

China Longyuan Power (916 HK)

Largest Whilst Not Purist

BUY

Share Price HKD 5.95
12m Price Target HKD 7.10 (+19%)

The largest and most established wind farm player

Initiate at BUY with a DCF-based TP of HKD7.10, implying ~19% upside. Apart from being the largest wind farm operator with the strongest balance sheet, we are positive on LY as we expect the utilization hours to recover. We believe the weaker profit from coal-fired generation is largely priced in and recent stabilization of coal prices could relieve some pressure. Trading at 8.3x FY18E P/E, ~1.8x SD below its 5-yr historical average, valuation appears to be undemanding in our view. We expect market to turn more positive as utilization rebounds. MKE earnings are 5% above consensus.

Utilization recovery to drive earnings growth

LY has the highest exposure in Gansu among peers and has been suffering from high curtailment in the region. Nevertheless, we expect curtailment in Gansu to see a significant improvement this year as the first UHV transmission line in Gansu, the Jiuquan-Hunan line, will commence operation in 2H17. We project a ~20% earnings growth in 2017E mainly driven by a ~10% growth in capacity (~1,700MW) and ~5% utilization recovery. LY obtained approvals to build 1.84GW of wind capacity in 2016, 97% of which was located in non-curtailed regions.

Diversification with coal-fired business

We believe the ~12% share price correction since March largely reflects concerns about the profit decline in the coal-fired power business. We believe investors are concerned about profit cannibalization from its coal-fired business due to high coal prices. However, coal price has dropped from the peak by around 15% since mid-Nov 2016 and has stabilized at around CNY630/tonne (Qinhuangdao Shanxi Premium Blend) and we believe it could help to relieve pressure of the coal-fired business.

Attractive valuation with a 3-yr 18% EPS CAGR

LY delivered solid 1H17 results with net profit rising 5.7% YoY to CNY2,415m, accounting for 59% of our FY17E forecast. Apart from being the largest wind farm operator, we believe LY deserves a valuation premium due to its strongest balance sheet and cash flow among peers. Trading at 8.3x FY18E P/E, ~1.8x SD below its 5-yr historical average, valuation appears to be undemanding in our view.

FYE Dec (CNY m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	19,683	22,304	24,312	26,742	29,012
EBITDA	12,710	13,890	14,947	16,859	18,532
Core net profit	2,878	3,415	4,089	4,861	5,646
Core EPS (CNY)	0.36	0.42	0.51	0.60	0.70
Core EPS growth (%)	12.5	18.7	19.7	18.9	16.2
Net DPS (CNY)	0.07	0.09	0.10	0.12	0.14
Core P/E (x)	14.0	11.8	9.9	8.3	7.2
P/BV (x)	1.1	1.0	0.9	0.8	0.7
Net dividend yield (%)	1.4	1.7	2.0	2.4	2.8
ROAE (%)	8.1	8.6	9.5	10.1	10.5
ROAA (%)	2.2	2.5	2.8	3.2	3.5
EV/EBITDA (x)	9.3	9.0	8.4	7.5	6.7
Net gearing (%) (incl perps)	161.7	154.6	146.3	130.3	112.8
Consensus net profit	-	-	3,887	4,560	5,157
MKE vs. Consensus (%)	-	-	5.2	6.6	9.5

Ricky WK Ng, CFA
rickyng@kimeng.com.hk
(852) 2268 0689

Harris Leung, CFA
HarrisLeung@kimeng.com.hk
(852) 2268 0642

Company Description

China Longyuan Power Group Corp. Ltd. mainly engages in wind power generation in China. It also operates coal-fired power plants.

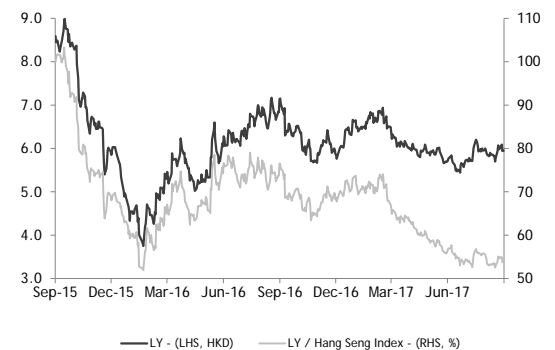
Statistics

52w high/low (HKD)	7.15/5.44
3m avg turnover (USDm)	9.5
Free float (%)	99.3
Issued shares (m)	8,036
Market capitalisation	HKD47.8B USD6.1B

Major shareholders:

Wellington Management Co. LLP	9.0%
National Council for Social Security Fun	7.0%
China Life Insurance (Overseas) Co., Ltd	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	4	(17)
Relative to index (%)	(4)	(5)	(30)

Source: FactSet

Links to related reports:

[Chinese Wind Power - Wind Beneath My Wings](#)

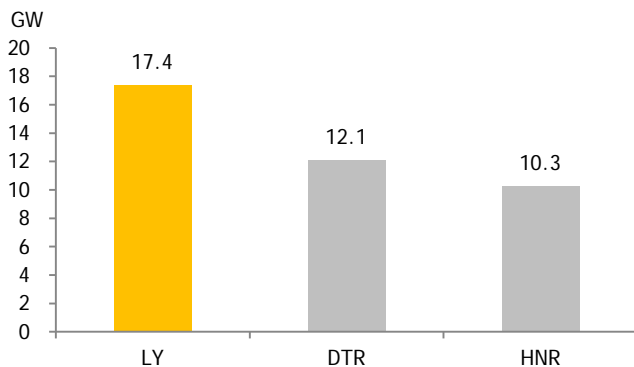
[Huaneng Renewables Corp. \(958 HK\)](#)

[China Datang Renewable \(1798 HK\)](#)

Value Proposition

- LY is the largest and most established wind farm operator in China with 17.4GW installed wind power capacity in 2016, accounting for ~10.3% market share in China.
- Market leader in offshore wind power sector with offshore wind resource reserves exceeding 8GW, 1.1GW of which has been approved as at the end of 2016.
- Our positive view rests on LY's strong potential utilization recovery in Gansu and improving asset outlook. It obtained approvals totalling 1,840MW of wind power projects in 2016, 97% of which are located in non-curtailed regions.
- Lowest net gearing among peers, hence offering greater expansion flexibility, lower risk of a possible share placement and interest expense burden will also be lower.

Largest installed wind farm capacity

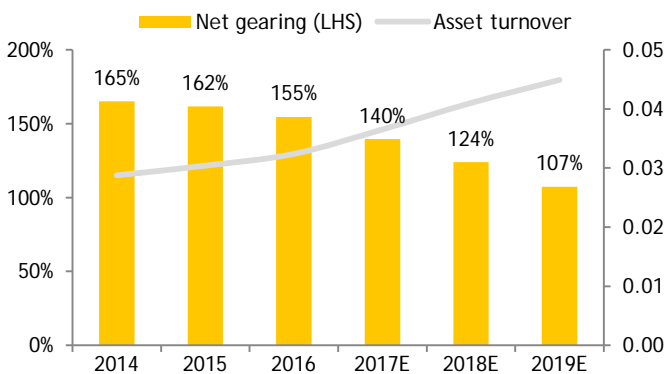


Source: Company

Financial Metrics

- We forecast revenue will rise ~9% in 2017E mainly driven by 12% growth in power generation. We project LY will add 1.7GW capacity in 2017E, ~7% higher than in 2016.
- Expecting utilization hours to rise ~5% to 1,991 hours in 2017E with an improving curtailment outlook in Gansu. We factor in a steady tariff of CNY570/MWh in 2017E.
- We project LY's net profit will rise ~24% in 2017E on the back of a 1.3ppt EBIT margin expansion, thanks to its stringent control in staff and repair maintenance costs.
- We expect its net gearing to decline to ~140% in 2017E on improving cash flow outlook, with a steady CNY13b capex.

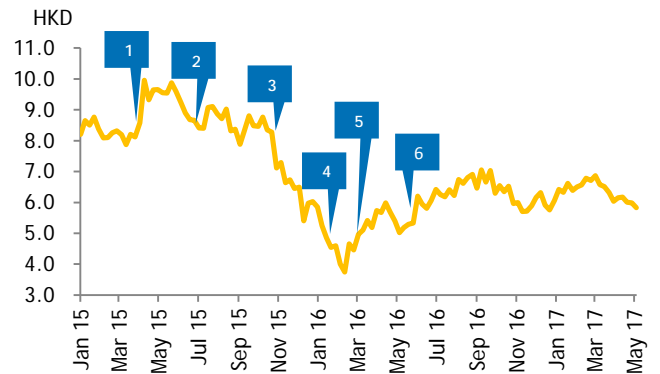
Deleverage to continue with improving asset turnover



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Announced wind power output rose ~25% YoY in Mar 2015.
2. Announced wind power output fell ~3.5% YoY in Jul 2015.
3. NDRC proposed to cut onshore wind feed-in tariff by as much as 5.8% for new projects starting 2016.
4. Announced wind power output fell ~12% YoY in Dec 2015.
5. Announced wind power output rose ~10% YoY in Feb 2016.
6. NDRC announced guaranteed purchase of utilization hours across nine provinces.

Swing Factors

Upside

- Stronger-than-expected wind speed which may lead to higher utilization hours, hence higher power generation.
- Faster-than-expected receivable of government subsidies or grants.
- Lower-than-expected coal prices for its coal-fired power operation.
- Potential supporting government policies which could help to reduce wind power curtailment.

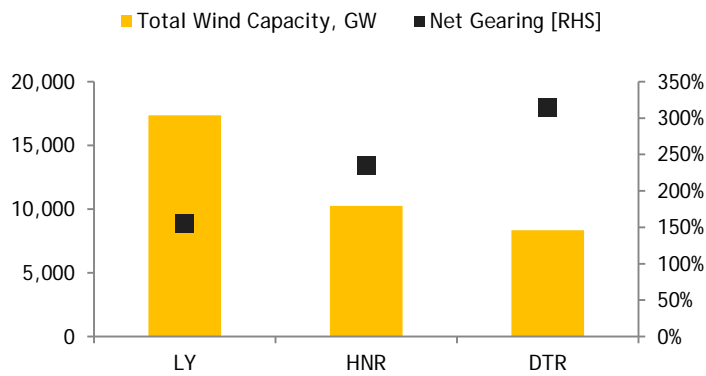
Downside

- Slower-than-expected recovery in wind power utilization rate with higher-than-expected grid curtailment.
- Higher-than-expected finance cost hike and maintenance cost.
- Weaker-than-expected wind speed.
- A continuous increase in coal prices.
- Less effective execution in guaranteed purchase utilization hours implemented by the NDRC.
- Wider-than-expected tariff discount in electricity sold under market-driven mechanism.

1. Key charts

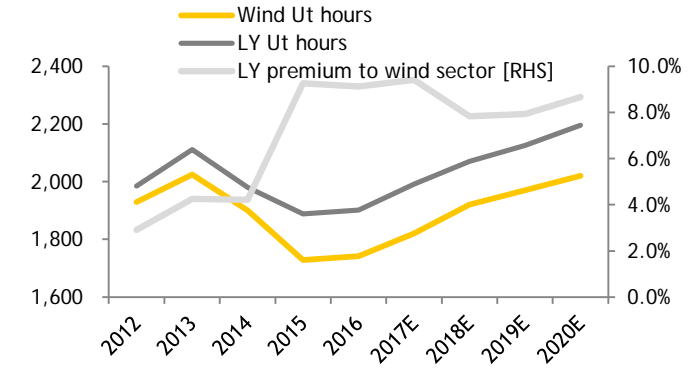
LY is the most established wind farm player, with the largest and diversified wind capacity and lowest gearing, being our stable/balanced wind farm play, but parent company restructuring risk is an overhang.

Fig 1: LY - most established with high capacity, low gearing



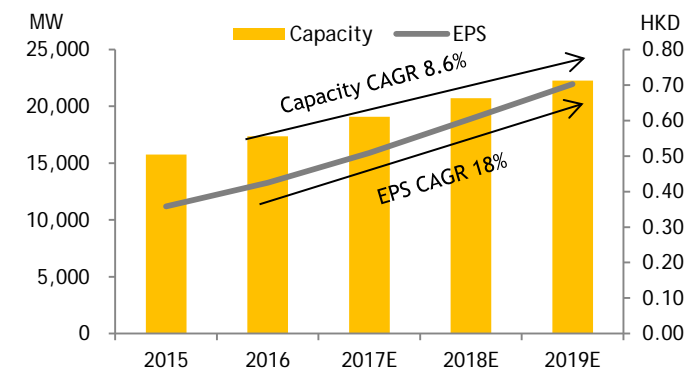
Source: Company, Maybank Kim Eng

Fig 2: Utilization hours - LY premium to wind sector



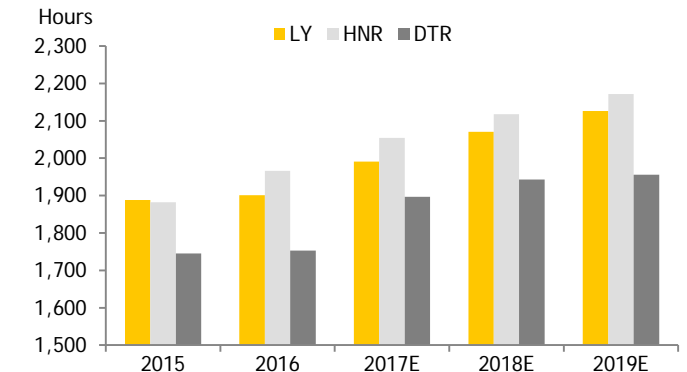
Source: Company, NDRC, NEA, Maybank Kim Eng

Fig 3: LY capacity CAGR 8.6% and EPS CAGR 18%



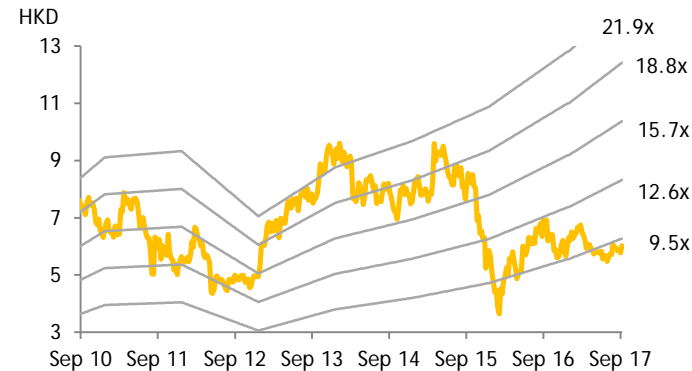
Source: Company, Maybank Kim Eng

Fig 4: Utilization hours improving



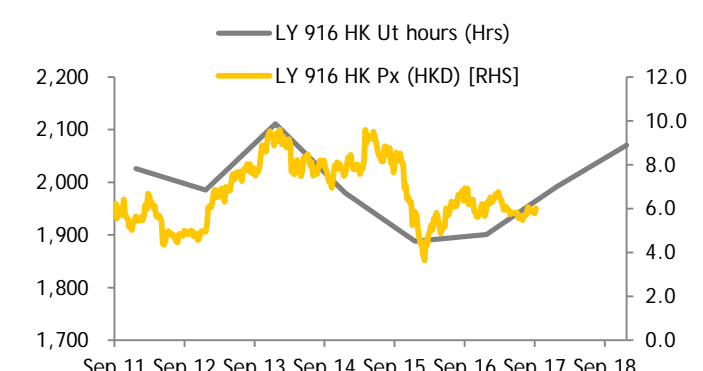
Source: Company, Maybank Kim Eng

Fig 5: LY forward P/E



Source: Bloomberg, Maybank Kim Eng, 21 Sep 2017

Fig 6: LY utilization hours as long-term price indicator

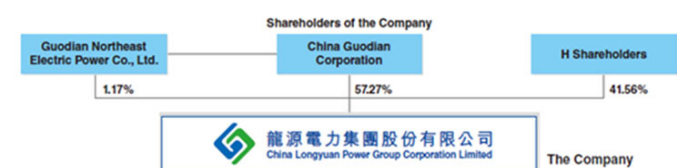


Source: Bloomberg, Maybank Kim Eng, 21 Sep 2017

2. Corporate information

China Longyuan Power Group Corporation Limited (“LY”), the subsidiary of China Guodian Corporation, has developed into a large-scale power generation conglomerate focusing on new energy. LY is the largest wind farm operator in the world, with total installed capacity of 19.5GW as of Dec 2016, of which 17.4GW was wind capacity. Its major projects are located in Inner Mongolia, Jiangsu, Xinjiang, Gansu and Heilongjiang. Guodian Group, the controlling shareholder of LY, directly and indirectly holds 58.44% of LY’s total issued shares.

Fig 7: LY shareholding structure as of Dec 2016



Name of Shareholder	Capacity	% in total share capital
Guodian Group	Beneficial owner / Interest of controlled corp.	58.44% Long
Blackrock	Interest of controlled corp.	3.84% Long 0.06% Short
Wellington Management	Interest of controlled corp.	3.32% Long
National Council for Social Security Fund	Beneficial owner	2.91% Long

Remarks: Longyuan 916 HK’s controlling shareholder, Guodian Group, was informed by the SASAC on 28 August 2017 of the approval of the joint reorganisation of Guodian Group and Shenhua Group by consolidation. Shenhua Group, a third party that is controlled by the SASAC, will be renamed as China Energy Investment Corporation Limited (a tentative name, subject to the registration with the Administration for Industry and Commerce) to absorb Guodian Group as the parent company after the reorganisation (the “Consolidation”). After the Consolidation, the controlling shareholder of the Company (Longyuan 916 HK) will be changed from Guodian Group to China Energy Investment Corporation Limited, while the actual controller remains to be the SASAC.

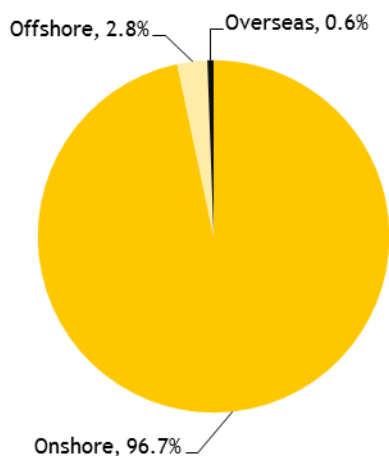
Source: Company, Maybank Kim Eng

Fig 8: LY total installed wind capacity (MW)

		Dec-16	%total
Inner Mongolia	Zone 1	2,636	15.2%
Jiangsu	Zone 4	1,729	10.0%
Xinjiang	Zone 1 / 3	1,541	8.9%
Gansu	Zone 2 / 3	1,290	7.4%
Heilongjiang	Zone 3	1,235	7.1%
Hebei	Zone 2	1,170	6.7%
Liaoning	Zone 4	1,003	5.8%
Shanxi	Zone 4	830	4.8%
Yunnan	Zone 2	770	4.4%
Anhui	Zone 4	733	4.2%
Ningxia	Zone 3	725	4.2%
Fujian	Zone 4	665	3.8%
Guizhou	Zone 4	642	3.7%
Jilin	Zone 3	547	3.2%
Shaanxi	Zone 4	439	2.5%
Shandong	Zone 4	393	2.3%
Zhejiang	Zone 4	228	1.3%
Chongqing	Zone 4	150	0.9%
Tianjin	Zone 4	132	0.8%
Hainan	Zone 4	99	0.6%
Guangxi	Zone 4	96	0.5%
Guangdong	Zone 4	76	0.4%
Hunan	Zone 4	48	0.3%
Shanghai	Zone 4	48	0.3%
Jiangxi	Zone 4	40	0.2%
Tibet	Zone 4	8	0.0%
Canada	others	99	0.6%
Total		17,369	100.0%

Source: Company, Maybank Kim Eng

Fig 9: Onshore wind generation is the core business



Source: Company, Maybank Kim Eng

3. Wind: Winner in a muted energy space

3.1 Muted energy demand in China

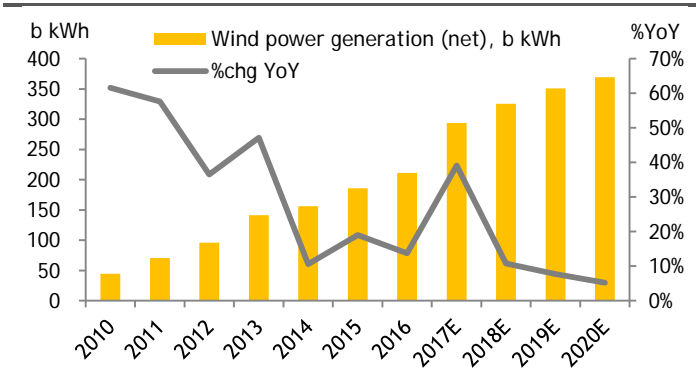
Growth in China’s demand for energy has softened. The ratio of energy demand growth to GDP growth has fallen from 1.3x in 2011 to 0.72x in 2016 against a shift in the structure of the Chinese economy from heavy industries into services.

3.2 Wind to capitalise on stagnation in coal

But against this lacklustre outlook for the energy sector, we are POSITIVE on the wind sector. Please see [link](#) for our in depth view of the sector. Concerns over pollution have prompted the Chinese government to halt or postpone new construction of coal-fired power capacity totalling 150GW, and elimination of 20GW of capacity. Over the next five years, coal capacity is expected to stagnate at 1,100GW.

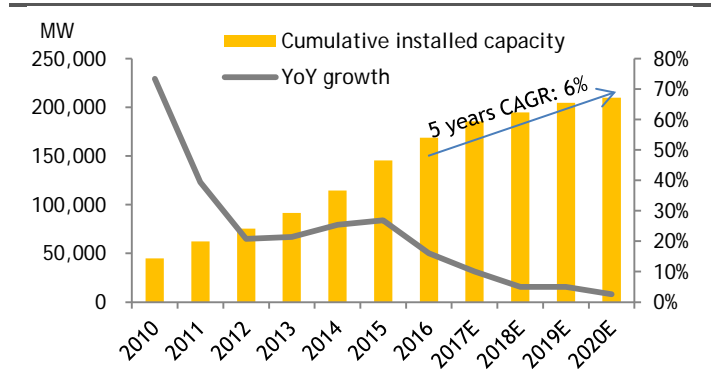
Instead, we believe that wind is set to become an important source of energy and expect wind power generation to rise 39% YoY in 2017E as China becomes less reliant on coal power generation. We forecast cumulative wind power capacity in 2020E will reach 210GW (Fig 11), contributing 11% of total capacity.

Fig 10: Onshore cumulative wind power generation



Source: NEA, NDRC, Maybank Kim Eng

Fig 11: Onshore cumulative wind power installation



Source: NEA, NDRC, Maybank Kim Eng

3.3 Emerging from the challenges

Wind has been fraught with a variety of challenges over the last few years. Rapid wind capacity additions, poor planning, weak local demand and bottlenecks in the grid have resulted in high curtailment and low utilisation. A wide swathe of wind farms have been struggling with their sub-optimal performance.

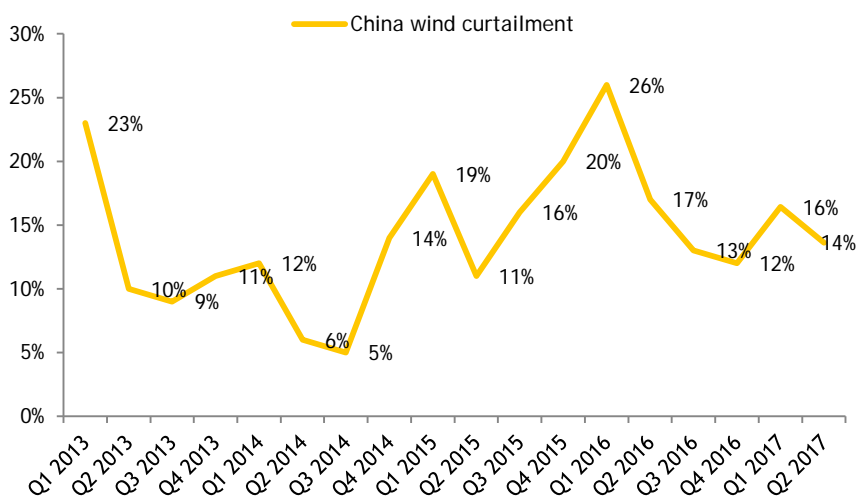
But the worst is over for the wind sector. In 1H17, China’s wind curtailment rate declined (Fig 12) and we see sustained recovery, helped by:

- Favourable government policies such as the guaranteed utilization hours in the high curtailment regions (Fig 13). In May 2016, NDRC and NEA jointly issued the “Notice on Guaranteed Purchase of All Electricity Generated from Wind Power and Solar Power”, requiring the grid to purchase a minimum amount of power from wind farm operators in provinces with high curtailment. The minimum guaranteed offtakes are 4-65% higher than their 2016 utilization. In 2016 and 1H17, utilization hours grew 0.8% and 7.3% YoY, respectively. We estimate further growth of 5.5% in 2018E, similar to the upcycle trend/growth evident in 2013.

- The commissioning of UHV transmission lines should lead to improving curtailment. The use of UHV transmission lines will further increase utilization by our estimate. In 2017 and 2018, we expect another nine UHV transmission lines to commence operation. Among the nine lines, three will be from Inner Mongolia and the rest from Xinjiang, Gansu, Shaanxi, Yunnan and Sichuan provinces.
- Capacity additions over the next few years will be moderate, mainly in the Zone 4 regions (Fig15). The government has also issued red alerts to six provinces (Inner Mongolia, Xinjiang, Gansu, Jilin, Heilongjiang, and Ningxia) that suffer from high curtailment and they will not be able to add any new capacities unless their curtailment improves. This will continue to have a positive impact on utilization hours.
- But a core government initiative that may have complex implications on the renewable and wind sector is the imminent introduction of the green certificate (GC) system. Uncertainties here have spooked capital market participants. However, we expect it will only affect new projects. Meanwhile, feed-in-tariff (FIT) for new projects starting in 2018 is expected to be trimmed to CNY0.40-0.57/kWh for the four resource zones, compared to CNY0.44-0.58/kWh previously.
- Separately, under the GC scheme, green certificates can be sold directly to either power generators required to meet carbon emissions quotas or on the open platform. Eventually, the market-driven GC system is expected to replace the subsidies to renewable companies that are currently in place.

From our sensitivity analysis, we expect the new projects' equity IRRs will at most only drop by 2.4ppt to 12.9% in Zone 4 if subsidies are cut 20%. We also expect the GC could alleviate the cash flow pressure from the delay in subsidy collection, improving the balance sheets of wind operators.

Fig 12: China wind curtailment



Source: NEA, NDRC, Maybank Kim Eng

Fig 13: 2016 utilization hours vs. "Mandatory Guaranteed Purchase Utilization Hours" scheme

Region		Utilization Hours			Curtailment ratio			1H17 Curtail- ment Ratio	1H17 vs 2016	1H17 Utilization Hours	YoY	Guarantee Purchase Utilization Hours	Diff. vs. 2016 Ut hrs
		2014	2015	2016	2014	2015	2016						
Gansu	NW * / #	1,596	1,184	1,088	11%	39%	43%	36.0%	-7ppt	681	15%	1,800	65%
Xinjiang	NW * / #	2,094	1,571	1,290	15%	32%	38%	32.0%	-6ppt	854	48%	1,800 - 1,900	40% - 47%
Jilin	NE * / #	1,501	1,430	1,333	15%	32%	30%	24.0%	-6ppt	853	26%	1,800	35%
Ningxia	NW * / #	1,973	1,614	1,553	0%	13%	13%	4.0%	-9ppt	804	17%	1,850	19%
Heilongjiang	NE * / #	1,753	1,520	1,666	12%	21%	19%	16.0%	-3ppt	925	11%	1,850 - 1,900	11% - 14%
Inner Mongolia	N * / #	2,002	1,865	1,830	9%	18%	21%	16.0%	-5ppt	1,023	0%	1,900 - 2,000	4% - 9%
Liaoning	NE #	1,734	1,780	1,929	6%	10%	13%	9.0%	-4ppt	1,124	7%	1,850	-4%
Hebei	N #	1,896	1,808	2,077	12%	10%	9%	8.0%	-1ppt	1,145	-2%	2,000	-4%
Anhui	E	1,665	1,742	2,109	na	na	na	na	na	1,023	-9%	na	na
Beijing	N	1,929	1,703	1,750	na	na	na	na	na	1,026	-10%	na	na
Chongqing	C	1,880	2,119	1,600	na	na	na	na	na	1,047	19%	na	na
Fujian	E	2,478	2,658	2,503	na	na	na	na	na	1,225	5%	na	na
Guangdong	S	1,615	1,689	1,848	na	na	na	na	na	584	-35%	na	na
Guangxi	S	1,819	2,122	2,365	na	na	na	na	na	1,169	3%	na	na
Guizhou	S	1,575	1,199	1,806	na	na	na	na	na	1,028	23%	na	na
Hainan	S	1,645	1,914	1,781	na	na	na	na	na	848	-4%	na	na
Henan	C	2,056	1,793	1,902	na	na	na	na	na	862	-15%	na	na
Hubei	C	2,032	1,927	2,063	na	na	na	na	na	1,007	11%	na	na
Hunan	C	1,717	2,079	2,125	na	na	na	na	na	1,043	1%	na	na
Jiangsu	E	2,064	1,753	1,980	na	na	na	na	na	1,007	-4%	na	na
Jiangxi	C	1,873	2,030	2,114	na	na	na	na	na	898	-8%	na	na
Qinghai	NW	1,723	1,952	1,726	na	na	na	na	na	997	-1%	na	na
Shaanxi	NW	1,961	2,014	1,951	2.0%	0.0%	7.0%	7.0%	0ppt	903	-9%	na	na
Shandong	N	1,782	1,795	1,869	1.0%	0.0%	na	na	na	998	-5%	na	na
Shanghai	E	2,082	1,999	2,162	na	na	na	na	na	1,128	1%	na	na
Shanxi	N	1,853	1,697	1,936	0.0%	2.0%	9.0%	11.0%	2ppt	979	-4%	na	na
Sichuan	C	2,433	2,360	2,247	na	na	na	na	na	1,498	9%	na	na
Tianjin	N	2,250	2,227	2,075	1.0%	0.0%	na	na	na	1,208	-5%	na	na
Tibet	NW	1,333	1,760	na	na	na	na	na	na	956	-17%	na	na
Yunnan	S	2,511	2,573	2,223	4.0%	3.0%	4.0%	5.0%	1ppt	1,592	10%	na	na
Zhejiang	E	2,202	1,887	2,161	na	na	na	na	na	933	-11%	na	na
China		1,893	1,728	1,742	8%	15%	17.1%	13.6%	-3.5ppt	984	7.3%	na	na

Remarks: * six red-alert regions; # eight Guaranteed purchase utilization hours regions

Source: NEA, NDRC, Maybank Kim Eng

Fig 14: China's distribution of newly connected wind capacity in 2016

	Newly connected wind capacity, %total
Zone I	11.20%
Zone II	8.60%
Zone III	13.70%
Zone IV	66.50%
	100.00%

Source: Maybank Kim Eng

Fig 15: NEA-planned provincial wind power capacity addition in China

	Zone	Newly installed capacity 2016 MW	Cumulative connected capacity as of 2016 MW	Newly installed capacity				Total newly installed capacity		Total connected newly installed capacity 2020 target MW
				2017 MW	2018 MW	2019 MW	2020 MW	2017 to 2020 MW	2017 to 2020 % of total	
Inner Mongolia	*/# Zone 1	1,320	25,570	0	0	0	0	0	0.0%	n.a.
Xinjiang	*/# Zone 1 / 3	850	17,760	0	0	0	0	0	0.0%	n.a.
Hebei	# Zone 2	1,660	11,880	2,390	3,500	3,000	2,500	11,390	10.3%	18,000
Yunnan	Zone 2	3,250	7,370	0	650	650	650	1,950	1.8%	12,000
Gansu	*/# Zone 2 / 3	250	12,770	0	0	0	0	0	0.0%	n.a.
Jilin	*/# Zone 3	610	5,050	0	0	0	0	0	0.0%	n.a.
Heilongjiang	*/# Zone 3	580	5,610	0	0	0	0	0	0.0%	n.a.
Ningxia	*/# Zone 3	1,200	9,420	0	0	0	0	0	0.0%	n.a.
Beijing	City Zone 4	40	190	0	50	50	100	200	0.2%	500
Tianjin	City Zone 4	0	290	290	260	400	280	1,230	1.1%	1,000
Shanxi	Zone 4	1,020	7,710	2,560	2,400	2,200	2,240	9,400	8.5%	9,000
Liaoning	# Zone 4	560	6,950	0	700	500	400	1,600	1.4%	8,000
Shanghai	City Zone 4	100	710	0	100	100	100	300	0.3%	500
Jiangsu	Zone 4	1,490	5,610	1,100	1,000	800	800	3,700	3.4%	6,500
Zhejiang	Zone 4	150	1,190	0	1,000	900	900	2,800	2.5%	3,000
Anhui	Zone 4	410	1,770	2,000	1,000	1,000	500	4,500	4.1%	3,500
Fujian	Zone 4	420	2,140	500	1,000	1,000	1,000	3,500	3.2%	3,000
Jiangxi	Zone 4	410	1,080	1,130	1,600	1,400	600	4,730	4.3%	3,000
Shandong	Zone 4	1,180	8,390	3,500	2,400	2,000	2,000	9,900	9.0%	12,000
Henan	Zone 4	130	1,040	3,000	3,000	3,000	3,000	12,000	10.9%	6,000
Hubei	Zone 4	660	2,010	3,010	1,500	1,500	1,500	7,520	6.8%	5,000
Hunan	Zone 4	610	2,170	2,320	2,300	1,500	1,500	7,620	6.9%	6,000
Guangdong	Zone 4	220	2,680	1,650	1,500	1,500	1,500	6,150	5.6%	6,000
Guangxi	Zone 4	240	670	2,000	1,000	1,000	1,000	5,000	4.5%	3,500
Hainan	Zone 4	0	310	0	0	0	350	350	0.3%	300
Chongqing	Zone 4	50	280	300	150	150	150	750	0.7%	500
Sichuan	Zone 4	520	1,250	220	80	200	200	700	0.6%	5,000
Guizhou	Zone 4	390	3,620	150	600	1,200	440	2,390	2.2%	6,000
Tibet	Zone 4	0	10	0	50	50	100	200	0.2%	200
Shaanxi	Zone 4	800	2,490	3,030	1,500	1,500	1,500	7,530	6.8%	5,500
Qinghai	Zone 4	220	690	1,500	1,500	1,000	1,000	5,000	4.5%	2,000
		19,340	148,680	30,650	28,840	26,600	24,310	110,410	100.0%	126,000

Remarks: * six red-alert regions; # eight Guaranteed purchase utilization hours regions; Installed capacity does not necessarily equal Connected capacity.

Source: NEA, Maybank Kim Eng

3.4 Impact on LY

With these changes, our estimates show that IRR for Zone 4 could fall in the range of 8-22% (Fig 16). As utilization hours and tariffs are the main drivers for the IRR, if utilization hours in Zone 4 are 2,000 hours and the tariff is CNY0.57/kWh, we estimate the equity IRR will be 15.3%. Under these assumptions, wind projects in Zone 4 remain attractive.

Looking ahead, we believe the government's ban on the approval of new wind capacity in the six provinces (Gansu, Xinjiang, Jilin, Inner Mongolia, Heilongjiang and Ningxia) with high curtailment should help to boost the utilization of LY's existing wind farms as ~50% of installed capacity are located in these six provinces. Overall, we expect LY's curtailment rate to decline further in the coming months and project the annualized curtailment rate to drop by 4ppt to ~12%, while overall utilization to increase ~5% to 1,991 hours in 2017E. We expect the curtailment rate will trend down if the government maintains the ban on new solar or wind farms as there will be an increasing number of UHV cables to help transmit electricity to other provinces.

We like LY because of its established size and broad geographical exposure. LY has strong potential utilization recovery in Gansu and improving asset outlook, with an adequate approved wind project pipeline, of which 97% are located in non-curtailed regions.

3.5 A closer look at LY:

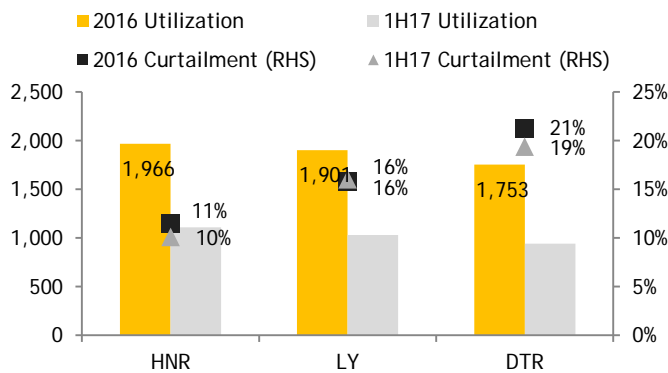
- Not a pure wind power/renewable energy player, dragged by coal-fired power segment:
 LY is the largest wind farm player, but about 11% of its total capacity is in the coal-fired power segment. Profitability was affected by high coal prices which have been volatile historically. In 1H17, the coal-fired power EBIT margin declined by 6.3ppt YoY, to 8.3%, mainly due to the high coal prices. We think the government policy/intention to reduce coal-fired power generation mix in the 13th Five Year Period could also negatively affect the coal-fired generation industry in the long term.
- Parent company restructuring is ongoing:
 SASAC has approved Guodian Group, Longyuan’s controlling shareholder, to merge with Shenhua Group to become China Energy Investment Corp. Ltd. (a tentative name). The controlling shareholder of Longyuan will change from Guodian Group to China Energy Investment Corp. Ltd., while ultimate actual controller remains to be the SASAC. We believe LY may undergo a restructuring if the new controlling shareholder would like to rearrange LY’s business segments.

Fig 16: Wind IRR sensitivity for new projects: Wind tariff vs Utilization hours

Feed-in tariff (CNY/kWh)		Utilization hours							
		1,600	1,700	1,800	1,900	2,000	2,100	2,200	2,300
Zone I	0.40	(0.4%)	0.6%	1.6%	2.6%	3.6%	4.7%	5.7%	6.8%
Zone II	0.45	2.0%	3.2%	4.4%	5.6%	6.8%	8.0%	9.3%	10.6%
Zone III	0.49	4.0%	5.3%	6.6%	8.0%	9.4%	10.9%	12.4%	14.0%
Zone IV	0.57	8.0%	9.7%	11.5%	13.3%	15.3%	17.3%	19.4%	21.7%

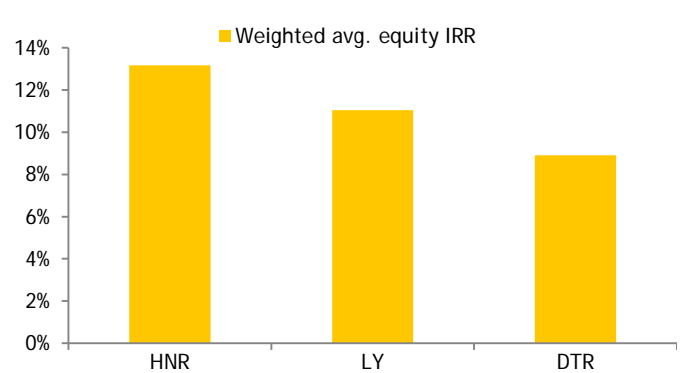
Source: NEA, NDRC, Maybank Kim Eng

Fig 17: LY will benefit from curtailment improvement



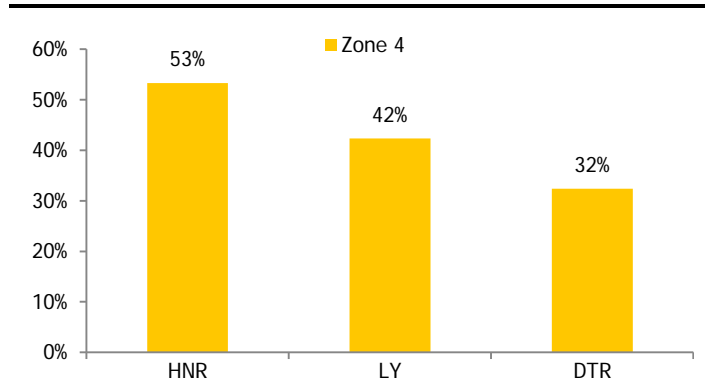
Source: Company, Maybank Kim Eng

Fig 18: IRR of the 3 wind operators



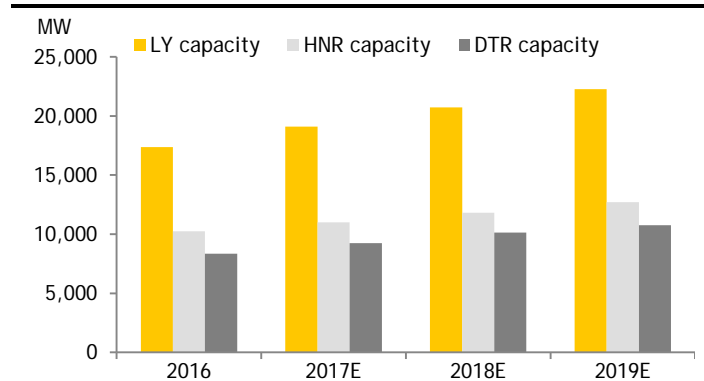
Source: Maybank Kim Eng estimates

Fig 19: Wind capacity % in Zone 4



Source: Company, Maybank Kim Eng

Fig 20: Wind capacity growth



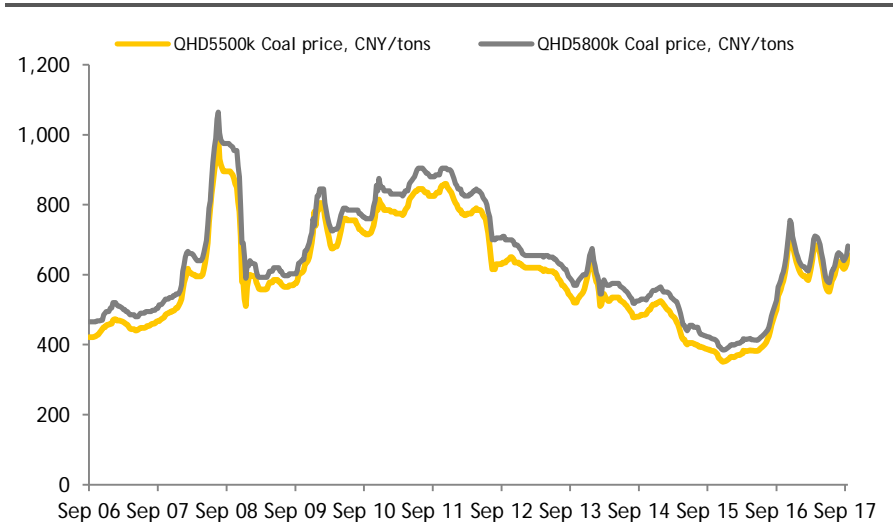
Source: Company, Maybank Kim Eng

Fig 21: Wind capacity addition

	2014	2015	2016	2017E	2018E
Wind capacity addition, MW					
HNR	1305	2194	532	739	834
LY	1633	2222	1604	1716	1630
DTR	197	1113	1317	900	900
Capex, CNY m					
HNR	(12644)	(6909)	(6909)	(7255)	(7618)
LY	(18233)	(15264)	(13990)	(13258)	(12589)
DTR	(5513)	(5218)	(6082)	(8631)	(8674)

Source: Company, Maybank Kim Eng

Fig 22: Coal price - China Qinhuangdao Port (spot coal price has stabilized since early 2017)



Source: Wind, Maybank Kim Eng, 18 Sep 2017

4. Gansu to raise wind performance

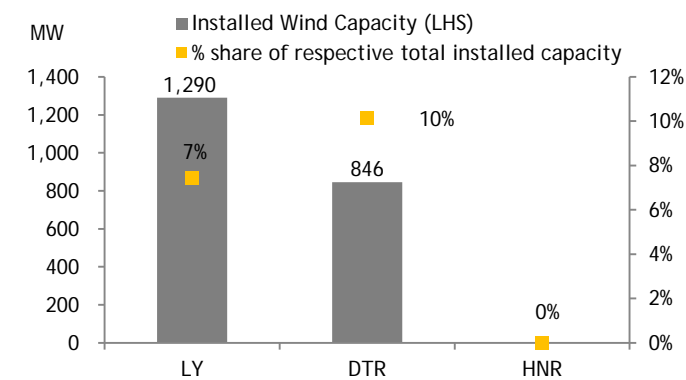
4.1 Benefit from Gansu utilization hours recovery

LY has the largest exposure of wind power assets in Gansu on absolute terms (~1,290MW) among its peers. While Gansu suffered from the highest curtailment rate of ~43% in China during 2016 (36% in 1H17), we expect curtailment in Gansu to see significant improvement this year, which could help to lift LY’s utilization in the region. We see better execution from:

- i. ~23% (300MW) of LY’s wind capacity in Gansu has been qualified as localized units and will be free of curtailment effective starting Jan 2017;
- ii. more enhanced and effective full year impact in execution of guaranteed purchase of utilization hours policy, which could provide 64% upside for LY’s utilization in Gansu (1,097 hours in 2016 vs. 1,800 hours guaranteed); and
- iii. the first UHV transmission line in Gansu, the Jiuquan-Hunan line, which is designed to transmit 50% of wind power, will commence operation in 2H17. We forecast this will represent about 31% of Gansu’s 12.77GW total wind capacity at end-2016.

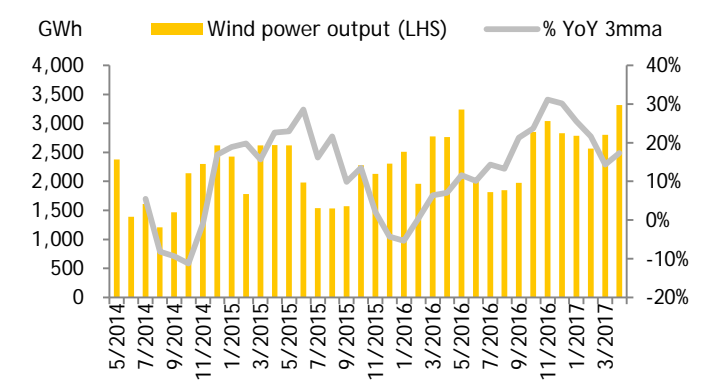
Overall, we are expecting 10% improvement in utilization hours for LY’s portfolio in Gansu.

Fig 23: LY is the most exposed to Gansu among peers



Source: Companies

Fig 24: Improving monthly wind power generation trend



Source: Companies

4.2 Key selection criteria

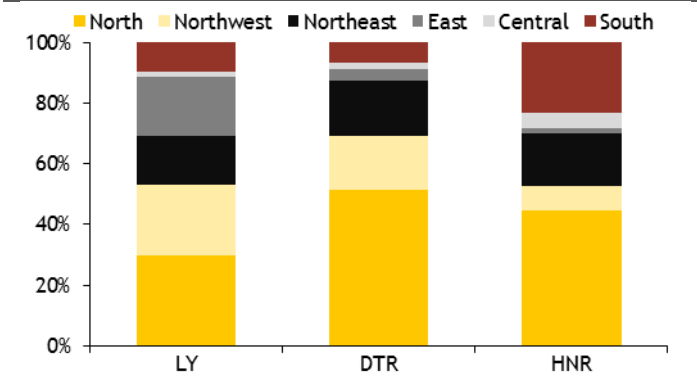
In the sector report, we list four main non-valuation criteria in our stock selection for the wind sector. We believe that these criteria help narrow down the best players in this space:

- Geographical exposure
- Guaranteed purchase utilisation hours
- Exposure to UV transmission lines
- Strength of balance sheet

4.3 Geographical exposure

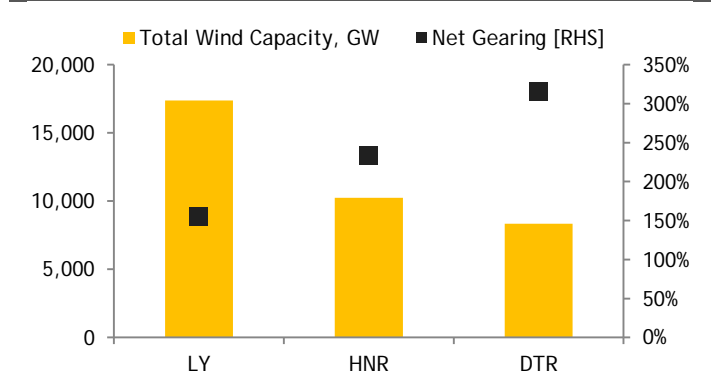
LY is the largest wind farm player, with wind capacity of 17,317MW, representing about 11.6% of China’s total capacity. LY is widely exposed to 27 out of 31 regions, with its top 3 wind capacity allocation in Inner Mongolia (15%), Jiangsu (10%) and Xinjiang (9%). Besides, from a provincial perspective, LY’s capacity is significant in 10 provinces (with LY’s capacity as of provincial connected capacity of over 15%).

Fig 25: LY - widely exposed to different regions in China



Source: Company, Maybank Kim Eng

Fig 26: LY - most established with high capacity, low gearing



Source: Company, Maybank Kim Eng

4.4 Guaranteed purchase utilisation hours

The government’s policy of guaranteeing the purchase of minimum utilization hours will help wind farms in high curtailment regions.

Comparing companies’ exposure to the regions and the upside potential of the utilization hours resulting from this policy, we see LY will benefit in terms of the weighted average increase (about 12%) in utilization hours in the six designated regions.

Fig 27: Guaranteed Purchase Utilization hours

Region	2016 Utilization Hours	Guarantee Purchase Utilization Hours	Est. Increase in Utilization hours	Difference vs. 2016 Utilization	Avg. Difference vs. 2016 Utilization	HNR	LY	DTR	HNR	LY	DTR	
						958 HK	916 HK	1798 HK	958 HK	916 HK	1798 HK	
						% of total	% of total	% of total	wgt. Avg	wgt. Avg	wgt. Avg	
						#a	#b	#c	#d	(#a * #b)	(#a * #c)	(#a * #d)
Gansu	1,088	1,800	712	65%	65.4%	0%	7%	10%	0.0%	4.6%	6.5%	
Heilongjiang	1,666	1,850 - 1,900	209	11% - 14%	12.5%	0%	7%	6%	0.0%	0.9%	0.8%	
Inner Mongolia	1,830	1,900 - 2,000	120	4% - 9%	6.5%	22%	15%	33%	1.4%	1.0%	2.1%	
Jilin	1,333	1,800	467	35%	35.0%	4%	3%	8%	1.4%	1.1%	2.8%	
Ningxia	1,553	1,850	297	19%	19.1%	0%	4%	6%	0.0%	0.8%	1.1%	
Xinjiang	1,290	1,800 - 1,900	560	40% - 47%	43.5%	4%	9%	0%	1.7%	3.9%	0.0%	
						30%	45%	63%	5%	12%	13%	

Source: NDRC, NEA, Maybank Kim Eng

4.5 Exposure to UV transmission lines

UHV transmission lines are important for wind farms to export electricity to other provinces in order to lower the curtailment. Based on the UHV cable build-out plan, we see LY benefiting in terms of the weighted capacity exposure (over 10% of total 2016 capacity) from the regions with UHV transmission line connections.

However, the construction of UHV cables will be a long-term endeavour and may face delays. As a result, this should be a mid- to long-term driver, in our view.

Fig 28: Additional capacity of 2016 utilized: UHV transmission lines benefit DTR the most

Exporting Province	Completion	Designed capacity GW	Utilization rate for wind capacity	2016 installed wind capacity			Additional capacity of 2016 utilized			HNR 958 HK % of total	LY 916 HK % of total	DTR 1798 HK % of total			
				HNR	LY	DTR	HNR	LY	DTR						
				958 HK MW	916 HK MW	1798 HK MW	958 HK MW	916 HK MW	1798 HK MW						
Inner Mongolia	Ximeng-Beijing-Tianjin-Shandong	Jul-16	Operating	9	20%	#1	#2	#3	#4	(#1 * #2)	(#1 * #3)	(#1 * #4)	4.7%	3.0%	6.6%
	West Inner Mongolia- Tianjin	Dec-16	Operating	6											
	Shanghai-miao-Shangdong	2017E	Under constr.	10											
	Ximeng-Taizhou	2017E	Under constr.	10											
	West Inner Mongolia- Changsha	2018/19E	Planning	10											
	Ximeng-Nanjing	2019/20E	Planning	9											
Gansu	Jiuquan-Hunan	2017E	Under constr.	8	50%	-	1,290	846	-	645	423	0.0%	3.7%	5.1%	
Xinjiang	Changji-Guquan	2018E	Under constr.	12	20%	448	1,541	-	90	308	-	0.9%	1.8%	0.0%	
	Hami-Chongqing	2018/19E	Planning	8											
	Huaidong-Sichuan	2018/19E	Planning	10											
Shanxi	Jinbei-Jiangsu	2017E	Under constr.	8	20%	744	830	576	149	166	115	1.4%	1.0%	1.4%	
Shaanxi	Shaanxi Yulin-Shandong	2017E	Under constr.	10	20%	359	439	149	72	88	30	0.7%	0.5%	0.4%	
Yunnan	Northwest Yunnan-Guangdong	2017E	Under constr.	5	20%	1,117	770	296	223	154	59	2.1%	0.9%	0.7%	
Sichuan	Ya'an-Wuhan	2018/19E	Planning	8	20%	494	-	-	99	-	-	0.9%	0.0%	0.0%	
	Total 2016 capacity					10,523	17,369	8,346				10.7%	10.9%	14.1%	

Source: NDRC, NEA, Maybank Kim Eng

Fig 29: China high voltage transmission line construction plan

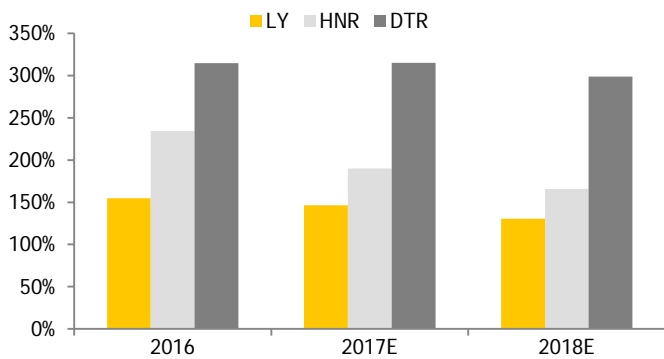


Source: Various sources; Maybank Kim Eng

4.6 Lowest gearing among peers

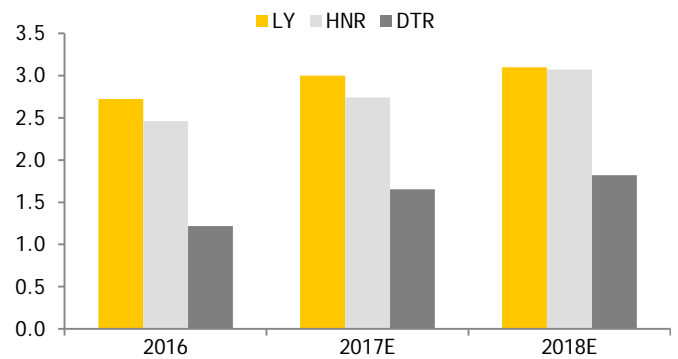
We like LY because it has the strongest balance sheet and cash flow among peers. We forecast LY’s net gearing will drop to ~146% at the end of 2017E, lower than its peers DTR and HNR. As a result, LY enjoys less interest expense burden than its competitors as we think this is crucial given interest rates are on a rising trend in China. Meanwhile, we estimate LY has the largest approved pipeline of projects of around 7.5GW and we believe the stronger balance sheet offers it greater expansion flexibility. Together with a positive free cash flow outlook, we believe the share-placement risk is lower compared to its peers.

Fig 30: Net gearing ratio by company (16-18E)



Source: Company, Maybank Kim Eng

Fig 31: Interest coverage ratio (16-18E)



Source: Company, Maybank Kim Eng

5. Financial analysis

LY 1H17 revenue rose 9.7% YoY to CNY12,315m, mainly due to rise in electricity sales. The earnings went up 5.7% YoY to CNY2,415m, ahead of the market expectations. In 1H17, the wind power generation rose 11% YoY to 17.1bn kWh, with wind utilization hours reaching 1030hrs, up 5.1% YoY. Coal-fired power generation rose 13.5% YoY with utilization hours of 2,839hrs, up 13.6%YoY.

For 1H17, the EBIT margin declined by 1.9ppt YoY to 38.7% where the net margin dropped 3.0ppt YoY to 23.2% dragged down by the coal segment. Wind segment net margin rose 2.3ppt YoY to 56.3%, where wind tariff was flat, only down 1.6% YoY to CNY569/MWh. For coal, net margin plunged 8.2ppt YoY to 8.2% on rising coal cost. Overall, LY delivered a satisfactory set of interim results, accounting for 59.1% of our latest full year FY17E earnings forecast.

In short, 1H17 results have confirmed the utilization hours recovery, and our forecast/positive view is reflected in the financial projections below.

Fig 32: Major assumptions

Average on-grid tariff		2015	2016	2017E	2018E	2019E
LY- Coal	CNY/MWh	358.12	324.79	334.53	337.88	341.25
LY- Wind	CNY/MWh	505.13	487.18	479.87	477.47	475.09
Utilization hours		2015	2016	2017E	2018E	2019E
LY Utilization hours	hours	1,888	1,901	1,991	2,070	2,126
Installed wind capacity		2015	2016	2017E	2018E	2019E
LY capacity	MW	15,765	17,369	19,085	20,715	22,264

Source: Company, Maybank Kim Eng

Fig 33: Income statement

CNY m	FY15A	FY16A	FY17E	FY18E	FY19E	1H16	1H17
Revenue	19683.1	22304.1	24312.1	26742.0	29011.6	11228.1	12314.8
Cost of goods sold	(1708.9)	(1918.4)	(2275.8)	(2433.2)	(2554.3)	(779.6)	(1291.4)
Gross Profit	17974.1	20385.6	22036.3	24308.8	26457.4	10448.5	11023.4
SG&A (incl. R&D)	(1795.0)	(2032.0)	(2194.1)	(2413.4)	(2589.2)	(736.9)	(804.8)
Other operating expenses	(9497.1)	(11452.7)	(12013.4)	(12691.2)	(13499.0)	(5446.0)	(5743.9)
Other operating income	449.6	646.6	650.1	654.4	658.5	285.0	288.6
EBITDA	12709.8	13889.8	14947.0	16858.9	18531.6	7606.0	8068.6
EBIT	7131.6	7547.5	8478.8	9858.6	11027.7	4550.7	4763.3
Net interest income /(exp)	(3038.5)	(2773.8)	(2825.8)	(3180.6)	(3298.9)	(1431.9)	(1495.7)
Associates & JVs	575.5	376.2	417.3	458.0	496.0	239.2	139.1
Profit before taxation	4668.6	5149.9	6070.3	7136.0	8224.8	3357.9	3406.7
Income tax	(601.0)	(660.2)	(778.2)	(927.7)	(1069.2)	(422.6)	(555.3)
Net profit for the year	4067.6	4489.7	5292.1	6208.4	7155.6	2935.2	2851.4
Non-controlling interests	1189.3	1074.3	1203.3	1347.7	1509.4	571.2	356.8
Equity owner of the company	2878.3	3415.4	4088.9	4860.7	5646.2	2284.5	2415.1

Source: Company, Maybank Kim Eng

We forecast earnings in FY17E will rise 19.7% YoY to CNY4.1b, mainly due to utilization recovery driven by the first UHV transmission line in Gansu, the Jiuquan-Hunan line, and ramp-up of newly installed wind capacity mostly located in non-curtailed regions. We expect total revenue, mainly coming from the sale of electricity generated from wind, to rise by 9.0% YoY.

Going forward, the GC issuance should introduce a new source of income, but this is unquantifiable at this stage and not reflected in the forecast.

Fig 34: Balance sheet

CNY m	FY15A	FY16A	FY17E	FY18E	FY19E
Non-current assets					
Property, plant & equipment (net)	98,996.7	105,598.3	111,279.6	115,780.4	119,161.7
Investment properties	4.6	4.2	4.5	4.7	4.8
Investment in associates & JVs	4,822.0	4,482.9	4,973.3	5,458.2	5,911.2
Receivables - long term	5.0	6.0	7.0	7.0	7.0
Intangible assets	8,699.3	8,860.0	9,036.0	9,215.4	9,398.5
Other assets	8,636.0	6,376.8	6,517.7	6,642.8	6,743.5
Total	121,163.7	125,328.1	131,817.9	137,108.6	141,226.8
Current assets					
Cash & short term investments	2887.3	1905.2	1113.2	1072.8	2983.8
Accounts receivable	4242.6	5901.0	10291.7	11320.3	12281.1
Inventory	1080.7	1039.9	1133.5	1246.8	1352.6
Other current assets	4493.0	4486.5	4846.6	5284.2	5693.5
Total	12703.6	13332.6	17384.9	18924.1	22311.0
Current Liability					
ST interest bearing debt	44976.9	44472.1	42111.0	42701.4	43200.0
Accounts payable	1902.4	2549.7	3024.7	3233.8	3394.8
Income taxes payable	155.7	176.0	207.4	247.3	285.0
Other current liabilities	8965.1	8609.5	10167.1	10870.1	11411.0
Total	56000.1	55807.4	55510.2	57052.6	58290.8
Non-current Liability					
LT interest bearing debt	29969.9	31327.0	36688.2	35597.7	34599.1
Deferred taxes - liability	106.1	138.1	162.8	194.0	223.6
Other liabilities	3216.9	3602.0	3753.6	3937.1	4108.5
Total	33292.8	35067.0	40604.5	39728.9	38931.3
Capital and reserves					
Common stock/ordinary capital	8036.4	8036.4	8036.4	8036.4	8036.4
Retained earnings	30099.4	32853.4	37327.7	42563.9	48590.2
Minority interest	6438.5	6896.5	7724.1	8650.9	9689.0
Total	44574.3	47786.3	53088.2	59251.2	66315.6

Source: Company, Maybank Kim Eng

The gearing pressure is falling. We forecast net debt-to-equity will decline from 155% in FY16A to 146%/130%/113% in FY17E/18E/19E. We raise our account receivable forecast as we see it increased in the 1H17 result and it should be related to the delay of subsidies from the government, in our view.

With the green certificate, the subsidies receivables under the account receivables would tend to decline.

Fig 35: Cash flow statement

CNY m	FY15A	FY16A	FY17E	FY18E	FY19E
Operating activities					
Pretax profit	4668.6	5149.9	6070.3	7136.0	8224.8
Depreciation & amortization	5578.2	6342.2	6468.1	7000.3	7504.0
Adj net interest (income) / expenses	2684.8	2601.6	2825.8	3180.6	3298.9
Cash taxes paid	(526.2)	(633.5)	(781.0)	(931.3)	(1072.6)
Other non-cash items	(226.9)	(410.6)	(0.2)	(0.2)	(0.1)
Change in working capital	4128.2	482.9	(2589.2)	(443.3)	(564.1)
Net cash from operating activities	16306.6	13532.5	11993.8	15942.2	17390.8
Investing activities					
Capex	(15263.6)	(13990.5)	(13257.7)	(12589.0)	(11954.0)
Acquisitions & investments	(883.7)	(71.9)	(490.4)	(485.0)	(453.0)
Disposal of fixed assets and investments	0.0	169.9	0.0	0.0	0.0
Other investing activities	(171.7)	2687.4	915.4	882.9	939.0
Net cash flow from investments	(16319.0)	(11205.1)	(12832.7)	(12191.1)	(11468.0)
Financing activities					
Dividends paid	(479.8)	(576.2)	(817.8)	(972.2)	(1129.3)
Change in debt	4438.2	792.1	3000.0	(500.0)	(500.0)
Interest expense	(3382.6)	(3149.2)	(2923.9)	(3246.1)	(3420.6)
Other financial activities	(50.5)	(351.1)	788.6	926.9	1038.1
Net cash flow from financing	525.2	(3284.4)	46.8	(3791.4)	(4011.8)
Free cash flow	1043.0	(457.9)	(1263.9)	3353.2	5436.8

Source: Company, Maybank Kim Eng

In FY17E, we anticipate a negative free cash flow of CNY1.3b. We project LY will have cash flow from operation of CNY12.0b, down 11.4% YoY. At the investment level, we project a net outflow of CNY12.8b in FY17E due to an addition of about 1,700MW capacity. At the financing level, we project a breakeven net inflow of CNY46.8m.

The issuance of GC would improve the cash flows of LY by collecting the discounted amount of subsidies sooner, which would otherwise become subsidies receivables with a minimum of 6 months lag, in our estimate.

6. Recommendation and valuation

Initiate at BUY with DCF-based HKD7.10 TP

Utilization recovery and having quality assets are the reasons for our positive view on LY. Although the green certificate policy could put pressure on its coal-fired power segment in the future, we think the downside is limited and largely priced in.

We initiate at BUY with a DCF-based target price of HKD7.10. We assume 8.9% WACC and 3% terminal growth rate.

LY is now trading at FY17E P/E of 9.9x, -1.8x SD below its 5-year historical average, which appears attractive in our view.

Pecking Order HNR (958 HK) > DTR (1798 HK) > LY (916 HK)

Our pecking order in the wind power sector is HNR (958 HK) > DTR (1798 HK) > LY (916 HK). Though all have BUY ratings, they each offer varying degrees of upside, in our view.

Our top pick is HNR which has the best asset quality and a good track record in the wind power sector. It is more of a pure play in the wind sector (wind capacity 92% of total, solar capacity 8%), with the largest exposure to Zone 4 regions (53% of wind capacity), where we see higher on-grid tariff and consumption/equity IRR/demand. Besides, its recent share issuance amounting to about CNY2b in May 2017, has lowered its net gearing and is beneficial for future expansion/development.

DTR has invested heavily in the high wind speed regions with curtailment issues, particularly in Inner Mongolia. However, we like DTR because of the curtailment improvement supported by the UHV lines exporting inter-provincial electricity, but positive impact from the construction of UHV lines will take time to realise and the sole dependence on UHV lines would involve higher risks. Besides, its net gearing is higher and it has lower earnings quality. We believe DTR will increasingly need to raise capital by share issuance. Taking into account that its share price soared around 12% recently (up 44% YTD) and the lower market liquidity, we would rank HNR's asset quality story at the top of the wind power sector.

LY is the largest wind farm player by capacity, but this is dampened by its coal-fired power segment's (11% of total capacity) EBIT margin decline (1H17 8.3% vs 1H16 14.6%), resulting from the high coal prices and the government's policy/intention to reduce the proportion of coal-fired in the power generation mix in the 13th Five Year Period. Any growth in the wind power segment would be partially offset by the coal-fired power segment.

Fig 36: Wind power sector valuation

Company Name	BBG code	Market Cap. (USDm)	Closing Price (LC)	Rating	Target Price (NAV)		Upside/ (downside)		P/E (x)		P/B (x)		DY (%)		ROE (%)	
					HKD	Price			FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Longyuan	916 HK	6,126	5.95	Buy	7.10	19.3%	10.5	8.9	1.1	1.0	1.4	1.7	7.4	8.0		
HNR	958 HK	3,479	2.57	Buy	3.30	28.4%	7.1	6.3	1.1	1.0	1.6	1.8	10.8	11.0		
DTR	1798 HK	941	1.01	Buy	1.25	23.8%	10.4	8.3	0.5	0.4	1.5	1.8	4.3	5.1		
Goldwind	2208 HK	6,804	9.92	na	na	na	9.0	8.5	1.3	1.2	2.9	3.1	14.9	14.1		
Huadian Fuxin	816 HK	1,961	1.82	na	na	na	6.4	5.4	0.6	0.6	3.3	4.1	9.4	10.3		
BJCE	579 HK	1,910	2.17	na	na	na	5.9	5.6	0.7	0.7	4.0	4.4	12.5	11.8		
CHST	658 HK	1,701	8.12	na	na	na	10.4	10.0	0.9	0.9	2.9	2.9	9.5	9.1		
Concord NE	182 HK	417	0.38	na	na	na	4.7	3.8	0.5	0.4	4.4	4.4	11.2	12.2		
Average							8.1	7.1	0.8	0.8	2.8	3.0	10.0	10.2		

Source: Bloomberg, Maybank Kim Eng estimates, 21 Sep 2017

Fig 37: WACC calculation

WACC calculation	
WACC	8.94%
Cost of Equity	10.84%
Cost of Debt	4.31%
Risk Free Rate	3.31%
Market Risk Premium	9.00%

Source: Maybank Kim Eng

Fig 38: LY's DCF valuation

Terminal Value	
Terminal Growth Rate	3.0%
Terminal WACC	8.9%
Estimated Free Cash Flow	11,220.1
Terminal Value	188,998.2
NPV of Terminal Value	101,190.4

DCF Valuation	
NPV of Forecasts	32,167.9
NPV of Terminal Value	101,190.4
Enterprise Value	133,358.3
Less: Net Debt	(77,686.0)
Less: Minority interest	(7,724.1)
Equity Value	47,948.3

No. Shares (millions)	8,036
Per Share Equity Value	CNY5.97
Per Share Equity Value	HKD7.10

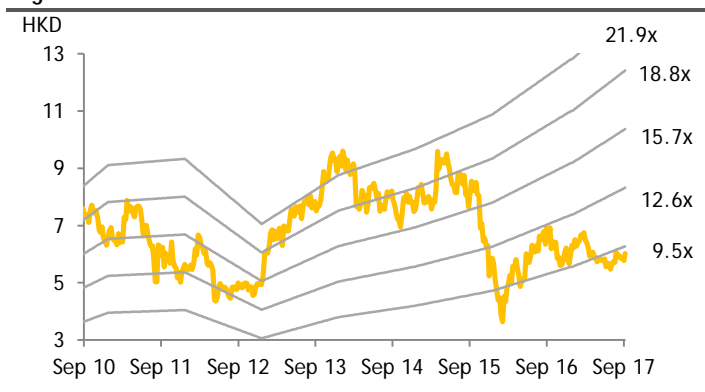
Source: Maybank Kim Eng

Fig 39: LY's sensitivity analysis, WACC against terminal growth

WACC	Terminal growth					
	2.0%	2.5%	3.0%	3.5%	4.0%	
9.9%	2.29	3.04	3.91	4.90	6.06	
9.4%	3.47	4.35	5.38	6.57	7.99	
8.9%	4.82	5.87	7.10	8.56	10.31	
8.4%	6.38	7.64	9.15	10.95	13.16	
7.9%	8.21	9.75	11.61	13.89	16.74	

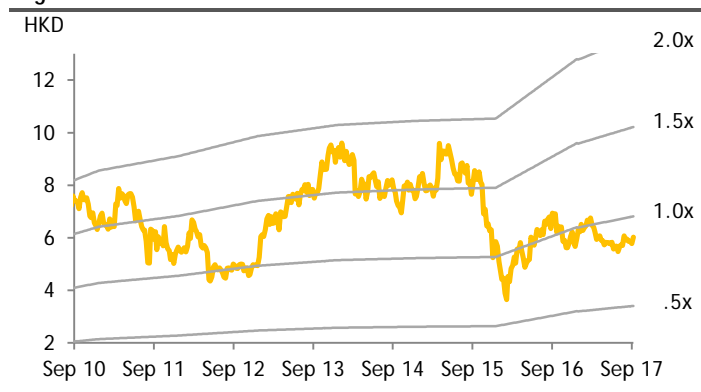
Source: Maybank Kim Eng

Fig 40: LY's forward P/E band



Source: Bloomberg, Maybank Kim Eng, 21 Sep 2017

Fig 41 LY's forward P/BV band



Source: Bloomberg, Maybank Kim Eng, 21 Sep 2017

Fig 42: Dupont Analysis

	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	Remark
Net income/EBT (tax burden)	0.58	0.63	0.62	0.66	0.67	0.68	0.69	
EBT/EBIT (interest burden)	0.59	0.62	0.65	0.68	0.72	0.72	0.74	
Op. margin (%)	31.4%	36.0%	36.2%	33.8%	34.9%	36.9%	38.0%	Op. margin to expand due to wind power utilization recovery
Asset turnover (x)	0.17	0.15	0.15	0.16	0.16	0.17	0.18	
Equity multiplier (x)	3.59	3.74	3.51	3.39	3.29	3.08	2.86	Declining trend as a result of deleveraging
ROE (%)	6.6%	7.7%	7.5%	8.4%	9.0%	9.6%	10.0%	

Source: Maybank Kim Eng

7. Risks

The downside risks to our BUY rating on Long Yuan (916 HK) include:

- i) slower-than-expected recovery in wind utilization;
- ii) higher-than-expected power grid curtailment;
- iii) higher-than-expected finance cost hike and maintenance cost;
- iv) weaker-than-expected wind resources;
- v) continuous rise in coal prices;
- vi) ineffective execution in guaranteed purchase utilization hours by the NDRC;
- vii) larger-than-expected wind tariff discount in electricity sold under market-driven mechanism; and
- viii) delay in the commencement of the Jiuquan-Hunan UHV transmission line.

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	18.7	11.7	9.9	8.3	7.2
Core P/E (x)	14.0	11.8	9.9	8.3	7.2
P/BV (x)	1.1	1.0	0.9	0.8	0.7
P/NTA (x)	1.4	1.3	1.1	1.0	0.9
Net dividend yield (%)	1.4	1.7	2.0	2.4	2.8
FCF yield (%)	2.6	nm	nm	8.3	13.5
EV/EBITDA (x)	9.3	9.0	8.4	7.5	6.7
EV/EBIT (x)	16.5	16.5	14.8	12.8	11.3

INCOME STATEMENT (CNY m)

Revenue	19,683.1	22,304.1	24,312.1	26,742.0	29,011.6
Gross profit	17,974.1	20,385.6	22,036.3	24,308.8	26,457.4
EBITDA	12,709.8	13,889.8	14,947.0	16,858.9	18,531.6
Depreciation	(5,578.2)	(6,342.2)	(6,468.1)	(7,000.3)	(7,504.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	7,131.6	7,547.5	8,478.8	9,858.6	11,027.7
Net interest income / (exp)	(3,038.5)	(2,773.8)	(2,825.8)	(3,180.6)	(3,298.9)
Associates & JV	575.5	376.2	417.3	458.0	496.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	4,668.6	5,149.9	6,070.3	7,136.0	8,224.8
Income tax	(601.0)	(660.2)	(778.2)	(927.7)	(1,069.2)
Minorities	(1,189.3)	(1,074.3)	(1,203.3)	(1,347.7)	(1,509.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,878.3	3,415.4	4,088.9	4,860.7	5,646.2
Core net profit	2,878.3	3,415.4	4,088.9	4,860.7	5,646.2
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (CNY m)

Cash & Short Term Investments	2,887.3	1,905.2	1,113.2	1,072.8	2,983.8
Accounts receivable	4,242.6	5,901.0	10,291.7	11,320.3	12,281.1
Inventory	1,080.7	1,039.9	1,133.5	1,246.8	1,352.6
Property, Plant & Equip (net)	98,996.7	105,598.3	111,279.6	115,780.4	119,161.7
Intangible assets	8,699.3	8,860.0	9,036.0	9,215.4	9,398.5
Investment in Associates & JVs	4,822.0	4,482.9	4,973.3	5,458.2	5,911.2
Other assets	13,138.6	10,873.5	11,375.7	11,938.7	12,448.8
Total assets	133,867.3	138,660.7	149,202.9	156,032.7	163,537.7
ST interest bearing debt	44,976.9	44,472.1	42,111.0	42,701.4	43,200.0
Accounts payable	1,902.4	2,549.7	3,024.7	3,233.8	3,394.8
LT interest bearing debt	29,969.9	31,327.0	36,688.2	35,597.7	34,599.1
Other liabilities	12,444.0	12,526.0	14,291.0	15,249.0	16,028.0
Total Liabilities	89,293.0	90,874.4	96,114.7	96,781.5	97,222.1
Shareholders Equity	38,135.8	40,889.8	45,364.1	50,600.3	56,626.6
Minority Interest	6,438.5	6,896.5	7,724.1	8,650.9	9,689.0
Total shareholder equity	44,574.3	47,786.3	53,088.2	59,251.2	66,315.6
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	133,867.3	138,660.7	149,202.9	156,032.7	163,537.7

CASH FLOW (CNY m)

Pretax profit	4,668.6	5,149.9	6,070.3	7,136.0	8,224.8
Depreciation & amortisation	5,578.2	6,342.2	6,468.1	7,000.3	7,504.0
Adj net interest (income)/exp	2,684.8	2,601.6	2,825.8	3,180.6	3,298.9
Change in working capital	4,128.2	482.9	(2,589.2)	(443.3)	(564.1)
Cash taxes paid	(526.2)	(633.5)	(781.0)	(931.3)	(1,072.6)
Other operating cash flow	(226.9)	(410.6)	(0.2)	(0.2)	(0.1)
Cash flow from operations	16,306.6	13,532.5	11,993.8	15,942.2	17,390.8
Capex	(15,263.6)	(13,990.5)	(13,257.7)	(12,589.0)	(11,954.0)
Free cash flow	1,043.0	(457.9)	(1,263.9)	3,353.2	5,436.8
Dividends paid	(479.8)	(576.2)	(817.8)	(972.2)	(1,129.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	4,438.2	792.1	3,000.0	(500.0)	(500.0)
Other invest/financing cash flow	(4,488.6)	(715.0)	(1,710.4)	(1,921.4)	(1,896.5)
Effect of exch rate changes	(21.9)	(25.1)	0.0	0.0	0.0
Net cash flow	490.9	(982.1)	(792.1)	(40.3)	1,911.0

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.1	13.3	9.0	10.0	8.5
EBITDA growth	10.0	9.3	7.6	12.8	9.9
EBIT growth	8.7	5.8	12.3	16.3	11.9
Pretax growth	14.9	10.3	17.9	17.6	15.3
Reported net profit growth	12.5	18.7	19.7	18.9	16.2
Core net profit growth	12.5	18.7	19.7	18.9	16.2
Profitability ratios (%)					
EBITDA margin	64.6	62.3	61.5	63.0	63.9
EBIT margin	36.2	33.8	34.9	36.9	38.0
Pretax profit margin	23.7	23.1	25.0	26.7	28.3
Payout ratio	20.0	20.0	20.0	20.0	20.0
DuPont analysis					
Net profit margin (%)	14.6	15.3	16.8	18.2	19.5
Revenue/Assets (x)	0.1	0.2	0.2	0.2	0.2
Assets/Equity (x)	3.5	3.4	3.3	3.1	2.9
ROAE (%)	8.1	8.6	9.5	10.1	10.5
ROAA (%)	2.2	2.5	2.8	3.2	3.5
Liquidity & Efficiency					
Cash conversion cycle	10.5	(136.9)	(149.1)	(141.4)	(137.5)
Days receivable outstanding	97.4	81.9	119.9	145.5	146.4
Days inventory outstanding	221.0	199.0	171.9	176.1	183.2
Days payables outstanding	307.9	417.7	440.9	463.0	467.1
Dividend cover (x)	5.0	5.0	5.0	5.0	5.0
Current ratio (x)	0.2	0.2	0.3	0.3	0.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.6	1.6	1.7
Net gearing (%) (incl perps)	161.7	154.6	146.3	130.3	112.8
Net gearing (%) (excl. perps)	161.7	154.6	146.3	130.3	112.8
Net interest cover (x)	2.3	2.7	3.0	3.1	3.3
Debt/EBITDA (x)	5.9	5.5	5.3	4.6	4.2
Capex/revenue (%)	77.5	62.7	54.5	47.1	41.2
Net debt/ (net cash)	72,059.5	73,893.9	77,686.0	77,226.3	74,815.3

Source: Company; Maybank

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836 sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839
ongsenyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849 sinmui@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines
(603) 2297 8682 suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830 chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore
(65) 6231 5844 leejuye@maybank-ke.com.sg

Saktiandi SUPAAT
Head, FX Research
(65) 6320 1379 saktiandi@maybank.com.sg

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836 sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631 williechan@kimeng.com.hk

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIEW Wei Han
(603) 2297 8676 wei.han.l@maybank-ib.com
• Consumer Staples

Adrian WONG
(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions • Healthcare

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Media • Building Materials

Mohd Hafiz Hassan
(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Small & Mid Caps

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan Raja Abdullah, MSTA, CFE
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

HONG KONG / CHINA

Benjamin HO
(852) 2268 0632 benjaminho@kimeng.com.hk
• Consumer & Auto

Christopher WONG
(852) 2268 0633 jacquelinewong@kimeng.com.hk
• HK & China Properties

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ka Leong LO, CFA
(852) 2268 0630 klllo@kimeng.com.hk
• Consumer Discretionary & Auto

Mitchell KIM
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Ning MA, CFA
(852) 2268 0672 ningma@kimeng.com.hk
• Insurance

Ricky NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Regional Renewables
• HK & China Properties

Sonija LI, CFA, FRM
(852) 2268 0641 sonijali@kimeng.com.hk
• Gaming

Stefan CHANG, CFA
(852) 2268 0675 stefanchang@kimeng.com.hk
• Technology - Regional

Tony Ren, CFA
(852) 2268 0640 tonyren@kimeng.com.hk
• Healthcare & Pharmaceutical

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL
(91) 22 6623 2605 vishalperiwal@maybank-ke.co.in
• Infrastructure

SINGAPORE

Neel SINHA *Head of Research*
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy
• SMID Caps - Regional

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Transport • Property • REITs (Office)

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

John CHEONG, CFA
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

NG Li Hiang
(65) 6231 5840 nglihiang@maybank-ke.com.sg
• Banks

INDONESIA

Isnapura ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Janni ASMAN
(62) 21 8066 8687
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

Adhi TASMIN
(62) 21 8066 8694
adhi.tasmin@maybank-ke.co.id
• Plantations

PHILIPPINES

Minda OLONAN *Head of Research*
(63) 2 849 8840
minda.olonan@maybank-atrke.com
• Strategy

Lovell SARREAL
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Ind. Estates
• Oil & Gas • Telcos

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector • Transport • Property • Telcos

Tanawat RUENBANTERNG
(66) 2658 6300 ext 1394
Tanawat.R@maybank-ke.co.th
• Banks & Diversified Financials

Ornmongkol TANTITANATORN
(66) 2658 6300 ext 1395
ormmongkol.t@maybank-ke.co.th
• Oil & Gas

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 5000 ext 5090
Sukit.u@maybank-ke.co.th

Ekachai TARAPORNITIP *Deputy Head*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 5000 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Temporn TANTIVIVAT
(66) 2658 5000 ext 1520
temporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

Poonpat CHAIKUMHAN, CFA
(66) 2658 5000 ext 1511
poonpat.c@maybank-ke.co.th
• Electronics • ICT

Sorrabhol VIRAMTEEKUL
Head of Digital Research
(66) 2658 5000 ext 1550
sorrabhol.v@maybank-ke.co.th
• Food, Transportation

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84) 8 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA,
Deputy Head, Institutional Research
(84) 8 44 555 888 x 8180
thai.trung@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen
(84) 8 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thach Lam
(84) 8 44 555 888 x 8085
thachlam.nguyen@maybank-kimeng.com.vn
• Utilities

NGUYEN Thi Ngan Tuyen,
Head of Retail Research
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRUONG Quang Binh,
Deputy Head, Retail Research
(84) 8 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres and Tubes • Oil&Gas

TRINH Thi Ngoc Diep
(84) 8 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities - Construction

NGUYEN Thi Sony Tra Mi
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam
(84) 8 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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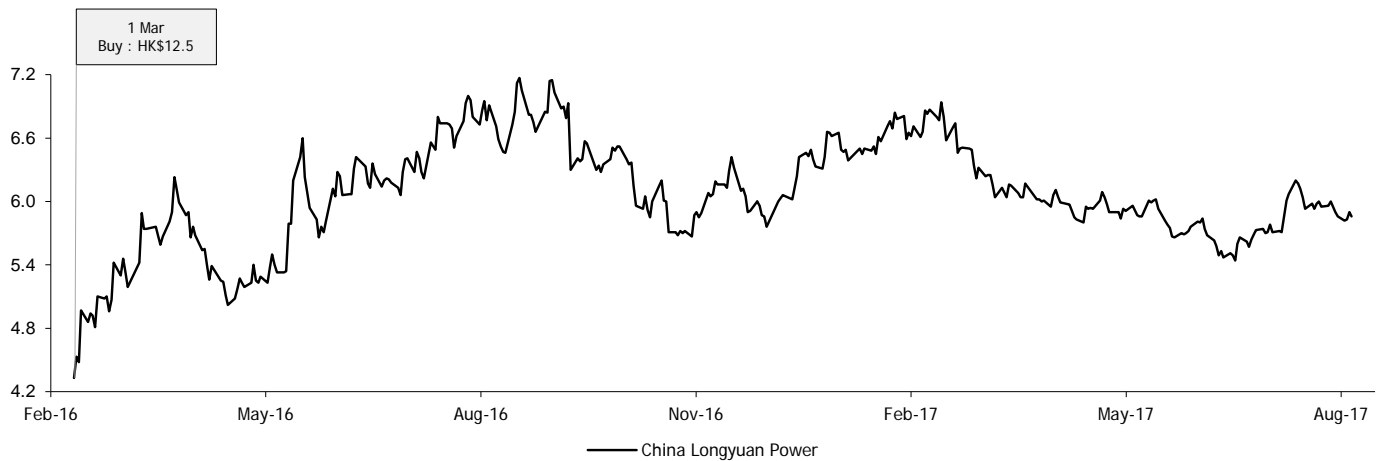
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 **Malaysia**

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

 **Philippines**

Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

 **South Asia Sales Trading**

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Malaysia

Joann Lim
joann.lim@maybank-ib.com
Tel: (603) 2717 5166

Indonesia

Hariato Liong
hariato.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

Andrew Dacey
adacey@maybank-keusa.com
Tel: (212) 688 2956

Vietnam

Patrick Mitchell
patrick.mitchell@maybank-kimeng.com.vn
Tel: (84)-8-44-555-888 x8080

 **Singapore**

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

 **Hong Kong**

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

 **Thailand**

Maybank Kim Eng Securities
(Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

 **North Asia Sales Trading**

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

London

Scott Kinnear-Nock
SKinnear-nock@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

 **London**

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

 **Indonesia**

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 8066 8500
Fax: (62) 21 8066 8501

 **Vietnam**

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

 **New York**

Maybank Kim Eng Securities USA
Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

 **India**

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

 **Saudi Arabia**

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787