久旱逢甘露
风电行业

2016年9月23日，财政部、国家能源局和发改委联合印发《关于公布可再生能源电价附加资金补助目录（第六批）的通知》。市场预计第六批的补贴大多数能够在年底收到，可再生能源运营商的现金流将会得到改善。第六批的补贴包括2013年已到2015年期间并网的新能源项目，龙源第六批涵盖约2.5GW的项目，华能新能源有超过1.7GW的项目。我们根据项目装机量估算，龙源第六批补贴额可为22亿元左右，占2015年末34亿元应收账款的65%，华能新能源补贴在15亿元左右，占2015年末29亿元应收账款的52%。

利用小时复苏。龙源电力和华能新能源在7、8月份的风能利用小时数得到了持续恢复。龙源8月份的风电发电量为1.861Gwh，同比增长20.28%；7月份发电量为1.831Gwh，同比增长17.9%，远高于2016年上半年平均同比增长8.4%的增长率。华能8月份的风电发电量为965Gwh，同比增长52.1%，7月份发电量1.172Gwh，同比增长51.5%，高于2016年上半年平均31%的增长率。随着保障性利用小时政策的逐步执行，我们预计2016年下半年的风电发电量增速可维持在较高水平。

低财务费用缓解电价下降影响。2016年上半年由于上网发电的竞价增加导致发电均价的普遍下降。云南物价局对居民用电定价的下调幅度远超市场预期。能源供给过剩以及上网电价市场化可延至更多的省份，对上网电价形成持续下调压力。通过替换更多利率为2.5%的短期借款，大部分新能源发电企业的财务费用下降足以弥补电价下降问题，保证公司的内部增长率较高。

维持超配。我们依然推荐纯风电运营商，龙源电力，华能新能源和协合新能源。中广核新能源因资产注入计划和低估值下行风险有限，且上行潜力较大。华电福新对保障性收购政策的弹性很大，且今年水电业务表现优异。

<table>
<thead>
<tr>
<th>Code</th>
<th>Company</th>
<th>Rating</th>
<th>Target price (HK$)</th>
<th>+/- (%)</th>
<th>16E PE (x)</th>
<th>17E PE (x)</th>
<th>16E PB (x)</th>
<th>17E PB (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>916:HK</td>
<td>China Longyuan</td>
<td>O-PF</td>
<td>7.7</td>
<td>12</td>
<td>16</td>
<td>14</td>
<td>1.15</td>
<td>1.07</td>
</tr>
<tr>
<td>958:HK</td>
<td>Huaneng Renewables</td>
<td>O-PF</td>
<td>2.95</td>
<td>-2.3</td>
<td>9.3</td>
<td>7.8</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>182:HK</td>
<td>Concord New Energy</td>
<td>BUY</td>
<td>0.56</td>
<td>22</td>
<td>8</td>
<td>7</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>816:HK</td>
<td>Huadian Fuxin</td>
<td>BUY</td>
<td>2.88</td>
<td>47</td>
<td>8</td>
<td>7</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>1811:HK</td>
<td>CGN New Energy</td>
<td>BUY</td>
<td>1.57</td>
<td>28</td>
<td>8</td>
<td>7.9</td>
<td>1.0</td>
<td>0.94</td>
</tr>
</tbody>
</table>

Source: SWS Research
**Investment Highlights:**

The Ministry of Finance (MoF), the National Energy Administration (NEA) and the National Development and Reform Commission (NDRC) jointly released the official list of projects qualified for the sixth round of renewable energy subsidies. As most of these subsidies should be received before the end of the year, we expect renewable power plant operators to post significantly improved cash flows for 2016. We remain Overweight the wind power sector.

**Right timing.** The incentive will benefit projects that connected to the grid between end-2013 to early 2015, during which China Longyuan (916:HK – O-PF) installed c.2.5GW of wind and solar capacity and Huaneng Renewable (958:HK – O-PF) installed over 1.7GW of wind capacity. Based on our calculations, we expect Longyuan to receive c.Rmb2.2bn, 65% of its Rmb3.4bn receivables by end of 2015, and Huaneng Renewables to receive c.Rmb1.5bn, 52% of its Rmb2.9bn receivables by end of 2015.

**Utilisation recovery.** Both Longyuan and Huaneng Renewables recorded a strong wind utilisation rate recovery in July and August. For Longyuan, wind power output grew 17.9% YoY to 1,831Gwh in July and 20.28% YoY to 1,861Gwh in August, vs 8.4% YoY in 1H16. Huaneng’s wind power output rose 51.5% YoY to 1,172GWh in July and 52.1% YoY to 965GWh in August, vs 31% YoY in 1H16. With the gradual enforcement of "full purchase" policy, we expect wind power output growth to remain accelerating in 2H16E.

**Lower financing costs partly offset tariff cuts.** Due to increasing competition in bidding for on-grid power generation, the average on-grid tariff fell c.4% in 1H16. Meanwhile, the drop in residential energy consumption pricing by Rmb0.09/kWh set by the Yunnan Pricing Bureau exceeded market expectations to a large extent. We expect the oversupply of energy and increasing liberalisation of on-grid power to expand to other provinces and keep resulting in downward pressure for on-grid tariffs. However, companies’ short-term debt now enjoys a much lower interest rate at c.2.5%. We believe that this decline can override lower tariffs for most leading companies in the wind sector, securing satisfactory internal rates of return (IRR).

**Remain Overweight.** We continue to recommend pure-play wind operators China Longyuan, Huaneng Renewables and Concord New Energy (182:HK – BUY). Meanwhile, we note that CGN New Energy’s (1811:HK - BUY) asset injection plan and low valuation provide it with limited downside risk and a significantly higher upside potential. We also highlight that Huadian Fuxin (816:HK - BUY) is more sensitive to the “full purchase” policy and benefited from a significant increase in hydro power output this year.
### Fig 1: Policy updates (related to wind sector)

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2016</td>
<td>List of projects qualified for six tranches of renewable energy subsidies is released</td>
<td>Benefits to the wind sector</td>
</tr>
<tr>
<td>May 2016</td>
<td>Notice on Guaranteeing Full Purchases of Wind and Solar Power</td>
<td>The notice announces the assured purchase of wind and solar power in annual utilisation hours in key areas and regulates the process to guarantee full purchase.</td>
</tr>
<tr>
<td>April 2016</td>
<td>NEA suspends new renewable energy projects in Gansu, Jilin, Heilongjiang, Inner Mongolia, Ningxia, Xinjiang and other provinces (regions)</td>
<td>Approvals of new renewable energy projects in Gansu, Jilin, Heilongjiang, Inner Mongolia, Ningxia, Xinjiang and other provinces (regions) will be suspended by the NEA until the curtailment problem is addressed.</td>
</tr>
<tr>
<td>March 2016</td>
<td>Work Plan to Guarantee Full Purchases of Renewable Electricity on March 28, 2016</td>
<td>The goal of the plan is to improve consumption levels by stimulating electricity demand, improving electricity transmission and distribution policies and promoting market-based transactions. It should not affect inter-province consumption.</td>
</tr>
<tr>
<td>March 2016</td>
<td>Construction and Development Guidance for Wind in 2016</td>
<td>National grid companies need to guarantee full purchases of renewable electricity at a set level of on-grid tariff and utilisation hours.</td>
</tr>
<tr>
<td>March 2016</td>
<td>A specific notice to encourage solving wind curtailment problems in 2016</td>
<td>A total of 24 standards for the wind power industry and six standards for the solar industry were introduced and implemented on 1 June.</td>
</tr>
<tr>
<td>February 2016</td>
<td>NEA releases notice that is working on solving renewable energy curtailment issues in northern China</td>
<td>The government targeted at a renewable energy consumption of 13%, with coal-fired consumption below 63% of the total in 2016, and new coal-fired projects were strictly prohibited for the following three years. Utilisation hours upside for wind.</td>
</tr>
<tr>
<td>January 2016</td>
<td>The State Council released Suggestions about supporting the development of border areas in China.</td>
<td>A specific guideline (target) for non-hydro renewables energy consumption is provided for each province. With its larger capacity and better economic profit, we expect wind to take the lead among renewables.</td>
</tr>
<tr>
<td>January 2016</td>
<td>Three Government Departments have jointly released notice to set 61 cities nationwide to promote wind power application.</td>
<td>Renewable energy will benefit from increased on-grid priority in 16E. We expect more concrete solutions or guidance to be released either from national government or local officials.</td>
</tr>
<tr>
<td>January 2016</td>
<td>The National Wind Equipment Quality Monitoring and Assessment Centre is established in Gansu Province</td>
<td>Wind projects are being encouraged to develop in designated areas with high demand levels.</td>
</tr>
</tbody>
</table>

Source: NEA, NDRC, Beijingxing, SWS Research
Fig 2: China Longyuan trailing PE

Fig 3: China Longyuan trailing PB

Fig 4: Huaneng Renewables trailing PE

Fig 5: Huaneng Renewables trailing PB

Fig 6: Concord New Energy trailing PE

Fig 7: Concord New Energy trailing PB

Source: Wind, SWS Research
Stock recommendations

We continue to recommend pure-play wind operators China Longyuan, Huaneng Renewables and Concord New Energy. Meanwhile, we note that CGN New Energy’s (1811:HK - BUY) asset injection plan and low valuation provide it with limited downside risk and a significantly higher upside potential. We also highlight that Huadian Fuxin (816:HK - BUY) is more sensitive to the “full purchase” policy and benefited from a significantly increased hydro power output this year.

Roughly 30% of China Longyuan’s newly installed capacity is located in regions benefitting from the “full purchase” policy, while the other 70% are concentrated in central and southern China. Wind power output grew 17.9% YoY to 1,831Gwh in July, vs 8.4% YoY in 1H16, indicating a strong wind utilisation rate recovery. Total power output increased 16.57% YoY to 2,827Gwh for the period, with coal output rising 13.44% YoY to 941Gwh and other renewable energies surging 29.16% to 54Gwh. We expect Longyuan’s power output to continue growing rapidly in 2H16E on the back of a remarkable recovery in wind and solar utilisation hours in western and northern China. Our target price of HK$7.7 represents 16x 16E PE and 1.15x 16E PB, or 14x 17E PE and 1.07x 17E PB. We maintain our recommendation as Outperform.

Due to curtailment issues and encouraged by the government’s push for renewable energy, Huaneng Renewables increased its presence in on-grid power generation auctions. We anticipate solar capacity expansion to slow down and wind installation to pick up in 2H16E as the company added just 300MW of wind capacity in Shannxi Province in 1H16, vs 897MW in 1H15, while adding 190MW of solar capacity in 1H16 to avoid the new tariff, vs 100MW in 1H15. In 1H16, it posted a strong wind utilisation rate recovery. With the gradual enforcement of “full purchase” policy, we expect its power output to continue growing rapidly in 2H16E on the back of a remarkable recovery in wind and solar utilisation hours in western and northern China. Our target price of HK$2.95 represents 9.3x 16E PE and 1.2x 16E PB or 7.8x 17E PE and 1.1x 17E PB. We maintain our recommendation as Outperform.

Concord New Energy’s poor performance of 1H16 was partially due to the cooling off of this year’s installation rush, and also due to a change in revenue and profit recognition. During the period, power generation contributed to 94% of net profit, a new high for the company. We believe its engineering, procurement and construction (EPC) business will continue slowing down but, given the rise in its power generation segment, we expect net profit growth to remain at 20% YoY for 16E. Attributable capacity reached 788MW in 1H16, up 40% YoY, with the company adding 72MW of attributable wind capacity and 50MW of solar capacity during the period. We believe the company, with its strong power output growth and improving fundamentals, will likely become one of the major beneficiaries of the continued government support. Our target price of HK$0.56 represents 8x 16E PE and 0.8x 16E PB, or 7x 17E PE and 0.7x 17E PB. We maintain our BUY rating.
CGN New Energy’s weak performance in 1H16 was caused by a decline in tariffs for its Korean gas projects and lower wind utilisation hours. Although we do not see much potential in CGN’s current asset mix, we note that the company may benefit from a possible asset injection. CGN New Energy is the only platform for non-nuclear power projects under GCN Group and thus management plans to inject 3-5GW of assets into the company over the next three years. Thus, we believe the likelihood for injection remains high. Our target price of HK$1.57 represents 8x 16E PE and 1.0x 16E PB, or 7.9x 17E PE and 0.94x 17E PB. We maintain our BUY rating.

Huadian Fuxin benefitted from rising hydropower generation in 1H16. Utilisation hours reached a record high of 3,172 hours, 86% higher than the 1,705 hours posted in 1H15 due to the El Nino phenomenon. As a result, gross hydropower generation more than doubled YoY and we expect El Nino effects to still impact 3Q16E results. Huadian Fuxin’s coal-fired business performance was weaker-than-expected on the back of rising standard coal costs and auctions for on-grid power may result in less favourable conditions. The company guided 1GW of newly installed wind capacity in 16F and we are confident that it will be able to meet its target. With the on-going cooperation with Concord New Energy in developing wind farms, we believe the company’s wind segment will witness stable growth. Our target price of HK$2.88, represents 8x 16E PE and 0.83x 16E PB, or 7.0x 17E PE and 0.7x 17E PB. We maintain our BUY recommendation.
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