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中国电力 （**02380 HK**）

10 June, 2009

Acquisition of Wuling hydropower increases earning ability, upgrade to Accumulate

收购五凌水电增强盈利能力，上调评级至“收集”

- The company proposed to acquire the 63% interest in Wuling hydropower from its parent with a total consideration of Rmb4.47 bn, of which 70% will be paid by issue of new shares at a price of HKD2.408 per share, the rest will be paid by cash.
- The company will add its total capacity (on consolidation basis) by 65% after the transaction, and we estimated the power generation from Wuling will reach to around 11 bn Kwh in 2009 and 2010.
- We estimated the new share issued will dilute the earnings from the coal fired plants under operation by Rmb0.04 and Rmb0.08 for 2009 and 2010, but earnings from Wuling will increase the EPS by Rmb0.06 and Rmb0.11 respectively.
- We revised up the earning estimates by 10% and 9% to Rmb0.237 and Rmb0.301 for 2009 and 2010 respectively. We revised up the 12-m TP to HKD3.2 (previous HKD2.4) on back of the earnings adjustment, representing a 1.0x 09 P/B.
- Long term driver for hydro power is the large upside potential for its tariff increase. The company is benefited from the acquisition for rapid capacity growth as well as balanced plants structure. The consideration of Rmb4.47 bn is an attractive offer (9.0x 2010 PER of Wuling based on our estimation), we upgrade its rating from Neutral to Accumulate.
- 公司将收购目前母公司持有的五凌水电 63%的股权，收购代价约为 44.7 亿元人民币，其中 70%以发行新股支付，每股发行价格为 2.408 港元。其余 30%以现金支付。
- 公司在完成收购后将增加装机容量 65%左右（按合并报表口径），我们预计 09 和 10 年每年五凌将贡献 110 亿千瓦时的发电。
- 我们预计新增股份将摊薄原有火电厂 09 和 10 年的盈利约 4 分钱和 8 分钱，然而五凌水电将增加每股盈利 6 分钱和 1 毛 1 分钱。
- 我们分别上调了 09 和 10 年的盈利预测 10%和 9%至 0.237 元和 0.301 元。上调 12 个月目标价至 3.2 港元（主要因为盈利预测的上调），相当于 1.0 倍 09 年 P/B。
- 长期催化剂是水电上网价格巨大的上调空间。公司通过收购另自身的装机快速增长，和更加平衡的机组结构。收购代价的 44.7 亿元也比较合理（我们测算相当于 9 倍的 2010 年 PER），评级由“中性”上调至“收集”。

Rating: Accumulate

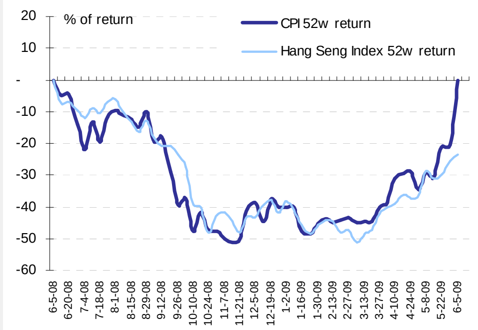
评级：收集

6-18 TP 目标价**: HK$3.2**

Share price 股价：HK$2.58

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	45.9	80.4	-0.7
Rel. % to HS index 相对恒指变动 %	31.0	24.8	19.4

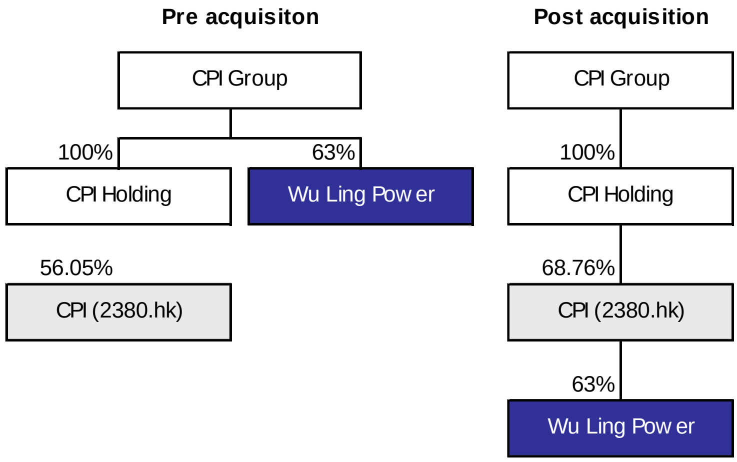
Yr End 年结 12/31	Turnover 收入 (Rmb'mn)	Net Profit 股东净利 (Rmb'mn)	EPS 每股盈利 (Rmb)	EPS 每股盈利变动 (△%)	PER 市盈率 (x)	DPS 每股股息 (Rmb)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2007A	5,949	592	0.164	(25.4)	13.8	0.054	2.4	5.9
2008A	9,641	(684)	(0.190)	(215.4)	(12.0)	-	-	(7.1)
2009F	12,450	1,028	0.237	(224.9)	9.6	0.078	3.4	10.2
2010F	16,455	1,526	0.301	27.0	7.5	0.099	4.4	12.0
2011F	20,927	699	0.138	(54.2)	16.5	0.045	2.0	5.2

Shares in issue (m) 已发行股本（百万）	3,605.6	09 NBV per share (HK$) 09每股账面值 （港元）	3.2
Total Market Value(HK$ m) 总市值 （百万港元）	9,302.5	09 P/B (x) 股价/09年账面值 (X)	0.8
Major Shareholder 大股东	China Power Investment 55.4%	Est. NAV (HK$) 每股估值 （港元）	-51.3
Free Float (%) 流通比例 （%）	44.0	52 Weeks high/low (HK$) 52周高/低	2.85/1.08

Sources: company data, Guotai Junan (Hong Kong) estimates
Assuming !HKD = 0.88Rmb for FY09, FY10 and FY11

Acquisition of 63% interest in Wuling hydropower from the parent company. The company proposed to acquire the total 63% interest in Wuling hydropower which is currently owned by its parent company, the China Power Investment. The total consideration is about Rmb4.47 billion, of which 70% (or Rmb3.13 billion) will be paid by issue of the consideration shares, and the rest 30% (or Rmb1.34 billion) will be paid by cash. The proposed consideration shares will be issued with a share price of HKD2.408. After the transaction, its parent company, China Power Investment will increase its holding interest in the company from the current 56.04% to 68.76%.

Figure 1: Acquisition of 63% interest in Wuling hydropower



Source: the company

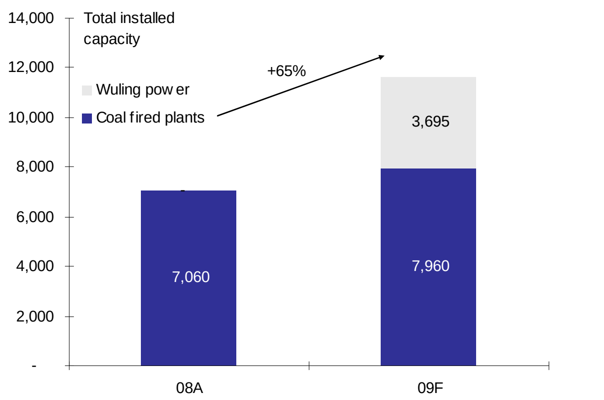
Figure 2: Issue of consideration shares

	Pre acquisition		After Acquisition	
	No. of Shrs	%	No. of Shrs	%
CPI Group	2,021.08	56.05	3,487.81	68.76
Public	1,584.53	43.95	1,584.53	31.24
Total	**3,605.61**	**100.00**	**5,072.34**	**100.00**

Source: the company

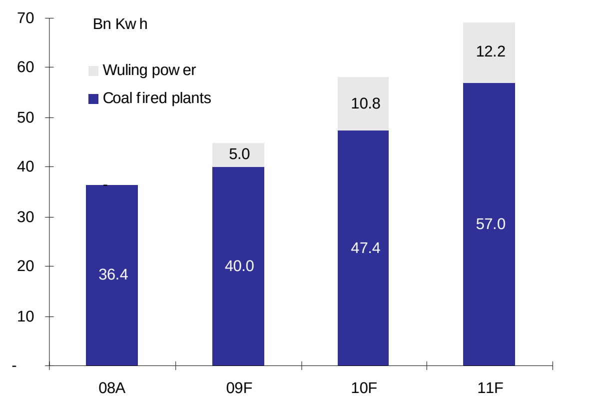
Capacity will add 65% on the consolidation basis. Wuling has eleven power plants currently under operation with a total capacity of 3,995MW, and another 600MW likely to commence operation in 2009 and 2010. The company will increase its total installed capacity (on the consolidation basis) by 65%, or a 3,695MW. After the transaction, the hydropower plant will occupy about 32% of the total installed capacity (on the consolidation basis) in the company.

Figure 3: Capacity increases 65% by acquiring Wuling



Source: the company, Guotai Junan (HK)

Figure 4: Estimated power generation

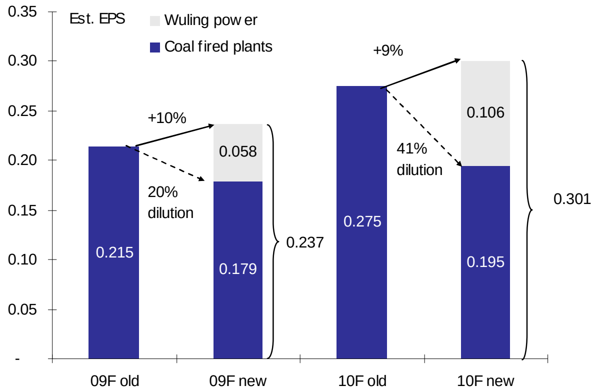


Source: the company, Guotai Junan (HK)

Power generation grows at a CAGR of 24% for the next three years. The total power generation in Wuling was about 10.9 billion kwh for 2008. Though the national wide power generation for coal fired plants stays weak currently, hydropower plants performed much better since the beginning of the year. Two major reasons were likely to drive the hydropower generation so far; first, good weather condition during the first half of 2009 supported the water flow; second, the dispatch priority for the hydroplants adopted by the government. We expect Wuling to generate about 11.5 billion kwh in 2009, of which 5.0 billion kwh will be added to the company on the consolidation basis. We expect another 11 billion kwh adding to the company in 2010.

Wuling likely to add earnings to the company. Wuling has earned Rmb400 million and Rmb191 million during 2007 and 2008. The decrease in earnings in 2008 was due to the two major reasons; first, the snow storm in the early of 2008 decreased its power generation during the period; second, a foreign exchange loss came from the loan dominated in Japanese Yen. As the water resources during the first 5 months was abundant, and the Japanese Yen reversed since the beginning of the year, the above two situation likely to be resolved. Though the consideration shares likely to dilute the company's earnings per share, the earnings added by Wuling will more than make up the loss. We expect Wuling to attribute an Rmb0.06 per share and Rmb0.11 per share in 2009 and 2010.

Figure 4: Earnings breakdown



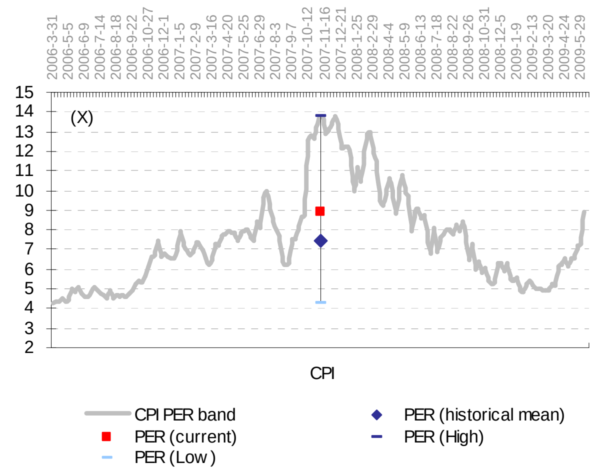
Source: the company, Guotai Junan (HK)

Revise up 09 and 10 earnings by 10.2% and 9.3%. The recently announced first contract coal price in line with our expectation, we do not adjust the previous coal price forecasts for coal fired plants. Based on the current national wide average gross margin for hydropower plants, we expect approximately Rmb230 million will add to the earnings 2009, and another approximate Rmb530 will add to the earnings in 2010. We revised up the EPS estimates by 10.2% and 9.3% to Rmb0.237 and Rmb 0.301 for 2009 and 2010 respectively.

Tariff for hydropower has potential to increase comparing to tariff for coal fired plants. The current average tariff for hydropower plants in China is about 30% lower than that of the coal fired plants. Therefore, the tariff for hydropower has much potential to increase comparing to the coal fired plants. The government officials also expressed their view of the unifying the hyro and coal fired power tariff in the future. Though we think this process may take long time, could be several years, the difference between the two will eventually be eliminated. Therefore, the company will be benefited the most comparing the other four HK listed China IPPs given its top position in terms of the share of the hydropower capacity.

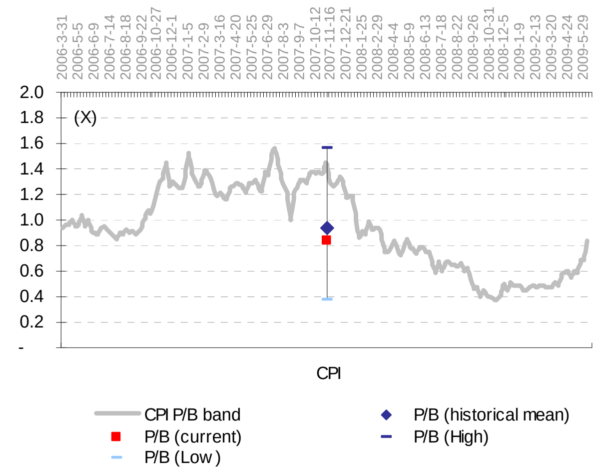
Revise up the 12-m TP to HKD3.2, and upgrade the rating to "Accumulate". We revise up the 12-m TP by 33% to HKD3.2 mainly on back of the positive earning adjustments. The company maintains relatively high growth comparing to the other four HK listed China IPPs, however, It is only trading at a 9.6x of FY09 PER and a 0.8x of 09 P/B based on our estimates. The valuation is still below its historical average as well as the industry average. We think the company attractive and revise up our 12-m target price to HKD3.2, representing a 12x and 8x of FY09 PER and FY10 PER; and 1.0x FY09 P/B. We upgrade rating from "Neutral" to "Accumulate".

PER band for CPI



Source: Bloomberg, Guotai Junan (HK)

P/B band for CPI



Source: Bloomberg, Guotai Junan (HK)

Figure 5: Earning adjustment

	2008A	2009F			2010F		
Operation	**Actual**	**Old**	**New**	**%/ppt**	**Old**	**New**	**%/ppt**
Capacity by equity share (Mn Kw)	6,970	7,870	11,494	46.0	9,470	13,884	46.6
YoY (%)	12.8	12.9	64.9	52.0	20.3	20.8	0.5
Utilization Hour	5,413.2	5,241.9	4,856.4	-7.4	5,318.1	4,589.5	-13.7
YoY %	-12.1	-3.2	-10.3	-7.1	1.5	-5.5	-6.9
Total electricity production (Bn KWH)	36.4	39.4	45.0	14.2	46.2	58.2	25.8
YoY %	36.2	8.4	23.8	15.4	17.3	29.2	11.9
Electricity Sales (Kwh'bn)	33.9	36.9	42.1	14.2	43.4	54.5	25.8
YoY (%)	36.6	8.8	24.2	15.4	17.7	29.6	11.9
Financials							
Sales (Rmb'mn)	9,641	11,219	12,450	11.0	13,463	16,455	22.2
YoY (%)	62.1	16.4	29.1	12.8	20.0	32.2	12.2
COGS (Rmb'mn)	7,056	6,983	7,024	0.6	8,463	8,492	0.3
YoY (%)	83.7	-1.0	-0.5	0.6	21.2	20.9	-0.3
Gross Profit (Rmb'mn)	2,585	4,236	5,426	28.1	4,999	7,963	59.3
YoY (%)	22.6	63.8	109.9	46.1	18.0	46.8	28.7
Operating Profit (Rmb'mn)	-30	1,546	2,188	41.5	1,911	2,774	45.2
YoY (%)	-105.5	-5,174.4	-7,280.7	-2,106.3	23.5	26.8	3.2
Financial Expense (Rmb'mn)	612	631	958	51.8	727	912	25.5
YoY (%)	280.1	3.0	56.3	53.4	15.2	-4.8	-20.0
Profit Before Tax (Rmb'mn)	-690	982	1,301	32.5	1,287	1,977	53.6
YoY (%)	-204.4	-242.3	-288.6	-46.2	31.0	51.9	20.9
Tax (Rmb'mn)	7	196	260	32.5	283	435	53.6
YoY (%)	-89.7	2,637.9	3,527.4	889.5	44.1	67.1	23.0
Net Profit (Rmb'mn)	-684	775	1,028	32.6	993	1,526	53.7
YoY (%)	-215.4	-213.4	-250.4	-37.0	28.1	48.5	20.4
EPS (Rmb)	-0.190	0.215	0.237	10.2	0.275	0.301	9.3
YoY (%)	-215.4	-213.4	-224.9	-11.6	28.1	27.0	-1.1
DPS (Rmb)	-	0.071	0.078	10.2	0.091	0.099	9.3
YoY (%)	-100.0	n.a.	n.a.	n.a.	28.1	27.0	-1.1
Margins and ratios (%)							
Gross Margin	26.8	37.8	43.6	5.8	37.1	48.4	11.3
Operating Margin	-0.3	13.8	17.6	3.8	14.2	16.9	2.7
Net Profit Margin	-7.1	6.9	8.3	1.3	7.4	9.3	1.9
ROE	-7.1	9.2	10.2	1.0	10.8	12.0	1.3
Net Debt/Equity	122.1	113.1	171.8	58.7	120.3	168.5	48.3

Assuming 1HKD = 0.88Rmb for the year 2008, 2009 and 2010

Source: Guotai Junan (HK) estimates

國泰君安(香港)
GUOTAI JUNAN (HONG KONG)

P&L (Rmb'mn)	2007A	2008A	2009F	2010F	2011F
Electricity Sales	5,907	9,632	12,441	16,446	20,916
Management Fee	42	9	10	9	11
Total Revenue	**5,949**	**9,641**	**12,450**	**16,455**	**20,927**
Coal Cost	(3,840)	(7,056)	(7,024)	(8,492)	(10,754)
Depreciation	(460)	(798)	(842)	(882)	(922)
Staff Cost	(334)	(385)	(497)	(657)	(835)
Maintenance	(276)	(406)	(531)	(702)	(893)
Comsumables	(73)	(155)	(200)	(245)	(285)
Other Opt. Cost	(424)	(500)	(1,190)	(2,731)	(5,153)
Loss on disposal		(389)	-	-	-
Total Opt. Expenses	**(5,390)**	**(9,672)**	**(10,262)**	**(13,681)**	**(18,807)**
Opt. Profit	**559**	**(30)**	**2,188**	**2,774**	**2,120**
Financial Expense	(161)	(612)	(958)	(912)	(1,379)
Gain from Associates	263	(47)	71	115	201
Profit before Tax	**661**	**(690)**	**1,301**	**1,977**	**942**
Taxation	(69)	(7)	(260)	(435)	(226)
Profit after Tax	**591**	**(697)**	**1,041**	**1,542**	**716**
Minority Interest	1	14	(13)	(16)	(17)
Net Profit	**592**	**(684)**	**1,028**	**1,526**	**699**
EPS (Basic)	**0.164**	**(0.190)**	**0.237**	**0.301**	**0.138**
EPS (Diluted)	**0.164**	**(0.190)**	**0.237**	**0.301**	**0.138**
EPS (Recurring)	**0.164**	**(0.190)**	**0.237**	**0.301**	**0.138**
Dividend	195	-	339	504	231
DPS	0.054	-	0.078	0.099	0.045

Balance Sheet (Rmb'mn)	2007A	2008A	2009F	2010F	2011F
Fixed Assets	14,595	15,617	31,989	34,918	36,951
Investment in Ass.	847	804	864	962	1,132
Deferred Tax Asset	-	33	37	40	44
Non-current Assets	**20,369**	**18,496**	**34,891**	**38,425**	**41,431**
Inventory	278	500	645	853	1,085
Trade Receivable	1,283	1,375	1,776	2,348	2,986
Prepayment	175	500	645	853	1,085
Due from Subsidiaries	111	234	234	234	234
Cash and Equivalent	734	1,327	4,368	4,790	2,853
Current Assets	**2,581**	**3,936**	**7,669**	**9,079**	**8,243**
Total Assets	**22,950**	**22,432**	**42,560**	**47,504**	**49,674**
Trade Payable	429	697	900	1,189	1,512
Other Payables	1,796	1,756	3,268	4,320	5,494
Due to Parent Company	81	69	89	117	149
Curr. Portion of LT Debt	466	252	252	252	252
Short-term Borrowing	605	1,493	5,353	4,582	3,768
Tax Payable	27	-	-	-	-
Current Liabilities	**3,403**	**4,266**	**9,861**	**10,460**	**11,176**
Long Term Debt	7,706	9,439	19,558	22,354	24,467
Non-current Liabilities	**8,367**	**10,024**	**20,144**	**22,940**	**25,052**
Minority Interest	44	68	454	816	(38)
Share Holder's Equity	**11,135**	**8,073**	**12,101**	**13,288**	**13,484**
Total Liabilities and Equity	**22,950**	**22,432**	**42,560**	**47,504**	**49,674**
BVPS	3.09	2.24	2.79	2.62	2.66

Margin and Efficiency	2007A	2008A	2009F	2010F	2011F
EBITDAR %	17.2	8.0	24.4	22.2	14.5
Operating Profit Margin %	9.4	-0.3	17.6	16.9	10.1
Net Profit Margin %	10.0	-7.1	8.3	9.3	3.3
Dividend Payout %	32.9	-	33.0	33.0	33.0
Inventory Days	26.8	20.1	29.8	32.2	32.9
Receivable Days	65.8	50.3	46.2	45.7	46.5
Payable Days	31.8	29.1	41.5	44.9	45.8

Growth (%)	2007A	2008A	2009F	2010F	2011F
Turnover	13.54	63.06	29.15	32.20	27.18
EBITDA	(16.1)	(24.6)	294.6	20.7	(16.8)
Operating Profit	(33.3)	(105.5)	(7,280.7)	26.8	(23.6)
Net Profit	(15.4)	(215.4)	(250.4)	48.5	(54.2)
EPS (Basic)	-25.4	-215.4	-224.9	27.0	-54.2
Dividend	-32.5	-100.0	n.a.	27.0	-54.2

Valuation	2007A	2008A	2009F	2010F	2011F
EV/Sales (X)	3.0	2.0	2.4	2.0	1.6
EV/EBITDA (X)	17.2	25.1	9.7	8.8	11.3
P/E (X)	13.8	(12.0)	9.6	7.5	16.5
P/Opt. CFPS (X)	91.0	171.0	7.2	6.8	15.8
P/BVPS (X)	0.7	1.0	0.8	0.9	0.9
ROE %	5.9	(7.1)	10.2	12.0	5.2
ROA %	3.0	(3.0)	3.2	3.4	1.4
ROC %	3.4	(0.2)	8.5	7.9	5.6

Financial Ratios	2007A	2008A	2009F	2010F	2011F
Net Debt/Equity (X)	0.7	1.2	1.7	1.7	1.9
Long-term Debt/Equity (X)	0.7	1.2	1.6	1.7	1.8
Current Ratio (X)	0.8	0.9	0.8	0.9	0.7
Interest Coverage (X)	3.5	(0.0)	2.3	3.0	1.5

Cash Flow (Rmb'mn)	2007A	2008A	2009F	2010F	2011F
Profit before Tax	**661**	**(690)**	**1,301**	**1,977**	**942**
Gain from Associates	48	47	(71)	(115)	(201)
Depreciation	460	798	842	882	922
Change of AR	(462)	(92)	(401)	(572)	(638)
Change of Other Receivables	(150)	(324)	(146)	(208)	(232)
Change of Inventory	8	(222)	(146)	(208)	(232)
Change of AP	191	268	203	290	323
Change of Other Payables	50	55	52	91	73
Tax Payment	(69)	(7)	(260)	(435)	(226)
Others	(646)	215	-	-	-
Operating Cash Flow	**90**	**48**	**1,374**	**1,703**	**731**
Capital Investment	(2,798)	(1,584)	(15,522)	(3,048)	(3,546)
Others	405	83	83	83	83
Investing Cash Flow	**(2,920)**	**(1,541)**	**(15,439)**	**(2,965)**	**(3,463)**
Share Issue	1	-	3,126	-	-
Borrowings	2,382	2,380	13,980	2,025	1,299
Dividends	(288)	-	-	(339)	(504)
Others	22	(294)	-	-	-
Financing Cash Flow	**2,117**	**2,086**	**17,105**	**1,685**	**795**
Net Cash	**(713)**	**593**	**3,041**	**423**	**(1,937)**
Cash b/f	**1,447**	**734**	**1,327**	**4,368**	**4,790**
Cash c/f	**734**	**1,327**	**4,368**	**4,790**	**2,853**

Source: Company Information, Guotai Junan (HK) estimates

Company Rating Definition
The Benchmark: Hong Kong Hang Seng Index
Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition
The Benchmark: Hong Kong Hang Seng Index
Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

(1) The Analysts and their associates do not serve as director in the listed corporation mentioned in this Research Report.
(2) The Analysts and their associates have no financial interests in the listed corporation mentioned in this Research Report.
(3) Except for Shandong Chenming (01812), Guotai Junan and its group companies do not hold more than 1% of the market capitalization of listed corporation mentioned in this Research Report.
(4) Guotai Junan and its group companies **have not had** investment banking relationships within the preceding 12 months for the listed corporation mentioned in this Research Report.

DISCLAIMER

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