



Rating
Buy

Asia
China

Utilities
Utilities

Company
Huadian Fuxin

Reuters 0816.HK Bloomberg 816 HK Exchange HSI Ticker 0816

Date
4 June 2014

Forecast Change

Price at 3 Jun 2014 (HKD)	3.95
Price target - 12mth (HKD)	5.60
52-week range (HKD)	4.41 - 2.01
HANG SENG INDEX	23,291

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Our top clean energy/environmental pick in China; Buy

More than a wind player

Huadian Fuxin has a diversified and resilient earnings growth outlook thanks to its balanced capacity mix between wind: coal: hydro: solar and incoming nuclear presence. With wind representing only a third of its operating profit in 2013, it is less exposed to weak YTD wind conditions. In this note, we highlight its recent development in nuclear/wind/solar and introduce our FY17 forecast, which is projected to grow by 18% over FY16E without factoring in further upside from new coal fired projects. We reiterate Buy on our top pick in the clean energy space with attractive valuations at 9.5x/7.2x/6.1x 2015-17E PE.

Fuqing nuclear on track and first concrete date (FCD) of Phase II set in June

We expect Fuqing nuclear Phase I to contribute Rmb92m/484m/880m/1,076m of net profit in 2014-17E, or 5%/19%/26%/27% of Fuxin's total earnings, after commissioning of the first unit in August 2014. Phase II is also progressing well with scheduled FCD on 28 June, which will add c.Rmb500m profit to Fuxin upon operation in 2018-19 (13% of Fuxin's 2017E earnings). While there are concerns on profitability after longer-than-expected maintenance for the Datang Ningde project, it is not a common situation, in our view.

Strong growth in wind/solar and aggressive 2020 capacity target

Fuxin revised its annual wind capacity target to 1.5GW from a previous 0.8-1.0GW given the cooperation with CWP. We have conservatively built in 1.2GW in 2014E and 1.0GW in 2015 onwards. In addition, the company ranked No.3 in solar capacity addition among listed players in 2013 and has recently signed an Rmb2.2bn solar project in Jiangxi. The company also set an aggressive capacity target of 25GW by 2020E (excluding nuclear), implying growth at 15% p.a. in 2018-20E after an earnings CAGR of 29% in 2014-17E.

Target price raised to HKD5.6 (from HKD5.5); risks

Our target price is based on an SOTP-based valuation by applying DCF to the main business and a PE multiple to associates. Key risks: nuclear delay or capex overrun, low wind speed, interest rate hike, share placement.

Key changes

Price target	5.50 to 5.60	↑	1.8%
Sales (FYE)	13,808 to 13,973	↑	1.2%
Op prof margin (FYE)	34.2 to 35.5	↑	3.6%
Net profit (FYE)	1,716.6 to 1,745.3	↑	1.7%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.5	-6.8	76.3
HANG SENG INDEX	4.6	3.5	4.5

Source: Deutsche Bank

Related recent research

Strong nuclear/wind growth deserves a premium; initiating with Buy	11 March 2014
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Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (CNYm)	11,352	13,242	13,973	15,444	17,025
EBITDA (CNYm)	4,833	6,510	7,581	8,981	10,325
Reported NPAT (CNYm)	1,093	1,468	1,745	2,560	3,410
DB EPS FD (CNY)	0.160	0.193	0.220	0.321	0.427
DB EPS growth (%)	69.9	20.1	14.4	45.6	33.2
PER (x)	7.5	9.1	14.5	9.9	7.5
Price/BV (x)	0.8	1.7	1.9	1.6	1.4
EV/EBITDA (x)	8.1	7.6	8.9	8.1	7.5
Yield (net) (%)	2.4	2.2	1.4	2.0	2.7
ROE (%)	12.1	13.5	14.1	17.4	19.8

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 30 May 2014

Running the numbers

Asia
 China
 Utilities

Huadian Fuxin

Reuters: 0816.HK Bloomberg: 816 HK

Buy

Price (3 Jun 14) HKD 3.95
 Target Price HKD 5.60
 52 Week range HKD 2.01 - 4.41
 Market Cap (m) HKDm 31,519
 USDm 4,065

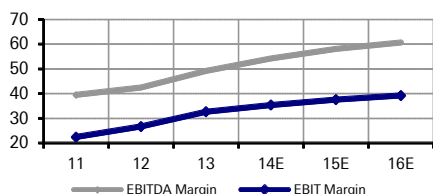
Company Profile

Huadian Fuxin is a leading diversified clean energy player in China with a balanced capacity portfolio of hydro, wind, coal-fired and other renewable energy. Besides, it also holds 39% interest in Fuging nuclear. Its total consolidated capacity reached 9,510MW as of 1H13. China Huadian Corporation is its controlling shareholder with 65.7% interest as of 1H13.

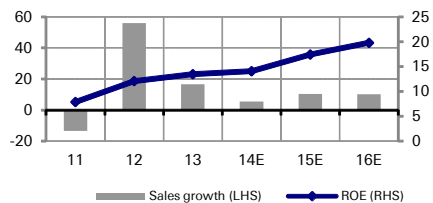
Price Performance



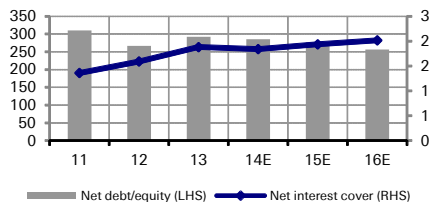
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (CNY)	0.09	0.16	0.19	0.22	0.32	0.43
Reported EPS (CNY)	0.09	0.16	0.19	0.22	0.32	0.43
DPS (CNY)	0.00	0.03	0.04	0.04	0.06	0.09
BVPS (CNY)	1.3	1.4	1.5	1.7	2.0	2.3
Weighted average shares (m)	6,000	6,820	7,623	7,920	7,980	7,980
Average market cap (CNYm)	na	8,235	13,402	25,420	25,420	25,420
Enterprise value (CNYm)	na	39,272	49,669	67,571	72,922	77,037

Valuation Metrics

P/E (DB) (x)	na	7.5	9.1	14.5	9.9	7.5
P/E (Reported) (x)	na	7.5	9.1	14.5	9.9	7.5
P/BV (x)	0.00	0.85	1.65	1.87	1.61	1.36
FCF Yield (%)	na	nm	nm	nm	nm	nm
Dividend Yield (%)	na	2.4	2.2	1.4	2.0	2.7
EV/Sales (x)	nm	3.5	3.8	4.8	4.7	4.5
EV/EBITDA (x)	nm	8.1	7.6	8.9	8.1	7.5
EV/EBIT (x)	nm	12.9	11.5	13.6	12.5	11.5

Income Statement (CNYm)

Sales revenue	7,278	11,352	13,242	13,973	15,444	17,025
Gross profit	4,169	6,972	8,740	9,870	11,504	13,125
EBITDA	2,879	4,833	6,510	7,581	8,981	10,325
Depreciation	1,244	1,798	2,175	2,626	3,168	3,639
Amortisation	0	0	0	0	0	0
EBIT	1,635	3,035	4,335	4,955	5,813	6,686
Net interest income/(expense)	-1,201	-1,905	-2,305	-2,691	-3,001	-3,315
Associates/affiliates	3	43	94	185	578	974
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	310	443	61	35	35	35
Profit before tax	748	1,616	2,185	2,484	3,424	4,380
Income tax expense	95	261	484	491	593	700
Minorities	87	262	233	248	270	271
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	566	1,093	1,468	1,745	2,560	3,410
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	566	1,093	1,468	1,745	2,560	3,410

Cash Flow (CNYm)

Cash flow from operations	1,469	4,677	6,622	6,839	8,055	9,289
Net Capex	-5,997	-7,062	-7,186	-10,427	-9,188	-9,386
Free cash flow	-4,528	-2,385	-565	-3,589	-1,133	-97
Equity raised/(bought back)	0	2,118	0	916	0	0
Dividends paid	-182	-338	-377	-291	-352	-512
Net inc/(dec) in borrowings	4,898	3,016	5,006	6,256	4,423	4,137
Other investing/financing cash flows	-1,355	-1,591	-4,871	-3,568	-3,906	-3,719
Net cash flow	-1,167	820	-807	-275	-968	-191
Change in working capital	-1,404	-275	551	-286	-368	-371

Balance Sheet (CNYm)

Cash and other liquid assets	1,528	2,576	1,769	1,493	525	335
Tangible fixed assets	38,895	46,639	52,265	60,443	66,890	73,041
Goodwill/intangible assets	700	970	1,096	1,096	1,096	1,096
Associates/investments	2,046	2,668	3,546	4,231	5,286	6,260
Other assets	7,079	8,487	9,001	9,232	9,726	10,270
Total assets	50,248	61,341	67,676	76,495	83,524	91,002
Interest bearing debt	30,412	36,539	41,918	48,174	52,597	56,735
Other liabilities	10,526	12,092	12,048	11,992	12,118	12,290
Total liabilities	40,939	48,632	53,966	60,166	64,715	69,025
Shareholders' equity	7,504	10,574	11,211	13,581	15,790	18,688
Minorities	1,805	2,135	2,500	2,748	3,018	3,289
Total shareholders' equity	9,310	12,709	13,711	16,329	18,808	21,977
Net debt	28,885	33,964	40,149	46,681	52,072	56,400

Key Company Metrics

Sales growth (%)	-13.3	56.0	16.7	5.5	10.5	10.2
DB EPS growth (%)	8.6	69.9	20.1	14.4	45.6	33.2
EBITDA Margin (%)	39.6	42.6	49.2	54.3	58.2	60.6
EBIT Margin (%)	22.5	26.7	32.7	35.5	37.6	39.3
Payout ratio (%)	0.0	18.0	19.8	20.0	20.0	20.0
ROE (%)	7.9	12.1	13.5	14.1	17.4	19.8
Capex/sales (%)	82.4	62.2	54.3	74.6	59.5	55.1
Capex/depreciation (x)	4.8	3.9	3.3	4.0	2.9	2.6
Net debt/equity (%)	310.3	267.2	292.8	285.9	276.9	256.6
Net interest cover (x)	1.4	1.6	1.9	1.8	1.9	2.0

Source: Company data, Deutsche Bank estimates

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Fuqing nuclear on track and Ph II kicking off this month

According to China Electric Power Promotion Council (CEPPC) report, Fuqing Nuclear unit 1 completed its last round of security checks in mid-April before loading fuel and is currently on schedule to be commissioned from August 2014. However, after Datang's Ningde nuclear recorded c.Rmb100m loss in 1Q14 due to a 90-day overhaul, investors become a bit concerned whether Fuqing's profit contribution is likely to be compromised by the undertaking of regular maintenance. While we understand that a new nuclear unit would need to perform a major overhaul for fuel re-load in its second year of operation, the time period is normally shorter. Hence, we do not think the longer-than-expected maintenance period for Ningde is a common situation to be assumed for other nuclear projects.

Average utilization still over 7,300 hours despite maintenance

In Figure 1, we summarize the utilization hour record of China's operating nuclear units with GII or GII+ technology. Result shows that, excluding Tianwan unit 1, which incurred some technical issues during the first three years, average utilization in the second year is still above 7,300 hours, quickly climbing to above 7,700 hours in the third year.

Figure 1: Utilization overview of China's operating GII/GII+ units

Utilization hrs	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Avg.
Ling Ao - 1	5,184	7,215	7,884	7,424	7,964	7,345	8,163	7,997	8,288	8,072	8,286	7,340	7,816
Ling Ao - 2		7,494	7,109	8,075	8,164	7,796	7,577	8,052	8,112	8,284	8,113	7,804	7,871
Tianwan - 1						5,688	6,270	6,553	7,643	7,606	7,635	7,959	7,278
Tianwan - 2						4,471	7,193	7,054	7,260	7,658	7,722	7,837	7,454
Ling Ao - 3									2,642	6,866	7,877	8,017	7,587
Ling Ao - 4										5,268	7,156	7,880	7,518
Qingshan 2-3									2,685	7,226	7,977	8,243	7,815
Qingshan 2-4										614	8,438	7,428	7,933

Utilization hrs	Operation date	Year 2	Year 3
Ling Ao - 1	05/28/2002	7,215	7,884
Ling Ao - 2	01/08/2003	7,109	8,075
Tianwan - 1	05/17/2007	6,270	6,553
Tianwan - 2	08/16/2007	7,193	7,054
Ling Ao - 3	09/15/2010	6,866	7,877
Ling Ao - 4	08/07/2011	7,156	7,880
Qingshan 2-3	10/05/2010	7,226	7,977
Qingshan 2-4	12/30/2011	8,438	7,428
Avg. utilization		7,192	7,462
Avg. utilization (excl. Tianwan - 1)		7,315	7,739

Source: IAEA, Deutsche Bank, note lower utilization hours in the first year of operation is due to partial year operation

Mild downside even Fuxin Unit one incurs extra maintenance

Currently, we assume 7,300 utilization hours for unit 1 of Fuqing Phase I in 2015E, which is also in line with company guidance. In 2015E, even if we assume 6,800 hours of utilization for unit 1 due to unexpected extra maintenance of another 500 hours, earnings downside is relatively limited at 2.3%, thanks to its diversified earnings mix.

Phase II to start construction in June 2014

Meanwhile, Fuqing phase II is likely to receive approval within this year, which will add c.Rmb500m profit to Fuxin (c.13% of Fuxin's 2017E earnings) upon



operation in 2018-19. According to latest information from China National Nuclear Corporation (CNNC), the preparatory works of Fuqing Phase II (unit 5 and 6) is progressing well and it targets to achieve FCD (first concrete date) for unit 5 by 28 June 2014. Assuming a normal 60-month construction period, phase II will be commissioned in 2018-19. In addition, Huadian Fuxin's management is also working on getting a higher equity stake in the Phase II project and is seeking parento injection of 10% stake in Sanmen nuclear project in Zhejiang (GIII- AP1000, 2x1,250MW to be commissioned from end-2015).

Sustainable growth through 2020E

Lift annual wind capacity addition

After the co-operation with China WindPower (CWP, 182 HK, non-rated), Huadian Fuxin revised up its wind capacity addition target from 0.8-1.0GW p.a. previously to 1.5GW p.a. in 2014-15 and expects to have 6.5GW of wind capacity by end-2015. About half of the capacity addition will be achieved via project acquisition from CWP. As of end-2013, Fuxin has 848.5MW of capacity under construction. Considering a combined approved capacity pipeline of 3.2GW (2.0GW from Fuxin and 1.2GW from CWP), we conservatively assume a capacity addition of 1.2GW in 2014E and 1.0GW from 2015 onwards (vs. previous 0.9GW p.a.). As per our forecast, Fuxin's wind capacity will rise to 5.7GW by end-2015. Compared to pure wind players, Fuxin is less exposed to wind speed risk with wind accounting for roughly one third of operating profit in 2013.

Figure 2: Fuxin's wind capacity breakdown by region (end-2013)

(MW)	In operation	Under construction	Total	%
Hebei	99.0	-	99.0	2.3%
Shanxi	196.5	-	196.5	4.5%
West Inner Mongolia	972.3	200.0	1,172.3	27.0%
East Inner Mongolia	198.0	-	198.0	4.6%
Liaoning	144.0	-	144.0	3.3%
Jilin	148.5	-	148.5	3.4%
Heilongjiang	347.2	84.0	431.2	9.9%
Zhejiang	12.0	-	12.0	0.3%
Jiangsu	100.0	-	100.0	2.3%
Fujian	62.0	16.0	78.0	1.8%
Shandong	48.0	-	48.0	1.1%
Hunan	36.3	-	36.3	0.8%
Guangdong	49.5	49.5	99.0	2.3%
Yunnan	49.5	-	49.5	1.1%
Gansu	642.0	449.5	1,091.5	25.1%
Xinjiang	396.0	49.5	445.5	10.2%
Total	3,500.8	848.5	4,349.3	100.0%

Source: Deutsche Bank; Company data

Among top ten players in solar capacity addition in 2013

In 2013, Fuxin added 308MW new solar capacity, ranking No.8 in a much fragmented solar farm market in China (Figure 3). Nevertheless, it was a great achievement as solar energy, unlike wind, has been much more fragmented with active participation of private players rather than big IPP groups. Actually,



Fuxin ranked third among listed players with only Shunfeng (1165 HK, non-rated) and United Photovoltaic (686 HK, non-rated) ahead of it.

Recently, Fuxin signed a solar development agreement in Yongxiu County, Jiangxi Province. The total investment is estimated at c.Rmb2.2bn with total installed capacity of 220MW. The project is scheduled to start construction in August 2014 and commence operation in 2018. Upon completion, annual electricity generation will reach 412m kWh, implying annual utilization hours of 1,870.

Figure 3: Newly installed solar capacity in China (2013)

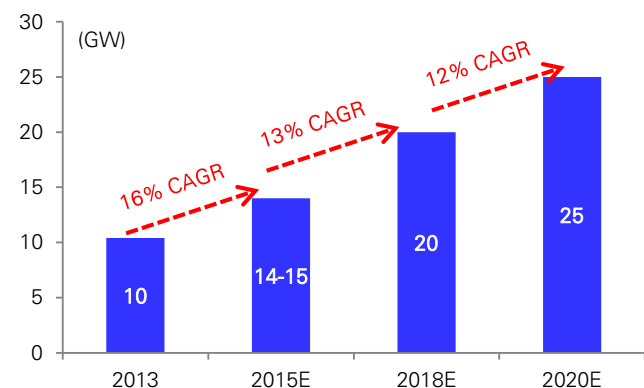
Company name	2013
China Power Investment Group	1,900
Shunfeng	890
China Three Gorges	739
CECEP	650
CHINT Group	600
United Photovoltaic	530
Huaneng Group	520
Huadian Fuxin	308
Guodian Group	300
Datang Group	300

Source: Deutsche Bank, www.bjx.com.cn

Company target of 25GW capacity by 2020E (vs.10GW in 2013)

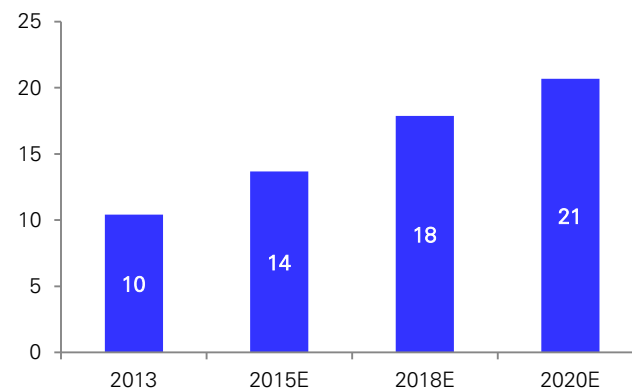
Fuxin has set an aggressive development plan through 2020 in order to become a first-tier clean energy company. It targets to achieve installed capacity of 14-15GW by end-2015 (16% CAGR 2014-15); 20GW by end-2018 (13% CAGR 2016-18) and 25GW by end-2020 (12% CAGR 2019-20). The targets set for 2015, 2018 and 2020 are 6%, 12% and 21% higher, respectively, than our model assumptions.

Figure 4: Installed capacity – company target



Source: Company data, Deutsche Bank

Figure 5: Installed capacity – model assumptions



Source: Company data, Deutsche Bank estimates

1Q14 earnings growth on track at 31% yoy

Fuxin delivered solid 1Q14 results with net profit up by 31% yoy, mainly on: 1) good thermal utilization (+195 hours yoy to 1,291 hours) given low rainfall/wind speed as well as nuclear maintenance during the quarter; and 2)



yoy fuel cost decrease. Gearing improved to 266% in 1Q from 293% in end-2013. Annualized ROE was 14%, in line with our full year forecast.



Forecast changes, comps and sensitivity

Fine-tuning earnings forecast

We have incorporated 2013 reported figures and fine-tuned our assumptions based on latest company operations (see key operating assumptions in Figure 6). Key changes include: 1) annual wind capacity addition from 0.9GW to 1.2GW; 2) annual solar capacity addition from 50MW to 200MW in 2014-15; and 3) a tariff cut assumed for its coal fired projects starting from 1 October 2014 (in line with other IPPs. As a result, we edged up 2014/2015 earnings estimates by 1.7% and 4.5%, with new target price of HKD5.60 (Figure 7), which implies a 13.7x/10.3x/8.7x 2015E/16E/17E PE, respectively.

Figure 6: Key operating metrics and assumptions (2009-16E)

Operating metrics	Unit	2009	2010	2011	2012	2013	2014E	2015E	2016E
Total consolidated capacity	MW	5,425	6,351	6,524	7,899	10,424	12,124	13,664	15,064
% chg			17.1%	2.7%	21.1%	32.0%	16.3%	12.7%	10.2%
Thermal	MW	2,650	2,650	2,050	2,650	3,850	3,850	3,850	3,850
Hydro	MW	2,146	2,199	2,223	2,223	2,457	2,557	2,667	2,767
Wind	MW	471	1,334	2,171	2,717	3,501	4,701	5,701	6,701
Total attributable capacity	MW	5,106	6,017	6,200	7,347	9,717	11,503	13,680	15,330
% chg			17.8%	3.1%	18.5%	32.3%	18.4%	18.9%	12.1%
Annual utilisation hrs									
Thermal	Hours	4,943	4,467	6,045	4,762	5,063	5,012	4,862	4,813
Hydro	Hours	2,379	4,015	2,583	4,065	3,438	3,438	3,438	3,438
Wind	Hours	2,726	2,232	2,072	1,923	2,030	2,030	2,071	2,112
Consolidated net output	Bn kWh	21.5	24.6	19.7	24.6	33.3	35.4	38.3	41.2
% chg			14.0%	-19.7%	24.7%	35.5%	6.3%	8.1%	7.7%
Thermal	Bn kWh	15.9	14.0	11.1	11.1	19.0	18.3	17.7	17.5
Hydro	Bn kWh	4.9	8.6	5.6	8.9	7.6	8.5	8.9	9.2
Wind	Bn kWh	0.6	1.2	2.5	3.9	5.7	7.2	9.6	11.7
Average tariff									
Thermal	Rmb/MWh	360	354	364	380	376	376	366	359
Hydro	Rmb/MWh	251	254	253	275	278	278	278	278
Wind	Rmb/MWh	418	454	481	484	482	482	482	482
Fuel cost									
Standard coal consumption	g/kWh	308	305	304	302	302	302	302	302
Avg. standard coal cost	Rmb/ton	689	803	740	755	666	633	627	627
% chg			16.6%	-7.9%	2.0%	-11.8%	-5.0%	-1.0%	0.0%

Source: Company data, Deutsche Bank estimates

Deutsche Bank vs. consensus forecast

Our 2014E earnings forecasts are 8% lower than consensus under conservative wind capacity and wind speed assumptions. However, we are more upbeat on its future growth outlook, upon sequential nuclear commissioning, with 2015/16E earnings 3%/12% higher than consensus. Also, based on our proprietary power demand and supply model in Fujian province (including interconnection capacity forecast between Fujian and Zhejiang), we are less concerned than the street on utilization hour downside for its thermal power plants upon full commissioning of Fuqing and Ningde nuclear projects in 2016 (see Appendix).

Moreover, we forecast a further 18% earnings growth in 2017E on full-year contribution of Fuqing Unit 4 and continued wind/solar capacity growth as



discussed earlier, while street consensus is not available yet. As highlighted in our initiation report *Strong nuclear/wind growth deserves a premium; initiating with Buy*, dated 11 March 2014, if Shaowu Expansion and Kemen III coal fired projects obtain final government approval within the next 12 months, they are likely to be completed in 2016 and add another Rmb700m profit to our current FY17 forecast of Rmb4,039m, or a further 17% upside. Our HKD5.60 target price is the highest on the street (Figure 8). However, the implied 10.3x FY16E P/E is still lower than the multiple implied by consensus target price for other clean energy players such as Longyuan Power and Huaneng Renewables.

Figure 7: Earnings estimate and target price changes

0816.HK	Current	Before	% change
Revenue (Rmb m)			
2014	13,973	13,808	1.2%
2015	15,444	15,099	2.3%
EBITDA (Rmb m)			
2014	7,581	7,354	3.1%
2015	8,981	8,603	4.4%
Net profit (Rmb m)			
2014	1,745	1,717	1.7%
2015	2,560	2,451	4.5%
Recurring EPS (Rmb)			
2014	0.22	0.22	1.7%
2015	0.32	0.31	4.5%
Rating	Buy	Buy	
Target price (HKD)	5.60	5.50	1.8%

Source: Deutsche Bank estimates

Figure 8: Deutsche Bank vs. consensus forecast

Company	Ticker	Target price	Rating
Huadian Fuxin	0816.HK	HKD5.60	Buy
(Rmb m)	DB	Consensus	Diff.
Revenue			
2014	13,973	14,701	-5%
2015	15,444	16,925	-9%
2016	17,025	18,806	-9%
EBITDA			
2014	7,581	7,622	-1%
2015	8,981	8,995	0%
2016	10,325	10,559	-2%
Net income			
2014	1,745	1,906	-8%
2015	2,560	2,493	3%
2016	3,410	3,047	12%
Consensus	Buy	Hold	Sell
Ratings	13	0	1

Source: Deutsche Bank estimates, Bloomberg Finance LP

Figure 9: Earnings sensitivity (2014E)

	Base case figure	Earnings chg.
1% increase in hydro tariff (Rmb/MWh)	278	1.1%
1% increase in wind tariff (Rmb/MWh)	482	1.6%
1% increase in thermal tariff (Rmb/MWh)	366	3.2%
1% increase in hydro utilization hours	3,438	1.1%
1% increase in wind utilization hours	2,030	1.6%
1% increase in thermal utilization hours	5,012	1.3%
1% decrease in unit fuel cost (Rmb/MWh)	236	1.9%
25bps decrease in interest rate	6.0%	6.4%
Nuclear project delay (unit 3 by one month)	Aug-2014	3.2%

Source: Deutsche Bank



Figure 10: Comps

Share price as of 6/3/2014							Performance		Valuations				Returns & Gearing (%)							
Company	Ticker	Price	Rating	Price target	% to target	Mkt. Cap. US\$m	Absolute 3m	Relative 3m	P/E		EV/EBITDA		P/BV		RoE		ROA		Gearing	Yield
									14E	15E	14E	15E	14E	15E	14E	15E	14E	15E	13A	14E
China IPPs																				
Datang	0991.HK	HK\$3.07	Buy	HK\$4.10	34%	5,270	(2%)	(7%)	7.3	5.0	8.5	7.2	0.7	0.6	9.8	13.4	1.2	1.5	287.9	5.4
CR Power	0836.HK	HK\$21.35	Buy	HK\$27.10	27%	13,194	13%	8%	7.7	6.7	6.5	5.5	1.3	1.1	17.5	17.8	5.6	5.9	96.4	4.2
Huaneng Power	0902.HK	HK\$8.03	Buy	HK\$10.70	33%	14,557	18%	12%	7.4	7.4	6.2	6.0	1.3	1.2	18.2	17.1	4.0	4.5	194.8	6.7
Huadian	1071.HK	HK\$4.35	Buy	HK\$6.10	40%	4,136	35%	28%	5.9	6.2	6.4	6.2	0.9	0.9	18.0	15.6	2.4	2.7	329.0	6.9
China Power Int'l	2380.HK	HK\$2.80	Buy	HK\$4.00	43%	2,313	17%	11%	6.7	6.5	7.9	7.5	0.7	0.7	13.0	12.5	3.1	3.1	193.0	6.9
China Wind																				
Longyuan Power	0916.HK	HK\$8.81	Buy	HK\$10.70	21%	9,132	(10%)	(14%)	18.4	14.2	9.8	8.8	1.7	1.5	9.6	11.4	1.9	2.7	144.4	1.4
Huaneng Renewables	0958.HK	HK\$2.59	Hold	HK\$2.70	4%	2,822	(29%)	(32%)	19.9	14.2	9.1	8.3	1.3	1.2	6.7	8.8	1.6	1.5	197.3	1.0
Datang Renewable	1798.HK	HK\$1.11	Hold	HK\$1.26	14%	1,041	(32%)	(35%)	28.2	40.2	9.9	8.7	0.7	0.7	0.2	1.7	0.4	0.0	321.8	0.1
Suntien	0956.HK	HK\$2.64	NA	NA	NA	1,256	(25%)	(29%)	12.7	10.5	7.4	6.8	1.0	0.9	9.1	9.5	3.3	3.6	99.7	1.7
Other renewables																				
Jingneng	0579.HK	HK\$3.57	NA	NA	NA	2,949	(28%)	(31%)	11.1	8.1	9.7	7.3	1.5	1.3	14.4	17.2	4.2	4.7	191.2	2.4
CPNE	0735.HK	HK\$0.49	NA	NA	NA	719	(23%)	(27%)	10.9	6.2	5.5	3.4	0.6	0.5	5.6	8.9	1.9	2.3	82.4	0.8
China WindPower	0182.HK	HK\$0.59	NA	NA	NA	681	(22%)	(26%)	10.7	7.8	6.9	3.8	1.0	0.9	7.2	11.3	4.0	4.2	0.0	0.7
China EB Int'l	0257.HK	HK\$10.56	Sell	HK\$7.50	(29%)	5,500	(10%)	(15%)	27.7	22.7	15.9	14.0	3.2	2.9	12.2	13.5	6.8	6.9	8.0	0.9
Huadian Fuxin	0816.HK	HK\$3.95	Buy	HK\$5.60	42%	4,065	(6%)	(11%)	14.2	9.7	8.8	7.9	1.8	1.6	14.1	17.4	2.3	3.1	285.9	1.4

All estimates are DB estimates and all stock data is from Bloomberg
 Definitions: 1) Gearing is net debt / shareholders equity; 2) EV is after deducting estimated value of associates;

Source: Bloomberg Finance LP, Deutsche Bank estimate; closing price as of 3 June 2014



Figure 11: Huadian Fuxin – income statement (2010-17E)

Income statement (Rmb m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Operating Revenue, Net	8,398	7,278	11,352	13,242	13,973	15,444	17,025	18,583
Hydro	2,206	1,441	2,414	2,075	2,365	2,464	2,563	2,657
Wind	550	1,214	1,901	2,767	3,519	4,650	5,691	6,737
Coal-fired	4,991	4,119	6,159	7,465	6,953	6,618	6,552	6,552
Other clean energy	458	453	597	851	1,135	1,712	2,219	2,636
Service concession construction	193	44	277	81	0	0	0	0
Others	0	7	3	4	0	0	0	0
Operating Expenses	(6,735)	(5,644)	(8,317)	(8,907)	(9,017)	(9,631)	(10,339)	(11,075)
Fuel	(2,857)	(2,010)	(4,107)	(4,362)	(4,103)	(3,940)	(3,900)	(3,900)
Cost of substituted electricity	(1,048)	(1,100)	(272)	(140)	0	0	0	0
Repairs and Maintenance	(226)	(168)	(335)	(440)	(483)	(550)	(625)	(672)
Administration expenses	(197)	(226)	(430)	(415)	(437)	(437)	(484)	(533)
Depreciation & Amortization	(1,138)	(1,244)	(1,798)	(2,175)	(2,626)	(3,168)	(3,639)	(4,121)
Service concession construction	(193)	(44)	(277)	(81)	0	0	0	0
Staff Costs	(827)	(661)	(801)	(955)	(1,000)	(1,127)	(1,243)	(1,358)
Other operating expenses(incomes)	(249)	(191)	(297)	(339)	(369)	(408)	(450)	(491)
Profit from Operations	1,899	1,945	3,478	4,397	4,990	5,848	6,721	7,543
Operating margin	23%	27%	31%	33%	36%	38%	39%	41%
Hydro	1,170	447	1,258	932	1,153	1,192	1,234	1,281
Wind	347	794	1,182	1,466	1,801	2,327	2,859	3,381
Coal-fired	386	656	907	1,966	1,900	1,738	1,715	1,715
Other clean energy	83	88	139	191	272	481	676	831
Other Income	236	310	443	61	35	35	35	35
Interest Income	30	71	74	120	95	92	80	81
Interest Expenses	(985)	(1,272)	(1,978)	(2,425)	(2,776)	(3,073)	(3,374)	(3,631)
Total Financial Expenses	(954)	(1,201)	(1,905)	(2,305)	(2,681)	(2,981)	(3,294)	(3,549)
Share of Profit of Associates	12	3	43	94	185	578	974	1,170
Profit Before Tax	956	748	1,616	2,185	2,494	3,444	4,401	5,163
Income Tax Expense	(158)	(95)	(261)	(484)	(492)	(597)	(703)	(823)
Effective tax rate	17%	13%	16%	22%	20%	17%	16%	16%
Profit Before Minority Interest	798	653	1,356	1,701	2,002	2,848	3,698	4,341
Minority Interest	(277)	(87)	(262)	(233)	(249)	(272)	(272)	(285)
Net Profit Attributable to Shareholders	521	566	1,093	1,468	1,753	2,575	3,425	4,055
Net profit margin	6%	8%	10%	11%	13%	17%	20%	22%
Recurring EPS (Rmb)	NA	0.07	0.13	0.22	0.22	0.32	0.43	0.51
growth yoy %	NM	NM	100%	68%	1%	46%	33%	18%
DPS (HKD)	-	-	0.03	0.04	0.04	0.06	0.09	0.10
growth yoy %	NM	NM	NM	32%	16%	46%	33%	18%
Dividend payout ratio	0%	0%	18%	20%	20%	20%	20%	20%

Source: Company data, Deutsche Bank estimates



Figure 12: Huadian Fuxin – balance sheet (2010-17E)

Balance Sheet (Rmb m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Non-Current Assets	40,289	44,688	53,729	60,706	69,570	77,071	84,197	91,040
Property, Plant and Equipment, Net	35,967	38,895	46,639	52,265	60,443	66,890	73,041	78,715
Investment in Associates	1,435	2,046	2,668	3,546	4,231	5,286	6,260	7,430
Intangible Assets	610	700	970	1,096	1,096	1,096	1,096	1,096
Other Non-Current Asset	2,277	3,047	3,451	3,800	3,800	3,800	3,800	3,800
Current Assets	5,422	5,560	7,612	6,970	6,926	6,452	6,805	7,656
Inventories	216	269	342	412	393	385	388	392
Accounts receivable	1,381	1,947	2,866	3,049	3,217	3,556	3,920	4,279
Prepayments and other Receivables	995	1,601	1,578	1,474	1,555	1,719	1,895	2,068
Other current assets	135	216	249	267	267	267	267	267
Cash and Bank Balances	2,695	1,528	2,576	1,769	1,493	525	335	650
Total Assets	45,711	50,248	61,341	67,676	76,495	83,524	91,002	98,696
Current Liabilities	14,717	17,844	18,767	21,816	21,761	21,887	22,059	22,213
Accounts Payable	1,377	992	1,172	1,777	1,687	1,706	1,769	1,836
Other payables and accrued charges	6,164	7,983	7,793	8,049	8,049	8,049	8,049	8,049
Short term bank borrowings	6,997	8,616	9,379	11,617	11,617	11,617	11,617	11,617
Tax Payable	132	16	80	250	284	391	501	588
Other current liabilities	47	236	343	123	123	123	123	123
Non-Current Liabilities	22,524	23,095	29,865	32,149	38,406	42,829	46,966	50,865
Long term bank borrowings	21,707	21,796	27,160	30,301	36,557	40,980	45,118	49,017
Deferred income	122	198	240	321	321	321	321	321
Other Long-term Liability	695	1,101	2,464	1,527	1,527	1,527	1,527	1,527
Shareholders' Equity	6,840	7,504	10,574	11,211	13,581	15,790	18,688	22,045
Issued capital	5,089	6,000	7,623	7,623	7,980	7,980	7,980	7,980
Reserves	1,751	1,504	2,952	3,588	5,602	7,810	10,708	14,065
Minority interest	1,630	1,805	2,135	2,500	2,748	3,018	3,289	3,573
Total Equity	8,470	9,310	12,709	13,711	16,329	18,808	21,977	25,618
Total Liabilities & Equity	45,711	50,248	61,341	67,676	76,495	83,524	91,002	98,696

Source: Company data, Deutsche Bank estimates



Figure 13: Huadian Fuxin – cash flow statement (2010-17E)

Cash Flow (Rmb m)	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Profit Before Tax	956	748	1,616	2,185	2,484	3,424	4,380	5,142
Depreciation & Amortization	1,122	1,244	1,798	2,175	2,626	3,168	3,639	4,121
Dividend income	(7)	(8)	(33)	(74)	0	0	0	0
Gain / Loss on Disposals	(9)	(78)	(136)	21	0	0	0	0
Share of Loss of Associates	(12)	(3)	(43)	(94)	(185)	(578)	(974)	(1,170)
Interest income	(20)	(63)	(40)	(46)	(85)	(71)	(59)	(60)
Interest expenses	981	1,252	1,906	2,141	2,776	3,073	3,374	3,631
FX change	(2)	7	3	11	0	0	0	0
Changes in working capital	199	(1,404)	(275)	551	(286)	(368)	(371)	(382)
Other operating adjustments	(0)	(38)	(7)	(20)	0	0	0	0
Operating Cashflow	3,208	1,657	4,789	6,849	7,329	8,648	9,989	11,282
Tax paid	(193)	(188)	(112)	(228)	(491)	(593)	(700)	(819)
Capex	(6,886)	(5,997)	(7,062)	(7,186)	(10,427)	(9,188)	(9,386)	(9,386)
Capitalised Interest	0	0	(523)	(294)	(377)	(427)	(404)	(408)
Investment in associate	(1,234)	(648)	(681)	(1,542)	(500)	(478)	0	0
Interest received	73	91	70	46	85	71	59	60
Dividends received	7	50	21	96	0	0	0	0
Other investing adjustments	96	174	523	324	0	0	0	0
Investing Cashflow	(7,945)	(6,330)	(7,651)	(8,557)	(11,219)	(10,021)	(9,731)	(9,734)
Shares Issued/Repurchased	0	0	2,118	0	916	0	0	0
Borrowings	14,122	16,943	13,931	14,752	14,256	13,513	13,632	13,632
Payment of borrowings	(8,218)	(12,045)	(10,915)	(9,747)	(8,000)	(9,090)	(9,494)	(9,732)
Dividends Paid	(96)	(182)	(338)	(377)	(291)	(352)	(512)	(682)
Interest paid	(1,352)	(1,763)	(2,405)	(2,216)	(2,776)	(3,073)	(3,374)	(3,631)
Other financing adjustments	1,643	748	1,407	(1,273)	0	0	0	0
Financing Cashflow	6,100	3,702	3,798	1,139	4,105	998	252	(413)
FX changes	2	(7)	(3)	(11)	0	0	0	0
Net Cashflow	1,172	(1,167)	820	(807)	(275)	(968)	(191)	315

Source: Company data, Deutsche Bank estimates



Appendix A: Fujian power demand and supply forecast

Given Huadian Fuxin's high capacity concentration in Fujian province, with all coal and hydro capacity located there, we analyze Fujian's power demand and supply, which underpin our forecast for its coal plant utilization hours. We conclude that, as long as power demand grows at above 8% per year, its coal plant can maintain 5,000 utilization hours despite substantial new nuclear capacity coming online, thanks to limited new coal projects under construction and enhanced power export ability to the neighbouring province of Zhejiang.

Power consumption

In 2013, Fujian's total power consumption reached 170bn kWh, up by 7.68% yoy, within which primary industry, secondary industry and tertiary industry registered 7.55%, 7.78% and 7.56% yoy growth, respectively. In the first four months of 2014, power consumption in Fujian grew at 7.8%, higher than the 5.2% for the nation as a whole. We expect Fujian to see similar power consumption growth in 2014-17E at 8% annually, which is largely in line with our national forecast (7%).

Capacity addition

As of end-2013, Fujian's total installed capacity reached 41.3GW, including 26.5GW of thermal (coal-fired and gas-fired), 1GW of nuclear, 12GW of hydro and 1.5GW of wind. During 2014-17E, we expect nuclear and coal-fired power to be major capacity growth drivers, with 2017E year-end capacity reaching 57GW.

- **Coal-fired:** Currently the only approved project under construction is Shenhua Luoyuan Bay (2x1,000MW), which will be put into operation in July 2015 and September 2015 as per schedule. Besides, we expect three more projects to receive approval this year and commence operation in 2015-17, including Kemen Phase III (2x1,000MW), Shaowu expansion (2x660MW) of Huadian Fuxin, and Huaneng Luoyuan (2x600MW). Overall, we expect a 2GW, 2.3GW and 2.3GW of coal-fired capacity addition in 2015E, 2016E and 2017E.
- **Nuclear:** With the sequential commencement of the generating units of Ningde Nuclear and Fuqing Nuclear, we expect 2GW, 3GW and 2GW to be added in 2014E, 2015E and 2016E, respectively.
- **Wind:** As Fujian targets to have 2.5GW of wind capacity by 2015, we assume c.500MW of addition annually in 2014-15E before it normalizes to 400MW p.a. in 2016-17E.
- **Hydro and gas:** We expect limited capacity growth in hydro given that Fujian's hydro resources are well developed. For gas, given current high costs and supply shortage, we have not factored in any new



capacity, which is also supported by our national gas project database. Back in 2005-06, Fujian was leading the nation in ramping up gas-fired plants, resulting in a high 9% capacity mix in 2013.

Utilization hours

With the commissioning of nuclear and Shenhua Luoyuan Bay units, we expect thermal utilization hours to face downward pressure in 2015E, given 15% yoy supply growth and the base load nature of nuclear. However, North Zhejiang-Fuzhou UHV, which transmits electricity from Fujian to Zhejiang, will be completed in March 2015. This will increase Fujian's power transmission capacity by 6,800MW on top of the current 1,700MW and digest the rising power supply. By assuming 4,000 hours of utilization, we expect Zhejiang will consume up to 14% of Fujian's power supply by 2016E, which will effectively relieve the over-supply concern for Fujian's coal-fired power plants.

Figure 14: Power demand and supply forecast in Fujian

End year capacity (MW)	2011	2012	2013	2014E	2015E	2016E	2017E
Coal	21,240	22,400	22,660	22,660	24,660	26,920	29,180
Gas	3,860	3,860	3,860	3,860	3,860	3,860	3,860
Nuclear	0	0	1,000	3,000	7,000	8,000	8,000
Hydro	11,250	11,380	12,250	12,350	12,450	12,550	12,650
Wind	1,030	1,133	1,462	1,981	2,500	2,900	3,300
Total	37,170	38,850	41,330	43,951	50,570	54,330	57,090

New capacity addition (MW)	2011	2012	2013	2014E	2015E	2016E	2017E
Coal	2,220	1,160	260	0	2,000	2,260	2,260
Gas	0	0	0	0	0	0	0
Nuclear	0	0	1,000	2,000	4,000	1,000	0
Hydro	150	130	870	100	100	100	100
Wind	300	103	329	519	519	400	400

Power demand (bn kWh)	2011	2012	2013	2014E	2015E	2016E	2017E
Fujian power consumption	152.0	157.9	170.1	183.7	198.4	214.2	231.4
% yoy change	16%	4%	8%	8%	8%	8%	8%
Power exports to Zhejiang	5.7	4.0	8.3	10.0	22.7	34.0	34.0
Export capacity (time-weighted, MW)			1,700	1,700	5,667	8,500	8,500

Power generation (bn kWh)	2011	2012	2013	2014E	2015E	2016E	2017E
Coal	115.7	97.8	115.1	117.5	118.6	128.8	140.7
Gas	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Nuclear	0.0	0.0	4.4	16.3	40.8	56.3	60.0
Hydro	28.5	47.6	38.8	40.6	40.9	41.3	41.6
Wind	2.3	2.8	3.6	4.6	6.0	7.3	8.4
Total	158.0	162.3	176.5	193.7	221.0	248.2	265.4

Utilisation hours	2011	2012	2013	2014E	2015E	2016E	2017E
Coal	5,747	4,483	5,107	5,186	5,014	4,993	5,018
% yoy change		-22%	14%	1.5%	-3.3%	-0.4%	0%
Gas	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Nuclear			7,500	7,500	7,500	7,500	7,500
Hydro	2,505	4,185	3,263	3,300	3,300	3,300	3,300
Wind		2,803	2,738	2,700	2,700	2,700	2,700

Source: CEIC, Fujian NDRC, Fujian NEA, Deutsche Bank estimates



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Huadian Fuxin	0816.HK	3.94 (HKD) 3 Jun 14	6

*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

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6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) 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: Huadian Fuxin (0816.HK)
 (as of 6/3/2014)



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. 11/03/2014: Upgrade to Buy, Target Price Change HKD5.50

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.

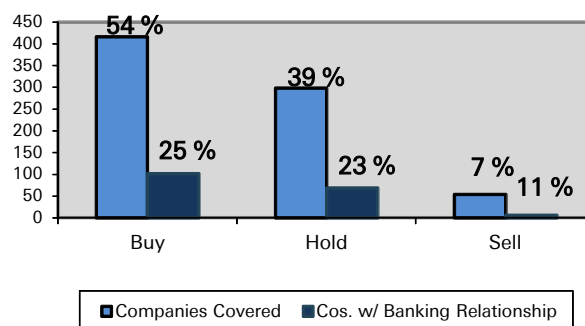
2. Ratings definitions prior to 27 January, 2007 were:

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



Asia-Pacific Universe



Regulatory Disclosures

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