NOMURA

China power

EQUITY: POWER & UTILITIES

Reality likely exceeds perception

Datang and Huadian are our top picks

Global Markets Research

25 February 2014

Action: Remain Bullish on the China IPP sector

Compared to our previous in-depth report (link), the sector's margin recovery on depressed coal prices has turned out even better than we had expected. However, with investors overly concerned about potential on-grid tariff cuts based on the coal-power tariff-linkage mechanism, IPP share-price performance has lagged the sector's recovery. Such concerns look overdone. Even though we apply a 5% tariff cut from July 2014, 2014F earnings should be helped by weak coal prices. On average, our 2013F earnings estimates (due to report in mid / late March) are in line with consensus, whereas our 2014F earnings are about 5% higher than consensus.

Getting paid to wait

The China IPP sector now looks attractively valued, with 2014F sector averages of 6.6x P/E and 0.87x P/B and a dividend yield of 6.3%, versus the sector's historical averages of 17.5x P/E and 1.2x P/B and dividend yield of only 2.6%. Our TPs imply average upside of 32%, just to close the gap versus the historical average P/B.

Catalysts ahead: Tariff and power market restructuring

Our 5% tariff cut assumption for 2014F is relatively high compared to market assumptions (~3-5%). With: 1) no complaints from IPPs or coal suppliers on the current tariff levels; and 2) the government's intention to pursue a reasonable market price for power tariffs, we may see no tariff adjustment at all, resulting in further upside potential from our 2014F estimates. In addition, power market restructuring (implementation of a power pooling system, etc) will provide a market-driven return, with higher earnings visibility and stability for the IPPs. Should this restructuring take place, likely by 2016F, we would see medium-term re-rating potential for the sector.

Our order of preference: Datang > Huadian > CPID > Huaneng > CRP

Our top Buys are Datang and Huadian, where earnings have passed the worst inflection points amid fundamental recovery; we lower CR Power to Neutral, with its exposure to coal prices acting as a double-edged sword.

Fig. 1: China IPPs: Coverage / rating summary

Stock	Ticker	Rating	Price (HKD)	TP (HKD)	Upside (%)
Datang Int'l Power	991 HK	Buy ↔	3.04	4.36	43.4%
Huadian Power	1071 HK	Buy ↔	3.26	4.75	45.7%
CPID	2380 HK	Buy ↔	2.60	3.72	43.1%
Huaneng Power	902 HK	Buy ↔	7.05	8.20	16.3%
CR Power	836 HK	Neutral ↓	19.14	21.00	9.7%

Pricing as on 20 February 2014
Source: Bloomberg, Nomura research

Anchor themes

Depressed coal prices and improving balance sheets are positive for China IPPs. However, we see the market as overly concerned on any potential tariff cuts. Current attractive valuations (low P/Es and P/Bs but high dividend yields), in our view, mean short-term overhangs are already more than priced in.

Nomura vs consensus

We assume a 5% tariff cut effective 1 July, 2014.

Research analysts

China Power & Utilities

Joseph Lam, CFA - NIHK
joseph.lam@nomura.com
+852 2252 2106

Yuwen Tang - NIHK
thomas.tang@nomura.com
+852 2252 2051

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Executive summary

We maintain our Bullish stance on the sector. How do we differ from our previous report?

We have been bullish on the China IPP sector since February 2011. Amid the continuous drop in coal prices and improving fundamentals, China IPPs' share performances were in accordance with our investment recommendations. The only thing that was out of the realm of our expectations was the tariff cut discussions in May 2013, in which China IPP share prices fell 6-10% within two trading days and even 20-30% in a one-month period. Despite the tariff cut in September 2013, overhangs of further cuts pursuant to the coal-power tariff-linkage mechanism still remain, which meant the China IPPs have only performed in line with market expectations since May 2013.

Overall, we remain Bullish on the China IPP sector. The underlying arguments on our bullish view, however, are somewhat different. On the one hand, coal prices are even weaker than what we expected previously, which should be more favorable to China IPPs' margin expansions. On the other hand, instead of being hopeful an imminent implementation of the power pooling mechanism in 2015F may lift tariffs, as stated in our last report (please refer to the link for the last report), we see the market turning to over-concerns on any potential tariff cuts based on the coal-power tariff-linkage mechanism. In our view, any tariff cuts are likely to come only with a further drop in coal prices, in which the net earnings impact to the China IPPs should be limited after offsetting the fuel cost savings. Currently in our model, we apply a 5% tariff cut effective 1 July 2014.

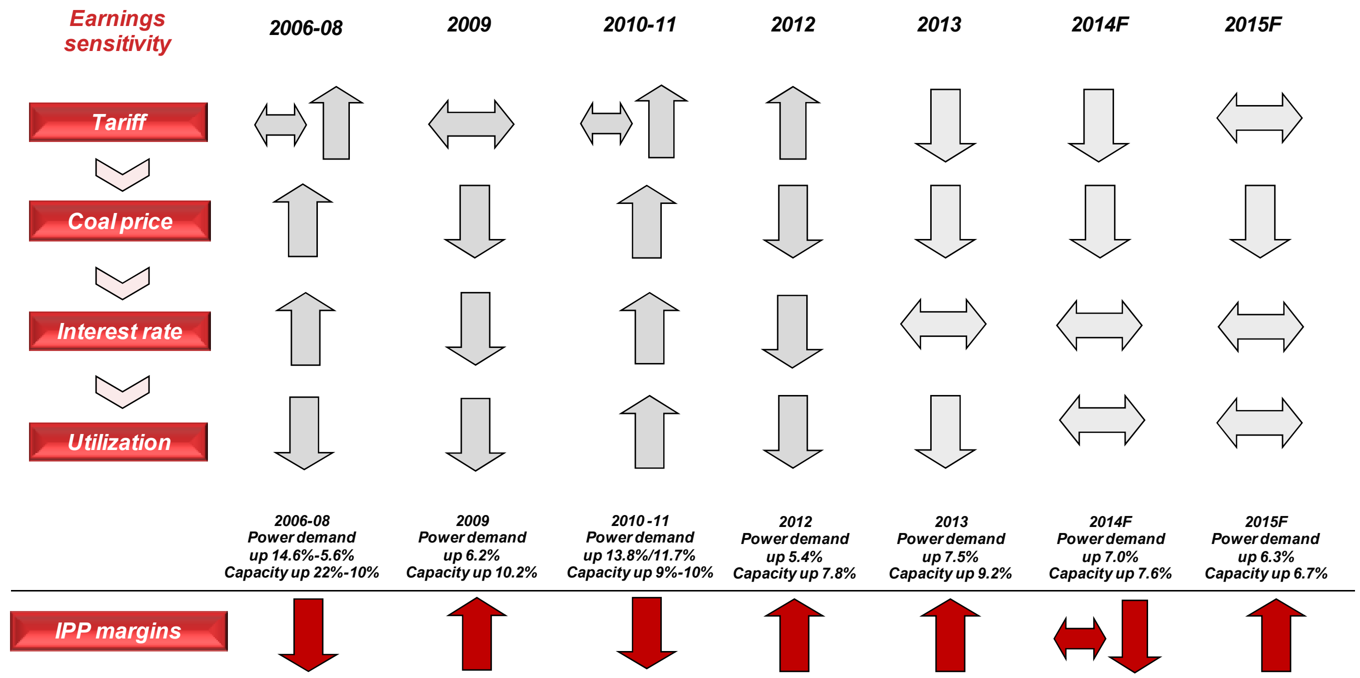
Thus, even with the sector's margin recovery on depressed coal prices, due to the market being overly concerned, in our view, share-price performances of China IPPs are not catching up with the sector's recovery. This has led to attractive valuations, as we see it, with the sector's 2014F average P/E of 6.6x and P/B of 0.87x but with dividend yield of 6.3%, significantly lower than the historical averages of 17.5x P/E and 1.2x P/B but with a dividend yield of 2.6%. Thus, we see substantial potential upside value from here, just to close the gap vs the historical average P/B. For stock picks, we maintain our Buy ratings on Datang Int'l Power, Huadian Power, CPID and Huaneng Power but we downgrade CR Power to Neutral.

Fig. 2: China IPPs' stock performance vs. HSCEI (2012-present)

Source: Bloomberg, Nomura research

For the China IPP sector, generally, we believe four key factors/drivers can summarize the sector outlook (in the order of earnings sensitivity): 1) tariffs; 2) coal prices; 3) interest rates; and 4) utilization.

Fig. 3: China IPPs: key drivers to IPPs' earnings



Source: CEC, CEIC, Nomura research

On-grid tariffs: Short-term overhang but with higher earnings visibility in the long term

Further to the ~3.3% coal-fired on-grid tariff cut effective on 25 September 2013, due to the increase in subsidies for environmental protection, we think the overhang will remain on the sector in the short term, given the potential on-grid tariff cut on the back of the coal-power tariff-linkage mechanism. That said, we apply a 5% on-grid tariff cut effective 1 July 2014; we think there will be a limited earnings impact amid weak coal prices and the earnings and return profiles of our covered China IPPs should remain decent. In addition, on a longer-term basis, the timely implementation of the coal power tariff linkage mechanism should provide the China IPPs with higher margin stability and visibility.

Coal prices: bearish coal price outlook

Our outlook for coal prices remains equally lacklustre in the near- and medium-terms as supply continues to grow for both domestic needs and imports; while demand remains subdued amid the economic slowdown and environmental concerns. We expect the oversupply situation to keep coal prices at relatively low levels, at least in the near- and medium-terms, benefiting China IPPs with low unit fuel costs. Our model currently assumes the 2014F and 2015F Qinhuangdao (QHD) coal prices (5,500kcal/kg) to be CNY550/ton and CNY530/ton, implying y-y drops of 6.8% and 3.6%, respectively.

Interest rates: gaining financing strength amid improving profitability

With the increasing profitability of China IPPs amid weak coal prices, we see the China IPPs' gearing ratio improving gradually, from 339% as at end-2012, to 265% by end-2014F. However, in the near term, given the gearing ratio is still at a relatively high level, equity financing is possible for some China IPPs, with Huadian Power leading the way.

Utilization: slower power demand growth likely ahead

In line with real GDP growth moderating from 10.3% in 2010 to 7.7% in 2013, power output growth also trended downwards from the peak of 13.8% in 2010 to 7.5% in 2013. According to the China Electricity Council (CEC), it expected 2014F power consumption to slow to 6.5-7.0% assuming 7.0-7.5% GDP growth, which implies an electricity beta (ie, demand growth / real GDP growth) to fall from 1.34x in 2010 to 0.93x in 2014F. Overall, we share the same view as the CEC. On the back of 7.4% real GDP growth in 2014F estimated by our China economics team, we forecast power consumption growth in China to slow to 7.0% in 2014F, from 7.5% in 2013.

Valuation: attractive; share prices to catch up with earnings growth
Despite improvements seen in sector fundamentals amid coal price declines and a continuous strengthening of balance sheets, we see China IPPs' share price performances as being unable to maintain the same pace as earnings growth. We acknowledge that the uncertainty on the on-grid tariff cut has clouded the sector's earnings visibility; however, we think the market is overly concerned with the negative impact of any potential tariff cut, as mentioned previously. We estimate that this results in relatively low P/Es and P/Bs for the China IPPs. However, at the same time, the dividend payout policies together with the lagging share prices provide high dividend yields for the China IPPs. Overall, we see potential for China IPPs' share prices to catch up to the sector's earnings growth, at least to the same valuation level as seen in 2009 during which China IPP sector fundamentals were good, or at least to the historical average.

Stock picks: Buy Datang Int'l Power, Huadian Power, CPID and Huaneng Power

Our order of preference for China IPPs:

Datang Int'l Power > Huadian Power > CPID > Huaneng Power > CR Power

Datang Int'l Power (991 HK, BUY, TP HKD4.36) – The worst is behind us…
- **Duolun coal-chemical project:** The worst is behind us, in our view, and we see losses narrowing in 2014F and break-even in 2015F.
- **Keqi coal-to-gas project:** We expect profit contribution in its first full year of operation in 2014F.
- **Power business:** We remain positive, given: 1) benefits from the weak coal price outlook resulting in a continuous unit fuel cost decline; 2) downward trends in the net gearing ratio, resulting in reduced financial cost burden; and 3) upcoming commissioning of the nuclear power generation project in 2014-15F.
- **Valuation:** Attractive; at the low end of peers.
- We maintain our Buy, with a revised TP at HKD4.36 (upside potential of 43.4%).

Huadian Power (1071 HK, Buy, TP HKD4.75) – High dividend yield play
- **Fundamentals:** Positive, given: 1) the weak coal price outlook resulting in a continuous unit fuel cost decline; and 2) downward trends in the net gearing ratio.
- **High dividend yield:** We see potential upward revision on the dividend payout ratio to 40% with the recently proposed amendment on the Article of Associations. We estimate that the 40% payout ratio can translate into a 2014F dividend yield of 7.9%, the highest across the universe.
- **Valuation:** Attractive, at the low end of peers

  We maintain our Buy rating, with a revised TP at HKD4.75 (upside potential of 45.7%).

CPID (2380 HK, Buy, TP HKD3.72) – Balanced fire with water
- **Uncertainty on** hydropower generation as it is subject to weather and difficult to forecast; but
- **We are positive** on the company's fundamental prospects, including: 1) benefits from continuous weak coal prices; 2) its diversified portfolio in hydropower capacity to hedge the risks of coal-fired on-grid tariff cuts and enjoy the power dispatch priority; 3) stable hydropower utilization on a long-term basis; 4) benefits from hydropower on-grid tariff pricing mechanism; and 5) potential parent asset injection, including coal-fired and hydropower.
- **Valuation:** At a discount to peers, given its small cap characteristics.
- We maintain our Buy, with a revised TP at HKD3.72 (upside potential of 43.1%).

Huaneng Power (902 HK, Buy, TP HKD8.2) – Uncertain on gas-fired power move

- **Positive on** the company's fundamentals given: 1) continuous weak coal price outlook; and 2) trending down gearing ratio; but
- **Concerns on** the relatively bigger move in gas-fired power generation than peers given: 1) the return on gas-fired power plants is heavily dependent on local government subsidies; 2) the lack of official mechanism to determine the subsidies; and 3) the future upward trend in gas prices. But fortunately the earnings impact for any gas price hike would be immaterial to the company.
- **Valuation:** At a premium to peers.
- While we maintain our rating it is our least preferred Buy among the China IPP universe; we revise our TP to HKD8.2 (upside potential of 16.3%).

Fig. 4: China IPPs: Coverage / rating summaries

Stock	Ticker	Rating	Price (HKD)	TP (HKD)	Upside (%)	TP Implied P/E	TP Implied P/B
Datang Int'l Power	991 HK	Buy ↔	3.04	4.36	43.4%	9.05x	0.86x
Huadian Power	1071 HK	Buy ↔	3.26	4.75	45.7%	7.54x	0.98x
CPID	2380 HK	Buy ↔	2.60	3.72	43.1%	8.07x	0.82x
Huaneng Power	902 HK	Buy ↔	7.05	8.20	16.3%	8.63x	1.30x
CR Power	836 HK	Neutral ↓	19.14	21.00	9.7%	9.14x	1.33x

Note: Pricing as on 20 February 2014
Source: Bloomberg, Nomura research

Company comparisons

Fig. 5: China IPPs: Financial summary (1/2)

	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Revenue											
Datang (CNY mn)	17,994	24,899	32,763	36,900	47,943	60,672	72,382	77,598	76,211	75,817	86,435
Huaneng (CNY mn)	40,077	44,301	49,768	67,835	76,863	104,318	133,421	133,967	133,683	135,448	141,285
Huadian (CNY mn)	13,300	14,700	20,341	29,997	36,450	45,198	54,178	59,080	65,808	67,052	70,515
CR Power (HKD mn)	5,927	9,740	16,830	26,772	33,214	48,578	60,709	62,436	68,352	74,430	82,551
CPID (CNY mn)	4,362	5,203	5,907	9,632	10,937	14,437	16,082	17,497	18,890	20,738	22,361
Recurring net profit											
Datang (CNY mn)	2,351	2,611	3,473	(338)	1,436	2,354	1,477	2,728	5,327	4,988	6,283
Huaneng (CNY mn)	4,562	6,003	5,608	(4,091)	5,723	3,255	975	6,946	11,529	10,384	10,737
Huadian (CNY mn)	1,066	1,214	1,209	(2,607)	1,159	(1,073)	(1,047)	920	4,140	4,182	4,508
CR Power (HKD mn)	1,787	2,294	3,163	1,798	5,321	4,504	3,166	7,075	10,740	11,011	12,788
CPID (CNY mn)	643	712	327	(237)	670	681	328	902	1,851	2,297	2,501
Recurring net profit growth (%)											
Datang (CNY mn)	2.6%	11.0%	33.0%	-109.7%	-525.1%	63.9%	-37.3%	84.8%	95.3%	-6.4%	25.9%
Huaneng (CNY mn)	-15.9%	31.6%	-6.6%	-173.0%	-239.9%	-43.1%	-70.0%	612.4%	66.0%	-9.9%	3.4%
Huadian (CNY mn)	2.0%	13.8%	-0.4%	-315.7%	-144.4%	-192.6%	-2.4%	-187.8%	350.3%	1.0%	7.8%
CR Power (HKD mn)	36.6%	28.4%	37.9%	-43.2%	196.0%	-15.3%	-29.7%	123.5%	51.8%	2.5%	16.1%
CPID (CNY mn)	2.8%	10.6%	-54.1%	-172.5%	-382.5%	1.7%	-51.8%	175.0%	105.1%	24.1%	8.9%
Net profit											
Datang (CNY mn)	2,351	2,778	3,564	749	1,537	2,570	1,971	4,062	4,084	4,988	6,283
Huaneng (CNY mn)	4,872	6,071	6,161	(3,938)	4,930	3,348	1,181	5,512	11,529	10,384	10,737
Huadian (CNY mn)	1,066	1,201	1,197	(2,560)	1,157	170	74	1,447	4,140	4,182	4,508
CR Power (HKD mn)	2,858	2,365	3,221	1,717	5,317	4,904	4,451	7,479	10,740	11,011	12,788
CPID (CNY mn)	662	703	592	(689)	519	667	505	1,181	2,407	2,297	2,501
Earnings growth (%)											
Datang	2.6	18.1	28.3	-79.0	105.1	67.2	-23.3	106.1	0.5	22.1	25.9
Huaneng	-8.5	24.6	1.5	-163.9	-225.2	-32.1	-64.7	367.0	109.1	-9.9	3.4
Huadian	2.0	12.6	-0.4	n.a.	n.a.	-85.3	-56.6	1,860.1	186.2	1.0	7.8
CR Power	118.5	-17.3	36.2	-46.7	209.6	-7.8	-9.2	68.0	43.6	2.5	16.1
CPID	4.1	6.2	-15.7	n.a.	n.a.	28.5	-24.2	133.8	103.8	-4.6	8.9
EPS											
Datang (CNY)	0.23	0.27	0.31	0.06	0.13	0.21	0.15	0.31	0.31	0.37	0.47
Huaneng (CNY)	0.40	0.50	0.51	-0.33	0.41	0.28	0.08	0.39	0.82	0.74	0.76
Huadian (CNY)	0.18	0.20	0.20	-0.43	0.19	0.03	0.01	0.20	0.56	0.53	0.53
CR Power (HKD)	0.75	0.62	0.82	0.41	1.19	1.05	0.95	1.59	2.25	2.30	2.67
CPID (CNY)	0.21	0.22	0.16	-0.19	0.14	0.13	0.10	0.22	0.40	0.36	0.39
EPS growth (%)											
Datang	4.5%	16.4%	14.2%	-79.1%	104.5%	61.6%	-27.5%	99.6%	0.5%	22.1%	25.9%
Huaneng	-8.5%	24.6%	1.5%	-163.9%	-225.2%	-32.4%	-69.6%	367.0%	109.1%	-9.9%	3.4%
Huadian	-10.0%	11.4%	-0.4%	n.a.	n.a.	-86.9%	-56.6%	1777.1%	174.5%	-6.3%	0.5%
CR Power	142.1%	-17.4%	32.4%	-50.6%	194.3%	-11.8%	-9.9%	67.3%	41.8%	2.2%	16.1%
CPID	-24.1%	7.7%	-25.6%	n.a.	n.a.	-7.7%	-24.2%	127.1%	79.3%	-11.0%	8.9%
Net Margins (%)											
Datang	13.1%	11.2%	10.9%	2.0%	3.2%	4.2%	2.7%	5.2%	5.4%	6.6%	7.3%
Huaneng	12.2%	13.7%	12.4%	-5.8%	6.4%	3.2%	0.9%	4.1%	8.6%	7.7%	7.6%
Huadian	8.0%	8.2%	5.9%	-8.5%	3.2%	0.4%	0.1%	2.4%	6.3%	6.2%	6.4%
CR Power	48.2%	24.3%	19.1%	6.4%	16.0%	10.1%	7.3%	12.0%	15.7%	14.8%	15.5%
CPID	14.8%	13.5%	10.0%	-7.2%	4.7%	4.6%	3.1%	6.8%	12.7%	11.1%	11.2%
Effective tax rate (%)											
Datang	21.1%	23.2%	24.7%	12.0%	19.6%	18.5%	18.0%	17.9%	25.0%	25.0%	25.0%
Huaneng	15.8%	14.1%	11.5%	5.0%	10.4%	20.2%	42.4%	35.2%	28.0%	25.0%	25.0%
Huadian	30.7%	27.7%	15.0%	4.1%	6.0%	57.6%	18.1%	32.7%	25.0%	25.0%	25.0%
CR Power	0.4%	0.4%	1.8%	10.0%	5.8%	11.6%	18.1%	11.9%	21.0%	25.0%	25.0%
CPID	11.4%	13.0%	10.5%	-0.6%	3.9%	30.5%	24.8%	21.0%	25.0%	25.0%	25.0%

Source: Company data, Nomura research

Fig. 6: China IPPs: Financial summary (2/2)

	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
DPS											
Datang (CNY)	0.11	0.13	0.12	0.11	0.07	0.07	0.11	0.10	0.10	0.12	0.15
Huaneng (CNY)	0.25	0.28	0.30	0.10	0.21	0.20	0.05	0.21	0.44	0.40	0.41
Huadian (CNY)	0.07	0.06	0.06	-	0.04	-	-	0.07	0.22	0.21	0.21
CR Power (HKD)	0.13	0.18	0.25	0.13	0.38	0.33	0.30	0.51	0.73	0.75	0.87
CPID (CNY)	0.08	0.09	0.05	-	0.05	0.05	0.05	0.09	0.17	0.15	0.17
Dividend payout ratio (%)											
Datang	47.8%	48.6%	39.5%	172.9%	56.1%	33.5%	74.3%	32.8%	32.8%	32.8%	32.8%
Huaneng	61.9%	55.6%	58.7%	-30.6%	51.4%	72.3%	59.5%	53.5%	53.5%	53.5%	53.5%
Huadian	36.7%	31.1%	31.2%	n.a.	20.5%	n.a.	n.a.	33.1%	40.0%	40.0%	40.0%
CR Power	17.3%	28.9%	30.4%	32.1%	31.8%	31.8%	32.0%	32.2%	32.6%	32.6%	32.6%
CPID	38.5%	41.0%	32.9%	n.a.	31.8%	34.5%	45.5%	40.1%	42.7%	42.7%	42.7%
Gross Debt											
Datang (CNY mn)	38,520	54,629	73,012	108,992	132,381	149,719	165,140	184,100	197,618	208,220	220,965
Huaneng (CNY mn)	43,547	51,670	60,279	109,249	129,148	141,916	167,077	167,398	162,291	164,295	166,607
Huadian (CNY mn)	18,433	30,960	37,781	59,659	69,771	90,080	104,458	115,330	125,211	129,653	135,108
CR Power (HKD mn)	11,045	16,591	26,672	37,671	56,484	74,911	82,987	80,267	88,572	93,186	98,274
CPID (CNY mn)	4,014	6,791	9,176	11,659	34,381	38,271	42,100	45,599	47,513	50,203	53,158
Cash balance											
Datang (CNY mn)	1,029	4,451	3,446	5,078	1,506	3,443	4,467	4,613	7,535	12,583	25,519
Huaneng (CNY mn)	2,648	3,207	7,312	5,567	5,227	9,426	8,553	10,505	8,724	11,094	15,212
Huadian (CNY mn)	846	962	1,373	1,869	1,242	1,236	2,112	3,060	9,519	12,476	13,745
CR Power (HKD mn)	4,411	2,747	7,887	5,467	6,262	6,802	4,497	4,397	7,117	10,324	13,478
CPID (CNY mn)	2,188	1,447	734	1,327	1,911	977	1,180	2,016	7,119	9,481	12,305
Net debt											
Datang (CNY mn)	37,491	50,177	69,565	103,914	130,875	146,276	160,673	179,487	190,083	195,638	195,446
Huaneng (CNY mn)	40,900	48,463	52,967	103,682	123,921	132,490	158,525	156,893	153,567	153,201	151,395
Huadian (CNY mn)	17,587	29,998	36,408	57,790	68,529	88,844	102,346	112,270	115,692	117,177	121,363
CR Power (HKD mn)	6,634	13,844	18,785	32,204	50,223	68,109	78,491	75,870	81,455	82,862	84,797
CPID (CNY mn)	1,826	5,344	8,441	10,332	32,471	37,294	40,920	43,582	40,394	40,722	40,852
Gearing % (net debt to equity)											
Datang	204.6%	210.0%	233.8%	395.8%	501.0%	474.2%	412.6%	430.9%	428.0%	407.1%	370.8%
Huaneng	95.6%	112.1%	112.9%	281.5%	294.2%	246.3%	311.5%	279.5%	237.3%	222.3%	204.3%
Huadian	139.3%	220.3%	254.5%	505.7%	426.0%	549.0%	626.2%	577.2%	500.5%	400.9%	378.5%
CR Power	50.7%	90.6%	75.7%	118.3%	133.6%	161.5%	147.1%	126.6%	119.2%	109.2%	99.7%
CPID	26.8%	58.9%	75.8%	129.8%	260.7%	304.7%	305.3%	291.4%	216.2%	192.2%	179.9%
Book value											
Datang (CNY per share)	1.77	2.11	2.54	2.23	2.22	2.51	2.93	3.13	3.34	3.61	3.96
Huaneng (CNY per share)	3.32	3.60	3.89	3.06	3.49	3.83	3.62	3.99	4.60	4.90	5.27
Huadian (CNY per share)	2.12	2.24	2.37	1.90	2.38	2.39	2.41	2.64	3.13	3.43	3.76
CR Power (HKD per share)	3.44	3.99	5.99	6.46	8.03	8.93	11.25	12.58	14.26	15.83	17.75
CPID (CNY per share)	1.89	2.90	3.09	2.21	2.44	2.40	2.57	2.69	2.91	3.30	3.54
FCF											
Datang (CNY mn)	(13,510)	(9,686)	(15,246)	(25,280)	(15,744)	(5,208)	(13,185)	(5,000)	(393)	5,051	10,772
Huaneng (CNY mn)	(5,161)	(4,504)	(4,872)	(22,708)	(7,445)	(2,638)	4,276	11,453	15,313	15,775	16,734
Huadian (CNY mn)	(3,690)	(9,197)	(4,969)	(7,496)	(5,728)	(7,410)	(5,592)	(3,894)	3,593	3,389	4,510
CR Power (HKD mn)	(2,477)	(2,318)	(1,342)	(4,954)	(1,758)	(5,030)	(2,280)	8,295	(1,167)	4,277	3,940
CPID (CNY mn)	(421)	(1,446)	(2,224)	(464)	1,612	(97)	(648)	(641)	2,380	2,266	2,478
FCF yield (%)											
Datang	-48.3%	-21.6%	-18.1%	-47.1%	-35.9%	-13.2%	-31.3%	-15.8%	-1.1%	16.0%	34.5%
Huaneng	-8.0%	-5.2%	-5.1%	-37.4%	-15.6%	-5.3%	9.1%	14.1%	19.9%	20.5%	21.9%
Huadian	-29.6%	-48.7%	-21.4%	-74.8%	-45.6%	-84.3%	-66.6%	-24.2%	20.6%	15.7%	21.1%
CR Power	-15.1%	-5.2%	-1.2%	-8.0%	-2.4%	-7.6%	-3.2%	8.8%	-1.3%	4.7%	4.3%
CPID	-4.4%	-10.6%	-14.9%	-3.9%	18.0%	-1.4%	-8.7%	-5.9%	16.8%	17.0%	18.6%

Source: Company data, Nomura research

Key assumptions

Fig. 7: China IPPs: Detailed assumptions (1/3)

	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Total controlling installed capacity (MW)											
Datang	13,810	19,430	20,135	25,097	30,742	36,300	38,484	37,947	37,529	39,775	44,405
Huaneng	26,432	32,962	39,519	43,339	52,432	54,022	59,702	62,756	66,837	71,556	76,353
Huadian	10,307	14,782	21,746	22,034	23,073	25,534	31,779	33,839	35,221	38,473	40,273
CR Power	9,020	13,059	18,734	19,003	26,990	29,423	32,439	36,717	40,504	44,951	47,965
CPID	4,870	4,870	6,180	7,060	10,455	11,146	12,346	12,588	14,427	15,315	17,315
Attributable installed capacity (MW)											
Datang	10,776	14,067	16,192	17,430	21,337	25,524	27,265	26,882	29,010	31,926	36,122
Huaneng	22,253	27,977	32,575	37,593	45,340	46,512	53,687	56,573	60,096	63,792	67,659
Huadian	8,191	11,545	16,385	18,759	20,517	22,469	25,846	28,921	30,163	33,456	35,256
CR Power	4,940	8,003	12,505	12,728	17,393	19,359	22,230	25,271	28,476	32,743	35,757
CPID	4,225	5,348	7,883	9,037	11,177	11,586	11,511	11,732	12,786	15,139	16,339
Net capacity growth (%)											
Datang	24.0%	30.5%	15.1%	7.6%	22.4%	19.6%	6.8%	-1.4%	7.9%	10.1%	13.1%
Huaneng	12.1%	25.7%	16.4%	15.4%	20.6%	2.6%	15.4%	5.4%	6.2%	6.2%	6.1%
Huadian	10.4%	40.9%	41.9%	14.5%	9.4%	9.5%	15.0%	11.9%	4.3%	10.9%	5.4%
CR Power	67.5%	62.0%	56.3%	1.8%	36.6%	11.3%	14.8%	13.7%	12.7%	15.0%	9.2%
CPID	40.4%	26.6%	47.4%	14.6%	23.7%	3.7%	-0.6%	1.9%	9.0%	18.4%	7.9%
Net generation (mn kWh)											
Datang	66,679	87,902	111,411	119,106	133,552	168,228	192,143	191,181	181,460	185,902	203,607
Huaneng	141,631	150,469	174,025	184,569	191,519	241,799	295,717	285,455	300,003	319,628	343,784
Huadian	49,460	60,430	65,400	93,620	99,630	121,160	140,540	146,600	164,350	174,573	187,450
CR Power	49,633	59,512	82,702	97,353	113,680	142,057	158,783	159,345	177,285	201,022	220,728
CPID	18,701	22,262	24,811	33,890	34,714	45,967	47,391	49,203	52,795	59,714	65,724
Net generation growth (%)											
Datang	27.1%	31.8%	26.7%	6.9%	12.1%	26.0%	14.2%	-0.5%	-5.1%	2.4%	9.5%
Huaneng	31.7%	6.2%	15.7%	6.1%	3.8%	26.3%	22.3%	-3.5%	5.1%	6.5%	7.6%
Huadian	25.1%	22.2%	8.2%	43.1%	6.4%	21.6%	16.0%	4.3%	12.1%	6.2%	7.4%
CR Power	50.8%	19.9%	39.0%	17.7%	16.8%	25.0%	11.8%	0.4%	11.3%	13.4%	9.8%
CPID	26.9%	19.0%	11.4%	36.6%	2.4%	32.4%	3.1%	3.8%	7.3%	13.1%	10.1%
Plant utilisation (consolidated) (%)											
Datang	72.1%	65.7%	63.2%	54.1%	49.6%	52.9%	57.0%	57.5%	55.2%	53.4%	52.3%
Huaneng	61.2%	52.1%	50.3%	48.6%	43.9%	53.8%	62.3%	53.7%	53.3%	54.8%	55.0%
Huadian	65.2%	61.7%	54.6%	48.5%	50.4%	56.9%	59.8%	54.0%	54.3%	54.1%	54.3%
CR Power	72.2%	69.6%	69.9%	58.3%	59.2%	62.5%	62.3%	56.1%	54.6%	54.9%	55.3%
CPID	74.4%	69.8%	57.7%	58.4%	54.0%	55.9%	46.1%	45.1%	44.6%	45.8%	46.0%

Source: Company data, Nomura research

Fig. 8: China IPPs: Detailed assumptions (2/3)

	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Plant utilisation (hours)											
Datang	6,316	5,755	5,533	4,742	4,344	4,634	4,993	5,038	4,835	4,674	4,585
Huaneng	5,358	4,565	4,404	4,259	3,849	4,709	5,457	4,704	4,670	4,800	4,818
Huadian	5,712	5,405	4,783	4,249	4,418	4,985	5,237	4,730	4,760	4,738	4,761
CR Power	6,325	6,097	6,123	5,104	5,186	5,472	5,454	4,914	4,783	4,806	4,848
CPID	6,517	6,116	5,053	5,119	4,727	4,897	4,035	3,947	3,909	4,015	4,028
Average coal price (CNY/tonne)											
Datang	322	354	408	566	515	601	712	689	588	553	533
Huaneng	462	464	532	744	668	770	811	760	648	609	586
Huadian	461	513	501	677	662	848	875	799	690	655	631
CR Power	511	501	521	729	690	805	873	843	718	683	658
CPID	411	367	451	623	648	726	802	804	715	673	648
Average coal price (CNY/tonne) growth (%)											
Datang	20.1%	9.9%	15.3%	38.8%	-9.1%	16.6%	18.6%	-3.3%	-14.7%	-5.9%	-3.7%
Huaneng	9.7%	0.4%	14.6%	40.0%	-10.2%	15.2%	5.4%	-6.4%	-14.7%	-6.0%	-3.7%
Huadian	30.2%	11.3%	-2.3%	35.2%	-2.2%	28.0%	3.3%	-8.8%	-13.6%	-5.0%	-3.6%
CR Power	26.8%	-2.0%	4.0%	40.0%	-5.4%	16.7%	8.5%	-3.5%	-14.7%	-5.0%	-3.6%
CPID	13.5%	-10.8%	23.0%	38.1%	4.1%	12.1%	10.4%	0.2%	-11.1%	-5.9%	-3.7%
Unit coal consumption (gram/kWh)											
Datang	351	343	325	331	327	324	320	317	314	314	314
Huaneng	318	308	329	326	321	316	312	311	305	302	300
Huadian	345	347	342	333	323	321	316	313	309	306	306
CR Power	333	339	339	341	338	331	326	320	316	312	312
CPID	320	349	343	334	330	325	319	317	315	312	309
Unit fuel cost (CNY/MWh)											
Datang	168	167	180	196	175	201	230	215	181	171	164
Huaneng	179	180	173	249	215	247	270	250	219	211	205
Huadian	160	159	172	246	220	264	269	252	215	202	195
CR Power	181	172	171	239	208	253	281	254	214	201	194
CPID	142	138	155	208	214	236	256	255	225	210	200
Unit fuel cost change (%)											
Datang	66.3%	-0.6%	7.8%	8.7%	-10.7%	14.9%	14.7%	-6.7%	-15.7%	-5.9%	-3.7%
Huaneng	10.5%	0.6%	-3.7%	43.7%	-13.7%	15.4%	9.2%	-7.6%	-12.5%	-3.4%	-3.1%
Huadian	24.5%	-0.7%	8.4%	42.7%	-10.7%	20.1%	2.1%	-6.4%	-14.6%	-5.9%	-3.6%
CR Power	21.5%	-5.0%	-0.6%	39.7%	-12.9%	21.4%	11.0%	-9.3%	-16.0%	-5.9%	-3.6%
CPID	14.5%	-2.8%	12.3%	34.2%	2.8%	10.3%	8.7%	-0.6%	-11.5%	-6.8%	-4.6%

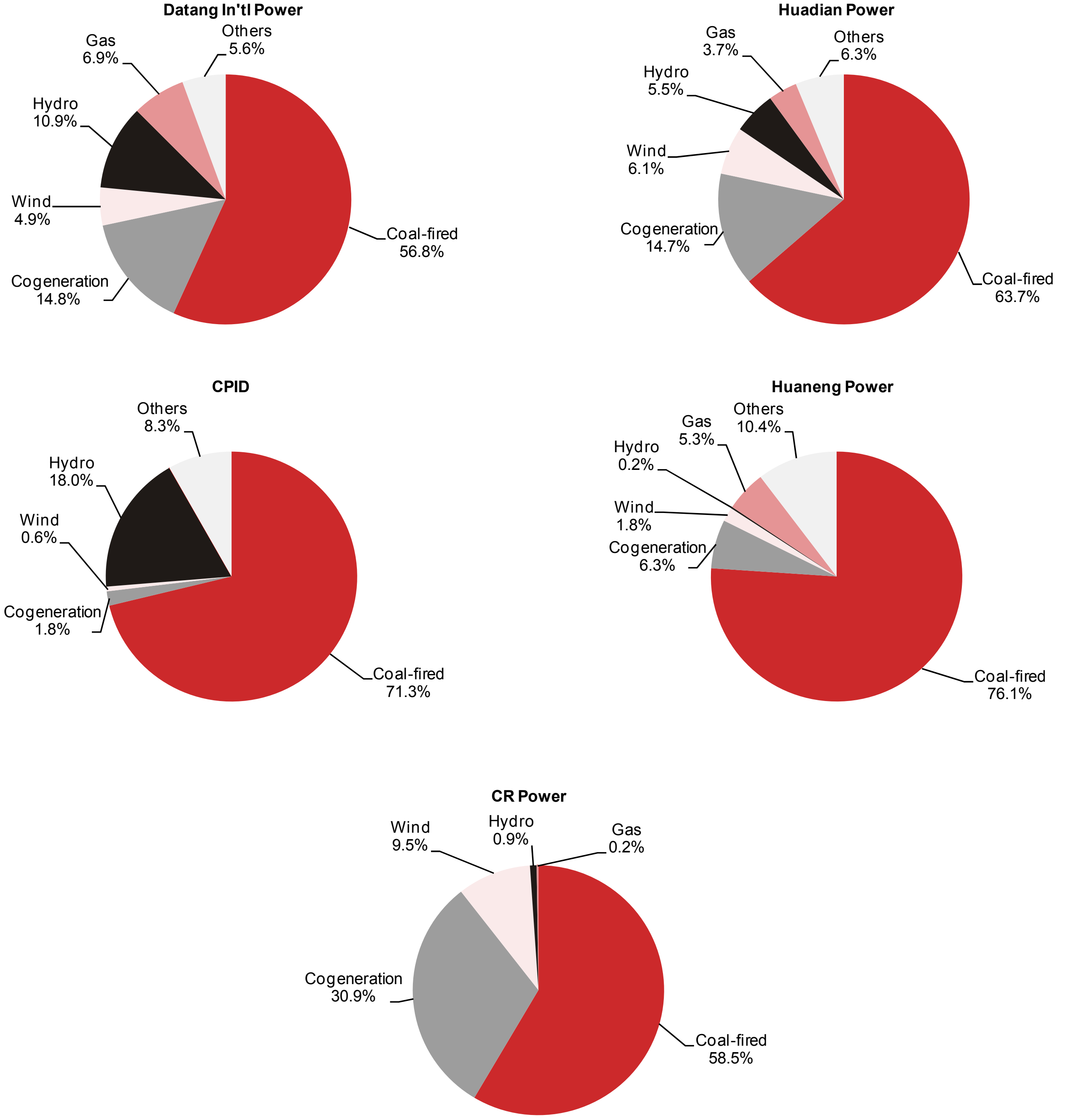
Source: Company data, Nomura research

Fig. 9: China IPPs: Detailed assumptions (3/3)

	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F
Consolidated unit average tariff (CNY/MWh) - net of VAT											
Datang	268	281	292	302	315	319	335	352	349	332	323
Huaneng	282	294	286	311	346	360	370	391	388	369	360
Huadian	260	275	286	313	353	359	364	377	375	360	353
CR Power	332	326	318	349	370	368	367	392	387	364	355
CPID	233	234	224	259	308	311	335	352	350	340	334
Consolidated unit average tariff growth - net of VAT (%)											
Datang	3.8%	4.7%	3.8%	3.6%	4.2%	1.2%	5.2%	5.2%	-0.9%	-5.0%	-2.5%
Huaneng	1.1%	4.3%	-2.7%	8.8%	11.4%	4.0%	2.7%	5.7%	-0.9%	-4.8%	-2.5%
Huadian	3.1%	5.8%	4.0%	9.3%	13.0%	1.7%	1.3%	3.7%	-0.7%	-3.8%	-2.1%
CR Power	6.8%	-1.8%	-2.5%	9.7%	6.0%	-0.4%	-0.4%	6.8%	-1.2%	-5.8%	-2.5%
CPID	2.6%	0.3%	-4.0%	15.2%	19.2%	1.0%	7.7%	5.1%	-0.8%	-2.7%	-1.9%
Tariff (net of VAT) and fuel spread (CNY/kWh)											
Datang	100	114	112	106	140	118	105	137	168	161	159
Huaneng	103	114	113	62	132	113	100	141	169	158	155
Huadian	100	116	114	67	134	96	94	125	159	158	158
CR Power	151	154	147	110	162	115	86	137	173	163	161
CPID	91	96	69	51	94	76	79	98	124	130	133
Attributable capex											
Datang (CNY mn)	-17,863	-15,394	-25,770	-32,509	-27,489	-22,717	-26,010	-26,616	-22,539	-21,866	-20,695
Huaneng (CNY mn)	-13,842	-15,999	-14,223	-27,894	-22,426	-20,704	-16,674	-15,475	-15,500	-16,500	-16,000
Huadian (CNY mn)	-6,025	-12,702	-10,211	-10,605	-12,396	-13,469	-12,325	-16,177	-14,029	-16,000	-16,000
CR Power (HKD mn)	-3,909	-4,992	-6,895	-11,060	-11,503	-15,850	-14,855	-10,670	-20,197	-18,701	-21,729
CPID (CNY mn)	-1,085	-2,466	-2,798	-1,232	-2,019	-3,449	-4,028	-5,578	-3,622	-4,607	-4,935
Effective interest rate (%)											
Datang	1.8%	2.8%	3.1%	3.4%	3.1%	3.6%	4.3%	4.7%	4.7%	4.7%	4.7%
Huaneng	3.5%	3.1%	3.5%	3.7%	3.3%	3.7%	4.6%	5.3%	5.3%	5.3%	5.3%
Huadian	2.4%	1.5%	4.0%	5.8%	4.6%	4.1%	5.1%	5.7%	5.7%	5.7%	5.7%
CR Power	3.5%	3.3%	3.9%	4.5%	3.4%	3.4%	4.2%	4.8%	4.8%	4.8%	4.8%
CPID	1.9%	1.3%	1.7%	5.2%	2.1%	3.6%	3.8%	3.9%	3.9%	3.9%	3.9%

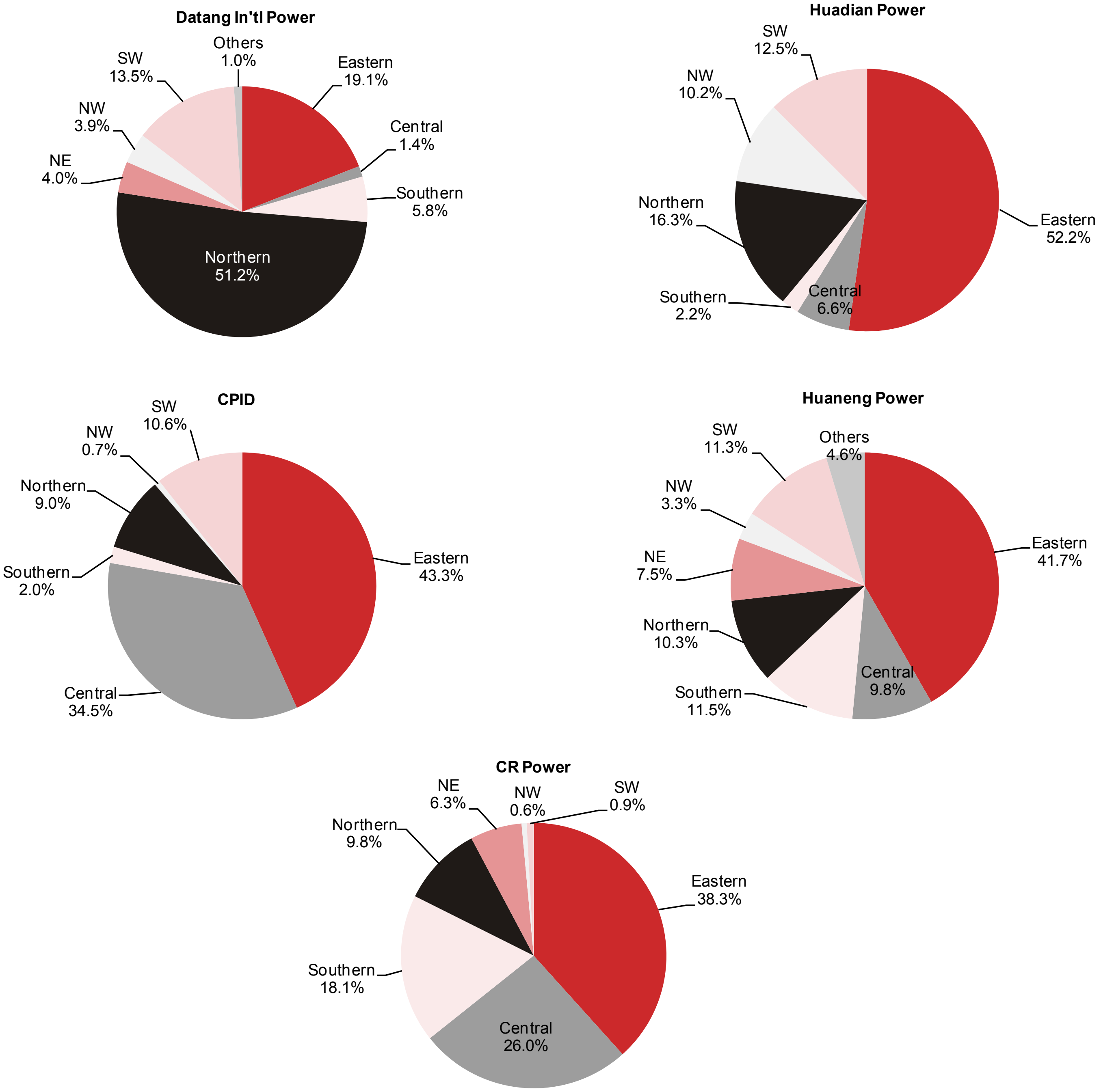
Source: Company data, Nomura research

Fig. 10: China IPPs: Breakdown of 2014F attributable installed capacity by fuel mix



Source: Company data, Nomura research

Fig. 11: China IPPs: Breakdown of 2014F attributable installed capacity by locations



Source: Company data, Nomura research

Valuation comparisons

Fig. 12: China IPPs: Valuation comp sheet

Company	Ticker	Reporting currency	FY end	No. of share o/s (mn)	Rating	Price target Local ($)	Price Local ($)	% upside	Market cap (USDmn)	EPS (reporting $) 12	13F	14F
CPID	2380 HK	CNY	Dec	6,439	Buy	3.72	2.60	43.1%	2,152	0.22	0.40	0.36
CR Pow er	836 HK	HKD	Dec	4,792	Neutral	21.00	19.14	9.7%	11,788	1.59	2.25	2.30
Datang	991 HK	CNY	Dec	3,316	Buy	4.36	3.04	43.4%	1,296	0.31	0.31	0.37
Huadian	1071 HK	CNY	Dec	1,431	Buy	4.75	3.26	45.7%	600	0.20	0.56	0.53
Huaneng	902 HK	CNY	Dec	3,555	Buy	8.20	7.05	16.3%	3,222	0.39	0.82	0.74
China IPP average									**3,811**	**0.54**	**0.87**	**0.86**

Company	DPS (Reporting $) 12	13F	14F	Yield (%) 12	13F	14F	Dividend payout (%) 12	13F	14F	BVPS (Reporting $) 12	13F	14F
CPID	0.09	0.16	0.15	4.4%	7.9%	7.6%	42.7%	42.7%	42.7%	2.69	2.91	3.30
CR Pow er	0.51	0.73	0.75	2.7%	3.8%	3.9%	32.6%	32.6%	32.6%	12.58	14.26	15.83
Datang	0.10	0.10	0.12	4.2%	4.3%	5.2%	32.8%	32.8%	32.8%	3.13	3.34	3.61
Huadian	0.06	0.22	0.20	2.5%	8.8%	7.7%	33.1%	40.0%	40.0%	2.64	3.13	3.43
Huaneng	0.21	0.44	0.40	3.8%	8.0%	7.2%	53.5%	53.5%	53.5%	3.99	4.60	4.90
China IPP average	**0.20**	**0.33**	**0.32**	**3.5%**	**6.6%**	**6.3%**	**38.9%**	**40.3%**	**40.3%**	**5.01**	**5.65**	**6.22**

Company	P/E (x) 12	13F	14F	P/B (x) 12	13F	14F	EV/EBITDA (x) 12	13F	14F
CPID	9.17	5.03	5.65	0.78	0.70	0.61	10.79	8.50	7.95
CR Pow er	12.07	8.62	8.43	1.52	1.34	1.22	9.46	7.24	6.88
Datang	11.72	5.90	6.31	0.78	0.71	0.65	8.64	7.54	7.42
Huadian	12.62	4.52	4.83	0.99	0.81	0.74	8.95	6.12	6.10
Huaneng	11.30	6.70	7.44	1.42	1.20	1.12	6.12	4.93	5.26
China IPP average	**11.38**	**6.16**	**6.53**	**1.10**	**0.95**	**0.87**	**8.79**	**6.87**	**6.72**

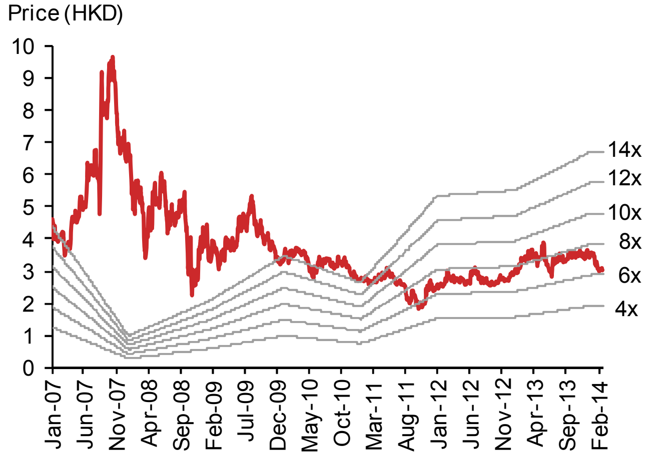
Company	Net Gearing (%) 12	13F	14F	RoE (%) 12	13F	14F	RoA (%) 12	13F	14F
CPID	291.7%	216.4%	192.4%	6.7%	10.2%	7.4%	5.4%	7.2%	7.7%
CR Pow er	126.6%	119.2%	109.2%	14.7%	18.4%	16.6%	7.8%	10.9%	10.7%
Datang	430.9%	428.0%	407.1%	10.1%	9.5%	10.8%	5.6%	6.6%	6.6%
Huadian	577.4%	500.7%	401.0%	5.6%	13.4%	10.8%	4.8%	8.5%	8.2%
Huaneng	279.5%	237.3%	222.3%	10.3%	19.1%	15.5%	7.6%	10.8%	9.5%
China IPP average	**341.2%**	**300.3%**	**266.4%**	**9.5%**	**14.1%**	**12.2%**	**6.2%**	**8.8%**	**8.5%**

Note: Market capitalizations of the five IPPs only take into account the H-shares; pricing as on 20 February 2014
Source: Bloomberg, Nomura research

P/E comparisons

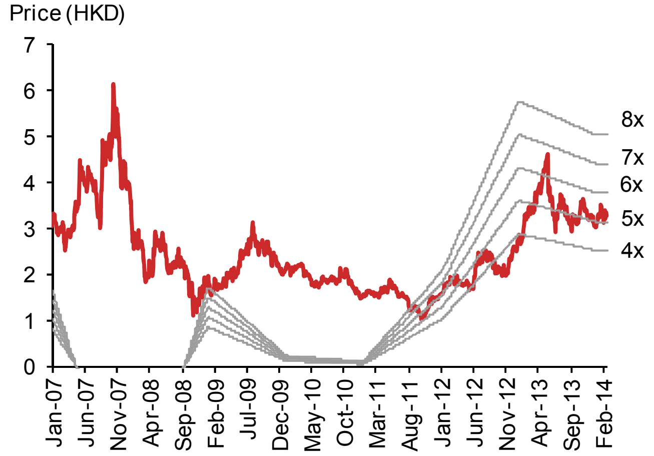
The sector is trading at a substantial discount to the historical valuation, with the 2007-2014YTD average P/E at 17.5x, versus the current 6.6x 2014F average P/E.

Fig. 13: Datang: Forward P/Es



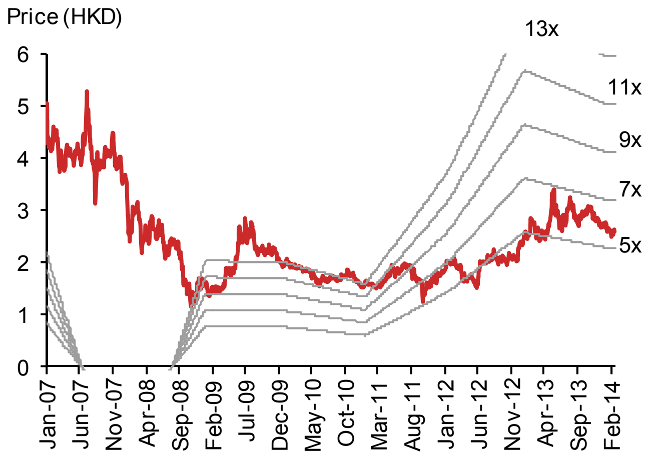
Source: Bloomberg, Nomura research

Fig. 14: Huadian: Forward P/Es



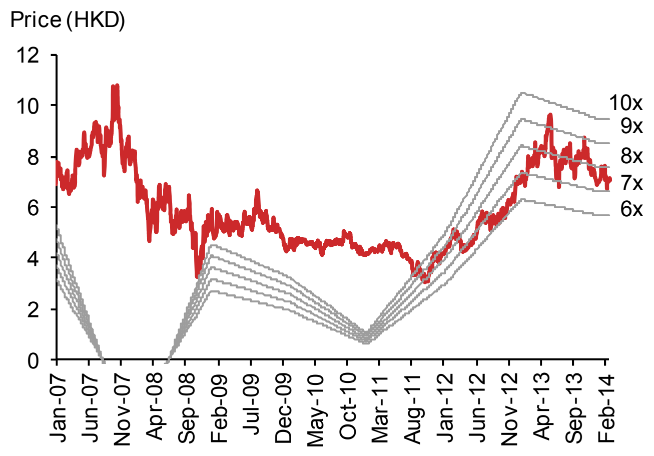
Source: Bloomberg, Nomura research

Fig. 15: CPID: Forward P/Es



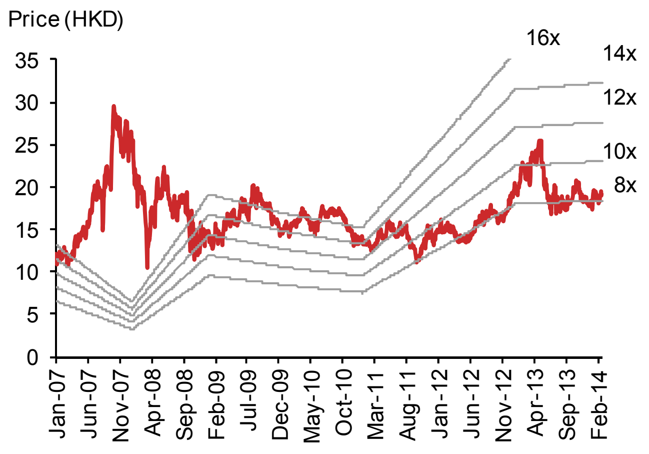
Source: Bloomberg, Nomura research

Fig. 16: Huaneng: Forward P/Es



Source: Bloomberg, Nomura research

Fig. 17: CR Power: Forward P/Es

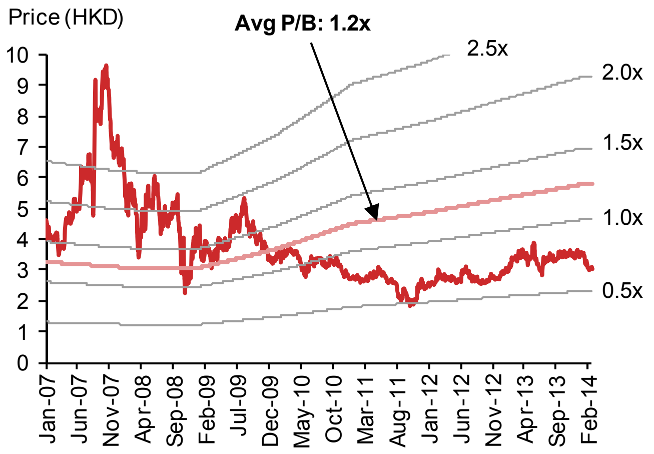


Source: Bloomberg, Nomura research

P/B comparisons

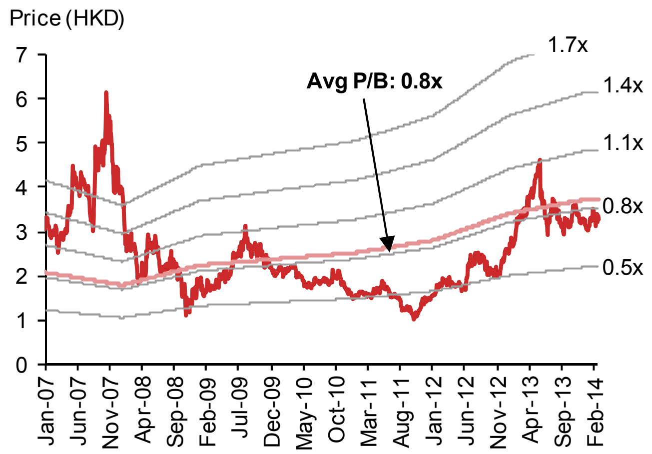
As with the P/Es, the sector is trading at a discount on a P/B basis, with the 2007-2014YTD average P/B at 1.2x, versus the current average at 0.87x 2014F P/B.

Fig. 18: Datang: Forward P/Bs



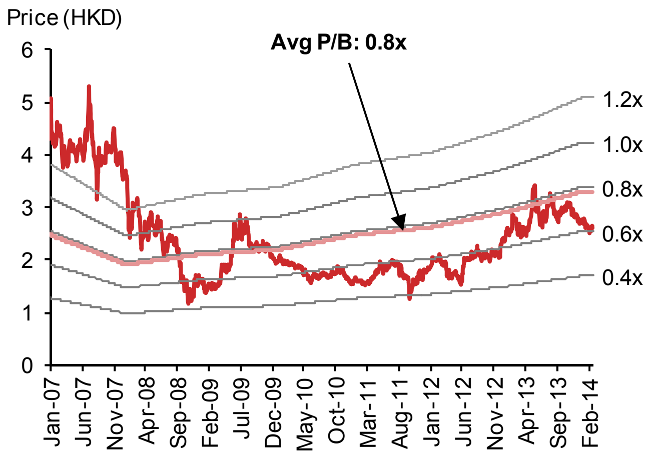
Source: Bloomberg, Nomura research

Fig. 19: Huadian: Forward P/Bs



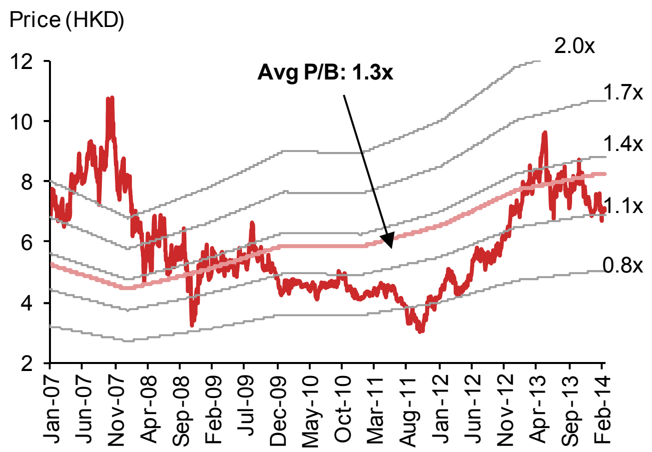
Source: Bloomberg, Nomura research

Fig. 20: CPID: Forward P/Bs



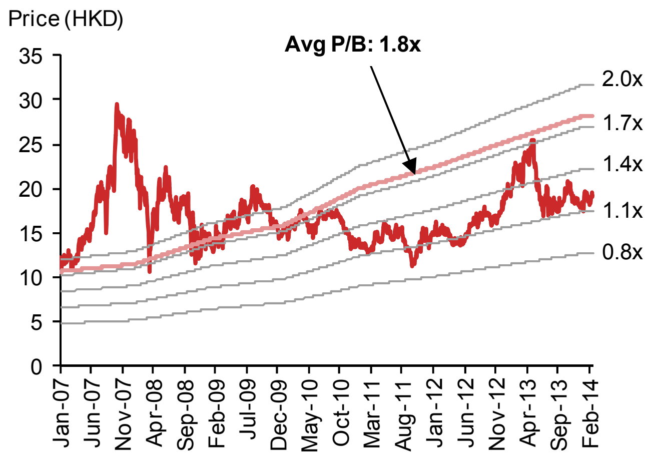
Source: Bloomberg, Nomura research

Fig. 21: Huaneng: Forward P/Bs



Source: Bloomberg, Nomura research

Fig. 22: CR Power: Forward P/Bs

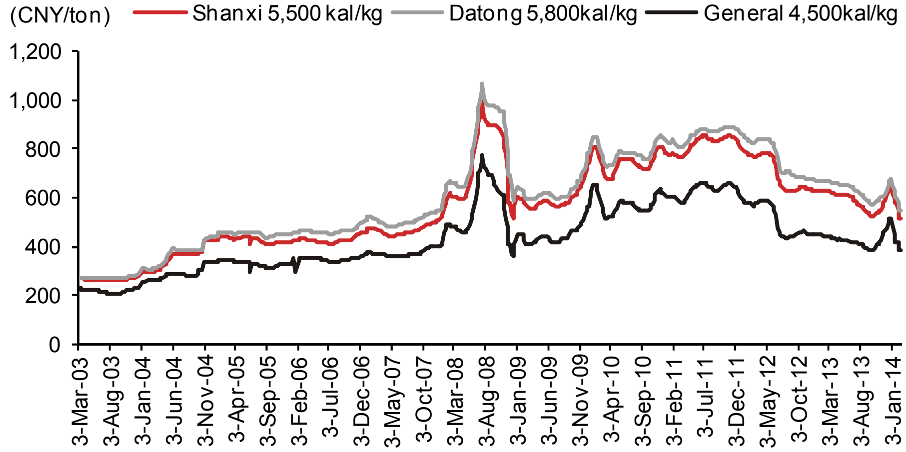


Source: Bloomberg, Nomura research

Bearish coal price outlook

Our outlook for coal prices remains equally lacklustre in the near- and medium-terms as supply continues to grow for both domestic use and imports; while demand remains subdued amid the economic slowdown and environmental concerns. We expect the oversupply situation to keep coal prices at relatively low levels, at least in the near- and medium-terms, benefiting China IPPs with low unit fuel costs. Currently in our model, we assume the 2014 and 2015F Qinhuangdao (QHD) coal prices (5,500kcal/kg) to be CNY550/ton and CNY530/ton, implying y-y drops of 6.8% and 3.6%, respectively.

Fig. 23: China: QHD coal price movements (2003-present)



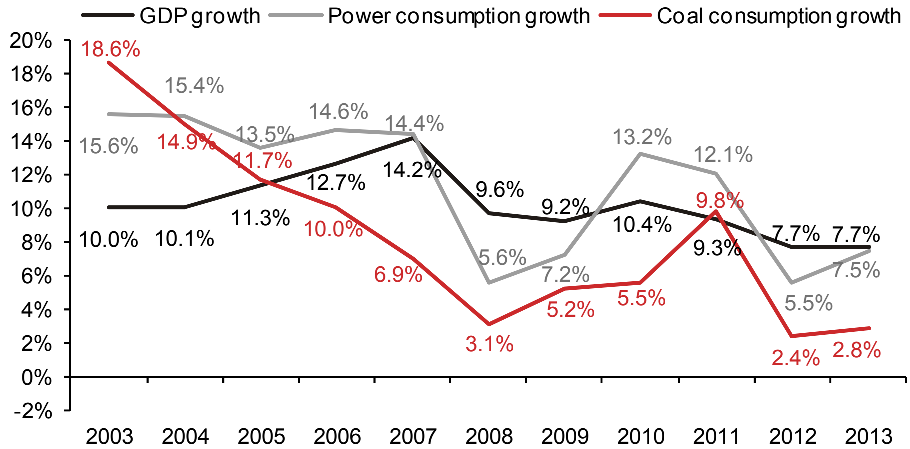
Source: Sxcoal, Nomura research

Coal demand: weakening given…

Economic slowdown with less demand for coal

Amid the domestic economic slowdown, China's GDP, as well as power consumption, no longer grows at double-digit rates. This has resulted in weak coal consumption since 2011, with 2012/13 coal consumption growth at only 2.4%/2.8%.

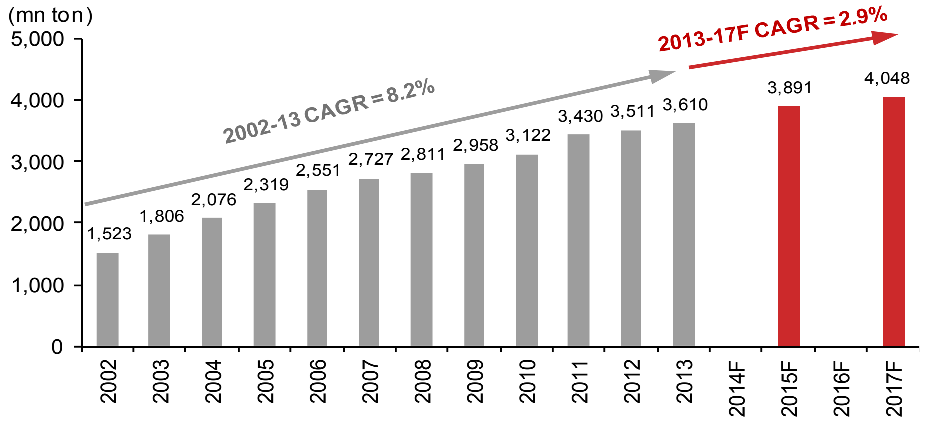
Fig. 24: China: GDP growth vs. power and coal consumption growth (2003-13)



Source: CEIC, CCTD, Nomura research

Increasing environmental pollution awareness
With the growing awareness of air pollution controls amid the continuous deterioration of air conditions, especially in northern China, the central and local governments are dedicated to reducing coal consumption in order to control pollutant emissions from coal combustion. According to the *12th FYP for Energy Industry* and the *Action Plan for Air Pollution Control for 2013-17* published by the State Council, the proportion of non-fossil fuel in the primary energy mix will increase from 8.6% in 2010 to 11.4% in 2015F, and by 2017F, coal will account for less than 65% of the total primary mix. Accordingly, we expect total raw coal consumption to reach 3,891mn tons in 2015F and 4,048mn tons in 2017F, implying a 2.9% CAGR for 2013-17F only, significantly lower than the 8.2% CAGR for 2002-13.

Fig. 25: China: Coal consumption trends 2002-17F



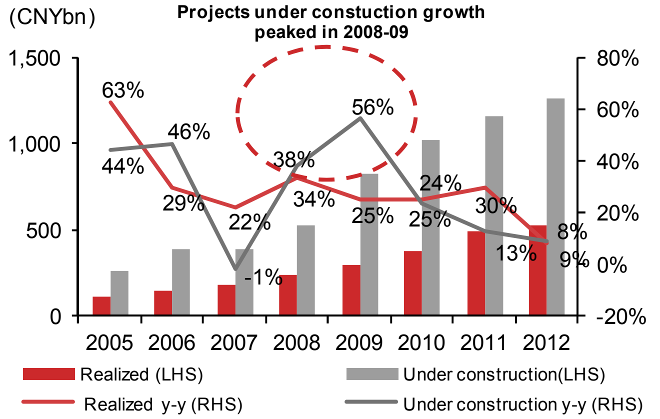
Note: 2015F and 2017F are Nomura's estimates
Source: CEIC, CCTD, Nomura research

Coal supply: excessive domestic capacity with growing imports of coal

Despite the coal sector not being included in the list of industries with excess capacity published by the central government, several government bureaus have issued warnings that growth of domestic coal production capacity outpaces demand. In addition, with the pricing competitiveness of imported coal, imported coal volumes are also on an upward trend. Coupled with weak demand as mentioned above, we believe the coal supply surplus will continue to exert pressure on coal prices in the near term.

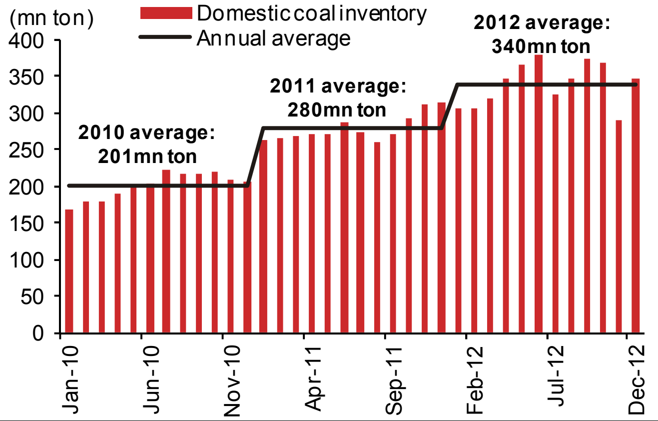
Domestic coal: excessive capacity
In China, upcoming domestic coal capacity additions are mainly coming from: 1) commencement of new capacity as a result of previous large-scale investments (included in the CNY4tn stimulus plan) in 2009-10; and 2) capacity recovery after the merger of small coal mines in Shanxi as requested by the government in 2008-09, in order to improve the coal mines' safety and efficiency. With a construction period of ~2-3 years for a typical coal mine, the increase in investments together with merger completions have seen coal production capacity surge significantly since 2011. According to the Ministry of Land and Resources, total domestic coal production capacity with licences granted amounted to 4,070mn tons by 2012, with another 1,400mn tons of capacity under construction and/or planning vs. actual demand in 2012 of only 3,511mn tons.

Fig. 26: China: fixed asset investments in the coal mining industry (2005-12)



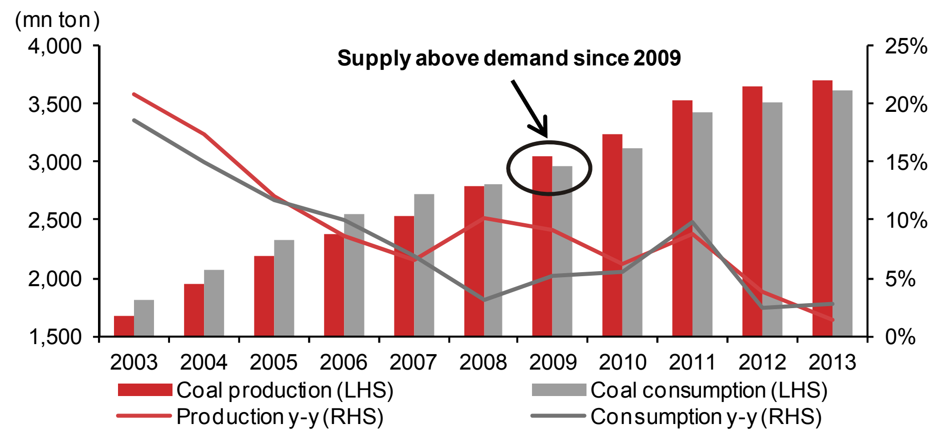
Source: CEIC, Nomura research

Fig. 27: China: monthly domestic coal inventory levels (2010-12)



Source: Sxcoal, Nomura research

Fig. 28: China: coal consumption vs. production 2003-13

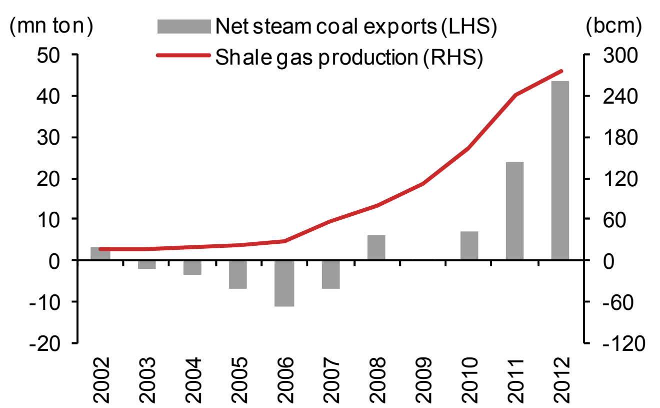


Source: CCTD, Sxcoal, Nomura research

Imported coal: net coal imports increasing amid competitive pricing

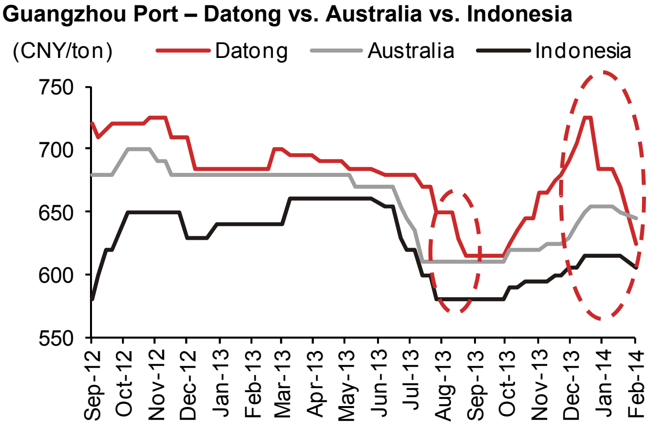
We see China's net coal imports as being on an increasing trend due to price competitiveness (eg, from Indonesia and Australia), given: 1) the slack in demand in the global coal market under the macroeconomic slowdown; and 2) the boost of shale gas production in the US, which provides cheap gas sources and largely reduces its dependence on coal imports (the US has become a net coal exporter since 2008). For China, imported coal volumes are also on an upward trend; by 2013, China imported a net 113.2mn tons of thermal coal, up 13.2% y-y.

Fig. 29: US: annual net exports of steam coal



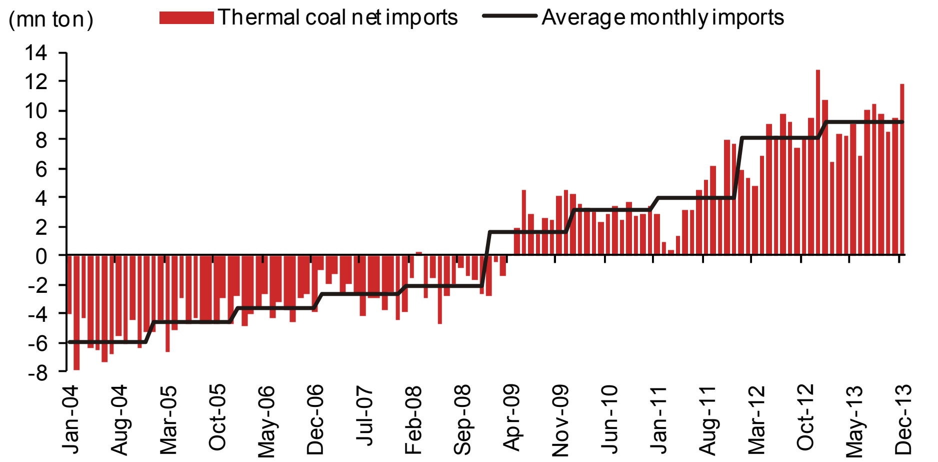
Source: EIA, Nomura research

Fig. 30: China: coal price (5,500kcal/kg) comparisons at Guangzhou Port – Datong vs. Australia vs. Indonesia



Source: Sxcoal, Nomura research

Fig. 31: China: Monthly thermal coal net imports 2004-13



Source: WIND, Nomura research

Resources tax based on prices could be on the way

Similar to oil and gas, the central government is planning to charge a tax on coal and other resources based on price instead of volume, to better link the relationship between the additional costs paid by the mining companies due to utilization of natural resources with the actual profitability level.

Recently there were two documents published by the central government in relation to the resources tax reform, especially on coal:

- **"The Opinion to Stabilize The Development of Coal Industry"** published on 28 November 2013, which points out to accelerate the reform of coal resource taxation from amount-based to price-based, on the premise of reducing the existing various coal-related fees.
- **"The Sustainable Development Plan of Domestic Resource-based Cities (2013-2020)"**, which also guides to promote the reform of resource taxes in general.

Currently, the coal resources tax is amount-based, ranging from CNY0.3-5/ton for different regions in China. Provided that the tax is changed to price-based and adopts a similar tax rate as oil and natural gas, ie 5% of the selling price, the coal resources tax will be increased to ~CNY10-30/ton. However, if the reduction of the existing coal-related fees charged by local governments (eg, the average coal-related fee charged in Shaanxi province is ~CNY140/ton) can be efficiently executed, the increase in coal price due to the increasing tax burden can be well compensated and should not have a material impact to the coal price overall.

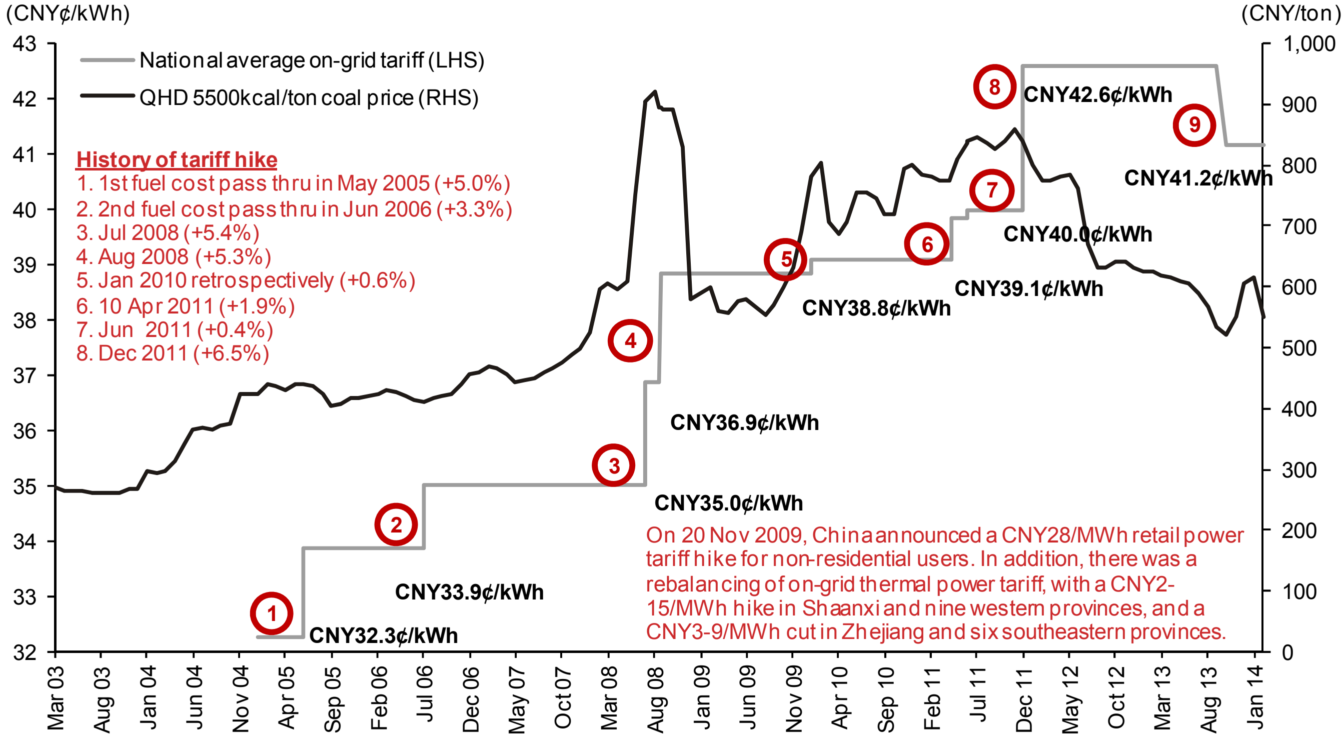
2014/15F coal price forecasts

With weak demand but rising supply, from both domestic sources and imports, we remain bearish on coal prices. According to *chinapower.com.cn*, Shenhua has basically consented to the 1Q14 coal price with the big China IPPs at CNY568.8/ton. However, at the moment this is unconfirmed. In addition, we believe the final coal price and discounts (if any) will still be subject to customers' needs and bargaining power during the negotiation process. Currently in our model, we assume the 2014F and 2015F QHD coal prices (5,500kcal/kg) at CNY550/ton and CNY530/ton, implying y-y drops of 6.8% and 3.6%, respectively.

Tariffs: Short-term overhang but with higher earnings visibility in the long term

Further to the ~3.3% coal-fired on-grid tariff cut effective 25 September 2013 due to the increase in subsidies for environmental protection, we believe that the overhang will remain on the sector in the short term, given the potential on-grid tariff cut on the back of the coal-power tariff linkage mechanism. That said, we apply a 5% on-grid tariff cut effective 1 July 2014; we think there will be a limited earnings impact amid weak coal prices and the earnings and return profiles of our covered China IPPs should remain decent. As well, on a longer-term basis, the timely implementation of the coal power tariff linkage mechanism should provide the China IPPs with higher margin stability and visibility.

Fig. 32: China: trends of on-grid power tariff vs. QHD coal prices since 2003



Source: China Electricity Council, NDRC, Nomura research

Coal-power tariff linkage mechanism

In December 2012, the State Council announced the “new” coal-power tariff linkage mechanism. Pursuant to the mechanism, going forward, when coal prices change +/-5% within a year, the on-grid power tariff will be adjusted such that the IPPs can pass-through 90% of the increasing coal costs. Overall, we think the mechanism will prove positive to the China IPPs, as this provides protection to the IPPs’ margins amid any future surge in the coal prices.

Fig. 33: China: Comparisons between old and new coal-power tariff linkage mechanism

	Coal-power tariff linkage mechanism	
	New	**Old**
Issue date	25 December 2012	15 December 2004
Trigger point	+/-5% changes of coal price w ithin a year	+/-5% changes of coal price w ithin 6-month
Magnitude to be passed through	To pass through 90% of the coal price change to the on-grid tariff, w ith China IPPs to absorb the remaining 10%	To pass through 70% of the coal price change to the pow er grid; w ith China IPPs to s absorb the remaining 30%
Review period	One year	Six months

Source: NDRC, Nomura research

But the mechanism is only a framework; details are still unknown

Since the announcement of the mechanism in 2012, only a framework has been provided, with detailed implementation guidelines still unknown to the market. Currently, we see uncertainties regarding the implementation, which may include, but are not limited to the following:

- What is the "reference" coal price being used to measure the "5% trigger point" for power tariff adjustment? Is it based on the average coal price or the spot coal price by year-end?
- Is the 5% coal price change on an accumulated basis?
- How does the government keep track of coal price movements in inland regions in the absence of a "fair" market index?

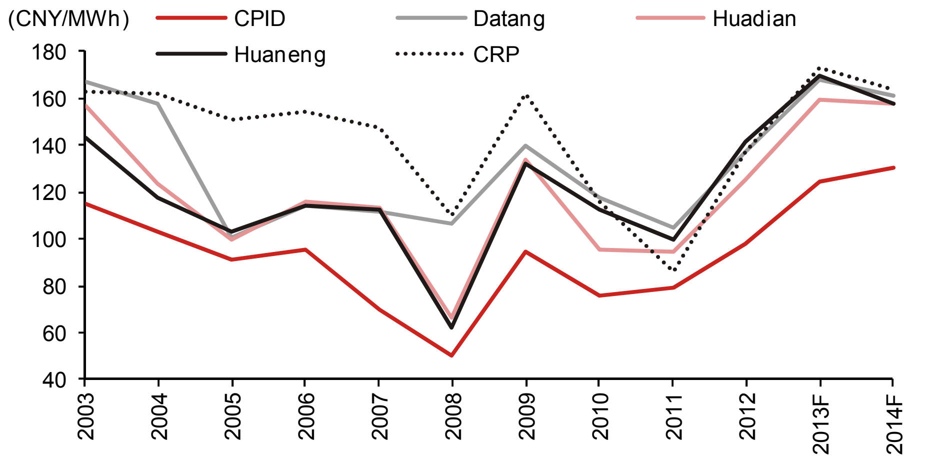
September tariff cuts regarding environmental protection

Amid increases in the renewable energy surcharge as well as the subsidies for denitrification and dedusting, the NDRC revised downwards the coal-fired on-grid power tariff on a weighted average of CNY14/MWh (~3.3%) to cover the above increases in subsidies. In general, the cut in coastal regions (CNY22.4/MWh, at 4.7%) should be higher than inland regions (CNY11/MWh, at 2.7%), given the larger drop in coal prices in the coastal areas.

Potential on-grid power tariff cuts amid drop in coal prices

Due to the low transparency of the coal-power tariff linkage mechanism, overhangs remain on the sector regarding a potential on-grid tariff cut amid the continuous drop in coal prices. As shown by the China IPPs' share performances, despite weak coal prices, especially during the Chinese New Year period, China IPPs' shares were not performing. While we acknowledge the uncertainty of the tariff aspect, we believe the market may be overly concerned on the negative impact to China IPPs. Currently in our model, even if we apply a 5% on-grid tariff cut to be effective 1 July 2014, China IPPs can still maintain a relatively stable spread given the drop in coal prices. In addition, we believe the government's intention is not to squeeze China IPP margins, but instead to maintain reasonable energy prices and a sector return. On a longer-term basis, timely implementation of the coal power tariff linkage mechanism should provide China IPPs with higher margin stability and visibility, in which a sector re-rating should be deserved. At present, the oil and gas sectors are also undergoing price reforms in which a timely implementation of the price adjustment and pass-through are still valid.

Fig. 34: China IPPs: Tariff (net of VAT) and unit fuel cost spreads since 2003



Source: Company data, Nomura research

Fig. 35: China: Price reform for the energy sector

Energy	Policy	Remarks
Oil	**Old regime:** An increase in crude benchmarks by >4% over a 22-working-day period could trigger a price hike. **New regime:** The price change time frame was reduced from 22 days to 10 days and abolished the 4% crude price band	The regulators were often reluctant to approve any fuel price hikes for fear of risking social unrest when crude prices rose. The abolishment of the 4% band makes it more responsive to any significant fluctuations in crude price. So far the price has been changed by 11 times in 2013 YTD.
Gas	On 28 June 2013, the NDRC announced a national gas price tariff hike with effect from 10 July 2013, and divided the gas supply into two categories to determine the city gate price: - Incremental gas supply: Adopt the same method as in Guangdong and Guangxi, by using 85% of the imported fuel oil and imported LPG prices; - Existing gas supply: The city gate price will be gradually raised and is expected to reach the same price level as the incremental gas supply by end of 12th FYP.	Despite the gas cost hike, so far the gas distributors can maintain the dollar margin for the C&I sales volume
Power	Progessive and time-of-use tariff will be implemented for residential sector.	

Source: NDRC, Nomura research

What if there was no tariff cut?

Currently in our model, we assume a 5% tariff cut effective 1 July 2014. Provided that there is no tariff cut as expected by us, the earnings profiles of the China IPPs for the years 2014-15F would be improved as follows:

Fig. 36: China IPPs: Earnings profiles without on-grid tariff cut in July 2014

	2013F	2014F			2015F		
		Original	New	Change (%)	Original	New	y-y (%)
Datang (CNYmn)	4,084	4,988	5,767	15.6%	6,283	7,978	27.0%
Huadian (CNYmn)	4,140	4,182	4,921	17.7%	4,508	6,093	35.1%
CPID (CNYmn)	2,407	2,297	2,517	9.6%	2,501	2,988	19.5%
Huaneng (CNYmn)	11,529	10,384	12,234	17.8%	10,737	14,735	37.2%
CR Power (HKDmn)	10,740	11,011	12,072	9.6%	12,788	15,222	19.0%

Source: Nomura estimates

Power demand: Slower growth likely ahead

In line with real GDP growth that moderated from 10.3% in 2010 to 7.7% in 2013, power output growth also trended downward from the peak of 13.8% in 2010 to 7.5% in 2013. According to the China Electricity Council (CEC), it expected 2014F power consumption growth to slow to 6.5-7.0% assuming 7.0-7.5% GDP growth, which implies electricity beta (ie, demand growth / real GDP growth) falls from 1.34x in 2010 to 0.93x in 2014F. Overall, we share the same view as the CEC. On the back of 7.4% real GDP growth in 2014F estimated by our China economics team, we forecast power consumption growth in China will slow to 7.0% in 2014F, vs. 7.5% in 2013.

Fig. 37: China: Power demand & supply (2010-15F)

China: Power supply and demand	2010	2011	2012	2013	2014F	2015F
POWER SUPPLY						
Installed capacity (GW)	966	1,063	1,142	1,247	1,342	1,432
Capacity launched (GW)	92	96	79	106	95	90
Capacity growth	10.6%	9.9%	7.5%	9.2%	7.6%	6.7%
Portion of installed capacity (%)						
Thermal Power	72.9%	71.7%	70.7%	68.4%	66.9%	65.5%
Hydropower	22.4%	21.9%	21.8%	22.4%	22.0%	21.6%
Nuclear Power	1.1%	1.2%	1.1%	1.2%	1.7%	2.4%
Wind	3.1%	4.4%	5.3%	6.1%	7.0%	7.7%
Solar	0.0%	0.2%	0.3%	1.2%	1.5%	1.8%
Biomass	0.6%	0.6%	0.7%	0.8%	0.8%	0.9%
Others (solar and others for data before 2010)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
POWER DEMAND						
Power generation (bn kWh)	4,228	4,731	4,973	5,347	5,723	6,085
Generation growth	13.8%	11.9%	5.1%	7.5%	7.0%	6.3%
Real GDP growth	10.3%	9.2%	7.7%	7.7%	7.4%	6.8%
Generation growth/ Real GDP growth (i.e. beta)	1.34	1.29	0.67	0.98	0.95	0.93
UTILIZATION						
Utilisation rate (%)						
National average	**53.1%**	**54.0%**	**52.3%**	**52.3%**	**51.4%**	**50.9%**
Thermal Power	57.4%	60.4%	56.9%	57.2%	58.6%	58.1%
Hydropower	38.9%	34.6%	41.0%	37.9%	37.7%	37.7%
Nuclear Power	89.5%	88.7%	89.7%	90.1%	90.1%	90.1%
Wind	23.4%	21.7%	22.0%	23.7%	24.0%	24.0%
Solar	12.6%	10.7%	17.1%	17.1%	17.1%	17.1%
Biomass	0.0%	0.0%	29.7%	29.7%	29.7%	29.7%
Utilization hours (hrs)						
National average	**4,650**	**4,731**	**4,579**	**4,578**	**4,503**	**4,458**
Thermal Power	5,030	5,294	4,982	5,012	5,133	5,089
Hydropower	3,404	3,028	3,591	3,318	3,300	3,300
Nuclear Power	7,840	7,772	7,855	7,893	7,893	7,893
Wind	2,047	1,903	1,929	2,080	2,100	2,100
Solar	1,100	933	1,500	1,500	1,500	1,500
Biomass	-	-	2,600	2,600	2,600	2,600
OTHERS						
Peak demand (GW)	951	1,064	1,119	1,203	1,288	1,369
Shortage (pent-up demand, GW)	15	(2)	23	44	55	63

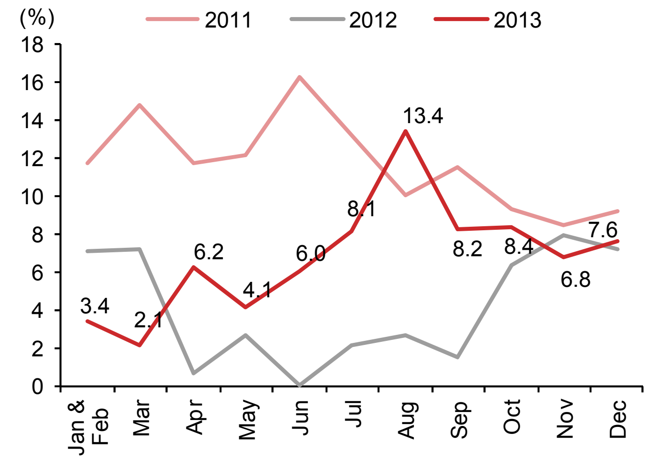
Source: China Electricity Council, Nomura research

Fig. 38: China: Power generation forecasts (2010-15F)

	2010	2011	2012	2013	2014F	2015F
POWER GENERATION (bn kWh)						
Thermal Power	**3,417**	**3,897**	**3,896**	**4,168**	**4,436**	**4,624**
Growth rate	*13.4%*	*14.0%*	*0.0%*	*7.0%*	*6.4%*	*4.2%*
- Coal	3,252	3,707	3,699	3,947	4,165	4,317
Growth rate	*8.0%*	*14.0%*	*-0.2%*	*6.7%*	*5.5%*	*3.7%*
- Gas	78	107	109	114	136	196
Growth rate	*n.a.*	*37.9%*	*2.1%*	*4.7%*	*19.0%*	*44.1%*
- Oil & others	87	82	87	106	135	111
Growth rate	*n.a.*	*-4.9%*	*5.9%*	*22.1%*	*27.1%*	*-17.7%*
Hydropower	**687**	**668**	**854**	**896**	**936**	**986**
Growth rate	*20.1%*	*-2.7%*	*27.8%*	*5.0%*	*4.5%*	*5.3%*
Nuclear Power	**75**	**87**	**98**	**112**	**132**	**207**
Growth rate	*6.6%*	*16.7%*	*12.7%*	*14.0%*	*18.1%*	*56.2%*
Wind	**49**	**74**	**103**	**140**	**168**	**205**
Growth rate	*n.a.*	*50.0%*	*38.7%*	*36.3%*	*19.9%*	*22.0%*
Solar	**0**	**1**	**4**	**9**	**24**	**33**
Growth rate	*n.a.*	*600.0%*	*414.3%*	*141.7%*	*180.9%*	*35.3%*
Biomass	**-**	**4**	**18**	**22**	**26**	**30**
Growth rate	*n.a.*	*n.a.*	*392.6%*	*18.7%*	*19.0%*	*16.7%*
Others	**0**	**0**	**0**	**0**	**0**	**-**
Total	**4,228**	**4,731**	**4,973**	**5,347**	**5,723**	**6,085**
Growth rate		***11.9%***	***5.1%***	***7.5%***	***7.0%***	***6.3%***
CONTRIBUTION (%)						
Thermal Power	**80.8%**	**82.4%**	**78.3%**	**77.9%**	**77.5%**	**76.0%**
- Coal	76.9%	78.4%	74.4%	73.8%	72.8%	70.9%
- Gas	1.8%	2.3%	2.2%	2.1%	2.4%	3.2%
- Oil & others	2.0%	1.7%	1.8%	2.0%	2.4%	1.8%
Hydropower	**16.2%**	**14.1%**	**17.2%**	**16.8%**	**16.4%**	**16.2%**
Nuclear Power	**1.8%**	**1.8%**	**2.0%**	**2.1%**	**2.3%**	**3.4%**
Wind	**1.2%**	**1.6%**	**2.1%**	**2.6%**	**2.9%**	**3.4%**
Solar	**0.0%**	**0.0%**	**0.1%**	**0.2%**	**0.4%**	**0.5%**
Biomass	**0.0%**	**0.1%**	**0.4%**	**0.4%**	**0.5%**	**0.5%**
Others	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

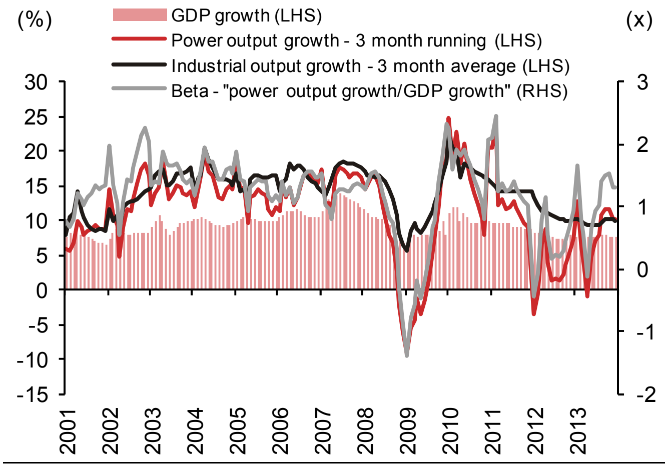
Source: China Statistical Yearbook, China Electricity Council, CEIC, Nomura research

Fig. 39: China: Monthly power output growth



Source: China Electricity Council, Nomura research

Fig. 40: China: Power, GDP and industrial output growth



Source: National Bureau of Statistics, CEIC, Nomura research

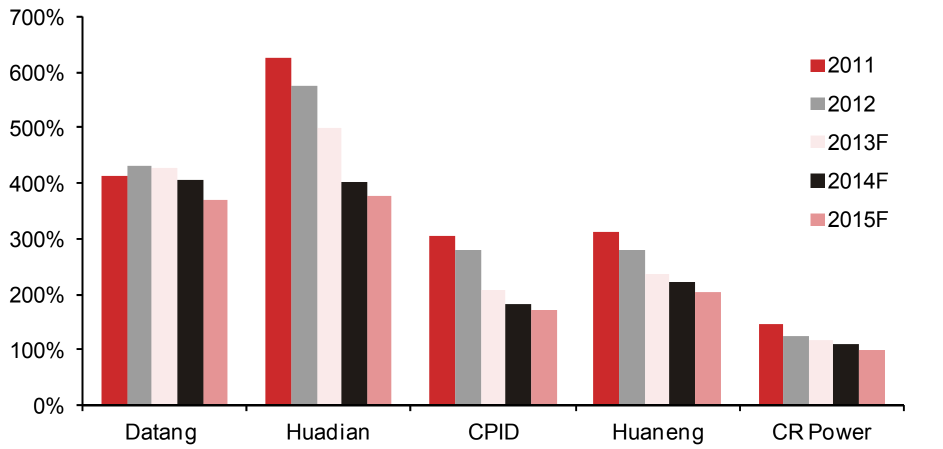
Gaining financial strength amid improving profitability

With the increasing profitability of China IPPs amid weak coal prices, we see the China IPPs' gearing ratio improving gradually, from 339% as at end-2012 to 265% by end-2014F, on our estimates. However, in the near term, given the gearing ratio is still at a relatively high level, equity financing is possible for some China IPPs, with Huadian Power the first one.

Gearing ratio to trend downwards

In the past few years, with low profitability amid high coal prices as well as heavy capex requirements for capacity expansion, the gearing ratios of China IPPs rose to a record high (to 626% for Huadian in 2011). Since June 2012, with coal prices starting to trend downwards, the China IPPs' earnings ability recovered significantly, leading to an improvement in the gearing ratio. We think the gearing ratio should continue to trend downwards, thanks to both profitability improvements and lower capex requirements. That said, with the current relatively high gearing ratio, we may also see financing needs for some China IPPs, in which Huadian Power, as the first IPP, announced a non-public A-share placement to the parent, China Huadian Corporation, on 16 October 2013.

Fig. 41: Comparisons of China IPPs' net gearing trends (net-debt-to-equity) (2011-15F)



Before considering any unannounced future equity issuance
Source: Company data, Nomura research

Fig. 42: Huadian Power: Terms of the A-share placement on 16 October 2013

	Terms
Subscriber	China Huadian Group
No. of shares to be placed	1,150mn new A-shares, represents 15.6% of the existing issued share capital of the company
Subscription price	CNY3.12 per share (5.2% discount to the last closing price)
Total proceeds	<CNY3,588mn
Lock up period	72 months after the completion of the subscription
Shareholding of China Huadian Group	Increase from 44.19% to 51.72%
Reason for the placement	- To increase the company's w orking capital; and - To enhance the capital structure and financial position of the company by improving the balance sheet and leverage ratios, and to improve the financing capability of the company

Source: Company data, Nomura research

Fig. 43: China IPPs: Net gearing position and share placement record

Company	Net gearing ratio as at end-June 2013	Year for last share placement
Huadian	523%	2013
Datang	433%	2011
Huaneng	253%	2010
CPID	253%	2012
CR Pow er	127%	2009

Source: Company data, Nomura research

Low interest rates to be held until 2015F

According to our China economist Zhiwei Zhang, the People's Bank of China (PBoC) will maintain flat interest rates until 2015F. Given the China IPPs' gearing ratios are still at high levels, we believe a flat interest rate environment will provide more stability to China IPPs' margins.

Fig. 44: China: Nomura's forecasts on interest rates and RRR (2014-15F)

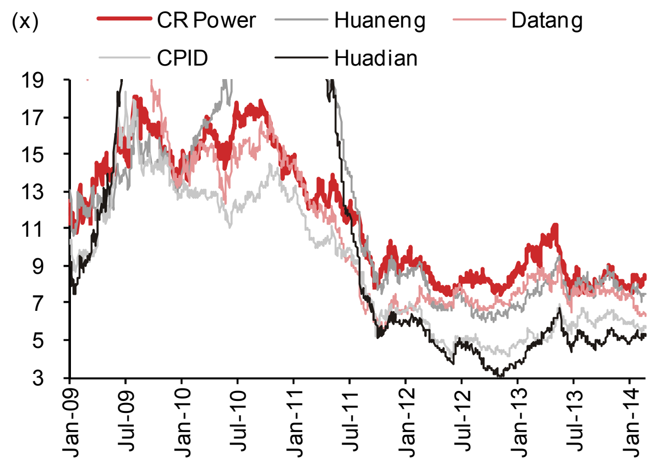
	1Q13	2Q13	3Q13	4Q13	1Q14F	2Q14F	3Q14F	4Q14F	2013	2014F	2015F
1-year bank lending rate (%)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
1-year bank deposit rate (%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Reserve requirement ratio (%)	20.0%	20.0%	20.0%	20.0%	20.0%	19.5%	19.0%	19.0%	20.0%	19.0%	19.0%

Source: Nomura research

Attractive sector valuation: share prices to catch up with earnings growth

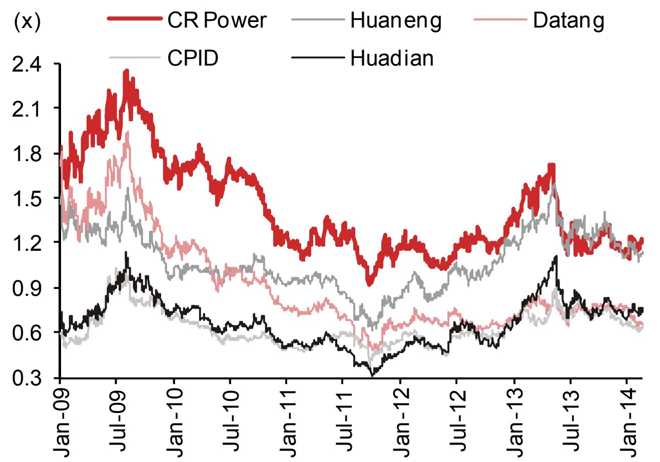
Despite improvements seen in sector fundamentals amid coal price declines and a continuous strengthening of balance sheets, we see China IPPs' share price performances as being unable to maintain the same pace as earnings growth. We acknowledge that uncertainty of the on-grid tariff cut clouded the sector's earnings visibility; however, we think the market is overly concerned with the negative impact of any potential tariff cut, as mentioned previously. We estimate that this results in relatively low P/Es and P/Bs for the China IPPs. However, at the same time, the China IPPs' earnings, the dividend payout policies together with the lagging share prices provide high dividend yields for the China IPPs. Overall, we see potential for China IPPs' share prices to catch up to the sector's earnings growth, at least to the same valuation level as seen in 2009, during which China IPP sector fundamentals were good, or at least to the historical average.

Fig. 45: China IPPs: Forward P/Es



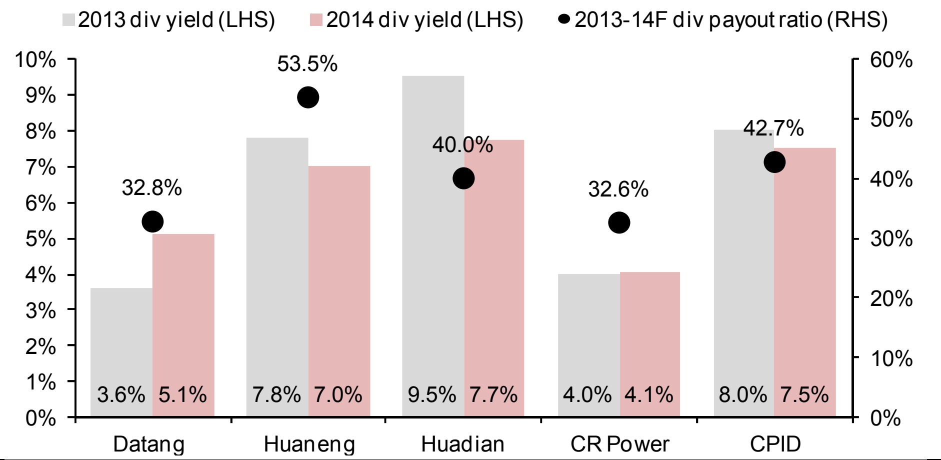
Source: Bloomberg, Nomura research

Fig. 46: China IPPs: Forward P/Bs



Source: Bloomberg, Nomura research

Fig. 47: China IPPs: Dividend yields



Source: Company data, Nomura research

Stock calls: – Buy Datang Int'l Power, Huadian Power, CPID and Huaneng Power; Neutral on CR Power

Overall, on the one hand, we maintain our Buy ratings on Datang Int'l Power, Huadian Power, CPID and Huaneng Power. On the other hand, we downgrade CR Power to Neutral. Our preference for China IPPs is:

Datang Int'l Power > Huadian Power > CPID > Huaneng Power > CR Power

Datang Int'l Power (991 HK, BUY, TP HKD4.36) – The worst is behind us…

- Duolun coal-chemical project: The worst is behind us, in our view, and we see losses narrowing in 2014F and break even in 2015F.
- Keqi coal-to-gas project: We expect profit contribution in its first full year of operation in 2014F.
- Power business: We remain positive, given: 1) benefits from the weak coal price outlook resulting in a continuous unit fuel cost decline; 2) downward trends in the net gearing ratio, resulting in reduced financial cost burden; and 3) upcoming commissioning of the nuclear power generation project in 2014-15F.
- Valuation: Attractive; at the low end of peers.
- We maintain our Buy, with a revised TP at HKD4.36 (upside potential of 43.4%).

Huadian Power (1071 HK, Buy, TP HKD4.75) – High dividend yield play

- Fundamentals: Positive, given: 1) the weak coal price outlook resulting in a continuous unit fuel cost decline; and 2) downward trends in the net gearing ratio.
- High dividend yield: We see potential upward revision on the dividend payout ratio to 40% with the recently proposed amendment on the Article of Associations. We estimate that the 40% payout ratio can translate into a 2014F dividend yield of 7.9%, the highest across the universe.
- Valuation: Attractive, at the low end of peers
- We maintain our Buy rating, with a revised TP at HKD4.75 (upside potential of 45.7%).

CPID (2380 HK, Buy, TP HKD3.72) – Balanced fire with water

- Uncertainty on hydropower generation as it is subject to weather and difficult to forecast; but
- We are positive on the company's fundamental prospects, including: 1) benefits from continuous weak coal prices; 2) its diversified portfolio in hydropower capacity to hedge the risks of coal-fired on-grid tariff cuts and enjoy the power dispatch priority; 3) stable hydropower utilization on a long-term basis; 4) benefits from hydropower on-grid tariff pricing mechanism; and 5) potential parent asset injection, including coal-fired and hydropower.
- Valuation: At a discount to peers, given its small cap characteristics.
- We maintain our Buy, with a revised TP at HKD3.72 (upside potential of 43.1%).

Huaneng Power (902 HK, Buy, TP HKD8.2) – Uncertain on gas-fired power move

- Positive on the company's fundamentals given: 1) continuous weak coal price outlook; and 2) trending down gearing ratio; but
- Concerns on the relatively bigger move in gas-fired power generation than peers given: 1) the return on gas-fired power plants is heavily dependent on local government subsidies; 2) the lack of official mechanism to determine the subsidies; and 3) the future upward trend in gas prices. But fortunately the earnings impact for any gas price hike would be immaterial to the company.
- Valuation: At a premium to peers.
- While we maintain our rating it is our least preferred Buy among the China IPP universe; we revise our TP to HKD8.2 (upside potential of 16.3%).

CR Power (836 HK, downgrade to Neutral, TP HKD21) – Facing a double-edged sword

- **Positive on**: 1) strong capacity growth ahead, mainly from the large generation / cogeneration units which are more efficient than the existing units and at a higher return profile; and 2) weak coal price outlook; but
- **Concern on**: 1) the coal prices as a double-edged sword with potential on-grid tariff cut according to the coal-power tariff linkage mechanism and an earnings decline from its coal investment.
- **Valuation:** At a premium to peers, but in our view no longer an outright IPP to trade at the highest valuation among peers, due to the loss of investors' confidence in the company's management quality and corporate governance after the events of the proposed merger with CR Gas and the allegations on management regarding the coal mine investment.
- Downgrade to Neutral, with revised TP at HKD21, upside potential of 9.7%.

Fig. 48: China IPPs: Estimate revisions

	Datang Int'l Power		Huadian Power		CPID		Huaneng Power		CR Power	
	Old	New	Old	New	Old	New	Old	New	Old	New
Tariff (CNY/MWh)										
- 2014F	358	332	390	360	359	340	407	369	390	364
- 2015F	376	323	410	353	375	334	427	360	410	355
Unit fuel cost (CNY/MWh)										
- 2014F	211	171	240	202	259	210	242	211	246	201
- 2015F	201	164	228	195	246	200	230	205	234	194
Interest rate (%)										
- 2014F	4.2%	4.7%	5.1%	5.7%	3.7%	3.9%	4.6%	5.3%	4.2%	4.8%
- 2015F	4.2%	4.7%	5.1%	5.7%	3.7%	3.9%	4.6%	5.3%	4.2%	4.8%
Net power generation (mn kWh)										
- 2014F	230,868	185,902	177,145	174,573	63,378	59,714	332,255	319,628	188,255	201,022
- 2015F	250,340	203,607	189,063	187,450	72,693	65,724	361,207	343,784	200,965	220,728
Capex (Note)										
- 2014F	31,547	21,866	19,124	16,000	8,162	4,607	31,182	16,500	17,311	18,701
- 2015F	27,939	20,695	18,646	16,000	8,464	4,935	32,061	16,000	18,679	21,729

Note: HKD mn for CR Power; CNY mn for the rest of the China IPPs
Source: Nomura research

Fig. 49: China IPPs: Coverage / rating summaries

Stock	Ticker	Rating	Price (HKD)	TP (HKD)	Upside (%)	TP Implied P/E	TP Implied P/B
Datang Int'l Power	991 HK	Buy ↔	3.04	4.36	43.4%	9.05x	0.86x
Huadian Power	1071 HK	Buy ↔	3.26	4.75	45.7%	7.54x	0.98x
CPID	2380 HK	Buy ↔	2.60	3.72	43.1%	8.07x	0.82x
Huaneng Power	902 HK	Buy ↔	7.05	8.20	16.3%	8.63x	1.30x
CR Power	836 HK	Neutral ↓	19.14	21.00	9.7%	9.14x	1.33x

Note: Pricing as on 20 February 2014
Source: Bloomberg, Nomura research

Fig. 50: China IPPs: Valuation comparables

Company	Ticker	Reporting currency	FY end	No. of shares o/s (mn)	Rating	Price target Local ($)	Price Local ($)	% upside	Market cap (USDmn)	EPS (reporting $) 12	13F	14F
CPID	2380 HK	CNY	Dec	6,439	Buy	3.72	2.60	43.1%	2,152	0.22	0.40	0.36
CR Power	836 HK	HKD	Dec	4,792	Neutral	21.00	19.14	9.7%	11,788	1.59	2.25	2.30
Datang	991 HK	CNY	Dec	3,316	Buy	4.36	3.04	43.4%	1,296	0.31	0.31	0.37
Huadian	1071 HK	CNY	Dec	1,431	Buy	4.75	3.26	45.7%	600	0.20	0.56	0.53
Huaneng	902 HK	CNY	Dec	3,555	Buy	8.20	7.05	16.3%	3,222	0.39	0.82	0.74
China IPP average									**3,811**	**0.54**	**0.87**	**0.86**

	DPS (Reporting $)			Yield (%)			Dividend payout (%)			BVPS (Reporting $)		
Company	**12**	**13F**	**14F**	**12**	**13F**	**14F**	**12**	**13F**	**14F**	**12**	**13F**	**14F**
CPID	0.09	0.16	0.15	4.4%	7.9%	7.6%	42.7%	42.7%	42.7%	2.69	2.91	3.30
CR Power	0.51	0.73	0.75	2.7%	3.8%	3.9%	32.6%	32.6%	32.6%	12.58	14.26	15.83
Datang	0.10	0.10	0.12	4.2%	4.3%	5.2%	32.8%	32.8%	32.8%	3.13	3.34	3.61
Huadian	0.06	0.22	0.20	2.5%	8.8%	7.7%	33.1%	40.0%	40.0%	2.64	3.13	3.43
Huaneng	0.21	0.44	0.40	3.8%	8.0%	7.2%	53.5%	53.5%	53.5%	3.99	4.60	4.90
China IPP average	**0.20**	**0.33**	**0.32**	**3.5%**	**6.6%**	**6.3%**	**38.9%**	**40.3%**	**40.3%**	**5.01**	**5.65**	**6.22**

	P/E (x)			P/B (x)			EV/EBITDA (x)		
Company	**12**	**13F**	**14F**	**12**	**13F**	**14F**	**12**	**13F**	**14F**
CPID	9.17	5.03	5.65	0.78	0.70	0.61	10.79	8.50	7.95
CR Power	12.07	8.62	8.43	1.52	1.34	1.22	9.46	7.24	6.88
Datang	11.64	5.87	6.26	0.77	0.70	0.65	8.64	7.54	7.42
Huadian	12.62	4.52	4.83	0.99	0.81	0.74	8.95	6.12	6.10
Huaneng	11.30	6.70	7.44	1.42	1.20	1.12	6.12	4.93	5.26
China IPP average	**11.36**	**6.15**	**6.52**	**1.10**	**0.95**	**0.87**	**8.79**	**6.86**	**6.72**

	Net Gearing (%)			RoE (%)			RoA (%)		
Company	**12**	**13F**	**14F**	**12**	**13F**	**14F**	**12**	**13F**	**14F**
CPID	291.7%	216.4%	192.4%	6.7%	10.2%	7.4%	5.4%	7.2%	7.7%
CR Power	126.6%	119.2%	109.2%	14.7%	18.4%	16.6%	7.8%	10.9%	10.7%
Datang	430.9%	428.0%	407.1%	10.1%	9.5%	10.8%	5.6%	6.6%	6.6%
Huadian	577.4%	500.7%	401.0%	5.6%	13.4%	10.8%	4.8%	8.5%	8.2%
Huaneng	279.5%	237.3%	222.3%	10.3%	19.1%	15.5%	7.6%	10.8%	9.5%
China IPP average	**341.2%**	**300.3%**	**266.4%**	**9.5%**	**14.1%**	**12.2%**	**6.2%**	**8.8%**	**8.5%**

Note: Market capitalization of the five IPPs only take into account the H-shares; pricing as on 20 February 2014
Source: Bloomberg, Nomura research

Sensitivity analysis

As mentioned previously, we see four key factors affecting China IPPs' earnings. We summarize below the sensitivity analysis of each China IPP to the above parameters.

Fig. 51: China IPPs: 2014-15F earnings sensitivity

	2014F			2015F		
	Original	New	% Change	Original	New	% Change
1% cut in power tariff (coal-fired)						
CPID (CNY mn)	2,297	2,211	-3.7%	2,501	2,412	-3.6%
CR Power (HKD mn)	11,011	10,601	-3.7%	12,788	12,334	-3.6%
Datang (CNY mn)	4,988	4,687	-6.0%	6,283	5,960	-5.1%
Huadian (CNY mn)	4,182	3,835	-8.3%	4,508	4,142	-8.1%
Huaneng (CNY mn)	10,384	9,672	-6.9%	10,737	9,989	-7.0%
1% rise in coal price						
CPID (CNY mn)	2,297	2,243	-2.4%	2,501	2,449	-2.1%
CR Power (HKD mn)	11,011	10,781	-2.1%	12,788	12,537	-2.0%
Datang (CNY mn)	4,988	4,839	-3.0%	6,283	6,125	-2.5%
Huadian (CNY mn)	4,182	3,980	-4.8%	4,508	4,300	-4.6%
Huaneng (CNY mn)	10,384	9,995	-3.7%	10,737	10,337	-3.7%
25bps rise in interest rate						
CPID (CNY mn)	2,297	2,227	-3.0%	2,501	2,431	-2.8%
CR Power (HKD mn)	11,011	10,861	-1.4%	12,788	12,630	-1.2%
Datang (CNY mn)	4,988	4,758	-4.6%	6,283	6,041	-3.9%
Huadian (CNY mn)	4,182	4,002	-4.3%	4,508	4,322	-4.1%
Huaneng (CNY mn)	10,384	10,127	-2.5%	10,737	10,477	-2.4%
1% rise in utilization hour (coal-fired)						
CPID (CNY mn)	2,297	2,315	0.8%	2,501	2,525	1.0%
CR Power (HKD mn)	11,011	11,143	1.2%	12,788	12,934	1.1%
Datang (CNY mn)	4,988	5,073	1.7%	6,283	6,374	1.4%
Huadian (CNY mn)	4,182	4,284	2.4%	4,508	4,618	2.4%
Huaneng (CNY mn)	10,384	10,623	2.3%	10,737	10,991	2.4%

Source: Nomura research

2013F results preview

Fig. 52: China IPPs: Results at a glance

Company & ticker	Reporting date	Estimates	Area where we could see surprises
CR Power (836 HK)	17-Mar	HKD10,740mn (43.6% y-y) vs consensus HKD10,647mn	Unit fuel cost is expected to drop 15% y-y. However, the drop in coal price negatively affected the bottom-line of the company. Our 2013 estimate is in line with consensus.
Huaneng Power (902 HK)	18-Mar	CNY11,529mn (109.1% y-y) vs. consensus HKD11,536mn	Our estimate has yet to consider any one-off items, including the provision / impairment which the company has already made a portion of during 3Q14. On the operational perspective, unit fuel cost to drop 15% y-y with power generation slightly missed the company's guidance. Performance of Tuas Power remained weak, given the loss of market share.
CPID (2380 HK)	19-Mar	CNY2,407mn (103.8% y-y) vs. consensus CNY2,466mn	Unit fuel cost to drop 11% y-y. The good hydropower performance in 1H13 was offset by the weak hydropower performance in 2H13, leading to only 7% hydropower generation growth (including the contribution from new plants).
Huadian Power (1071 HK)	21-Mar	CNY4,140mn (186.2% y-y) vs. consensus CNY3,658mn	Our estimate has yet to consider any one-off items, including potential provision to be made. Unit fuel cost is expected to drop 13-15% y-y which we see as achievable. We expect the dividend payout ratio to be at 40% going forward, after the company approves the amendment in the Articles of Association.
Datang Int'l Power (991 HK)	26-Mar	CNY4,084mn (0.5% y-y) vs. consensus CNY4,508mn	Our estimate has considered the provision made in 2013, at ~CNY1.2bn. Unit fuel cost is expected to drop 15% y-y. Duolun coal-chemical business remained in loss position in 2013F which we estimated at around CNY800-900mn.

Source: Bloomberg, Nomura research

Fig. 53: Key areas of focus beyond the numbers

Company & ticker	What to focus on
CR Power	- 2014 coal contract negotiation status and 2014 unit fuel cost guidance - 2014 utilization and power generation amount guidance - Upcoming capacity addition plan - Update on import coal status especially the Indonesia low heat content coal - Update on coal mining business strategy - Plan for the wind power business, e.g. spin-off?
Huaneng Power	- 2014 coal contract negotiation status and 2014 unit fuel cost guidance - 2014 utilization and power generation amount guidance - Upcoming capacity addition plan - Update on various gas-fired projects development status, as well as gas-fired on-grid tariff adjustment - Update on the Tuas Power development status and future guidance - Update on the future financing plan, e.g. preference shares issuance etc.
CPID	- 2014 coal contract negotiation status and 2014 unit fuel cost guidance - 2014 utilization and power generation amount guidance - Upcoming capacity addition plan - Update on the hydropower on-grid tariff adjustment - YTD water reserves at hydropower station and 2014F forecasts - Plan on further parent asset injection
Huadian Power	- 2014 coal contract negotiation status and 2014 unit fuel cost guidance - 2014 utilization and power generation amount guidance - Upcoming capacity addition plan - Update on various gas-fired projects development status, as well as gas-fired on-grid tariff adjustment
Datang Int'l Power	- 2014 coal contract negotiation status and 2014 unit fuel cost guidance - 2014 utilization and power generation amount guidance - Upcoming capacity addition plan - Update on Duolun coal-chemical project development (incl. utilization, production volume, price) - Update on Keqi Phase I operating status and the COD of Keqi Phases II & III as well as Fuxin Phase I - Update on the Ningde / Xudapu nuclear project status - Update on coal mining business strategy

Source: Nomura research

Appendix I

Fig. 54: China: Power industry related policies issued since 2012

Issue date	Issue bureau	Policy	Key points
Apr-12	NDRC	The Notice of Improving The Pricing Policy for Waste-to-Energy Project (关于完善垃圾焚烧发电价格政策的通知)	To set the benchmark on-grid tariff for WTE projects at CNY0.65/kWh effective from 1 Apr 2012.
Jul-12	NEA	The 12th FYP of The Development of Biomass Energy (生物质能发展“十二五”规划)	To boost the power generation capacity of biomass energy to 13GW by 2015F, with annual power generation of 78bn kWh.
Sep-12	NDRC	The Notice of Promoting The Comprehensive Renovation of Coal-fired Power Plants (关于开展燃煤电厂综合升级改造工作的通知)	To promote the upgrade/renovation of the existing coal-fired power plants.
Oct-12	MEP, NDRC and MoF	The 12th FYP of The Prevention of Air Pollution in Key Regions (重点区域大气污染防治“十二五”规划)	Targets to reduce the emission of SO2/NOX/dust by 12%/13%/10% on the 2010 basis by: i) setting a higher emission standard; ii) phasing out the inefficient production capacity; iii) developing clean energies such as natural gas, wind power and hydropower; iv) reducing the coal consumption; v) accelerating the renovation of denitrification/dust-elimination facilities.
Dec-12	NDRC	The Notice of the Lapse of Temporary Price Regulation on Thermal Coal for Power Generation (关于解除发电用煤临时价格干预措施的通知)	The cancellation of the key contract coal mechanism effective from 1 Jan 2013
Dec-12	NDRC	The Notice of The Enlargement of Regions to Have Denitrification Subsides (关于扩大脱硝电价政策试点范围有关问题的通知)	The denitrification subsidies will be applied to all domestic coal-fired power generation units, from the previous 14 provinces only, with effect from 1 Jan 2013
Dec-12	State Council	The Guideline of Deepening the Market Restructuring of Thermal Coal (国务院办公厅关于深化电煤市场化改革的指导意见)	Announced the revised framework of the coal-power tariff linkage mechanism. The mechanism states that when the thermal coal price changes by >5% during the 1-year review period, the IPPs can adjust the on-grid power tariff by passing through 90% of the coal cost changes
Jan-13	State Council	The 12th FYP of The Energy Development (能源发展“十二五”规划)	For details, please refer to our published notes: go.nomuranow.com/research/globalresearchportal/getpub.aspx?pid=591072&appname=GRP&cid=aUJPS2xMTkJTYlk90
May-13	State Council, NEA	The Decision to Cancel/Delegate The Administration and Approval Functions of 117 Items (国务院关于取消和下放117项行政审批项目等事项的决定)	To cancel/delegate the administration and approval functions of certain energy matters. Among which, the functions related to power and gas sectors are as follows: - Cancellation of the administration and approval functions: i) Pilot projects of direct electricity purchase; and ii) The allocation of electricity market share - Delegation of the administration and approval functions to provincial or local governments: i) Hydropower projects located in the non-major rivers; ii) Gas-fired distributed energy projects; iii) Coal-fired cogeneration power projects; and iv) Wind power projects.
May-13	NDRC	The Notice of The Further Decrease of The Power Tariff for The Agricultural Sector (关于进一步降低农产品生产流通环节电价有关问题的通知)	To reduce the end users' power tariff for the agricultural sector, with effect from 1 Jun 2013.
Jun-13	NDRC	The Notice of The Adjustment of The Classification of End Users' Power Tariff (关于调整销售电价分类结构有关问题的通知)	To streamline the power end users' classification, from the previous eight categories to the current three categories, including the residential, agricultural and commercial/industrial sectors.
Jul-13	NDRC	The Tentative Measures re the Distributed Energy Project Management (分布式发电管理暂行办法)	To promote the development of distributed energy projects
Jul-13	NDRC	The Notice of Improving The Pricing Mechanism of Nuclear Power (关于完善核电上网电价机制有关问题的通知)	Set the benchmark on-grid tariff to CNY0.43/kWh for nuclear power generation units commenced operation after 1 Jan 2013
Aug-13	NEA	The Notice of The Development of Direct Power Trade Between IPPs and Large End Users (关于当前开展电力用户与发电企业直接交易有关事项的通知)	To promote the direct power trade between IPPs and large end-users.
Aug-13	NDRC	The Notice of The Adjustment of Renewable Energy Surcharges and Environmental Subsidies (关于调整可再生能源电价附加标准与环保电价有关事项的通知)	Announced tariff adjustment related to environmental protection, including: i) the subsidy for denitrification will be increased by CNY2/MWh; ii) the renewable energy surcharge will be increased by CNY7/MWh; and iii) a new subsidy of CNY2/MWh for dust-elimination. The above adjustment will be effective from 25 Sep 2013. Such increase in subsidies will be covered by a potential on-grid tariff cut of coal-fired power generation.
Oct-13	NDRC	The Notice of The Adjustment of On-gird Tariffs for Power Generators (关于调整发电企业上网电价有关事项的通知)	1. Announced the on-grid tariff adjustment plan for different regions in addition to the previously announced adjustment of environmental related tariffs. 2. To increase the on-grid tariff of the gas-fired projects, so as to pass through the cost increase due to the gas price hike

Source: State Council, NDRC, NEA, MEP, MoF, Nomura research

NOMURA

Datang International Power

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EQUITY: POWER & UTILITIES

The worst is behind us…

On the right track for recovery

Global Markets Research

25 February 2014

Rating Remains	**Buy**
Target price Increased from 3.40	HKD 4.36
Closing price 20 February 2014	HKD 3.04
Potential upside	+43.4%

Action: Reiterate Buy with revised TP of HKD4.36

We reiterate our Buy rating for Datang on its recovery story and see three key earnings/share price drivers in the near future. 1) Despite the low earnings visibility for the Duolun coal-chemical project, we believe the worst of the project should be behind us. We expect that the project loss should peak in 2013, at ~CNY800-900mn, but narrow down in 2014F amid higher plant utilization and polypropylene price. 2) With the commissioning of the Keqi coal-to-gas project at end-2013, we expect the project to start contributing to earnings in 2014F. 3) We are also positive on the traditional power generation business, given: i) the continuous drop in unit fuel cost due to the weak coal price outlook; ii) downward trend in the net gearing ratio and lesser financial cost burden; and iii) the upcoming commissioning of the nuclear power generation project in 2014-15F, which we expect to contribute CNY200mn pa for each nuclear power generation unit. Valuation is also attractive, in our view, at the low end of the peers' trading range. We therefore reiterate our Buy rating on the stock, with a revised TP of HKD4.36, implying an upside potential of 43.4% from the current level.

Catalysts: Tariff and coal price are the key factors; more earnings visibility on coal-chemical and coal-to-gas projects also help

Valuation: Attractive valuation; looking for a valuation rerating

Datang is trading at an attractive valuation of 6.3x and 0.7x 2014F P/E and P/B, respectively, at the low end of the peers' trading range. Our revised TP of HKD4.36 implies upside potential of 43.4% and would put 2014F P/E and P/B at 9.0x and 0.9x, respectively.

31 Dec	FY12	FY13F		FY14F		FY15F	
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	77,598	84,647	76,211	93,589	75,817		86,435
Reported net profit (mn)	4,062	6,331	4,084	7,137	4,988		6,283
Normalised net profit (mn)	2,728	6,331	5,327	7,137	4,988		6,283
FD normalised EPS	20.50c	47.57c	40.02c	53.62c	37.48c		47.20c
FD norm. EPS growth (%)	42.0	20.6	95.3	12.7	-6.4		25.9
FD normalised P/E (x)	11.7	N/A	5.9	N/A	6.3	N/A	5.0
EV/EBITDA (x)	8.6	N/A	7.5	N/A	7.4	N/A	6.7
Price/book (x)	0.8	N/A	0.7	N/A	0.7	N/A	0.6
Dividend yield (%)	4.2	N/A	4.3	N/A	5.2	N/A	6.5
ROE (%)	10.1	14.1	9.5	14.4	10.8		12.5
Net debt/equity (%)	430.9	396.2	428.0	385.6	407.1		370.8

Source: Company data, Nomura estimates

Anchor themes

Depressed coal prices and improving balance sheets are positive for China IPPs. However, we see the market as overly concerned on any potential tariff cuts. Current attractive valuations (low P/Es and P/Bs but high dividend yields), in our view, mean short-term overhangs are already more than priced in.

Nomura vs consensus

Our 2014-15F earnings estimates are 6-13% higher than consensus.

Research analysts

China Power & Utilities

Joseph Lam, CFA - NIHK
joseph.lam@nomura.com
+852 2252 2106

Yuwen Tang - NIHK
thomas.tang@nomura.com
+852 2252 2051

Key company data: See page 2 for company data and detailed price/index chart

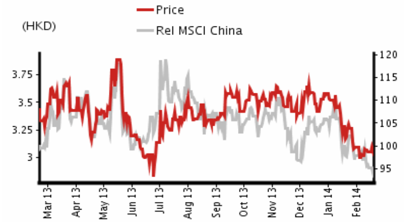
Key data on Datang International Power

Income statement (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue	72,382	77,598	76,211	75,817	86,435
Fuel costs	-44,484	-44,469	-36,164	-32,860	-37,658
Repairs & Maintenance	-1,899	-2,362	-2,396	-2,616	-3,014
Personnel expenses	-2,367	-2,748	-2,676	-2,824	-3,192
SG&A	0	0	0	0	0
Other operating expenses	-5,486	-5,713	-7,196	-7,665	-8,486
Employee share expense	0	0	0	0	0
EBITDA	18,145	22,306	27,777	29,852	34,086
Depreciation	-8,605	-8,820	-10,661	-11,860	-13,186
Amortisation	0	0	0	0	0
EBIT	9,540	13,486	17,117	17,992	20,900
Net interest expense	-7,030	-8,501	-9,126	-9,617	-10,163
Associates & JCEs	1,040	792	1,183	1,403	1,686
Other income	50	474	414	414	414
Earnings before tax	3,600	6,252	9,588	10,192	12,837
Income tax	-668	-1,361	-2,086	-2,548	-3,209
Net profit after tax	2,932	4,891	7,501	7,644	9,628
Minority interests	-1,071	-2,163	-2,175	-2,656	-3,345
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	1,862	2,728	5,327	4,988	6,283
Extraordinary items	110	1,334	-1,243	0	0
Reported NPAT	1,971	4,062	4,084	4,988	6,283
Dividends	-1,464	-1,331	-1,338	-1,634	-2,059
Transfer to reserves	507	2,731	2,746	3,354	4,224
Valuation and ratio analysis					
Reported P/E (x)	16.0	7.9	7.7	6.3	5.0
Normalised P/E (x)	17.0	11.7	5.9	6.3	5.0
FD normalised P/E (x)	17.0	11.7	5.9	6.3	5.0
FD normalised P/E at price target (x)	24.3	16.8	8.5	9.0	7.2
Dividend yield (%)	4.5	4.2	4.3	5.2	6.5
Price/cashflow (x)	2.5	1.5	1.4	1.2	1.0
Price/book (x)	0.8	0.8	0.7	0.7	0.6
EV/EBITDA (x)	9.4	8.6	7.5	7.4	6.7
EV/EBIT (x)	17.0	14.0	11.9	12.0	10.7
EV per MW (CNY)	6.4	7.0	6.8	6.4	5.6
EBITDA margin (%)	25.1	28.7	36.4	39.4	39.4
EBIT margin (%)	13.2	17.4	22.5	23.7	24.2
Net margin (%)	2.7	5.2	5.4	6.6	7.3
Effective tax rate (%)	18.5	21.8	21.8	25.0	25.0
Dividend payout (%)	74.3	32.8	32.8	32.8	32.8
Capex to sales (%)	35.9	34.3	29.6	28.8	23.9
Capex to depreciation (x)	3.0	3.0	2.1	1.8	1.6
ROE (%)	5.6	10.1	9.5	10.8	12.5
ROA (pretax %)	4.7	5.6	6.6	6.6	7.3
Growth (%)					
Revenue	19.3	7.2	-1.8	-0.5	14.0
EBITDA	10.0	22.9	24.5	7.5	14.2
EBIT					
Normalised EPS	-24.5	42.0	95.3	-6.4	25.9
Normalised FDEPS	-25.2	42.0	95.3	-6.4	25.9
Per share					
Reported EPS (CNY)	15.29c	30.52c	30.68c	37.48c	47.20c
Norm EPS (CNY)	14.44c	20.50c	40.02c	37.48c	47.20c
Fully diluted norm EPS (CNY)	14.44c	20.50c	40.02c	37.48c	47.20c
Book value per share (CNY)	2.93	3.13	3.34	3.61	3.96
DPS (CNY)	0.11	0.10	0.10	0.12	0.15

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (HKD)	-4.1	-13.9	-11.6
Absolute (USD)	-4.1	-13.9	-11.6
Relative to MSCI China	-4.3	-7.5	-6.1
Market cap (USDmn)	1,299.7		
Estimated free float (%)	36.4		
52-week range (HKD)	3.96/2.75		
3-mth avg daily turnover (USDmn)	5.11		
Major shareholders (%)			
China Datang Corporation	34.7		
Tianjin Jinneng Investment Co	9.7		

Source: Thomson Reuters, Nomura research

Notes

On 24 January 2014, Datang announced that it intends to make provisions of CNY1,243mn for the year ended 31 December 2013 in relation to the inventory impairment, retirement of fixed assets, inventory materials and preliminary project expenses.

Cashflow (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
EBITDA	18,145	22,306	27,777	29,852	34,086	
Change in working capital	878	668	-2,716	-800	177	
Other operating cashflow	-6,198	-1,358	-2,915	-2,135	-2,796	
Cashflow from operations	12,825	21,616	22,146	26,917	31,467	
Capital expenditure	-26,010	-26,616	-22,539	-21,866	-20,695	
Free cashflow	-13,185	-5,000	-393	5,051	10,772	
Reduction in investments		0	0	0	0	
Net acquisitions	-2,438	-5,573	-522	-583	84	
Reduction in other LT assets	8	1,823	0	0	0	
Addition in other LT liabilities		0	0	0	0	
Adjustments	-204	633	847	1,006	1,254	
Cashflow after investing acts	-15,820	-8,118	-68	5,474	12,111	
Cash dividends	-1,999	-2,696	-1,331	-1,338	-1,634	
Equity issue	9,077	2,012	0	0	0	
Debt issue	16,980	19,694	13,519	10,602	12,744	
Convertible debt issue	0	0	0	0	0	
Others	-7,214	-10,747	-9,197	-9,691	-10,284	
Cashflow from financial acts	16,844	8,263	2,990	-427	826	
Net cashflow	1,024	145	2,922	5,048	12,937	
Beginning cash	3,443	4,467	4,613	7,535	12,583	
Ending cash	4,467	4,613	7,535	12,583	25,519	
Ending net debt	160,673	179,487	190,083	195,638	195,446	

Source: Company data, Nomura estimates

Balance sheet (CNYmn)

As at 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
Cash & equivalents	4,467	4,613	7,535	12,583	25,519	
Marketable securities	0	0	0	0	0	
Accounts receivable	10,209	10,357	9,404	9,155	9,772	
Inventories	6,094	5,215	3,618	3,365	3,556	
Other current assets	9,304	9,742	9,742	9,742	9,742	
Total current assets	30,074	29,927	30,299	34,845	48,590	
LT investments	11,585	17,556	18,486	19,540	20,745	
Fixed assets	200,923	221,477	236,920	251,588	265,709	
Goodwill	0	0	0	0	0	
Other intangible assets	2,644	2,867	2,867	2,867	2,867	
Other LT assets	2,471	3,450	3,450	3,450	2,714	
Total assets	247,697	275,278	292,023	312,290	340,625	
Short-term debt	38,549	40,249	38,105	34,118	34,574	
Accounts payable	23,940	23,877	18,611	17,309	18,295	
Other current liabilities	926	1,312	1,312	1,312	1,312	
Total current liabilities	63,415	65,438	58,028	52,739	54,181	
Long-term debt	126,592	143,851	159,513	174,103	186,391	
Convertible debt	0	0	0	0	0	
Other LT liabilities	6,959	9,329	9,329	9,329	9,329	
Total liabilities	196,965	218,618	226,871	236,171	249,901	
Minority interest	11,791	15,001	20,741	28,058	38,014	
Preferred stock	0	0	0	0	0	
Common stock	13,310	13,310	13,310	13,310	13,310	
Retained earnings	2,593	3,854	6,607	10,257	14,905	
Proposed dividends	0	0	0	0	0	
Other equity and reserves	23,038	24,495	24,495	24,495	24,495	
Total shareholders' equity	38,941	41,658	44,411	48,062	52,710	
Total equity & liabilities	247,697	275,278	292,023	312,290	340,625	
Liquidity (x)						
Current ratio	0.47	0.46	0.52	0.66	0.90	
Interest cover	1.4	1.6	1.9	1.9	2.1	
Leverage						
Net debt/EBITDA (x)	8.85	8.05	6.84	6.55	5.73	
Net debt/equity (%)	412.6	430.9	428.0	407.1	370.8	
Activity (days)						
Days receivable	46.3	48.5	47.3	44.7	40.0	
Days inventory	41.5	46.5	44.6	38.8	33.5	
Days payable	168.7	186.9	201.1	184.8	159.8	
Cash cycle	-80.9	-91.8	-109.2	-101.3	-86.3	

Source: Company data, Nomura estimates

2013 unit fuel cost dropped 15% y-y; weak coal price continues in 2014F

Consistent with other China IPPs, amid the decline in coal price, the company expected to see significant y-y drop in unit fuel cost in 2013, at 15%, in line with the company's previous guidance. Given the weak coal price outlook and the coal supply surplus situation, the company is in no hurry to sign any contracts with coal suppliers. Apart from the coal investment for the coal-chemical and coal-to-gas projects, amid the weak coal price outlook, the new Datang management will reconsider the company's future coal investment strategy. We believe that, except for the coal mines for the coal-chemical and coal-to-gas projects, Datang will not invest heavily on other coal mines for power generation purposes.

Expects flattish utilisation in 2014; new nuclear power capacity addition be the earnings driver

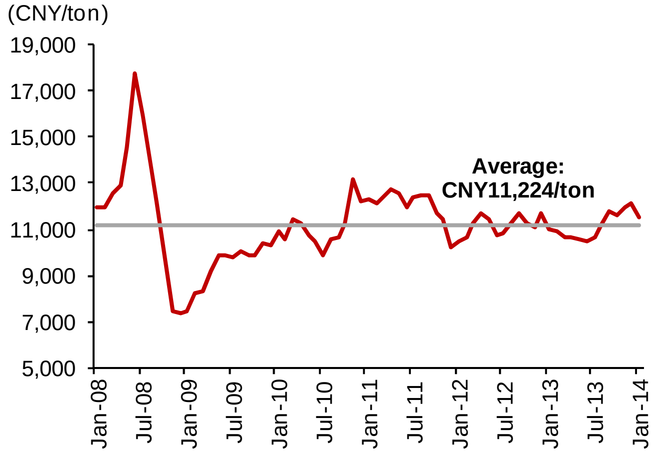
As expected, the company's 2013 power generation of 192bn kWh slightly missed the target of 200bn kWh, with utilisation hours at 5,523 hours for coal-fired power generation and 4,986 hours for all power plants (including coal-fired, wind, hydro, etc). Heading into 2014, with the uncertainty in the economic environment, the company remains conservative and expects to see flattish utilisation in 2014. Regarding the capacity growth ahead, the key highlight remains on the commissioning of the nuclear power generation in the next couple of years, with two units to be commissioned in 2014 and one unit in 2015. Looking forward to post-2015, the Ningde nuclear power project is in the process of applying for approval of Units #5 and #6, which are expected to start construction in 2016F, per the management. Based on our estimate, for each nuclear unit to be commissioned for the Ningde nuclear power project, the company can benefit from an additional earnings contribution of CNY200mn pa, which in total represents 9% of the 2016F earnings upon commissioning of all four units of Ningde project.

Fig. 55: Datang: Major installed capacity additions (2014-16F)

	(Note)	2014F MW	2015F MW	2016F MW
Thermal power	1	2,000	-	
Nuclear power	2	2,000	1,000	
Hydropower	3	-	-	3,000
Total		**4,000**	**1,000**	**3,000**

Note
1) The 2,000MW includes one coal-fired and one gas-fired power generation
2) The 2,000MW in 2014F is targeted to be commissioned in March and December 2014; whereas the 1,000MW in 2015F is targeted to be commissioned in August 2015
3) The 3,000MW refers to the commissioning of the Changheba hydropower station
Source: Company data, Nomura research

Fig. 56: China: Price trend of polypropylene



Source: CEIC, Nomura research

Duolun coal-chemical project: The worst should be behind us…

With the two-month maintenance in 2013 and the time for the volume to ramp up, the utilization for Duolun coal-chemical project was low, at 45%, significantly below the breakeven utilization level of 70-80%. We estimate the loss attributable to the company to be CNY844mn in 2013. Heading to 2014F, despite we see the project to remain in loss position, we see the worst should be over, given: 1) higher plant utilization in 2014 as the project was suffered from two-month maintenance in 2013; and 2) higher polypropylene price so far vs. 2013. Accordingly, we estimated the attributable loss on Duolun project to narrow down to CNY515mn in 2014F, and expected the project to start to be breakeven in 2016F.

Coal-to-gas project: The next earnings driver

Phase I of the Keqi coal-to-gas project was commissioned at end-2013, with 1.2bcm of production capacity. With the gas price to be set at CNY2.75/m3 and depending on the amount of assets to be transferred to fixed asset for depreciation and the plant utilization, we estimated the Keqi coal-to-gas project to contribute minimal earnings to the company in 2014F, at CNY33mn. Phases II and III will be commissioned in 2015-16F, with total capacity of the project to be 4.0bcm. In addition, per the company, the Fuxin coal-to-gas project is targeted to be commissioned by end-2014F.

Reiterate Buy; TP revised to HKD4.36

We have revised our earnings model based on the 9M13 results, together with the updated company's guidance after our recent meeting with the management. With the new assumptions, we reiterate our Buy rating on the stock, with a revised TP of HKD4.36 (up from HKD3.40).

Our new assumptions are as follows:

Fig. 57: Datang: New key assumptions

	2012	2013F	2014F	2015F
Average on-grid tariff (CNY/MWh)	352	349	332	323
y-y change (%)		*-0.9%*	*-5.0%*	*-2.5%*
Average unit fuel cost (CNY/ton)	215	181	171	164
y-y change (%)		*-15.7%*	*-5.9%*	*-3.7%*
Attributable installed capacity (MW)	26,882	29,010	31,926	36,122
y-y change (%)		*7.9%*	*10.1%*	*13.1%*
Net pow er generation (mn kWh)	191,181	181,460	185,902	203,607
y-y change (%)		*-5.1%*	*2.4%*	*9.5%*
PP production volume (000' ton)		161	253	322
Coal-to-gas production volume (mn m3)		24	1,020	2,650

Source: Nomura research

Valuation methodology

Our target price is based on a DCF valuation (no change in methodology), with cash flow discounted back to 2014F. We calculate our DCF by using a free cash flow model, assuming a 1% terminal growth for the business after 2024F, with a WACC of 8.0%.

Investment risks

Our target price is subject to growth assumptions in power demand, tariff, coal price and capex. Earlier and larger-than-expected cut in power tariff, lower-than-expected power demand as well as the coal price surge without respective compensation from rising tariff may result in key changes in our forecasts, and hence our price target.

NOMURA

Huadian Power International

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EQUITY: POWER & UTILITIES

High dividend-yield play

A strong recovery from the bottom

Global Markets Research

25 February 2014

Rating Remains	**Buy**
Target price Increased from 3.53	HKD 4.75
Closing price 20 February 2014	HKD 3.26
Potential upside	+45.7%

Action: Maintain Buy; TP raised to HKD4.75

We are positive on the company as we see a strong recovery in fundamentals given: 1) the weak coal price outlook resulting in continuous unit fuel cost decline; and 2) a downward trend in the net gearing ratio due to the recovery in sector fundamentals. In addition, the company recently proposed to amend the Articles of Association in which we expect the company will guide for a 40% dividend payout ratio. This would make the company a strong dividend play in the sector, with our 2014F dividend yield estimate of 7.7%. This is coupled with attractive valuations at 4.8x and 0.7x 2014F P/E and P/B, respectively, which are at the low end of the peer range. We, therefore, reiterate our Buy rating on the stock, with a revised TP of HKD4.75, implying 45.7% upside potential from the current level.

Catalysts: Tariff and coal price are key factors

The benefits of a weak coal price always come with the on-grid tariff cut overhang in the China IPP sector. We believe clarification on the coal-power tariff linkage mechanism should provide more earnings visibility and a valuation rerating for the sector. We assume a 5% tariff cut effective from 1 July 2014.

Valuation: Attractive valuation among peers

Huadian Power is trading at attractive valuations of 4.8x and 0.7x 2014F P/E and P/B, respectively, which are at the low end of the peer range. Our revised TP of HKD4.75 implies upside potential of 45.7% and would put 2014F P/E and P/B at 7.5x and 1.0x, respectively.

Anchor themes

Depressed coal prices and improving balance sheets are positive for China IPPs. However, we see the market as overly concerned on any potential tariff cuts. Current attractive valuations (low P/Es and P/Bs but high dividend yields), in our view, mean short-term overhangs are already more than priced in.

Nomura vs consensus

Our 2013-15F earnings estimates are at the high end of market consensus.

Research analysts

China Power & Utilities

Joseph Lam, CFA - NIHK
joseph.lam@nomura.com
+852 2252 2106

Yuwen Tang - NIHK
thomas.tang@nomura.com
+852 2252 2051

31 Dec	FY12		FY13F		FY14F		FY15F
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	59,080	68,709	65,808	73,891	67,052		70,515
Reported net profit (mn)	1,447	3,460	4,140	3,603	4,182		4,508
Normalised net profit (mn)	920	3,460	4,140	3,603	4,182		4,508
FD normalised EPS	13.01c	46.94c	56.17c	48.89c	52.63c		52.91c
FD norm. EPS growth (%)	na	49.7	331.9	4.2	-6.3		0.5
FD normalised P/E (x)	19.9	N/A	4.5	N/A	4.8	N/A	4.7
EV/EBITDA (x)	9.0	N/A	6.1	N/A	6.1	N/A	6.1
Price/book (x)	1.0	N/A	0.8	N/A	0.7	N/A	0.7
Dividend yield (%)	2.5	N/A	8.8	N/A	7.7	N/A	8.4
ROE (%)	5.6	11.1	13.4	10.0	10.8		9.7
Net debt/equity (%)	577.4	515.8	500.7	488.7	401.0		378.6

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Key data on Huadian Power International

Income statement (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue	54,178	59,080	65,808	67,052	70,515
Fuel costs	-39,172	-37,932	-36,401	-35,909	-37,066
Repairs & Maintenance	-1,324	-1,962	-2,171	-2,408	-2,635
Personnel expenses	-2,460	-2,809	-3,222	-3,525	-3,906
SG&A	0	0	0	0	0
Other operating expenses	-2,480	-3,335	-3,463	-3,768	-4,160
Employee share expense	0	0	0	0	0
EBITDA	8,742	13,041	20,551	21,441	22,748
Depreciation	-5,574	-6,283	-7,118	-7,670	-8,185
Amortisation	0	0	0	0	0
EBIT	3,168	6,759	13,433	13,771	14,564
Net interest expense	-5,045	-6,213	-6,816	-7,089	-7,309
Associates & JCEs	557	646	734	741	749
Other income	694	919	0	0	0
Earnings before tax	-626	2,110	7,350	7,423	8,003
Income tax	-30	-690	-1,838	-1,856	-2,001
Net profit after tax	-656	1,421	5,513	5,568	6,002
Minority interests	-61	-501	-1,372	-1,386	-1,494
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	-717	920	4,140	4,182	4,508
Extraordinary items	791	527	0	0	0
Reported NPAT	74	1,447	4,140	4,182	4,508
Dividends	0	-479	-1,656	-1,673	-1,803
Transfer to reserves	74	968	2,484	2,509	2,705
Valuation and ratio analysis					
Reported P/E (x)	241.1	12.6	4.5	4.8	4.7
Normalised P/E (x)	-24.8	19.9	4.5	4.8	4.7
FD normalised P/E (x)	na	19.9	4.5	4.8	4.7
FD normalised P/E at price target (x)	na	29.0	6.6	7.0	6.9
Dividend yield (%)	na	2.5	8.8	7.7	8.4
Price/cashflow (x)	2.6	1.5	1.1	1.0	1.0
Price/book (x)	1.1	1.0	0.8	0.7	0.7
EV/EBITDA (x)	12.2	9.0	6.1	6.1	6.1
EV/EBIT (x)	30.3	16.5	9.2	9.3	9.3
EV per MW (CNY)	4.1	4.0	4.0	3.6	3.5
EBITDA margin (%)	16.1	22.1	31.2	32.0	32.3
EBIT margin (%)	5.8	11.4	20.4	20.5	20.7
Net margin (%)	0.1	2.4	6.3	6.2	6.4
Effective tax rate (%)	na	32.7	25.0	25.0	25.0
Dividend payout (%)	0.0	33.1	40.0	40.0	40.0
Capex to sales (%)	22.7	27.4	21.3	23.9	22.7
Capex to depreciation (x)	2.2	2.6	2.0	2.1	2.0
ROE (%)	0.3	5.6	13.4	10.8	9.7
ROA (pretax %)	2.7	4.8	8.5	8.2	8.2
Growth (%)					
Revenue	19.9	9.0	11.4	1.9	5.2
EBITDA	36.2	49.2	57.6	4.3	6.1
EBIT					
Normalised EPS		na	331.9	-6.3	0.5
Normalised FDEPS		na	331.9	-6.3	0.5
Per share					
Reported EPS (CNY)	1.09c	20.46c	56.17c	52.63c	52.91c
Norm EPS (CNY)	-10.59c	13.01c	56.17c	52.63c	52.91c
Fully diluted norm EPS (CNY)	-10.59c	13.01c	56.17c	52.63c	52.91c
Book value per share (CNY)	2.41	2.64	3.13	3.43	3.76
DPS (CNY)	0.00	0.06	0.22	0.20	0.21

Source: Company data, Nomura estimates

Relative performance chart (one year)

Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (HKD)	0.3	-0.9	-5.5
Absolute (USD)	0.3	-1.0	-5.5
Relative to MSCI China	0.1	5.5	0.1
Market cap (USDmn)	601.5		
Estimated free float (%)	45.8		
52-week range (HKD)	4.79/2.77		
3-mth avg daily turnover (USDmn)	2.90		
Major shareholders (%)			
China Huadian Corp	43.4		
Shandong International Trust Corp	10.9		

Source: Thomson Reuters, Nomura research

Notes

Cashflow (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
EBITDA	8,742	13,041	20,551	21,441	22,748	
Change in working capital	-3,334	-2	-1,091	-196	-237	
Other operating cashflow	1,325	-756	-1,838	-1,856	-2,001	
Cashflow from operations	6,733	12,283	17,622	19,389	20,510	
Capital expenditure	-12,325	-16,177	-14,029	-16,000	-16,000	
Free cashflow	-5,592	-3,894	3,593	3,389	4,510	
Reduction in investments	-2,428	-118	-454	-458	-463	
Net acquisitions	-1,621	-1,783	0	0	0	
Reduction in other LT assets	-450	-137	65	63	61	
Addition in other LT liabilities	1,125	894	0	0	0	
Adjustments	2,563	921	734	880	953	
Cashflow after investing acts	-6,402	-4,117	3,938	3,875	5,061	
Cash dividends	-25	-119	-479	-1,656	-1,673	
Equity issue	219	2,216	0	3,588	0	
Debt issue	13,158	9,476	9,882	4,442	5,455	
Convertible debt issue	0	0	0	0	0	
Others	-6,073	-6,507	-6,882	-7,291	-7,574	
Cashflow from financial acts	7,278	5,065	2,521	-918	-3,792	
Net cashflow	876	948	6,459	2,957	1,269	
Beginning cash	1,236	2,112	3,060	9,519	12,476	
Ending cash	2,112	3,060	9,519	12,476	13,745	
Ending net debt	102,346	112,270	115,692	117,177	121,363	

Source: Company data, Nomura estimates

Balance sheet (CNYmn)

As at 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
Cash & equivalents	2,112	3,060	9,519	12,476	13,745	
Marketable securities	0	0	0	0	0	
Accounts receivable	5,241	7,248	8,074	8,226	8,651	
Inventories	2,778	3,383	3,231	3,206	3,314	
Other current assets	2,871	3,467	3,467	3,467	3,467	
Total current assets	13,002	17,159	24,291	27,376	29,178	
LT investments	12,340	12,458	12,912	13,370	13,832	
Fixed assets	115,534	127,319	136,081	146,451	156,288	
Goodwill	0	0	0	0	0	
Other intangible assets	6,001	5,966	5,652	5,353	5,071	
Other LT assets	2,182	2,319	2,254	2,191	2,130	
Total assets	149,059	165,221	181,189	194,740	206,498	
Short-term debt	38,860	40,803	42,160	36,879	33,495	
Accounts payable	6,684	9,294	8,876	8,808	9,103	
Other current liabilities	8,460	6,315	6,315	6,315	6,315	
Total current liabilities	54,004	56,413	57,351	52,002	48,913	
Long-term debt	65,598	74,527	83,052	92,774	101,613	
Convertible debt	0	0	0	0	0	
Other LT liabilities	5,657	6,551	6,551	6,551	6,551	
Total liabilities	125,259	137,490	146,954	151,328	157,078	
Minority interest	7,515	8,286	11,129	14,193	17,365	
Preferred stock	0	0	0	0	0	
Common stock	6,771	7,371	7,371	8,521	8,521	
Retained earnings	9,514	12,073	15,735	20,698	23,534	
Proposed dividends	0	0	0	0	0	
Other equity and reserves	0	0	0	0	0	
Total shareholders' equity	16,285	19,444	23,106	29,219	32,055	
Total equity & liabilities	149,059	165,221	181,189	194,740	206,498	
Liquidity (x)						
Current ratio	0.24	0.30	0.42	0.53	0.60	
Interest cover	0.6	1.1	2.0	1.9	2.0	
Leverage						
Net debt/EBITDA (x)	11.71	8.61	5.63	5.47	5.34	
Net debt/equity (%)	628.5	577.4	500.7	401.0	378.6	
Activity (days)						
Days receivable	31.1	38.7	42.5	44.4	43.7	
Days inventory	21.1	29.7	33.2	32.7	32.1	
Days payable	65.0	73.3	86.0	84.2	82.3	
Cash cycle	-12.8	-4.9	-10.3	-7.1	-6.6	

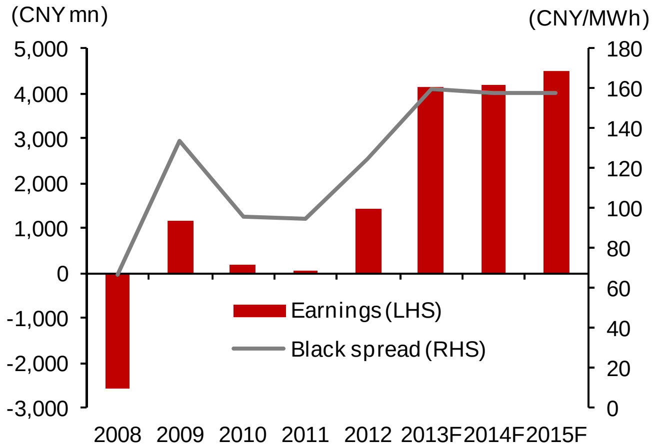
Source: Company data, Nomura estimates

Strongest fundamental recovery from the bottom

Despite the September 2013 on-grid tariff cut, Huadian's tariff cut magnitude was the smallest among peers. With the continuous decline in coal prices (standard coal price dropped from CNY699/ton in 1Q13 to CNY648/ton in 4Q13), the company expects to see a 13-15% y-y drop in coal-fired generation unit fuel cost in 2013. For 2014, so far the company has signed a coal contract in Shanxi, with only volume being confirmed but not the price, given the downward trend in coal prices. The proportion of coal requirement in 2014 will also be similar to 2013, with ~2-3% from imports and the remaining from the domestic market (~93% from railway and ~4% from water shipment), per the company. In addition, thanks to the recovery in sector fundamentals, Huadian's net gearing ratio is also on a downward trend, which should further ease the pressure on financing costs.

Fig. 58: Huadian Power: Earnings vs black spread (2008-15F)

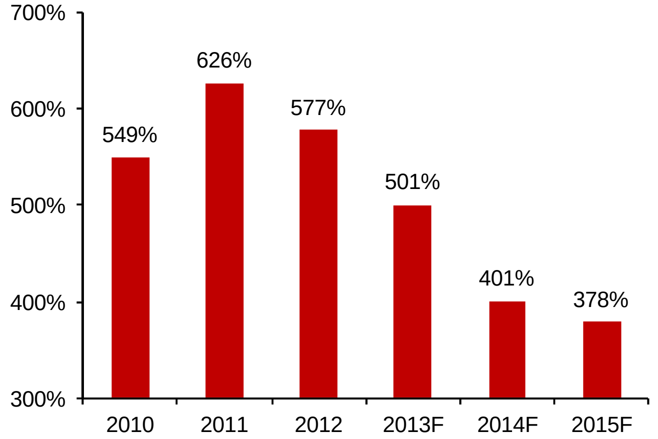
A strong recovery of fundamentals since the bottom in 2008



Source: Company data, Nomura estimates

Fig. 59: Huadian Power: Trend of net gearing since 2010

Huadian Power's gearing is on an improving trend, though it is still the highest among peers



Source: Company data, Nomura estimates

Slight pick-up in utilisation hours and prudent 5-6% power generation growth in 2014

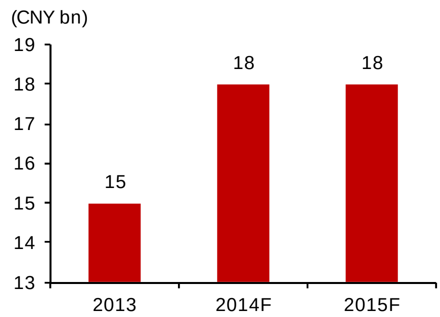
During 2013, the company's power generation of 175bn kWh was slightly ahead of the company's target of 170bn kWh, with utilisation hours remaining strong at 5,474 hours for coal-fired power generation. Heading into 2014, with the new capacity commissioned in end-2013, the company expects to see at least 5-6% power generation growth, with utilisation hour to increase 2% y-y to 5,500-5,600 hours. The company will also have new capacities to be commissioned in 2014 (at around 2,000-3,000MW), mainly coming from coal-fired power generation. The 2014F capex will also be slightly higher than in 2013, at CNY18bn (with ~30-40% for the desulphurization and denitrification equipment installation), per the company.

Fig. 60: Huadian Power: 2014F targeted installed capacity additions

Power plant	Installed capacity	Remarks
Coal-fired	~2,000MW	Plants are located in Anhui and Shanxi. Anhui: 2 x 660MW (target to commission in Apr-Jun) Shanxi: 2 x 300MW cogen (target to commission in Dec)
Wind	500MW	
Gas	~200-300MW	Plants are located in Zhejiang and Tianjin. The final capacity target is subject to the government's tariff subsidy.
Hydro	Not much	
Total	**~2,000-3,000MW**	

Source: Company data, Nomura research

Fig. 61: Huadian Power: Capex guidance (2013-15F)

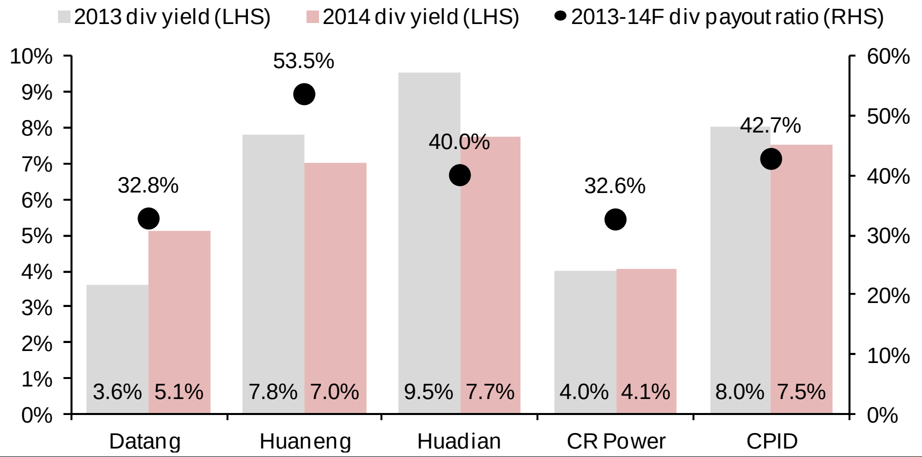


Source: Company data, Nomura estimates

40% dividend payout ratio with high dividend yield

In January 2014, the company announced to propose an amendment to the Articles of Association in which the percentage of cash dividend in the profit distribution will be 20%/40%/80%, depending on the stage of development of the company. Although it is still pending shareholder approval, we expect the future dividend payout ratio to be at 40%, given Huadian is in a mature development stage with significant cash outlay arrangement. As shown in the chart below, with a 40% payout ratio, Huadian actually possesses one of the highest dividend yields among its peers.

Fig. 62: China IPPs: 2013-14 dividend yield vs dividend payout ratio



Source: Company data, Nomura estimates

Reiterate Buy; TP revised to HKD4.75

We revise our earnings model based on 9M13 results, together with the updated company guidance after our recent meeting with management. With the new assumptions, we reiterate our Buy rating on the stock and raise TP to HKD4.75.

Our new assumptions are as follows:

Fig. 63: Huadian Power: New key assumptions

	2012	2013F	2014F	2015F
Average on-grid tariff (CNY/MWh)	377	375	360	353
y-y change (%)		*-0.7%*	*-3.8%*	*-2.1%*
Average unit fuel cost (CNY/ton)	252	215	202	195
y-y change (%)		*-14.6%*	*-5.9%*	*-3.6%*
Attributable installed capacity (MW)	28,921	30,163	33,456	35,256
y-y change (%)		*4.3%*	*10.9%*	*5.4%*
Net power generation (mn kWh)	146,600	164,350	174,573	187,450
y-y change (%)		*12.1%*	*6.2%*	*7.4%*

Source: Nomura research

Valuation methodology

Our target price of HKD4.75 is based on a DCF valuation (unchanged), with cash flows discounted back to 2014F. We calculate our DCF valuation by using a free cash flow model, assuming a 1% terminal growth for the business after 2024F, with a WACC of 8.1%. The benchmark index for this stock is MSCI China.

Investment risks

Our target price is subject to growth assumptions in power demand, tariff, coal price and capex. Earlier and a larger-than-expected cut in power tariff, lower-than-expected power demand as well as the coal price surge without respective compensation from rising tariff may result in key changes to our forecasts, and hence our target price.

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China Power International

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EQUITY: POWER & UTILITIES

Balanced fire with water

Hydropower on-grid tariff reform coming

Global Markets Research

25 February 2014

Rating Remains	**Buy**
Target price Reduced from 3.94	HKD 3.72
Closing price 20 February 2014	HKD 2.60
Potential upside	+43.1%

Action: Reiterate Buy with a revised TP of HKD3.72

With the company's current capacity portfolio (70% coal-fired and 30% hydropower), uncertainty always prevails in the stock given the difficulties to forecast the weather correctly and, in turn, hydropower generation. That said, we remain positive on the company's fundamentals and prospects, as: 1) in line with peers, we believe CPID could benefit from the continuously weak coal price; 2) its diversified portfolio in hydropower capacity should help hedge the risks of the coal-fired on-grid tariff cut and enjoy power dispatch priority; 3) despite the seasonality of hydropower generation, on a long-term basis, hydropower utilisation is relatively stable, at an average of 3,300-3,400 hours, and 4) potential parent asset injection, including coal-fired and hydropower. As well, we think CPID will benefit from the recently published NDRC's notice which improves hydropower on-grid tariff pricing mechanisms by setting the tariff for newly built hydropower plants based on the average on-grid tariff in the respective province and this may gradually apply to other existing hydropower plants. Overall, we reaffirm our Buy rating, with our TP adjusted to HKD3.72, implying potential upside of 43.1% from current levels.

Catalysts: Tariff and rainfall are the key

Any unexpected tariff hikes owing to expansion of the hydropower on-grid tariff reforms, and higher-than-usual rainfall are potential catalysts.

Valuation: Undemanding valuation; too deep for a small-cap discount

We agree on the small-cap discount for CPID given its market cap relative to peers. However, we note that its current valuation underestimates the company's fundamental prospects. At HKD2.6, CPID is trading at 5.9x and 0.6x 2014F P/E and P/B, respectively, at the low end of its industry peers.

31 Dec	FY12	FY13F		FY14F		FY15F	
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	17,497	20,548	18,890	22,974	20,738		22,361
Reported net profit (mn)	1,181	1,397	2,407	1,433	2,297		2,501
Normalised net profit (mn)	902	1,397	1,851	1,433	2,297		2,501
FD normalised EPS	16.03c	27.36c	27.45c	28.05c	34.06c		37.09c
FD norm. EPS growth (%)	100.6	19.9	71.2	2.6	24.1		8.9
FD normalised P/E (x)	12.9	N/A	7.4	N/A	5.9	N/A	5.4
EV/EBITDA (x)	10.8	N/A	8.5	N/A	7.9	N/A	7.8
Price/book (x)	0.8	N/A	0.7	N/A	0.6	N/A	0.6
Dividend yield (%)	4.4	N/A	7.9	N/A	7.6	N/A	8.3
ROE (%)	6.7	7.2	10.2	6.7	7.4		6.9
Net debt/equity (%)	291.7	323.0	216.4	330.6	192.4		180.1

Source: Company data, Nomura estimates

Anchor themes

Depressed coal prices and improving balance sheets are positive for China IPPs. However, we see the market as overly concerned on any potential tariff cuts. Current attractive valuations (low P/Es and P/Bs but high dividend yields), in our view, mean short-term overhangs are already more than priced in.

Nomura vs consensus

Our 2013-15F earnings are in line with consensus.

Research analysts

China Power & Utilities

Joseph Lam, CFA - NIHK
joseph.lam@nomura.com
+852 2252 2106

Yuwen Tang - NIHK
thomas.tang@nomura.com
+852 2252 2051

Key company data: See page 2 for company data and detailed price/index chart

Key data on China Power International

Income statement (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue	16,082	17,497	18,890	20,738	22,361
Fuel costs	-9,940	-9,470	-8,976	-9,515	-10,009
Repairs & Maintenance	-490	-549	-646	-706	-824
Personnel expenses	-825	-984	-1,082	-1,260	-1,431
SG&A	-187	-241	-265	-309	-350
Other operating expenses	-703	-820	-925	-1,103	-1,274
Employee share expense					
EBITDA	3,937	5,434	6,996	7,844	8,471
Depreciation	-1,810	-2,082	-2,284	-2,429	-2,602
Amortisation	10	4	4	4	4
EBIT	2,136	3,356	4,717	5,419	5,873
Net interest expense	-1,477	-1,672	-1,733	-1,718	-1,778
Associates & JCEs	-28	140	406	505	501
Other income	24	26	123	153	151
Earnings before tax	655	1,850	3,513	4,359	4,747
Income tax	-194	-447	-878	-1,090	-1,187
Net profit after tax	461	1,402	2,634	3,269	3,560
Minority interests	-83	-500	-784	-973	-1,059
Other items					
Preferred dividends					
Normalised NPAT	378	902	1,851	2,297	2,501
Extraordinary items	127	279	557	0	0
Reported NPAT	505	1,181	2,407	2,297	2,501
Dividends	-230	-505	-1,028	-981	-1,068
Transfer to reserves	275	677	1,379	1,315	1,432
Valuation and ratio analysis					
Reported P/E (x)	21.2	9.2	5.0	5.7	5.1
Normalised P/E (x)	28.3	12.0	6.5	5.7	5.1
FD normalised P/E (x)	26.2	12.9	7.4	5.9	5.4
FD normalised P/E at price target (x)	37.5	18.4	10.6	8.5	7.7
Dividend yield (%)	2.1	4.4	7.9	7.6	8.3
Price/cashflow (x)	3.2	2.5	2.3	2.0	1.8
Price/book (x)	0.8	0.8	0.7	0.6	0.6
EV/EBITDA (x)	14.7	10.8	8.5	7.9	7.8
EV/EBIT (x)	27.3	17.2	12.3	11.2	10.9
EV per MW (CNY)	4.7	4.8	4.2	3.6	3.3
EBITDA margin (%)	24.5	31.1	37.0	37.8	37.9
EBIT margin (%)	13.3	19.2	25.0	26.1	26.3
Net margin (%)	3.1	6.8	12.7	11.1	11.2
Effective tax rate (%)	29.6	24.2	25.0	25.0	25.0
Dividend payout (%)	45.5	42.7	42.7	42.7	42.7
Capex to sales (%)	25.0	31.9	19.2	22.2	22.1
Capex to depreciation (x)	2.2	2.7	1.6	1.9	1.9
ROE (%)	3.2	6.7	10.2	7.4	6.9
ROA (pretax %)	3.6	5.4	7.2	7.7	7.7
Growth (%)					
Revenue	11.4	8.8	8.0	9.8	7.8
EBITDA	-5.4	38.0	28.8	12.1	8.0
EBIT					
Normalised EPS	-44.5	131.7	80.5	15.8	8.9
Normalised FDEPS	-44.5	100.6	71.2	24.1	8.9
Per share					
Reported EPS (CNY)	9.89c	22.46c	40.28c	35.86c	39.05c
Norm EPS (CNY)	7.40c	17.16c	30.96c	35.86c	39.05c
Fully diluted norm EPS (CNY)	7.99c	16.03c	27.45c	34.06c	37.09c
Book value per share (CNY)	2.57	2.69	2.91	3.30	3.54
DPS (CNY)	0.05	0.09	0.16	0.15	0.17

Source: Company data, Nomura estimates

Relative performance chart (one year)

Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (HKD)	-0.8	-11.0	-2.3
Absolute (USD)	-0.8	-11.0	-2.3
Relative to MSCI China	-1.0	-4.6	3.3
Market cap (USDmn)	2,158.6		
Estimated free float (%)	36.4		
52-week range (HKD)	3.47/2.38		
3-mth avg daily turnover (USDmn)	3.73		
Major shareholders (%)			
China Power International Holdings	63.6		

Source: Thomson Reuters, Nomura research

Notes

Cashflow (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
EBITDA	3,937	5,434	6,996	7,844	8,471	
Change in working capital	731	157	-351	-34	-23	
Other operating cashflow	-1,288	-654	-643	-937	-1,035	
Cashflow from operations	3,380	4,937	6,002	6,873	7,413	
Capital expenditure	-4,028	-5,578	-3,622	-4,607	-4,935	
Free cashflow	-648	-641	2,380	2,266	2,478	
Reduction in investments		0	0	0	0	
Net acquisitions	411	-270	1,105	0	0	
Reduction in other LT assets	622	437	0	-754	0	
Addition in other LT liabilities	150	69	-13	-13	-13	
Adjustments	-2,061	-396	266	1,170	470	
Cashflow after investing acts	-1,526	-801	3,737	2,669	2,935	
Cash dividends	-230	-251	-505	-1,028	-981	
Equity issue	0	761	1,819	0	0	
Debt issue	3,927	3,197	1,914	2,690	2,955	
Convertible debt issue	0	0	0	0	0	
Others	-1,968	-2,069	-1,863	-1,969	-2,084	
Cashflow from financial acts	1,729	1,637	1,365	-307	-111	
Net cashflow	202	837	5,103	2,362	2,825	
Beginning cash	977	1,180	2,016	7,119	9,481	
Ending cash	1,180	2,016	7,119	9,481	12,305	
Ending net debt	40,920	43,582	40,394	40,722	40,852	

Source: Company data, Nomura estimates

Balance sheet (CNYmn)

As at 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
Cash & equivalents	1,180	2,016	7,119	9,481	12,305	
Marketable securities						
Accounts receivable	1,911	2,170	2,343	2,572	2,773	
Inventories	731	663	628	666	701	
Other current assets	2,625	1,761	1,761	1,761	1,761	
Total current assets	6,447	6,610	11,851	14,479	17,540	
LT investments	1,876	2,083	2,366	2,719	3,068	
Fixed assets	49,351	55,943	61,407	65,326	69,972	
Goodwill	767	767	767	1,463	1,463	
Other intangible assets	458	450	441	432	423	
Other LT assets	4,494	4,056	4,056	4,811	4,811	
Total assets	63,392	69,909	80,889	89,230	97,277	
Short-term debt	9,370	9,759	10,536	10,369	10,062	
Accounts payable	3,738	4,086	3,872	4,105	4,318	
Other current liabilities	239	401	401	401	401	
Total current liabilities	13,347	14,245	14,809	14,875	14,782	
Long-term debt	31,877	33,985	35,229	38,085	41,347	
Convertible debt	853	1,855	1,748	1,748	1,748	
Other LT liabilities	826	895	881	868	855	
Total liabilities	46,903	50,980	52,667	55,577	58,732	
Minority interest	3,365	3,987	9,558	12,488	15,861	
Preferred stock						
Common stock	5,121	5,484	6,202	6,630	6,630	
Retained earnings	8,004	9,458	12,462	14,535	16,055	
Proposed dividends						
Other equity and reserves						
Total shareholders' equity	13,125	14,942	18,664	21,165	22,685	
Total equity & liabilities	63,392	69,909	80,889	89,230	97,277	
Liquidity (x)						
Current ratio	0.48	0.46	0.80	0.97	1.19	
Interest cover	1.4	2.0	2.7	3.2	3.3	
Leverage						
Net debt/EBITDA (x)	10.39	8.02	5.77	5.19	4.82	
Net debt/equity (%)	311.8	291.7	216.4	192.4	180.1	
Activity (days)						
Days receivable	41.2	42.7	43.6	43.3	43.6	
Days inventory	19.6	26.9	26.3	24.8	24.9	
Days payable	107.7	142.9	150.9	142.4	141.9	
Cash cycle	-46.9	-73.3	-81.1	-74.4	-73.4	

Source: Company data, Nomura estimates

Tariff: A long-term positive for hydropower benchmark on-grid tariff reform

In January 2014, the NDRC published a notice to improve the hydropower on-grid tariff pricing mechanism, wherein for newly built hydropower plants, the tariff setting will be based on the average on-grid tariff in the respective province (for details, please refer to 23 January 2014 report *China to form hydro benchmark on-grid tariff*). We believe this mechanism will be positive for CPID. We understand that the company's hydropower projects in Baishi and Tuokou (with attributable capacity of 251.4MW and 497MW respectively, representing ~20% of its attributable hydropower capacity) should be able to qualify for this new mechanism. With the current average on-grid tariff in Hunan (including thermal, hydro and renewable) at CNY423/MWh, whereas the average hydropower on-grid tariff is CNY327/MWh, we estimate the tariff hikes in Baishi and Tuokou may bring additional earnings of CNY137mn (assuming 3,000 utilisation hours), which represents ~6% of our 2014F earnings estimates. In addition, as per the notice, the higher tariff will also be gradually applied to hydropower plants along the same river. As there is no specific timeline for implementation to other hydropower plants, we have only factored in the tariff hikes for Baishi and Tuokou in our model.

Fig. 64: China to form hydro benchmark on-grid tariff dated 23 January 2014

Source: Nomura research

2013 – 11% unit fuel cost drop; 2014F – signed / to be signed some coal contracts in Henan and Anhui with >5% price drop vs 2013

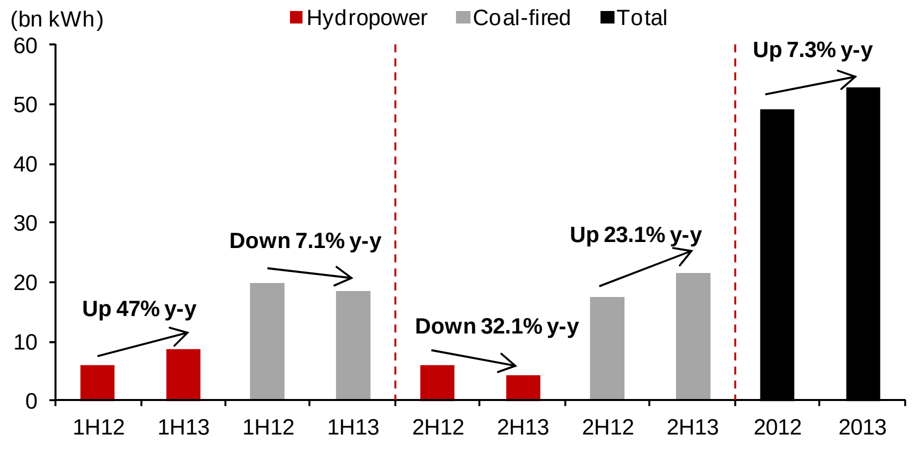
With continuous drops in coal prices, management aims for an 11% y-y unit fuel cost drop in 2013F. Heading into 2014F, in line with comments from other China IPPs, CPID expects weak coal prices to continue. Currently, the company has already signed some coal contracts in Henan; as per management it will also sign a contract in Anhui, with a >5% price drop vs the 2013 level. Overall, CPID targets to secure ~70-80% of its coal requirements from contract coal whereas the remaining 20-30% is linked to QHD price.

Flattish utilisation; too early to forecast the 2014F outlook for hydropower

With a slowdown in the domestic economy, the company experienced weak power generation growth in 2013 (up 7.3% y-y but only up 0.9% y-y if on a same-plant basis). Especially for hydropower, strong 1H13 generation growth (up 47% y-y) was nearly fully offset by weak water flow in 2H13, resulting in only 1.5% y-y growth on a same-plant basis or 7.0% growth after considering the new plants commissioned. Looking ahead into 2014F, in line with other China IPPs, given uncertain China economic growth, CPID remains conservative on power generation growth and expects 2014F utilisation to remain flat (coal-fired / hydropower at ~5,000 / ~3,400 hours, respectively), whereas it is still early to forecast hydropower generation which overall depends solely on waterfall during the year. With ample water reserves during 4Q13, January hydropower generation was satisfactory. As a base case scenario, we currently expect hydropower utilisation to remain flat in 2014F, which is at around the average 1996-2013 level.

Fig. 65: CPID: Power generation growth (2012 vs 2013)

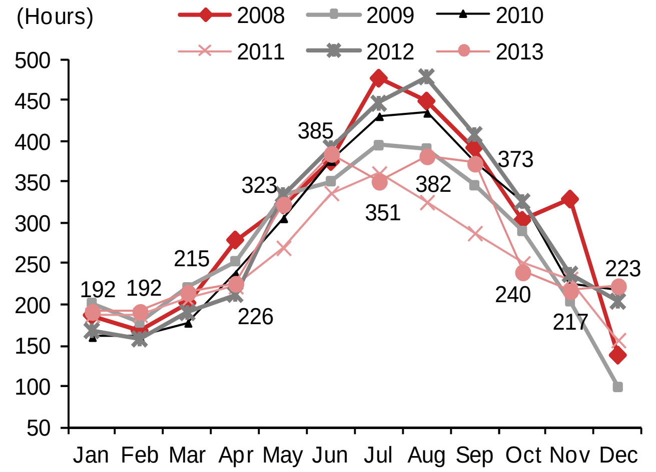
Strong 1H13 hydropower generation growth was offset by weak 2H13 generation, resulting in 2013 hydropower generation rising 7% y-y. On a same plant basis, hydropower generation was flat, with only 1.5% y-y growth.



Source: Company data, Nomura research

Fig. 66: China: Monthly hydropower utilisation hours (2008-13)

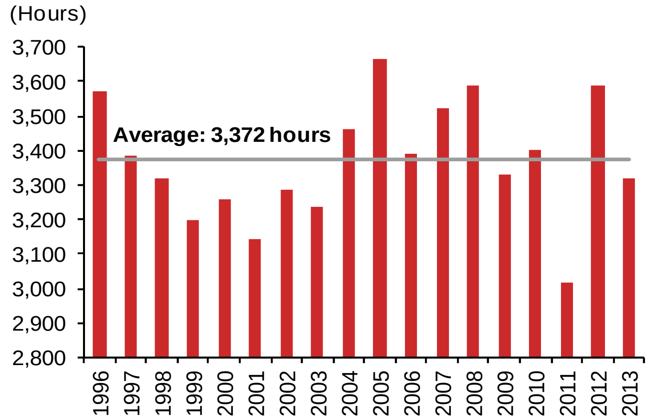
Strong 1H13 hydropower generation growth was offset by weak 2H13 generation.



Source: China Electricity Council; Nomura research

Fig. 67: China: Hydropower utilization hours (1996-2013)

2013 hydropower utilisation of 3,318 hours was slightly below average. For the 2014F base case scenario, we expect hydropower utilisation to be in line with 2013.



Source: CEIC, Nomura research

Long-term capacity growth: ~10% 2013-20F CAGR to 30GW by 2020F

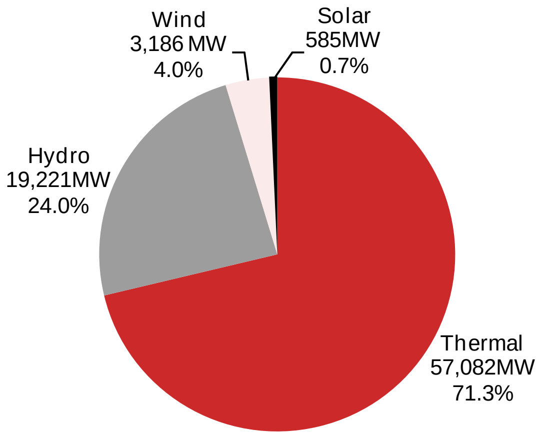
For 2014F, management aims to spend ~CNY5-6bn on capex, down from CNY7bn in 2013. Of that, ~30-40% capex is for hydropower generation and the remaining will be for coal-fired power. Apart from the company's own capacity additions, we believe it will also pursue parent asset injections, for example the recent coal-fired power acquisition, Wuhu Power, for CNY1.45bn. Overall, the company targets to raise its capacity at ~10% CAGR from 2013-20F, with capacity growing from 15GW in 2013 to 30GW in 2020F.

Fig. 68: CPID: 2013-15F company's capex guidance

Year	Capex	Remark
2013F	CNY7bn	~CNY500-600mn for desulphurization & denitrification facilities
2014F	CNY5-6bn	~30-40% for hydropower; Remaining for coal-fired power
2015F	<CNY5-6bn	

Source: Company data, Nomura research

Fig. 69: China Power Investment Corp: Breakdown of 2012 installed capacity by fuel mix



Source: China Power Investment Corp., Nomura research

Reiterate Buy; TP reduced to HKD3.72

We revise our earnings model based on updated guidance post our recent meeting with management. Based on our new assumptions, we slightly lower our TP to HKD3.72, but maintain our Buy rating.

Our new assumptions follow:

Fig. 70: CPID: New key assumptions

	2012	2013F	2014F	2015F
Average on-grid tariff (CNY/MWh)	352	350	340	334
y-y change (%)		*-0.8%*	*-2.7%*	*-1.9%*
Average unit fuel cost (CNY/ton)	255	225	210	200
y-y change (%)		*-11.5%*	*-6.8%*	*-4.6%*
Attributable installed capacity (MW)	11,732	12,786	15,139	16,339
y-y change (%)		*9.0%*	*18.4%*	*7.9%*
Net power generation (mn kWh)	49,203	52,795	59,714	65,724
y-y change (%)		*7.3%*	*13.1%*	*10.1%*

Source: Nomura estimates

Valuation methodology and risks

Our TP of HKD3.72 is based on DCF valuation (methodology unchanged), with cash flows discounted back to 2014F. We calculate our DCF by using a free cash flow model, assuming 1% terminal growth for the business after 2024F, with a WACC of 7.5%. The benchmark index for this stock is MSCI China.

Investment risks

Our TP is subject to growth assumptions in power demands, tariffs, coal prices and capex. Earlier and larger-than-expected cuts in power tariff, lower-than-expected power demand (especially hydropower generation) as well as a surge in coal price without a commensurate increase through rising tariffs may result in key changes to our forecasts, and hence our TP.

NOMURA

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EQUITY: POWER & UTILITIES

Uncertain on gas-fired power move

Least preferred Buy relative to peers

Action: Maintain Buy, but TP slightly revised downwards to HKD8.2

In line with other China IPPs, we think the company's fundamentals are improving amid the ongoing weak coal price outlook and trending down gearing ratio, especially for Huaneng Power, which is a traditional IPP. That said, we are concerned with the company's relatively bigger move into gas-fired power generation than peers (with management's targeted gas-fired power capacity of 10GW by 2015F accounting for 12.5% of total capacity), given: 1) the return on gas-fired power plants is heavily dependent on local governments' subsidies; 2) lack of official mechanism to determine subsidies; and 3) future upward trends in gas prices. Fortunately, the earnings impact of any gas price hike will likely be immaterial. On our estimates, for a 1% change in gas price, the impact to earnings would be 1.2%. Overall, we maintain our Buy, with a revised TP of HKD8.2. On a relative basis, Huaneng is the least preferred Buy among our China IPP coverage universe stocks.

Catalysts: Tariff and coal price are key factors

The benefits of weak coal prices always come with the on-grid tariff cut overhang on China's IPP sector. The clarification on the coal-power tariff linkage mechanism should provide more earnings visibility and a valuation re-rating for the sector. We currently assume a 5% tariff cut from 1 July 2014.

Valuation: At a premium to peers

Huaneng Power is trading at 7.4x and 1.1x 2014F P/E and P/B, at a premium valuation than peers. Our revised TP of HKD8.2 implies an upside potential of 16.3%, and would put 2014F P/E and P/B at 8.6x and 1.3x, respectively.

31 Dec	FY12	FY13F		FY14F		FY15F	
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	133,967	146,042	133,683	157,011	135,448		141,285
Reported net profit (mn)	5,512	9,959	11,529	11,000	10,384		10,737
Normalised net profit (mn)	6,946	9,959	11,529	11,000	10,384		10,737
FD normalised EPS	49.42c	70.85c	82.03c	78.26c	73.88c		76.39c
FD norm. EPS growth (%)	375.1	55.8	66.0	10.5	-9.9		3.4
FD normalised P/E (x)	11.3	N/A	6.7	N/A	7.4	N/A	7.1
EV/EBITDA (x)	6.1	N/A	4.9	N/A	5.3	N/A	5.1
Price/book (x)	1.4	N/A	1.2	N/A	1.1	N/A	1.0
Dividend yield (%)	3.8	N/A	8.0	N/A	7.2	N/A	7.5
ROE (%)	10.3	16.6	19.1	16.6	15.5		15.0
Net debt/equity (%)	279.5	275.7	237.3	265.4	222.3		204.3

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Global Markets Research

25 February 2014

Rating Remains	**Buy**
Target price Reduced from 8.48	HKD 8.20
Closing price 20 February 2014	HKD 7.05
Potential upside	+16.3%

Anchor themes

Depressed coal prices and improving balance sheets are positive for China IPPs. However, we see the market as overly concerned on any potential tariff cuts. Current attractive valuations (low P/Es and P/Bs but high dividend yields), in our view, mean short-term overhangs are already more than priced in.

Nomura vs consensus

Our 2014/15F earnings are 3-4% lower than consensus.

Research analysts

China Power & Utilities

Joseph Lam, CFA - NIHK
joseph.lam@nomura.com
+852 2252 2106

Yuwen Tang - NIHK
thomas.tang@nomura.com
+852 2252 2051

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Huaneng Power International

Income statement (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue	133,421	133,967	133,683	135,448	141,285
Fuel costs	-90,546	-82,355	-73,886	-75,875	-78,755
Repairs & Maintenance	-2,529	-2,847	-3,091	-3,418	-3,773
Personnel expenses	-4,622	-5,112	-5,506	-6,043	-6,707
SG&A	-9,238	-7,915	-6,562	-6,651	-6,779
Other operating expenses	-5,305	-6,261	-6,660	-7,309	-8,112
Employee share expense	0	0	0	0	0
EBITDA	21,181	29,477	37,977	36,153	37,159
Depreciation	-11,867	-11,033	-10,974	-11,602	-11,970
Amortisation	-210	-221	-221	-221	-221
EBIT	9,105	18,223	26,782	24,330	24,968
Net interest expense	-7,570	-8,722	-8,410	-8,553	-8,628
Associates & JCEs	704	622	694	683	686
Other income	93	187	187	187	187
Earnings before tax	2,332	10,311	19,254	16,647	17,214
Income tax	-869	-2,510	-5,391	-4,162	-4,303
Net profit after tax	1,463	7,800	13,863	12,485	12,910
Minority interests	-1	-854	-2,333	-2,101	-2,173
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	1,462	6,946	11,529	10,384	10,737
Extraordinary items	-281	-1,434	0	0	0
Reported NPAT	1,181	5,512	11,529	10,384	10,737
Dividends	-703	-2,952	-6,173	-5,560	-5,749
Transfer to reserves	478	2,561	5,356	4,824	4,988
Valuation and ratio analysis					
Reported P/E (x)	67.7	14.2	6.7	7.4	7.1
Normalised P/E (x)	54.7	11.3	6.7	7.4	7.1
FD normalised P/E (x)	54.7	11.3	6.7	7.4	7.1
FD normalised P/E at price target (x)	63.6	13.1	7.8	8.6	8.3
Dividend yield (%)	0.9	3.8	8.0	7.2	7.5
Price/cashflow (x)	3.8	2.9	2.5	2.4	2.3
Price/book (x)	1.6	1.4	1.2	1.1	1.0
EV/EBITDA (x)	8.5	6.1	4.9	5.3	5.1
EV/EBIT (x)	19.0	9.8	6.9	7.8	7.5
EV per MW (CNY)	3.3	3.1	2.9	2.7	2.5
EBITDA margin (%)	15.9	22.0	28.4	26.7	26.3
EBIT margin (%)	6.8	13.6	20.0	18.0	17.7
Net margin (%)	0.9	4.1	8.6	7.7	7.6
Effective tax rate (%)	37.3	24.3	28.0	25.0	25.0
Dividend payout (%)	59.5	53.5	53.5	53.5	53.5
Capex to sales (%)	12.5	11.6	11.6	12.2	11.3
Capex to depreciation (x)	1.4	1.4	1.4	1.4	1.3
ROE (%)	2.3	10.3	19.1	15.5	15.0
ROA (pretax %)	4.2	7.6	10.8	9.5	9.5
Growth (%)					
Revenue	27.9	0.4	-0.2	1.3	4.3
EBITDA	10.0	39.2	28.8	-4.8	2.8
EBIT					
Normalised EPS	-61.3	375.1	66.0	-9.9	3.4
Normalised FDEPS	-61.3	375.1	66.0	-9.9	3.4
Per share					
Reported EPS (CNY)	8.40c	39.22c	82.03c	73.88c	76.39c
Norm EPS (CNY)	10.40c	49.42c	82.03c	73.88c	76.39c
Fully diluted norm EPS (CNY)	10.40c	49.42c	82.03c	73.88c	76.39c
Book value per share (CNY)	3.62	3.99	4.60	4.90	5.27
DPS (CNY)	0.05	0.21	0.44	0.40	0.41

Source: Company data, Nomura estimates

Relative performance chart (one year)

Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (HKD)	-2.5	-8.3	-11.1
Absolute (USD)	-2.5	-8.4	-11.1
Relative to MSCI China	-1.5	-0.8	-4.4
Market cap (USDmn)	3,231.9		
Estimated free float (%)	48.7		
52-week range (HKD)	9.75/6.38		
3-mth avg daily turnover (USDmn)	20.29		
Major shareholders (%)			
China Huaneng Group	51.3		

Source: Thomson Reuters, Nomura research

Notes

Cashflow (CNYmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
EBITDA	21,181	29,477	37,977	36,153	37,159	
Change in working capital	-591	-5,194	-1,961	97	-309	
Other operating cashflow	359	2,645	-5,204	-3,975	-4,116	
Cashflow from operations	20,949	26,928	30,813	32,275	32,734	
Capital expenditure	-16,674	-15,475	-15,500	-16,500	-16,000	
Free cashflow	4,276	11,453	15,313	15,775	16,734	
Reduction in investments		0	0	0	0	
Net acquisitions	-5,416	-1,597	-1,261	-1,375	-1,493	
Reduction in other LT assets	86	949	0	0	0	
Addition in other LT liabilities		0	0	0	0	
Adjustments	339	812	851	871	979	
Cashflow after investing acts	-716	11,618	14,903	15,272	16,221	
Cash dividends	-2,927	-1,163	-2,952	-6,173	-5,560	
Equity issue	0	0	0	0	0	
Debt issue	25,161	321	-5,107	2,004	2,312	
Convertible debt issue	0	0	0	0	0	
Others	-22,392	-8,823	-8,626	-8,732	-8,855	
Cashflow from financial acts	-158	-9,666	-16,684	-12,902	-12,102	
Net cashflow	-874	1,953	-1,782	2,370	4,118	
Beginning cash	9,426	8,553	10,505	8,724	11,094	
Ending cash	8,553	10,505	8,724	11,094	15,212	
Ending net debt	158,525	156,893	153,567	153,201	151,395	

Source: Company data, Nomura estimates

Balance sheet (CNYmn)

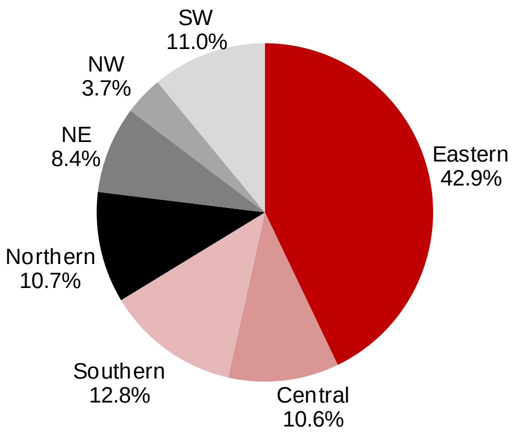
As at 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
Cash & equivalents	8,553	10,505	8,724	11,094	15,212	
Marketable securities	0	0	0	0	0	
Accounts receivable	15,378	15,300	15,927	16,144	16,906	
Inventories	7,526	7,022	6,300	6,470	6,715	
Other current assets	4,961	3,259	3,259	3,259	3,259	
Total current assets	36,417	36,086	34,209	36,965	42,092	
LT investments	15,889	17,650	18,969	20,334	21,761	
Fixed assets	177,968	177,014	187,145	193,084	196,115	
Goodwill	13,890	14,418	14,418	14,418	14,418	
Other intangible assets	8,246	8,382	8,247	8,111	7,976	
Other LT assets	5,006	5,552	5,465	5,379	5,293	
Total assets	257,416	259,100	268,453	278,292	287,654	
Short-term debt	69,378	71,949	66,841	60,952	56,514	
Accounts payable	25,768	19,993	17,937	18,420	19,119	
Other current liabilities	1,452	1,653	1,653	1,653	1,653	
Total current liabilities	96,598	93,594	86,431	81,024	77,286	
Long-term debt	97,700	95,450	95,450	103,343	110,093	
Convertible debt	0	0	0	0	0	
Other LT liabilities	3,561	4,096	4,096	4,096	4,096	
Total liabilities	197,858	193,140	185,977	188,463	191,475	
Minority interest	8,675	9,830	17,769	20,911	22,084	
Preferred stock	0	0	0	0	0	
Common stock	14,055	14,055	14,055	14,055	14,055	
Retained earnings	11,997	17,270	25,848	30,058	35,235	
Proposed dividends	0	0	0	0	0	
Other equity and reserves	24,830	24,805	24,805	24,805	24,805	
Total shareholders' equity	50,883	56,130	64,708	68,918	74,095	
Total equity & liabilities	257,416	259,100	268,453	278,292	287,654	
Liquidity (x)						
Current ratio	0.38	0.39	0.40	0.46	0.54	
Interest cover	1.2	2.1	3.2	2.8	2.9	
Leverage						
Net debt/EBITDA (x)	7.48	5.32	4.04	4.24	4.07	
Net debt/equity (%)	311.5	279.5	237.3	222.3	204.3	
Activity (days)						
Days receivable	36.0	41.9	42.6	43.2	42.7	
Days inventory	25.6	32.3	32.9	30.7	30.6	
Days payable	88.9	98.3	89.9	83.7	83.0	
Cash cycle	-27.3	-24.1	-14.4	-9.8	-9.8	

Source: Company data, Nomura estimates

Tariff: exposure to coastal regions are likely to lead to a larger impact from Sept 2013 on-grid tariff cut vs. peers; partially offset by the gas-fired power tariff hike

Due to more exposure to coastal regions, such as Jiangsu, Shanghai, Zhejiang and Guangdong than peers (excluding CR Power), the magnitude of the September on-grid tariff cut should be relatively higher than peers. According to the company, the average on-grid tariff is expected to be reduced by CNY12.59/MWh (including the increase in denitrification and de-dusting tariff, or ~CNY15/MWh if excluding subsidy increases). However, Huaneng Power received a gas-fired power tariff hike given the previous gas price increase. Accordingly, we estimate 2013/14F earnings will be reduced by ~CNY800mn/CNY3,200mn amid above tariff adjustments.

Fig. 71: Huaneng Power: Geographical coverage (based on 2013 attributable installed capacity)



Note: Eastern regions include Jiangsu, Shandong, Anhui, Zhejiang, Shanghai & Fujian
Source: Company data, Nomura research

Fig. 72: Huaneng Power: Coal-fired & gas-fired tariff adjustments

	On-grid tariff (CNY/MWh) - VAT inclusive			
	Before	**Change**	**After**	**% change**
Coal-fired power				
Average coal-fired power plants	454.2	(12.6)	441.6	-2.8%
Gas-fired power				
Jiangsu Province				
- Jinling (Combined-cycle)	581.0	25.0	606.0	4.3%
- Jinling (Combined-cycle) cogeneration	605.0	85.0	690.0	14.0%
Shanghai				
- Shanghai (Combined-cycle)	674.0		(Note)	7.4%
Beijing				
- Beijing cogeneration	494.0	156.0	650.0	31.6%

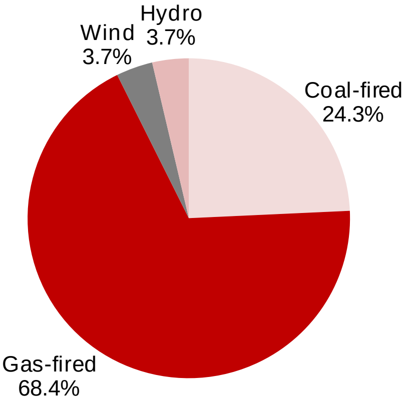
Note: The on-grid tariffs of Shanghai Combined-cycle will be divided into two parts, i.e. generation tariffs and capacity tariffs. Generation tariffs will be increased to CNY534/MWh, while capacity tariffs will be CNY45.83/kW per month. We estimate the change is ~7.4%.
Source: Company data, Nomura research

Flattish utilization likely in 2014F; we remain concerned with the company's bigger move into gas-fired power generation

During 2013, the company's power generation of 317bn kWh slightly missed its target of 320bn kWh. For 2014F, Huaneng Power targets to maintain flat utilization as in 2013, which we estimate at ~6.5% y-y growth in 2014F power generation, mainly due to the new capacity commissioned in 2013. On capacity addition, the majority of new capacity in 2014F will come from gas-fired power plants (total new capacity of ~2,700MW, among which 1,860MW will be from gas-fired, 660MW from coal-fired, and 100MW each from hydro and wind).

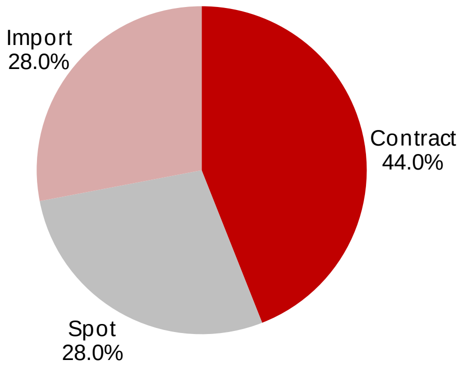
Overall, Huaneng Power has maintained its target of gas-fired power, with 10GW by end-2015 (~12.5% of total installed capacity). Though we are positive on the government's direction on promoting gas-fired power generation amid the air pollution situation in China, with: 1) the return on gas-fired power plants is heavily dependent on local governments' subsidies, and in turn the budget of the local governments; 2) lack of official mechanism to determine subsidies; and 3) the future upward trend in gas prices, which poses higher risks for future pass-through, the company's move into gas-fired power generation poses higher risks and uncertainties on the company's future margin. Though the recent gas-fired power tariff hikes in Jiangsu and Shanghai are a positive for the company, we believe the pass-through will become more difficult in the future for upcoming gas price increases due to rising burdens on local governments' budgets. Fortunately, we believe the earnings impact of any gas price hike be immaterial to the company overall. According to our estimates, for every 1% change in gas prices, there could be a 1.2% impact on earnings (assuming 10GW by 2015F with utilization of 3,000 hours pa).

Fig. 73: Huaneng Power: Breakdown of 2014 newly installed capacity by fuel mix



Source: Company data, Nomura research

Fig. 74: Huaneng Power: Breakdown of 2013 coal requirements by sources



Source: Company data, Nomura research

Coal prices: Weak coal price outlook continues

With the continuous drop in coal prices, Huaneng Power expects a 15% y-y drop in unit fuel costs in 2013. In 2014F, given coal demand is less than supply, Huaneng Power expects coal prices to remain weak. During 2013, Huaneng Power had sourced around 44%/28%/28% from contract/imported/spot, and targets to maintain a similar portion in 2014F. Overall, with a weak coal price outlook partially offset by the new commissioning of gas-fired power plants, we forecast a 3.4% y-y unit fuel cost drop in 2014F, which is at a smaller magnitude than its peers of ~5%.

Tuas Power: Significant earnings drop likely in 2013F; but with a more normalized return going forward

With the intense competition in the Singapore power market, Tuas Power's market share was at ~20% in 2013, the same as in 9M13 but significantly declining from 25.2% in 2012. Accordingly, we expect earnings to reduce by 60% y-y, to CNY411mn in 2013F. According to the company, Tuas Power should be able to maintain a 20% market share given there will not be any substantial increase in new capacity going forward. The company targets to achieve ~12% long-term ROE for Tuas Power.

Stable capex in 2014F; no pressure for equity financing but may consider preference shares

Despite 2013 budgeted capex of CNY21bn, with 9M13 capex of only CNY10.6bn, the company expects to see ~CNY15-16bn for 2013. Heading into 2014/15F, the capex should remain stable at CNY16.5bn/CNY15-16bn, in our view. As operating cash flow continues to improve amid a fundamental recovery, we believe there is little pressure for equity financing. However, with the China Securities Regulatory Commission's (CSRC) recent guidance that it is planning to promote a preference shares mechanism, with a target to first apply to large banks and SOEs, the company has closely monitored the development of such a mechanism and will try to utilize the preference shares mechanism to achieve a healthier balance sheet and shareholding structure.

Fig. 75: Huaneng Power: Capex and operating cash flow (2013-15F)

CNY mn	2013F	2014F	2015F
Thermal power projects	10,558	9,953	
Hydropower projects	317	92	
Wind power projects	1,459	2,096	
Port projects	2,629	900	
Renovation projects	4,300	4,500	
Other projects	1,842	-	
Budget capex	**21,105**	**17,541**	**NA**
New guidance	15,000-16,000	16,500	15,000-16,000
Operating cash flow	30,813	32,275	32,734

Source: Company data, Nomura estimates

Maintain Buy; TP revised to HKD8.2

We revise our earnings estimate model based on 9M13 results, together with updated guidance after our recent meeting with management. With our new assumptions, we maintain our Buy rating, and lower our TP to HKD8.2.

Our new assumptions follow:

Fig. 76: Huaneng Power: New key assumptions

	2012	2013F	2014F	2015F
Average on-grid tariff (CNY/MWh)	391	388	369	360
y-y change (%)		*-0.9%*	*-4.8%*	*-2.5%*
Average unit fuel cost (CNY/ton)	250	219	211	205
y-y change (%)		*-12.5%*	*-3.4%*	*-3.1%*
Attributable installed capacity (MW)	56,573	60,096	63,792	67,659
y-y change (%)		*6.2%*	*6.2%*	*6.1%*
Net power generation (mn kWh)	285,455	300,003	319,628	343,784
y-y change (%)		*5.1%*	*6.5%*	*7.6%*

Source: Company data, Nomura estimates

Valuation methodology

Our target price of HKD8.2 is based on DCF valuation (unchanged), with cash flows discounted back to 2014F. We calculate our DCF valuation by using a free cash flow model, assuming 1% terminal growth for the business after 2024F, with a WACC of 9.3%. The benchmark index for the stock is MSCI China.

Investment risks

Upside risks to our price target include: 1) no on-grid tariff cut; 2) an unexpected drop in coal price; 3) a rebound in the domestic economy leading to stronger power demand growth; and 4) an unexpected interest rate cut.

Downside risks to our price target include: 1) a larger than expected on-grid tariff cut; 2) a surge in coal price; 3) continuous weak domestic economy leading to a slow power demand growth; and 4) an interest rate hike.

NOMURA

China Resources Power

0836.HK 836 HK

EQUITY: POWER & UTILITIES

Facing a double-edged sword

Coal investment strategy no longer seems to work

Global Markets Research

25 February 2014

Rating Down fromBuy	**Neutral**
Target price Reduced from 25.23	HKD 21.00
Closing price 20 February 2014	HKD 19.14
Potential upside	+9.7%

Action: Downgrade to Neutral with revised TP at HKD21

We are positive on China Resources Power on the one hand, given its strong capacity growth moving forward, mainly from the large generation/co-generation units which are more efficient than the existing units and at a higher return profile. On the other hand, we also see the coal price drop as a double-edged sword, given: 1) the company can benefit from a lower unit fuel cost; but this is likely to be offset by: 2) a potential on-grid tariff cut, according to the coal-power tariff linkage mechanism; and 3) an earnings decline from its coal investment. On a valuation perspective, in the past, CR Power has generally traded at a premium valuation vs peers. However, amid the proposed merger with CR Gas (1193 HK, Buy) and allegations on management regarding the coal mine investment, in our view, CR Power is no longer an outright IPP to trade at the highest valuation among peers. We think it will take some time for the company to regain investors' confidence on the management's quality and corporate governance. Thus, we downgrade to Neutral, with a revised TP at HKD21, with an upside potential of 9.7% from current levels.

Catalysts: No on-grid tariff cut, despite coal power decline and potential spin-off of wind power business

Clarification on the coal price tariff linkage mechanism should provide more earnings visibility and a valuation re-rating to the sector. Any potential spin-off of its wind power business may release the hidden asset value.

Valuation: No longer an outright IPP at the top trading valuation

CR Power is trading at 8.4x and 1.2x 2014F P/E and P/B, at the high end of peers but in line with Huaneng Power. With the above-mentioned concern, we no longer view the company as an outright IPP which must trade at the highest valuation vs peers. Our revised, SOTP-based TP implies 9.1x/1.3x 2014F P/E and P/B.

31 Dec	FY12	FY13F		FY14F		FY15F	
Currency (HKD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	62,436	73,577	68,352	78,484	74,430		82,551
Reported net profit (mn)	7,479	8,372	10,740	8,408	11,011		12,788
Normalised net profit (mn)	7,075	8,372	10,740	8,408	11,011		12,788
FD normalised EPS	1.49	1.77	2.26	1.77	2.32		2.69
FD norm. EPS growth (%)	112.4	33.1	51.8	0.4	2.5		16.1
FD normalised P/E (x)	12.8	N/A	8.6	N/A	8.4	N/A	7.1
EV/EBITDA (x)	9.5	N/A	7.2	N/A	6.9	N/A	6.2
Price/book (x)	1.5	N/A	1.3	N/A	1.2	N/A	1.1
Dividend yield (%)	2.7	N/A	3.8	N/A	3.9	N/A	4.5
ROE (%)	14.7	15.5	18.4	14.2	16.6		17.2
Net debt/equity (%)	126.6	141.9	119.2	134.9	109.2		99.7

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Anchor themes

Depressed coal prices and improving balance sheets are positive for China IPPs. However, we see the market as overly concerned on any potential tariff cuts. Current attractive valuations (low P/Es and P/Bs but high dividend yields), in our view, mean short-term overhangs are already more than priced in.

Nomura vs consensus

Our 2014-15F earnings are slightly higher than market consensus by 3-5%.

Research analysts

China Power & Utilities

Joseph Lam, CFA - NIHK
joseph.lam@nomura.com
+852 2252 2106

Yuwen Tang - NIHK
thomas.tang@nomura.com
+852 2252 2051

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on China Resources Power

Income statement (HKDmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue	60,709	62,436	68,352	74,430	82,551
Fuel costs	-38,383	-35,589	-33,233	-35,866	-39,067
Repairs & Maintenance	-1,015	-1,145	-1,329	-1,583	-1,835
Personnel expenses	0	0	0	0	0
SG&A	0	0	0	0	0
Other operating expenses	-7,665	-8,147	-8,724	-9,747	-10,866
Employee share expense	0	0	0	0	0
EBITDA	13,646	17,555	25,066	27,235	30,783
Depreciation	-5,146	-5,789	-6,737	-7,531	-8,213
Amortisation	-356	-394	-394	-394	-394
EBIT	8,144	11,371	17,935	19,310	22,177
Net interest expense	-3,244	-3,606	-4,008	-4,089	-4,168
Associates & JCEs	837	1,734	1,931	1,906	1,882
Other income					
Earnings before tax	5,737	9,499	15,859	17,127	19,891
Income tax	-1,243	-1,179	-3,330	-4,282	-4,973
Net profit after tax	4,495	8,320	12,529	12,845	14,918
Minority interests	-1,169	-1,246	-1,789	-1,834	-2,130
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	3,326	7,075	10,740	11,011	12,788
Extraordinary items	1,125	404	0	0	0
Reported NPAT	4,451	7,479	10,740	11,011	12,788
Dividends	-1,425	-2,437	-3,500	-3,588	-4,168
Transfer to reserves	3,026	5,042	7,240	7,423	8,621
Valuation and ratio analysis					
Reported P/E (x)	20.1	12.1	8.6	8.4	7.2
Normalised P/E (x)	27.0	12.8	8.6	8.4	7.2
FD normalised P/E (x)	27.2	12.8	8.6	8.4	7.1
FD normalised P/E at price target (x)	29.8	14.1	9.4	9.2	7.8
Dividend yield (%)	1.6	2.7	3.8	3.9	4.5
Price/cashflow (x)	7.2	4.8	4.8	4.0	3.5
Price/book (x)	1.7	1.5	1.3	1.2	1.1
EV/EBITDA (x)	12.7	9.5	7.2	6.9	6.2
EV/EBIT (x)	20.5	13.9	9.8	9.4	8.4
EV per MW (HKD)	7.7	6.6	6.1	5.3	4.9
EBITDA margin (%)	22.5	28.1	36.7	36.6	37.3
EBIT margin (%)	13.4	18.2	26.2	25.9	26.9
Net margin (%)	7.3	12.0	15.7	14.8	15.5
Effective tax rate (%)	21.7	12.4	21.0	25.0	25.0
Dividend payout (%)	32.0	32.6	32.6	32.6	32.6
Capex to sales (%)	24.5	17.1	29.5	25.1	26.3
Capex to depreciation (x)	2.9	1.8	3.0	2.5	2.6
ROE (%)	9.9	14.7	18.4	16.6	17.2
ROA (pretax %)	6.0	7.8	10.9	10.7	11.3
Growth (%)					
Revenue	25.0	2.8	9.5	8.9	10.9
EBITDA	14.3	28.6	42.8	8.6	13.0
EBIT					
Normalised EPS	-26.7	111.8	49.9	2.2	16.1
Normalised FDEPS	-26.3	112.4	51.8	2.5	16.1
Per share					
Reported EPS (HKD)	94.79c	1.59	2.25	2.30	2.67
Norm EPS (HKD)	70.83c	1.50	2.25	2.30	2.67
Fully diluted norm EPS (HKD)	70.19c	1.49	2.26	2.32	2.69
Book value per share (HKD)	11.25	12.58	14.26	15.83	17.75
DPS (HKD)	0.30	0.51	0.73	0.75	0.87

Source: Company data, Nomura estimates

Relative performance chart (one year)

Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (HKD)	1.1	3.7	-11.6
Absolute (USD)	1.1	3.6	-11.6
Relative to MSCI China	0.9	10.1	-6.0
Market cap (USDmn)	11,825.2		
Estimated free float (%)	36.9		
52-week range (HKD)	26.05/16.44		
3-mth avg daily turnover (USDmn)	13.75		
Major shareholders (%)			
China Resources (Holding) Co. Ltd.	63.1		

Source: Thomson Reuters, Nomura research

Notes

Cashflow (HKDmn)

Year-end 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
EBITDA	13,646	17,555	25,066	27,235	30,783	
Change in working capital	-2,323	5,414	-2,707	25	-142	
Other operating cashflow	1,252	-4,004	-3,330	-4,282	-4,973	
Cashflow from operations	12,575	18,965	19,029	22,978	25,669	
Capital expenditure	-14,855	-10,670	-20,197	-18,701	-21,729	
Free cashflow	-2,280	8,295	-1,167	4,277	3,940	
Reduction in investments		0	0	0	0	
Net acquisitions	-5,608	-1,079	0	0	0	
Reduction in other LT assets		0	0	0	0	
Addition in other LT liabilities		0	0	0	0	
Adjustments	1,560	1,766	2,156	2,270	2,410	
Cashflow after investing acts	-6,329	8,982	989	6,547	6,350	
Cash dividends	-1,549	-1,414	-2,535	-3,501	-3,588	
Equity issue	-281	-700	193	0	0	
Debt issue	3,916	-2,237	8,305	4,614	5,088	
Convertible debt issue	0	0	0	0	0	
Others	1,938	-4,730	-4,233	-4,453	-4,696	
Cashflow from financial acts	4,023	-9,081	1,730	-3,340	-3,196	
Net cashflow	-2,305	-99	2,719	3,207	3,154	
Beginning cash	6,802	4,497	4,397	7,117	10,324	
Ending cash	4,497	4,397	7,117	10,324	13,478	
Ending net debt	78,491	75,870	81,455	82,862	84,797	

Source: Company data, Nomura estimates

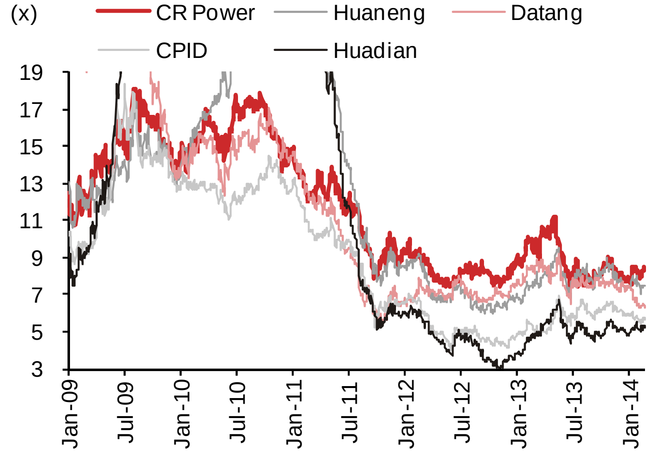
Balance sheet (HKDmn)

As at 31 Dec	FY11	FY12	FY13F	FY14F	FY15F	Notes
Cash & equivalents	4,497	4,397	7,117	10,324	13,478	
Marketable securities	0	0	0	0	0	
Accounts receivable	16,123	14,759	16,158	17,594	19,514	
Inventories	3,593	3,259	3,043	3,284	3,577	
Other current assets	1,594	4,378	4,378	4,378	4,378	
Total current assets	25,806	26,793	30,696	35,580	40,947	
LT investments	21,090	22,108	22,108	22,108	22,108	
Fixed assets	96,419	103,661	120,323	134,499	146,675	
Goodwill	4,033	3,914	3,914	3,914	3,914	
Other intangible assets	10,704	14,052	13,739	13,427	13,114	
Other LT assets	10,314	7,262	7,180	7,099	7,018	
Total assets	168,366	177,790	197,961	216,628	233,777	
Short-term debt	26,418	20,391	20,506	18,608	20,638	
Accounts payable	19,306	23,022	21,498	23,201	25,272	
Other current liabilities	3,252	4,086	4,086	4,086	4,086	
Total current liabilities	48,976	47,499	46,090	45,895	49,996	
Long-term debt	56,569	59,876	68,066	74,578	77,637	
Convertible debt	0	0	0	0	0	
Other LT liabilities	1,248	1,519	1,519	1,519	1,519	
Total liabilities	106,794	108,894	115,675	121,992	129,151	
Minority interest	8,199	8,956	13,948	18,788	19,578	
Preferred stock	5,900	5,897	5,897	5,897	5,897	
Common stock	4,745	4,763	4,791	4,791	4,791	
Retained earnings	42,728	49,280	57,650	65,160	74,360	
Proposed dividends	0	0	0	0	0	
Other equity and reserves	0	0	0	0	0	
Total shareholders' equity	53,373	59,940	68,338	75,848	85,048	
Total equity & liabilities	168,366	177,790	197,961	216,628	233,777	
Liquidity (x)						
Current ratio	0.53	0.56	0.67	0.78	0.82	
Interest cover	2.5	3.2	4.5	4.7	5.3	
Leverage						
Net debt/EBITDA (x)	5.75	4.32	3.25	3.04	2.75	
Net debt/equity (%)	147.1	126.6	119.2	109.2	99.7	
Activity (days)						
Days receivable	80.8	90.5	82.5	82.8	82.0	
Days inventory	26.6	35.2	34.6	32.2	32.1	
Days payable	157.4	210.9	235.1	217.8	216.3	
Cash cycle	-50.0	-85.1	-117.9	-102.9	-102.2	

Source: Company data, Nomura estimates

Fig. 77: China IPPs: Comparison of P/E (2009-present)

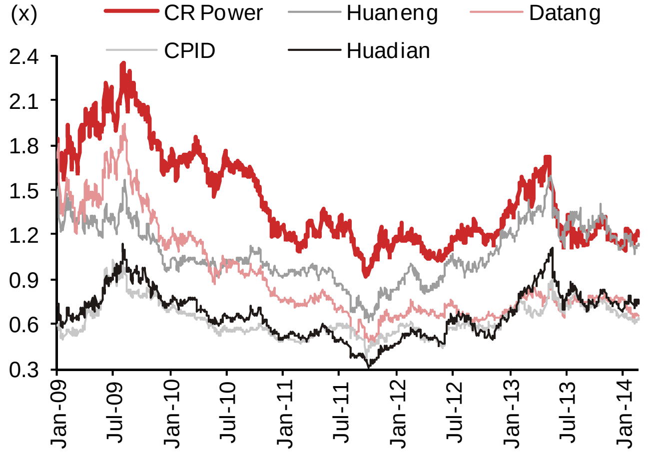
It is more difficult to compare China IPPs' valuation using P/E. But generally, CR Power trades at a premium vs. peers, prior to the management incident that occurred in July 2013.



Source: Bloomberg, Nomura research

Fig. 78: China IPPs: Comparison of P/B (2009-present)

For most of the time since January 2009, CR Power generally traded at a premium valuation vs. peers in terms of P/B prior to the management incident that occurred in July 2013.



Source: Bloomberg, Nomura research

Fig. 79: CR Power: Upcoming coal-fired installed capacity additions

Power plant	Installed capacity			Year of commissioning
Hubei Puqi	2 x 1,000MW	=	2,000	13-Aug-13
Guangdong Haifeng	2 x 1,000MW	=	2,000	2014-15
Zhejiang Cangnan	2 x 1,000MW	=	2,000	2014
Yichang	2 x 350MW cogen	=	700	2014
Panjin	2 x 350MW cogen	=	700	2014
Henan Jiaozuo	2 x 660MW cogen	=	1,320	2014-15
Hebei Tangshan	2 x 350MW cogen	=	700	2014
Total			**9,420**	

Source: Company data, Nomura research

Downgrade to Neutral; revised TP at HKD21

Our new key assumptions are as follows:

Fig. 80: CR Power: New key assumptions

	2012	2013F	2014F	2015F
Average on-grid tariff (CNY/MWh)	392	387	364	355
y-y change (%)		*-1.2%*	*-5.8%*	*-2.5%*
Average unit fuel cost (CNY/ton)	254	214	201	194
y-y change (%)		*-16.0%*	*-5.9%*	*-3.6%*
Attributable installed capacity (MW)	25,271	28,476	32,743	35,757
y-y change (%)		*12.7%*	*15.0%*	*9.2%*
Net power generation (mn kWh)	159,345	177,285	201,022	220,728
y-y change (%)		*11.3%*	*13.4%*	*9.8%*
Coal production (mn ton)	16.84	14.62	14.84	15.34
y-y change (%)		*-13.2%*	*1.5%*	*3.4%*

Source: Nomura research

Valuation methodology

Our target price of HKD21 is based on the sum-of-the-parts (SOTP) valuation methodology, and takes into account the nature of CR Power's different businesses and their risk profile. We basically divided CR Power into two segments and the benchmark index for this stock is MSCI China:

- **Power business & others:** We value the power business using DCF model (methodology unchanged), assuming 1% terminal growth rate (in line with other China IPPs) and a WACC of 8.8%, with cashflow discounted back to 2014F.

- **Coal business:** We value the coal business using DCF model (methodology unchanged), assuming 0% terminal growth rate and a WACC of 9.9%%, with cashflow discounted back to 2014F.

Fig. 81: CR Power: 2014F SOTP valuation

Segment	2014 DCF (HKD)	Portion (%)
Pow er business & others	19.9	94.5%
Coal business	1.2	5.5%
Total	**21.0**	**100.0%**

Source: Nomura research

Investment risks

Upside risks to our price target include: 1) no on-grid tariff cut; 2) rebound in domestic economy leading to a stronger power demand growth; and 3) an unexpected interest rate cut.

Downside risks to our price target include: 1) a larger than expected on-grid tariff cut; 2) continuous weak domestic economy leading to a slow power demand growth; 3) an interest rate hike; and 4) management's issue affecting the corporate governance reputation of the company.

Appendix A-1

Analyst Certification

I, Joseph Lam, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

The term "Nomura Group" used herein refers to Nomura Holdings, Inc. or any of its affiliates or subsidiaries, and may refer to one or more Nomura Group companies.

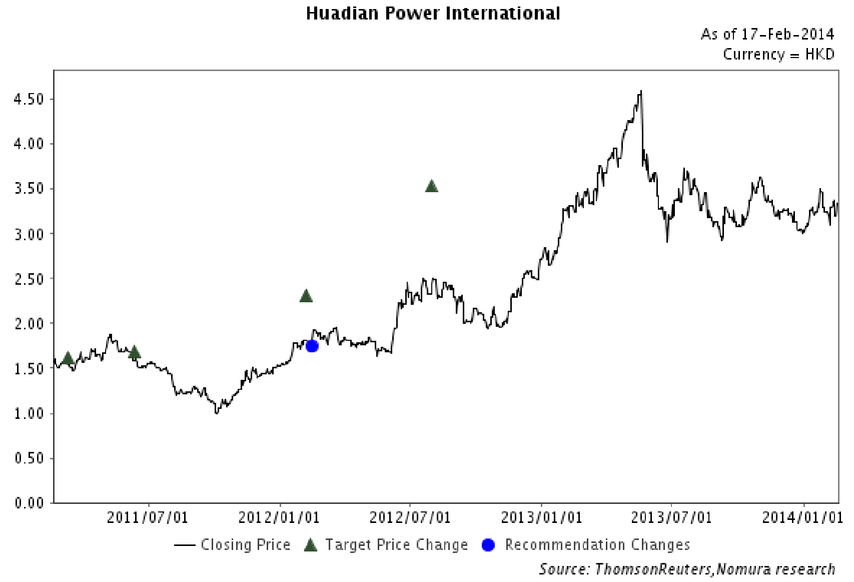
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Huadian Power International	1071 HK	HKD 3.27	24-Feb-2014	Buy	N/A	
China Power International	2380 HK	HKD 2.59	24-Feb-2014	Buy	N/A	
China Resources Power	836 HK	HKD 18.76	24-Feb-2014	Neutral	N/A	
Huaneng Power International	902 HK	HKD 6.93	24-Feb-2014	Buy	N/A	
Datang International Power	991 HK	HKD 2.92	24-Feb-2014	Buy	N/A	A11

A11 The Nomura Group holds 1% or more of any class of common equity securities of the issuer.

Huadian Power International (1071 HK) **HKD 3.27 (24-Feb-2014)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
30-Jul-12		3.53	2.33
06-Feb-12	Buy		1.81
06-Feb-12		2.31	1.81
12-Jun-11		1.68	1.59
11-Mar-11		1.62	1.54

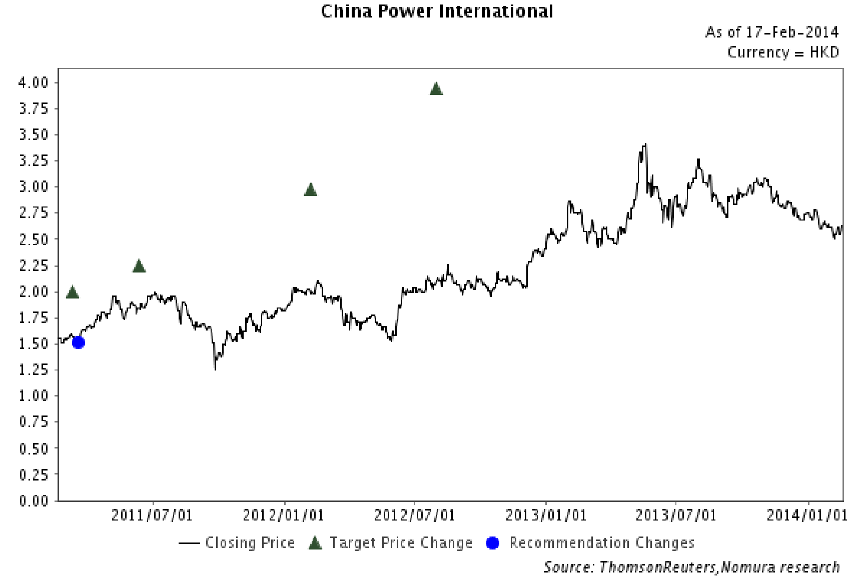
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of HKD4.75 is based on a DCF valuation, with cash flows discounted back to 2014F. We calculate our DCF by using a free cash flow model, assuming 1% terminal growth for the business after 2024F, with a WACC of 8.1%. The benchmark index for the stock is MSCI China.

Risks that may impede the achievement of the target price Our target price is subject to growth assumptions in power demand, tariff, coal price and capex. Earlier and larger-than-expected cut in power tariff, lower-than-expected power demand as well as the coal price surge without respective compensation from rising tariff may result in key changes in our forecasts, and hence our target price.

China Power International (2380 HK) **HKD 2.59 (24-Feb-2014)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
30-Jul-12		3.94	2.09
06-Feb-12		2.97	2.00
12-Jun-11		2.25	1.85
11-Mar-11	Buy		1.57
11-Mar-11		2.00	1.57

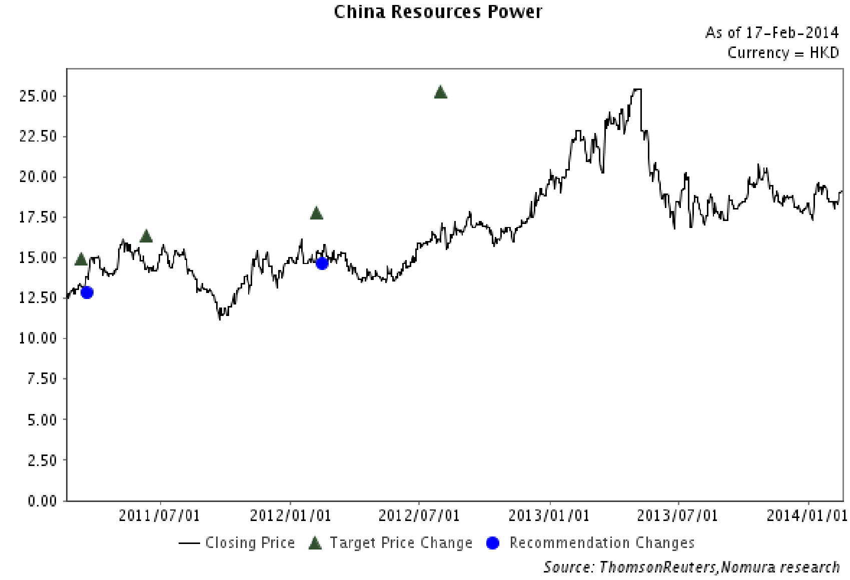
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD3.72 is based on DCF valuation (methodology unchanged), with cash flows discounted back to 2014F. We calculate our DCF by using a free cash flow model, assuming 1% terminal growth for the business after 2024F, with a WACC of 7.5%. The benchmark index for this stock is MSCI China.

Risks that may impede the achievement of the target price Our target price is subject to growth assumptions in power demand, tariff, coal price and capex. Earlier and larger-than-expected cuts in power tariff, lower-than-expected power demand (especially hydropower generation) as well as a surge in coal price without a commensurate increase through rising tariffs may result in key changes to our forecasts, and hence our TP.

China Resources Power (836 HK) **HKD 18.76 (24-Feb-2014)** Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
30-Jul-12		25.23	15.94
06-Feb-12	Buy		15.00
06-Feb-12		17.75	15.00
12-Jun-11		16.37	14.32
11-Mar-11	Neutral		13.18
11-Mar-11		14.94	13.18

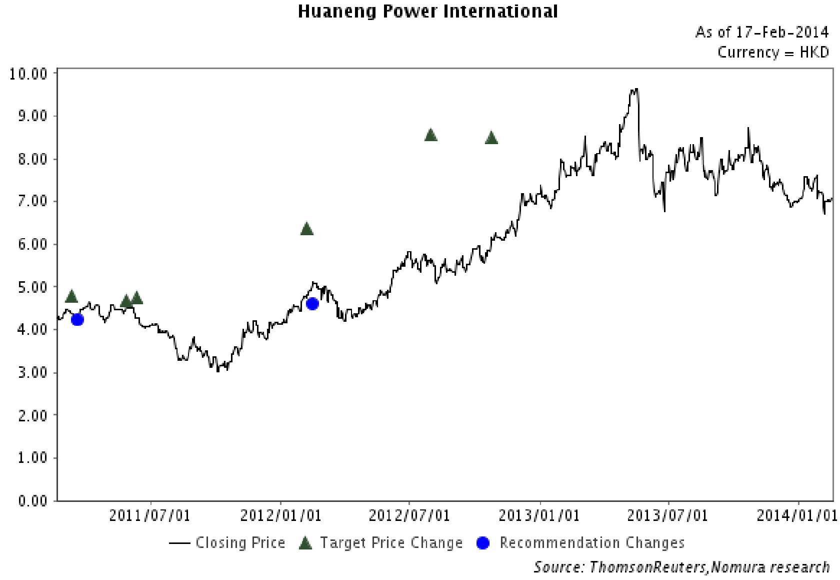
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD21 is based on the sum-of-the-parts (SOTP) valuation methodology, and takes into account the nature of CR Power's different businesses and their risk profile. We basically divided CR Power into two segments: The Power business & others: We value the power business using DCF model (methodology unchanged), assuming 1% terminal growth rate (in line with other China IPPs) and a WACC of 8.8%, with cashflow discounted back to 2014F. The Coal business: We value the coal business using DCF model (methodology unchanged), assuming 0% terminal growth rate and a WACC of 9.9%%, with cashflow discounted back to 2014F. The benchmark index for this stock is MSCI China.

Risks that may impede the achievement of the target price Upside risks to our TP include: 1) no on-grid tariff cut; 2) rebound in domestic economy leading to a stronger power demand growth; and 3) an unexpected interest rate cut. Downside risks to our price target include: 1) a larger than expected on-grid tariff cut; 2) continuous weak domestic economy leading to a slow power demand growth; 3) an interest rate hike; and 4) management's issue affecting the corporate governance reputation of the company.

Huaneng Power International (902 HK) **HKD 6.93 (24-Feb-2014)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
25-Oct-12		8.48	6.15
30-Jul-12		8.55	5.54
06-Feb-12	Buy		4.74
06-Feb-12		6.37	4.74
12-Jun-11		4.75	4.27
27-May-11		4.69	4.54
11-Mar-11	Neutral		4.36
11-Mar-11		4.78	4.36

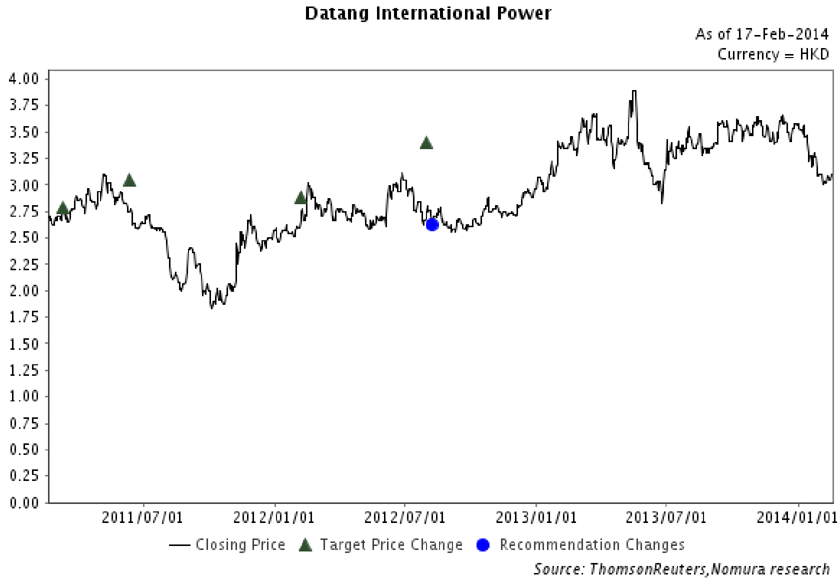
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of of HKD8.2 is based on DCF valuation , with cash flows discounted back to 2014F. We calculate our DCF valuation by using a free cash flow model, assuming 1% terminal growth for the business after 2024F, with a WACC of 9.3%. The benchmark index for the stock is MSCI China.

Risks that may impede the achievement of the target price Upside risks to our target price include: 1) no on-grid tariff cut; 2) an unexpected drop in coal price; 3) a rebound in domestic economy leading to a stronger power demand growth; and 4) an unexpected interest rate cut. Downside risks to our target price include: 1) a larger than expected on-grid tariff cut; 2) a surge in coal price; 3) continuous weak domestic economy leading to a slow power demand growth; and 4) an interest rate hike.

Datang International Power (991 HK) **HKD 2.92 (24-Feb-2014)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
30-Jul-12	Buy		2.68
30-Jul-12		3.40	2.68
06-Feb-12		2.88	2.67
12-Jun-11		3.04	2.75
11-Mar-11		2.79	2.80

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of HKD4.36 is based on a DCF valuation (no change in methodology), with cash flow discounted back to 2014F. We calculated our DCF by using a free cash flow model, assuming a 1% terminal growth for the business after 2024F, with a WACC of 8.0%. The benchmark index for the stock is MSCI China.

Risks that may impede the achievement of the target price Our target price is subject to growth assumptions in power demand, tariff, coal price and capex. Earlier and larger-than-expected cut in power tariff, lower-than-expected power demand as well as the coal price surge without respective compensation from rising tariff may result in key changes in our forecasts, and hence our price target.

Rating and target price changes

Issuer	Ticker	Old stock rating	New stock rating	Old target price	New target price
Huadian Power International	1071 HK	Buy	Buy	HKD 3.53	HKD 4.75
China Power International	2380 HK	Buy	Buy	HKD 3.94	HKD 3.72
China Resources Power	836 HK	Buy	Neutral	HKD 25.23	HKD 21.00
Huaneng Power International	902 HK	Buy	Buy	HKD 8.48	HKD 8.20
Datang International Power	991 HK	Buy	Buy	HKD 3.40	HKD 4.36

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STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at:

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

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