.0	17.1	18.0
Capex/sales (%)	35.3	24.4	15.2	30.7	23.3	10.4
Capex/depreciation (x)	4.0	2.7	1.5	2.6	1.9	0.8
Net debt/equity (%)	134.9	127.0	109.8	106.3	93.6	69.6
Net interest cover (x)	3.3	2.7	3.1	5.0	5.3	6.5

Source: Company data, Deutsche Bank estimates

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Model updated: 03 January 2014

Running the numbers

Asia

China

Utilities

Huadian Power

Reuters: 1071.HK

Bloomberg: 1071 HK

Buy

Price (3 Jan 14) HKD 3.09

Target Price HKD 5.50

52 Week range HKD 2.65 - 4.60

Market Cap (m) HKDm 20,922

USDm 2,698

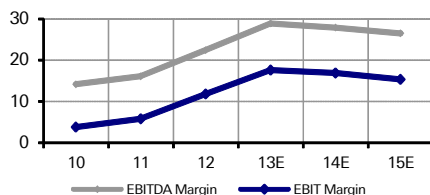
Company Profile

Huadian Power International Corporation Limited is an independent power producer in China, with capacity located in Shandong, Henan, Anhui, Ningxia and Sichuan provinces. At the end of 2012, the company owned total consolidated capacity of 34GW, with roughly 60% in Shandong - its major operating territory. China Huadian Group is the 49% controlling shareholder of the company.

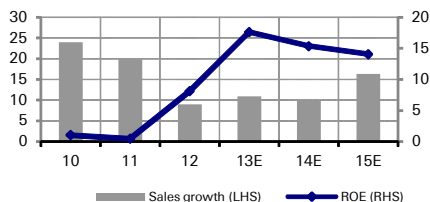
Price Performance



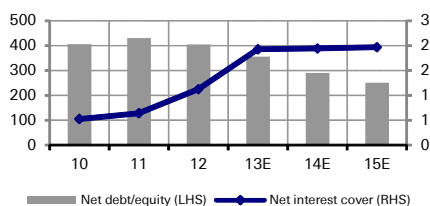
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2010	2011	2012	2013E	2014E	2015E
DB EPS (CNY)	-0.11	0.08	0.20	0.50	0.48	0.49
Reported EPS (CNY)	0.03	0.01	0.20	0.50	0.48	0.49
DPS (CNY)	0.00	0.00	0.07	0.20	0.19	0.20
BVPS (CNY)	2.4	2.4	2.8	3.1	3.5	3.7
Weighted average shares (m)	6,771	6,771	7,070	7,371	8,234	8,521
Average market cap (CNYm)	11,210	8,229	11,810	16,327	16,327	16,327
Enterprise value (CNYm)	88,620	111,706	122,188	121,845	119,362	127,142

Valuation Metrics

P/E (DB) (x)	nm	15.9	8.5	4.8	5.0	4.9
P/E (Reported) (x)	66.0	111.5	8.2	4.8	5.0	4.9
P/BV (x)	0.55	0.53	0.80	0.78	0.69	0.65
FCF Yield (%)	nm	nm	nm	nm	nm	32.1
Dividend Yield (%)	0.0	0.0	3.9	8.3	7.9	8.2
EV/Sales (x)	2.0	2.1	2.1	1.9	1.7	1.5
EV/EBITDA (x)	13.8	12.8	9.2	6.4	5.9	5.7
EV/EBIT (x)	51.3	35.4	17.5	10.6	9.8	9.9

Income Statement (CNYm)

Sales revenue	45,198	54,178	59,080	65,547	72,002	83,774
Gross profit	6,403	8,729	13,266	18,961	20,088	22,234
EBITDA	6,403	8,729	13,266	18,961	20,088	22,234
Depreciation	4,677	5,574	6,283	7,424	7,923	9,370
Amortisation	0	0	0	0	0	0
EBIT	1,726	3,155	6,983	11,537	12,165	12,863
Net interest income(expense)	-3,289	-4,925	-6,223	-5,994	-6,266	-6,540
Associates/affiliates	328	557	646	400	444	487
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	1,437	1,378	1,231	446	446	446
Profit before tax	202	165	2,637	6,390	6,789	7,257
Income tax expense	117	30	690	1,378	1,459	1,557
Minorities	-84	61	501	1,303	1,386	1,482
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	170	74	1,447	3,709	3,944	4,218
DB adjustments (including dilution)	-882	444	-58	0	0	0
DB Net profit	-712	518	1,389	3,709	3,944	4,218

Cash Flow (CNYm)

Cash flow from operations	2,080	1,063	5,519	13,957	13,690	16,081
Net Capex	-13,381	-12,314	-16,177	-16,218	-16,018	-9,476
Free cash flow	-11,301	-11,252	-10,658	-2,261	-2,329	6,605
Equity raised/(bought back)	0	0	1,829	0	3,588	0
Dividends paid	-237	0	-119	-460	-1,484	-1,578
Net inc/(dec) in borrowings	17,130	13,058	9,731	4,537	678	-4,988
Other investing/financing cash flows	-5,659	-1,366	0	0	0	0
Net cash flow	-67	441	783	1,817	454	39
Change in working capital	1,649	217	-2,945	1,921	881	1,498

Balance Sheet (CNYm)

Cash and other liquid assets	1,236	2,112	3,060	4,877	5,332	5,371
Tangible fixed assets	102,548	115,534	127,319	136,112	144,208	144,314
Goodwill/intangible assets	4,764	6,001	5,966	5,966	5,966	5,966
Associates/investments	9,269	10,445	10,001	10,401	10,845	11,332
Other assets	10,745	14,967	18,875	17,542	18,484	20,259
Total assets	128,561	149,059	165,221	174,899	184,835	187,242
Interest bearing debt	90,080	104,458	115,330	119,867	120,546	115,558
Other liabilities	16,618	20,801	22,161	22,749	24,572	27,844
Total liabilities	106,698	125,259	137,490	142,616	145,118	143,402
Shareholders' equity	16,176	16,285	19,444	22,694	28,742	31,383
Minorities	5,687	7,515	8,286	9,589	10,975	12,457
Total shareholders' equity	21,863	23,800	27,731	32,283	39,718	43,840
Net debt	88,844	102,346	112,270	114,990	115,214	110,187

Key Company Metrics

Sales growth (%)	24.0	19.9	9.0	10.9	9.8	16.3
DB EPS growth (%)	na	na	156.8	156.1	-4.8	3.3
EBITDA Margin (%)	14.2	16.1	22.5	28.9	27.9	26.5
EBIT Margin (%)	3.8	5.8	11.8	17.6	16.9	15.4
Payout ratio (%)	0.0	0.0	31.8	40.0	40.0	40.0
ROE (%)	1.1	0.5	8.1	17.6	15.3	14.0
Capex/sales (%)	29.8	22.7	27.4	24.7	22.2	11.3
Capex/depreciation (x)	2.9	2.2	2.6	2.2	2.0	1.0
Net debt/equity (%)	406.4	430.0	404.9	356.2	290.1	251.3
Net interest cover (x)	0.5	0.6	1.1	1.9	1.9	2.0

Source: Company data, Deutsche Bank estimates

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Model updated: 03 January 2014

Running the numbers

Asia

China

Utilities

China Power Int'l

Reuters: 2380.HK

Bloomberg: 2380 HK

Buy

Price (3 Jan 14) HKD 2.71

Target Price HKD 4.50

52 Week range HKD 2.42 - 3.41

Market Cap (m) HKDm 13,840

USDm 1,785

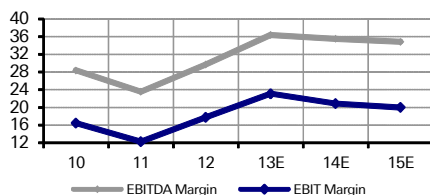
Company Profile

China Power International Development Limited (CPI) develops and operates thermal and hydro power plants in Anhui, Henan, Jiangsu, Hubei, Shanxi, Guangdong, Sichuan, Shanghai and Hunan, with around 12,000MW of equity capacity at end-2012. The company plans to increase its total capacity to 15,000MW by the end of 2013. China Power Investment Corporation is the ultimate parent of the company.

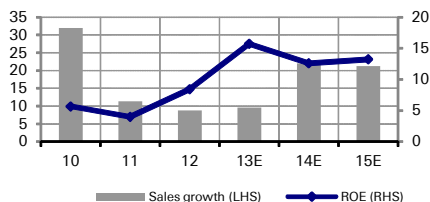
Price Performance



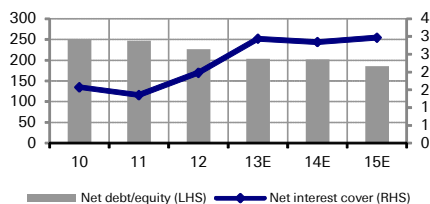
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2010	2011	2012	2013E	2014E	2015E
DB EPS (CNY)	0.12	0.10	0.20	0.29	0.32	0.37
Reported EPS (CNY)	0.14	0.10	0.20	0.40	0.32	0.37
DPS (CNY)	0.05	0.06	0.11	0.18	0.15	0.17
BVPS (CNY)	2.4	2.6	2.7	2.8	3.1	3.4
Weighted average shares (m)	5,107	5,107	5,940	6,584	7,360	7,360
Average market cap (CNYm)	7,849	7,255	9,579	10,800	10,800	10,800
Enterprise value (CNYm)	43,388	47,380	53,106	57,477	61,484	64,325

Valuation Metrics

P/E (DB) (x)	13.3	14.4	8.1	7.2	6.5	5.7
P/E (Reported) (x)	11.3	14.4	8.1	5.4	6.5	5.7
P/BV (x)	0.58	0.59	0.74	0.74	0.69	0.63
FCF Yield (%)	nm	nm	nm	nm	nm	1.3
Dividend Yield (%)	3.5	3.9	6.9	8.5	7.1	8.1
EV/Sales (x)	3.0	2.9	3.0	3.0	2.6	2.3
EV/EBITDA (x)	10.6	12.5	10.2	8.2	7.4	6.5
EV/EBIT (x)	18.3	24.0	17.1	13.0	12.6	11.3

Income Statement (CNYm)

Sales revenue	14,437	16,082	17,497	19,168	23,387	28,365
Gross profit	4,090	3,783	5,190	6,980	8,303	9,885
EBITDA	4,090	3,783	5,190	6,980	8,303	9,885
Depreciation	1,712	1,810	2,082	2,557	3,425	4,208
Amortisation	0	0	0	0	0	0
EBIT	2,377	1,974	3,108	4,423	4,879	5,678
Net interest income(expense)	-1,514	-1,463	-1,571	-1,507	-1,717	-1,914
Associates/affiliates	94	-28	140	350	550	550
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	319	300	451	1,064	343	343
Profit before tax	1,276	782	2,129	4,330	4,054	4,656
Income tax expense	380	194	447	906	955	1,093
Minorities	199	83	500	822	719	832
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	697	505	1,181	2,602	2,380	2,730
DB adjustments (including dilution)	-108	0	0	-678	0	0
DB Net profit	588	505	1,181	1,923	2,380	2,730

Cash Flow (CNYm)

Cash flow from operations	2,678	1,473	2,930	5,630	7,096	8,221
Net Capex	-5,369	-5,325	-7,612	-9,236	-9,790	-8,011
Free cash flow	-2,690	-3,852	-4,682	-3,606	-2,694	210
Equity raised/(bought back)	0	0	745	1,233	0	0
Dividends paid	-315	-308	-251	-502	-903	-742
Net inc/(dec) in borrowings	3,854	3,954	3,197	4,424	3,262	2,230
Other investing/financing cash flows	-1,782	409	1,835	-950	-550	-550
Net cash flow	-933	202	844	598	-885	1,147
Change in working capital	28	-494	-366	-251	572	450

Balance Sheet (CNYm)

Cash and other liquid assets	977	1,180	2,016	2,615	1,730	2,877
Tangible fixed assets	44,950	49,351	55,943	62,622	68,987	72,790
Goodwill/intangible assets	767	767	767	767	767	767
Associates/investments	1,723	1,876	2,083	3,033	3,583	4,133
Other assets	8,372	10,219	9,100	9,267	9,937	10,729
Total assets	56,790	63,392	69,909	78,304	85,003	91,296
Interest bearing debt	38,070	41,916	44,940	49,364	52,626	54,856
Other liabilities	3,826	4,987	6,040	5,956	7,197	8,440
Total liabilities	41,896	46,903	50,980	55,320	59,823	63,296
Shareholders' equity	12,238	13,125	14,942	18,174	19,652	21,640
Minorities	2,656	3,365	3,987	4,809	5,528	6,360
Total shareholders' equity	14,894	16,490	18,929	22,984	25,180	28,000
Net debt	37,093	40,736	42,923	46,749	50,896	51,979

Key Company Metrics

Sales growth (%)	32.0	11.4	8.8	9.5	22.0	21.3
DB EPS growth (%)	-12.8	-14.1	101.0	46.9	10.7	14.7
EBITDA Margin (%)	28.3	23.5	29.7	36.4	35.5	34.9
EBIT Margin (%)	16.5	12.3	17.8	23.1	20.9	20.0
Payout ratio (%)	39.2	56.1	56.0	45.4	46.3	46.3
ROE (%)	5.6	4.0	8.4	15.7	12.6	13.2
Capex/sales (%)	37.4	37.8	43.5	48.2	41.9	28.2
Capex/depreciation (x)	3.1	3.4	3.7	3.6	2.9	1.9
Net debt/equity (%)	249.0	247.0	226.8	203.4	202.1	185.6
Net interest cover (x)	1.6	1.3	2.0	2.9	2.8	3.0

Source: Company data, Deutsche Bank estimates

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Model updated: 03 January 2014

Running the numbers

Asia

China

Utilities

Datang Int'l Power

Reuters: 0991.HK

Bloomberg: 991 HK

Buy

Price (3 Jan 14) HKD 3.52

Target Price HKD 4.80

52 Week range HKD 2.83 - 3.89

Market Cap (m) HKDm 45,383
USDm 5,853

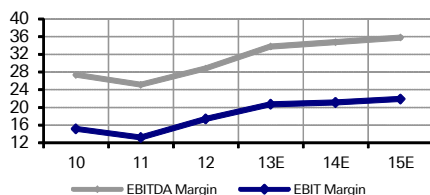
Company Profile

Datang Int'l Power Company Limited develops and operates coal-fired, wind power and hydro power plants in North, East, South and Southwest China. The company operates 40GW of consolidated capacity in the Beijing, Tangshan, Tianjin (BTT) area, Hebei, Shanxi, Zhejiang, Fujian, Guangdong, Yunnan, Chongqing and Inner Mongolia. China Datang Corporation is the largest shareholder in the company, with a 35.4% stake. Among all the China IPPs, Datang has the most diversified business mix, given its coal mine/rail/coal-to-chemical businesses.

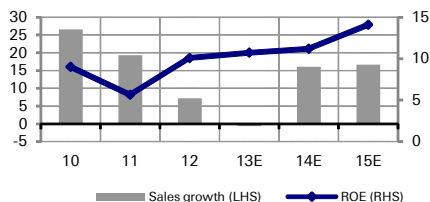
Price Performance



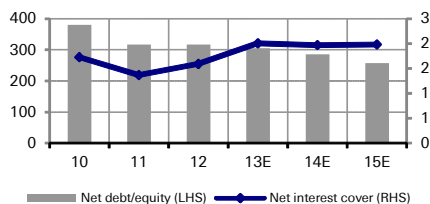
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2010	2011	2012	2013E	2014E	2015E
DB EPS (CNY)	0.21	0.15	0.21	0.35	0.39	0.54
Reported EPS (CNY)	0.21	0.15	0.31	0.35	0.39	0.54
DPS (CNY)	0.07	0.11	0.10	0.14	0.16	0.22
BVPS (CNY)	2.5	3.0	3.1	3.4	3.6	4.0
Weighted average shares (m)	12,192	12,893	13,310	13,310	13,310	13,310
Average market cap (CNYm)	34,597	27,147	29,683	35,416	35,416	35,416
Enterprise value (CNYm)	175,644	182,081	203,065	224,224	232,802	237,215

Valuation Metrics

P/E (DB) (x)	13.5	14.2	10.8	7.9	7.0	5.1
P/E (Reported) (x)	13.5	13.8	7.3	7.9	7.0	5.1
P/BV (x)	0.94	0.71	0.77	0.81	0.76	0.68
FCF Yield (%)	nm	nm	nm	nm	nm	0.9
Dividend Yield (%)	2.5	5.2	4.5	5.1	5.7	7.8
EV/Sales (x)	2.9	2.5	2.6	2.9	2.6	2.3
EV/EBITDA (x)	10.6	10.0	9.1	8.6	7.5	6.3
EV/EBIT (x)	19.1	19.1	15.0	14.0	12.3	10.4

Income Statement (CNYm)

Sales revenue	60,672	72,382	77,598	77,132	89,511	104,406
Gross profit	16,586	18,158	22,330	26,061	31,132	37,392
EBITDA	16,586	18,158	22,330	26,061	31,132	37,392
Depreciation	7,382	8,605	8,820	10,088	12,227	14,519
Amortisation	0	0	0	0	0	0
EBIT	9,204	9,553	13,510	15,973	18,904	22,873
Net interest income/(expense)	-5,335	-6,992	-8,496	-7,972	-9,603	-11,539
Associates/affiliates	719	1,040	792	954	1,163	1,835
Exceptionals/extraordinaries	0	59	1,306	0	0	0
Other pre-tax income/(expense)	112	50	474	300	300	300
Profit before tax	4,700	3,710	7,586	9,256	10,764	13,468
Income tax expense	871	668	1,361	2,168	2,823	3,310
Minorities	1,259	1,071	2,163	2,447	2,716	2,991
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,570	1,971	4,062	4,640	5,226	7,167
DB adjustments (including dilution)	0	-59	-1,306	0	0	0
DB Net profit	2,570	1,912	2,756	4,640	5,226	7,167

Cash Flow (CNYm)

Cash flow from operations	12,148	5,723	13,048	15,525	20,010	24,234
Net Capex	-22,241	-24,115	-26,589	-23,967	-22,491	-23,923
Free cash flow	-10,093	-18,392	-13,542	-8,442	-2,481	311
Equity raised/(bought back)	3,248	6,671	0	0	0	0
Dividends paid	-862	-932	-1,464	-1,331	-1,856	-2,090
Net inc/(dec) in borrowings	15,196	14,793	18,556	14,157	4,919	938
Other investing/financing cash flows	-2,911	-268	-4,805	-1,008	-1,008	0
Net cash flow	4,579	1,872	-1,255	3,377	-427	-841
Change in working capital	1,914	-4,083	671	-697	1,005	1,392

Balance Sheet (CNYm)

Cash and other liquid assets	3,443	4,467	4,613	7,989	7,563	6,722
Tangible fixed assets	179,234	200,923	221,477	235,356	245,620	255,025
Goodwill/intangible assets	2,498	2,644	2,867	2,867	2,867	2,867
Associates/investments	7,242	8,875	11,313	13,275	15,446	17,280
Other assets	20,499	30,787	35,007	34,155	36,546	39,313
Total assets	212,915	247,697	275,278	293,642	308,043	321,207
Interest bearing debt	149,380	165,140	184,100	198,257	203,176	204,114
Other liabilities	25,103	31,825	34,518	32,969	36,365	40,523
Total liabilities	174,483	196,965	218,618	231,226	239,541	244,637
Shareholders' equity	30,850	38,941	41,658	44,967	48,337	53,414
Minorities	7,583	11,791	15,001	17,449	20,164	23,156
Total shareholders' equity	38,433	50,732	56,660	62,416	68,501	76,570
Net debt	145,937	160,673	179,487	190,268	195,613	197,392

Key Company Metrics

Sales growth (%)	26.6	19.3	7.2	-0.6	16.0	16.6
DB EPS growth (%)	62.1	-29.6	39.6	68.3	12.6	37.2
EBITDA Margin (%)	27.3	25.1	28.8	33.8	34.8	35.8
EBIT Margin (%)	15.2	13.2	17.4	20.7	21.1	21.9
Payout ratio (%)	33.2	72.0	32.8	40.0	40.0	40.0
ROE (%)	9.0	5.6	10.1	10.7	11.2	14.1
Capex/sales (%)	37.7	35.9	34.3	31.1	25.1	22.9
Capex/depreciation (x)	3.1	3.0	3.0	2.4	1.8	1.6
Net debt/equity (%)	379.7	316.7	316.8	304.8	285.6	257.8
Net interest cover (x)	1.7	1.4	1.6	2.0	2.0	2.0

Source: Company data, Deutsche Bank estimates

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Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Datang Int'l Power	0991.HK	3.55 (HKD) 8 Jan 14	14
Huadian Power	1071.HK	3.09 (HKD) 8 Jan 14	NA
China Power Int'l	2380.HK	2.68 (HKD) 8 Jan 14	7,14
CR Power	0836.HK	17.54 (HKD) 8 Jan 14	14
Huaneng Power Intl	0902.HK	7.20 (HKD) 8 Jan 14	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

- Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
- Deutsche Bank and/or its affiliate(s) has received non-investment banking related compensation from this company within the past year.

Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the Important Disclosures Required by US Regulators and the Explanatory Notes.

- Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Michael Tong



Historical recommendations and target price: Datang Int'l Power (0991.HK)
(as of 1/8/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1.	03/03/2012:	Buy, Target Price Change HKD3.40	5.	25/03/2013:	Buy, Target Price Change HKD4.10
2.	18/04/2012:	Buy, Target Price Change HKD3.20	6.	04/07/2013:	Buy, Target Price Change HKD4.20
3.	15/07/2012:	Buy, Target Price Change HKD3.90	7.	14/10/2013:	Buy, Target Price Change HKD4.40
4.	14/10/2012:	Buy, Target Price Change HKD3.50			

Historical recommendations and target price: Huadian Power (1071.HK)
(as of 1/8/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1.	03/03/2012:	Buy, Target Price Change HKD2.80	6.	02/04/2013:	Buy, Target Price Change HKD4.40
2.	18/04/2012:	Buy, Target Price Change HKD2.70	7.	04/07/2013:	Buy, Target Price Change HKD4.90
3.	16/05/2012:	Buy, Target Price Change HKD2.60	8.	13/08/2013:	Buy, Target Price Change HKD5.30
4.	15/07/2012:	Buy, Target Price Change HKD4.00	9.	14/10/2013:	Buy, Target Price Change HKD5.60
5.	14/10/2012:	Buy, Target Price Change HKD3.50			



Historical recommendations and target price: China Power Int'l (2380.HK)
(as of 1/8/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

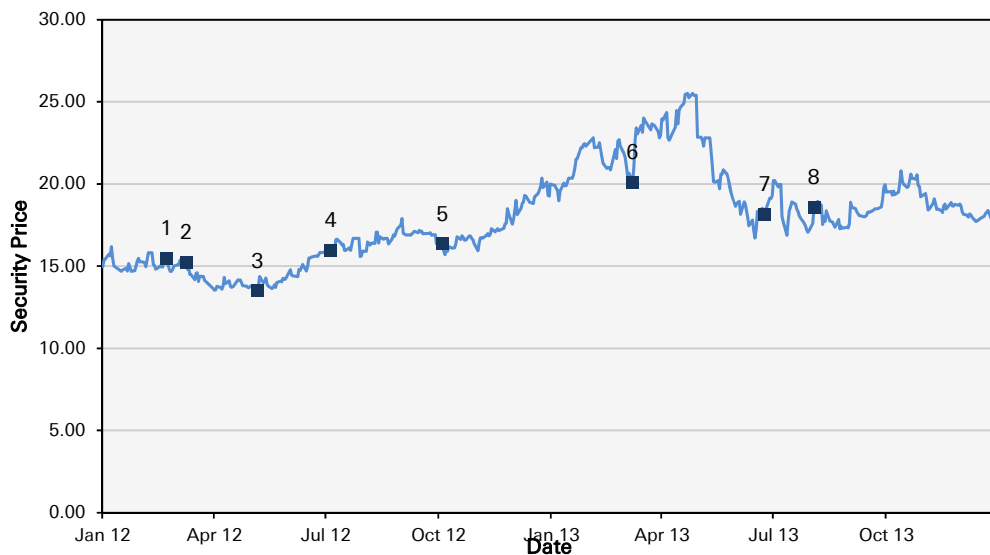
Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 03/03/2012:	Buy, Target Price Change HKD2.65	6. 12/04/2013:	Buy, Target Price Change HKD3.60
2. 25/03/2012:	Buy, Target Price Change HKD2.70	7. 04/07/2013:	Buy, Target Price Change HKD4.00
3. 16/05/2012:	Buy, Target Price Change HKD2.60	8. 13/08/2013:	Buy, Target Price Change HKD4.20
4. 15/07/2012:	Buy, Target Price Change HKD4.00	9. 14/10/2013:	Buy, Target Price Change HKD4.30
5. 14/10/2012:	Buy, Target Price Change HKD3.25		

Historical recommendations and target price: CR Power (0836.HK)
(as of 1/8/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 03/03/2012:	Buy, Target Price Change HKD20.20	5. 14/10/2012:	Buy, Target Price Change HKD24.50
2. 19/03/2012:	Buy, Target Price Change HKD21.10	6. 18/03/2013:	Buy, Target Price Change HKD28.00
3. 16/05/2012:	Buy, Target Price Change HKD21.00	7. 04/07/2013:	Buy, Target Price Change HKD29.20
4. 15/07/2012:	Buy, Target Price Change HKD26.20	8. 13/08/2013:	Buy, Target Price Change HKD29.40



Historical recommendations and target price: Huaneng Power Intl (0902.HK) (as of 1/8/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 03/03/2012:	Buy, Target Price Change HKD6.30	5. 19/03/2013:	Buy, Target Price Change HKD9.70
2. 18/04/2012:	Buy, Target Price Change HKD6.20	6. 04/07/2013:	Buy, Target Price Change HKD10.60
3. 15/07/2012:	Buy, Target Price Change HKD8.80	7. 13/08/2013:	Buy, Target Price Change HKD10.90
4. 14/10/2012:	Buy, Target Price Change HKD8.60	8. 14/10/2013:	Buy, Target Price Change HKD12.10

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

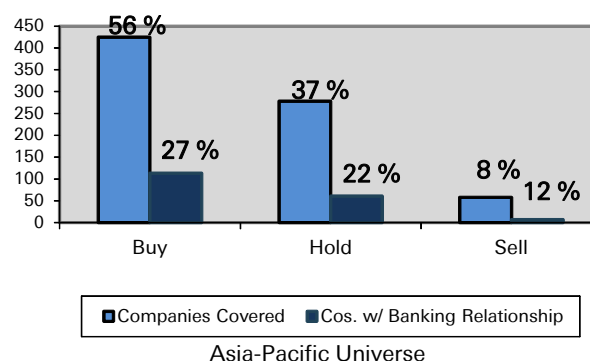
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





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