



Rating
Hold

Company
GD Power

Date
29 August 2017

Asia
China

Utilities
Utilities

Reuters 600795.SS Bloomberg 600795 CH Exchange SHH Ticker 600795

Breaking News

Price at 18 Jul 2017 (CNY)	3.60
Price target - 12mth (CNY)	3.50
52-week range (CNY)	3.60 - 2.94
Shanghai Composite	3,332

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A fair JV proposal to minority shareholders

SOE reform kicks off for IPPs

GD Power announced the proposal of formulating a JV with Shenhua by injecting thermal power assets from both companies. Meanwhile, the State Council also approved the merger between Guodian Group and Shenhua Group, parentco of the two listcos, into a newly named State Energy Investment Corporate, which will be the new parentco of both GD Power and Shenhua Energy. Based on preliminary terms disclosed, the terms look fair to GD Power's minority shareholders and the merger of both parentcos should be strategically positive on the back of stronger vertical integration between coal and power and enhanced consolidation in the power sector.

A fair multiple for GD Power's thermal power assets

Based on the terms disclosed, GD Power's thermal assets (to be injected into the new JV) will be valued at 1.28x book value, which is in line with GD's trading multiples (1.3x P/B) prior to stock suspension. Moreover, if we consider GD Power's 25% capacity related to hydro power, which enjoys a higher PB as per listed peers, this multiple is slightly favorable. Our preliminary analysis suggests very limited earnings impact based on GD's 56% stake in this new JV and the combined net profit base of Rmb752mn in 1H17.

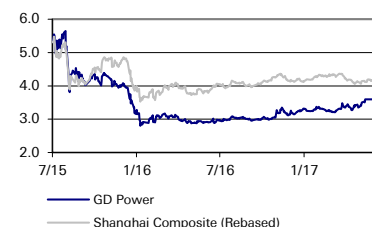
A glimpse of the new thermal power giant

The new JV will have a total consolidated capacity of 80.3GW, up from the 52.5GW currently owned by GD. Based on FY16 outputs, the new JV's output is set to be 60% higher. The geographic span will be broadened with market share further enhanced in key markets such as Jiangsu, Zhejiang and Anhui. With the merger of parentcos, GD Power can leverage more on the vertical integration with coal producers and reduce earnings volatility arising from coal price movement. Nevertheless, the synergy may take some time to materialize and we still believe implementation of fuel-tariff pass-through policy and coal price decline are more near-term earnings drivers for thermal IPPs.

Valuation and risks

Our target price of HKD3.5 is based on DCF with WACC of 8.2% and zero terminal growth. Key upside/downside risks include: uncertainties related to the restructure, coal price fluctuations, and magnitude of tariff hike at year-end.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.0	7.1	21.6
Shanghai Composite	2.1	-0.3	4.7

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	54,583	58,416	59,875	64,371	67,914
Reported NPAT (CNYm)	4,364	4,727	3,782	5,615	5,982
DB EPS FD (CNY)	0.287	0.241	0.192	0.286	0.304
DB EPS growth (%)	-7.5	-16.1	-20.0	48.5	6.5
PER (x)	17.0	12.7	18.7	12.6	11.8
Price/BV (x)	1.5	1.2	1.3	1.2	1.2
Yield (net) (%)	2.3	3.6	2.4	3.6	3.9
ROE (%)	8.9	9.2	7.2	10.1	10.1

Source: Deutsche Bank estimates, company data

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

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



Model updated: 09 May 2017

Running the numbers

Asia

China

Utilities

GD Power

Reuters: 600795.SS

Bloomberg: 600795 CH

Hold

Price (18 Jul 17) CNY 3.60

Target Price CNY 3.50

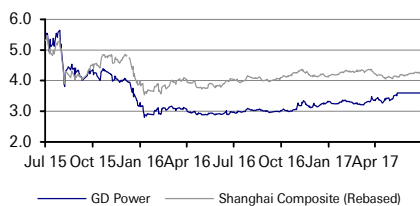
52 Week range CNY 2.94 - 3.60

Market Cap (m) CNYm 70,741
USDm 10,614

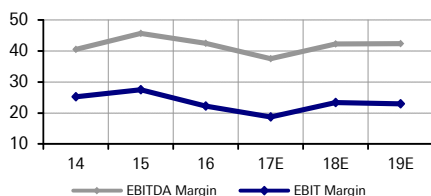
Company Profile

GD Power Development Co., Ltd. (GD Power) is primarily engaged in power generation and distribution in China. The company also has business in new energy development and environmental protection projects. GD Power's total consolidated capacity reached 46.3GW and total power generation reached 169bn kWh at end-2015. China Guodian Corporation, a central SOE under SASAC, is its parentco with a stake of 46.09%.

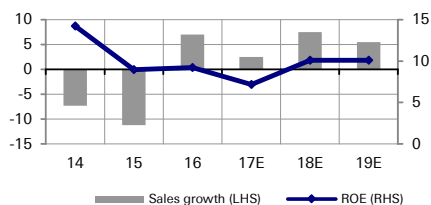
Price Performance



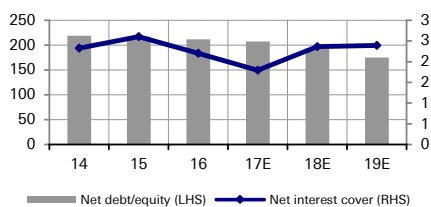
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.31	0.29	0.24	0.19	0.29	0.30
Reported EPS (CNY)	0.34	0.22	0.24	0.19	0.29	0.30
DPS (CNY)	0.15	0.11	0.11	0.09	0.13	0.14
BVPS (CNY)	2.5	2.6	2.6	2.7	2.9	3.1
Weighted average shares (m)	17,456	19,237	19,650	19,650	19,650	19,650
Average market cap (CNYm)	43,030	93,826	59,853	70,741	70,741	70,741
Enterprise value (CNYm)	187,577	245,675	218,682	233,176	236,249	233,000

Valuation Metrics

	2014	2015	2016	2017E	2018E	2019E
P/E (DB) (x)	8.0	17.0	12.7	18.7	12.6	11.8
P/E (Reported) (x)	7.3	22.0	12.7	18.7	12.6	11.8
P/BV (x)	1.85	1.54	1.19	1.32	1.23	1.16
FCF Yield (%)	nm	nm	nm	nm	nm	9.5
Dividend Yield (%)	6.1	2.3	3.6	2.4	3.6	3.9
EV/Sales (x)	3.1	4.5	3.7	3.9	3.7	3.4
EV/EBITDA (x)	7.5	9.9	8.8	10.4	8.7	8.1
EV/EBIT (x)	12.1	16.4	16.9	20.8	15.7	14.9

Income Statement (CNYm)

Sales revenue	61,475	54,583	58,416	59,875	64,371	67,914
Gross profit	25,805	25,703	25,571	23,249	28,107	29,696
EBITDA	24,873	24,896	24,774	22,433	27,230	28,771
Depreciation	9,331	9,812	11,747	11,167	12,118	13,095
Amortisation	61	67	71	71	71	71
EBIT	15,481	15,017	12,956	11,195	15,040	15,604
Net interest income/(expense)	-6,667	-5,763	-5,884	-6,258	-6,368	-6,527
Associates/affiliates	1,727	-55	1,653	1,687	1,854	2,065
Exceptionals/extraordinaries	533	475	459	321	132	132
Other pre-tax income/(expense)	588	84	-75	0	0	0
Profit before tax	11,662	9,758	9,109	6,945	10,658	11,274
Income tax expense	2,550	2,610	2,090	1,367	2,201	2,302
Minorities	3,037	2,784	2,291	1,796	2,841	2,990
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	6,075	4,364	4,727	3,782	5,615	5,982
DB adjustments (including dilution)	-521	1,268	0	0	0	0
DB Net profit	5,554	5,632	4,727	3,782	5,615	5,982

Cash Flow (CNYm)

Cash flow from operations	16,008	18,470	17,476	17,092	16,916	21,019
Net Capex	-23,964	-20,665	-20,024	-18,427	-17,273	-14,278
Free cash flow	-7,956	-2,195	-2,547	-1,335	-357	6,741
Equity raised/(bought back)	2,513	633	0	0	0	0
Dividends paid	-7,298	-8,058	-5,646	-2,162	-1,729	-2,568
Net inc/(dec) in borrowings	4,391	7,405	6,091	4,616	1,388	-5,972
Other investing/financing cash flows	8,132	3,307	1,866	-270	-360	0
Net cash flow	-218	1,092	-236	850	-1,058	-1,799
Change in working capital	-891	1,174	-578	1,963	-1,876	946

Balance Sheet (CNYm)

Cash and other liquid assets	2,349	3,441	3,334	4,184	3,126	1,327
Tangible fixed assets	199,092	206,223	221,809	229,069	234,224	235,407
Goodwill/intangible assets	2,939	2,811	3,126	3,055	2,983	2,912
Associates/investments	17,895	18,132	20,124	22,082	24,296	26,361
Other assets	24,084	19,578	22,874	23,567	24,028	24,636
Total assets	246,359	250,185	271,267	281,956	288,656	290,642
Interest bearing debt	146,152	154,282	160,136	164,752	166,140	160,168
Other liabilities	34,414	26,379	36,959	39,616	38,200	39,754
Total liabilities	180,566	180,661	197,095	204,368	204,340	199,922
Shareholders' equity	47,154	50,384	52,020	53,641	57,527	60,942
Minorities	18,639	19,140	22,151	23,948	26,789	29,778
Total shareholders' equity	65,792	69,524	74,172	77,588	84,316	90,720
Net debt	143,803	150,841	156,802	160,569	163,015	158,841

Key Company Metrics

Sales growth (%)	-7.3	-11.2	7.0	2.5	7.5	5.5
DB EPS growth (%)	-5.1	-7.5	-16.1	-20.0	48.5	6.5
EBITDA Margin (%)	40.5	45.6	42.4	37.5	42.3	42.4
EBIT Margin (%)	25.2	27.5	22.2	18.7	23.4	23.0
Payout ratio (%)	43.1	48.5	45.7	45.7	45.7	45.7
ROE (%)	14.2	8.9	9.2	7.2	10.1	10.1
Capex/sales (%)	39.0	37.9	34.3	30.8	26.8	21.0
Capex/depreciation (x)	2.6	2.1	1.7	1.6	1.4	1.1
Net debt/equity (%)	218.6	217.0	211.4	206.9	193.3	175.1
Net interest cover (x)	2.3	2.6	2.2	1.8	2.4	2.4

Source: Company data, Deutsche Bank estimates

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Details of the merger plan announced

After market close today, GD Power announced the proposal of formulating a JV with Shenhua by injecting thermal power assets from both companies. Meanwhile, the State Council also approved the merger between Guodian Group and Shenhua Group, parentco of the two listcos, into a newly named State Energy Investment Corporate, which will be the new parentco of both GD Power and Shenhua Energy.

Based on the announcement, GD Power would contribute 30GW consolidated thermal power assets and Shenhua Energy will contribute 28GW thermal assets to form a JV, after which GD Power will hold 56% of the merged JV. Based on the disclosure, the JV will own 58GW consolidated thermal power assets, with an estimated Rmb752mn net profit attributable to shareholders.

Based on the terms disclosed, GD Power's thermal assets (to be injected into the new JV) will be valued at 1.28x book value, which is in line with GD's trading multiples (1.3x P/B) prior to stock suspension. Shenhua's assets will be valued at 1.16x book value. Based on 1H17 profits, GD Power's average annualized ROA of contributed assets is at c.1.4% and ROE at c.2.6%, while Shenhua's average annualized ROA (of contributed assets) is c.1.5% and ROE is at c.2.5%.

Figure 1: A new JV formed with the asset contribution of GD and Shenhua

End 1H17	GD asset contribution	Shenhua asset contribution	JV
Consolidated Capacity (MW)	29.7	27.8	57.5
- Thermal	29.7	27.8	57.5
- hydro			
- wind			
1H17 Financials (Rmb mn)			
Revenue	26,667	21,642	48,308
Net profit	743	723	1,466
Net profit attributable to shareholders	441	311	752
Total assets	106,054	96,084	
Total liabilities	58,891	49,401	
Total equity	47,163	46,683	
Liabilities/Asset	55.5%	51.4%	

Source: Company data, Deutsche Bank estimates

Our preliminary analysis suggests very limited earnings impact based on GD's 56% stake in this new JV and the combined net profit base of Rmb752mn in 1H17 (see Figure 2 for details).



Figure 2: Detailed financials of the contributed assets

	(Rmb mn)	Stake	Net profit		Net profit attributable to shareholders	
			1H17	2016	1H17	2016
Datong	大同发电	60%	64	564	38	338
Datong II	大同第二发电厂	100%	65	295	65	295
Dongsheng	东胜热电	55%	34	87	19	48
Zhuanghe	庄河发电	51%	(53)	85	(27)	43
Dalian Devlp Zone	大连开发区热电厂	100%	1	94	1	94
Chaoyang	朝阳热电	100%	21	(5)	21	(5)
Jianbi	谏壁发电	100%	46	154	46	154
Jiangsu	江苏电力	100%	358	2,370	358	2,370
Beilun I	北仑第一发电	70%	85	351	60	246
Beilun III	北仑第三发电	50%	258	658	129	329
Zheneng Beilun	浙能北仑	49%	132	424	64	208
Zheneng Leqing	浙能乐清	23%	83	296	19	68
Nanxun Gas Power	南谄天然气热电	100%	-	-	-	-
GD Anhui	国电安徽	100%	(151)	258	(151)	258
Dawukou	大武口分公司	100%	6	(4)	6	(4)
Ningxia Shizuishan	宁夏石嘴山发电	50%	(80)	74	(40)	37
Shizuishan I	石嘴山第一发电	60%	(101)	(44)	(61)	(26)
GD Ningdong	国电宁东	51%	-	-	-	-
Dawukou Thermal	大武口热电	60%	(98)	(23)	(59)	(14)
Xinjiang Power	新疆电力	100%	(90)	(130)	(90)	(130)
Jiuquan	酒泉发电	100%	(39)	(60)	(39)	(60)
Waigaoqiao II	外高桥第二发电	40%	202	490	81	196
GD Total			743	5,935	441	4,445
Guohua Int'l Power	国华国际电力	70%	(3)	467	(2)	327
Baode	保德发电	91%	(43)	(40)	(39)	(36)
Hequ	河曲发电	80%	(34)	36	(27)	29
Salaqi	萨拉齐电厂	100%	(90)	(79)	(90)	(79)
Hulunbeier	呼伦贝尔发电	80%	47	69	37	55
Shangwan	上湾热电厂	100%	25	30	25	30
Caicang	太仓发电	50%	113	288	56	144
Chenjiangang	陈家港发电	55%	63	202	35	111
Xuzhou	徐州发电	100%	0	210	0	210
Zhoushan	舟山发电	51%	30	104	15	53
Yuyao Gas Power	余姚燃气发电	80%	66	24	53	19
Zheneng Power	浙能发电	60%	349	1,034	210	620
Shenwan Energy	神皖能源	51%	108	886	55	452
Ningxia Ningdong	宁夏宁东发电	100%	(53)	4	(53)	4
Shenhua Ningdong	神华宁东发电	57%	(4)	(13)	(2)	(7)
Midong	米东热电厂	100%	2	(32)	2	(32)
Wucaiwai	五彩湾发电	100%	9	2	9	2
Jiahua	嘉华发电	20%	139	984	28	197
Shenhua total			723	4,176	311	2,098
GD+Shenhua			1,466	10,111	752	6,544
GD shares in JV					56%	56%
Earnings impact to GD Power					(19)	(776)

Source: Company data, Deutsche Bank estimates



Synergies expected after the restructure

According to the announcement, the restructure will help GD Power to expand its thermal power market share in Jiangsu, Zhejiang and Anhui. With the merger of parentcos, GD Power can leverage more on the vertical integration with coal producers and reduce earnings volatility arising from coal price movement. Nevertheless, the synergy may take some time to materialize and we still believe implementation of fuel-tariff pass-through policy and coal price decline are more near-term earnings drivers for thermal IPPs.

After the group-level merger, we estimate the State Energy Investment Corporate to have total power capacity of 224GW, of which 174GW is thermal, 17GW is hydro and 32GW is wind. The company will have 17% market share in terms of thermal power capacity with >25% market share in six provinces (Tianjin, Hebei, Jilin, Jiangxi, Shaanxi, Ningxia). The company should also have 21% market share in wind power with >25% market share in 12 provinces (see Figure 3 for details). The higher market concentration, in the long run, can accelerate supply side reform and reduce price competition.

Figure 3: Group-level market share in thermal/wind power after the merger

Thermal capacity (MW) - end 2016						Wind power capacity (MW) - end 2016					
	GD Group	Shenhua Group	GD+Shenhua	China total	Mkt share		GD Group	Shenhua Group	GD+Shenhua	China total	Mkt share
Beijing	-	950	950	9,709	10%	Beijing	-	-	-	186	0%
Tianjin	1,545	2,374	3,919	13,783	28%	Tianjin	155	-	155	286	54%
Hebei	4,094	7,410	11,504	45,101	26%	Hebei	1,713	1,086	2,799	11,877	24%
Shanxi	7,660	5,200	12,860	63,286	20%	Shanxi	1,658	-	1,658	7,707	22%
Inner Mongolia	4,839	5,396	10,235	76,094	13%	Inner Mongolia	3,550	1,721	5,271	25,566	21%
Liaoning	3,694	3,760	7,454	31,140	24%	Liaoning	2,355	99	2,454	6,947	35%
Jilin	5,000	-	5,000	17,774	28%	Jilin	641	50	691	5,047	14%
Heilongjiang	2,898	-	2,898	21,038	14%	Heilongjiang	1,446	125	1,571	5,610	28%
Shanghai	714	-	714	22,642	3%	Shanghai	56	-	56	712	8%
Jiangsu	11,646	4,580	16,226	87,267	19%	Jiangsu	2,024	250	2,274	5,613	41%
Zhejiang	3,510	6,090	9,600	60,621	16%	Zhejiang	467	-	467	1,190	39%
Anhui	3,829	4,600	8,429	49,154	17%	Anhui	1,071	48	1,118	1,767	63%
Fujian	3,538	2,700	6,238	29,018	21%	Fujian	779	-	779	2,142	36%
Jiangxi	4,820	-	4,820	19,176	25%	Jiangxi	47	-	47	1,077	4%
Shandong	8,280	2,000	10,280	95,402	11%	Shandong	807	1,486	2,293	8,389	27%
Henan	4,228	4,520	8,748	64,311	14%	Henan	-	-	-	1,041	0%
Hubei	5,045	-	5,045	26,940	19%	Hubei	-	-	-	2,010	0%
Hunan	1,496	-	1,496	23,218	6%	Hunan	171	-	171	2,167	8%
Guangdong	761	5,660	6,421	77,417	8%	Guangdong	205	133	337	2,683	13%
Guangxi	2,226	700	2,926	21,848	13%	Guangxi	112	-	112	674	17%
Hainan	379	-	379	4,643	8%	Hainan	116	-	116	311	37%
Chongqing	574	2,100	2,674	13,432	20%	Chongqing	175	-	175	280	63%
Sichuan	509	2,260	2,769	16,421	17%	Sichuan	-	-	-	1,247	0%
Guizhou	2,814	-	2,814	30,136	9%	Guizhou	751	-	751	3,616	21%
Yunnan	3,366	-	3,366	14,020	24%	Yunnan	1,179	-	1,179	7,374	16%
Tibet	13	-	13	412	3%	Tibet	9	-	9	10	88%
Shaanxi	3,122	5,710	8,832	30,433	29%	Shaanxi	514	149	663	2,487	27%
Gansu	3,066	-	3,066	20,017	15%	Gansu	1,746	-	1,746	12,772	14%
Qinghai	246	-	246	4,021	6%	Qinghai	-	-	-	686	0%
Ningxia	3,356	2,850	6,206	21,647	29%	Ningxia	1,568	-	1,568	9,416	17%
Xinjiang	3,917	5,520	9,437	43,758	22%	Xinjiang	2,327	750	3,076	17,760	17%
Total	101,189	74,380	175,569	1,053,880	17%	Total	25,642	5,894	31,535	148,646	21%

Source: Company data, industry data, Deutsche Bank estimates



Figure 4: GD Group structure

China Guodian Corporation								
Listco	Ticker	Stake	Wholly-owned Regional Power Company	Stake	Wholly-owned Others	Stake	Associates	Stake
Guodian Power	600795.SS	46.09%	Inner Mongolia Power Generating Company	100%	Guodian Finance Co., Ltd.	100%	Haikong Renewables	55%
Longyuan Power	916.HK	58.44%	Northern Power Generating Company	100%	Guodian Fuel Co., Ltd	100%	Hunan Baoqing Thermal Power Company	85%
Guodian Tech	1296.HK	78.40%	Shandong Power Generating Company	100%	Guodian Xingye	100%	Chongqing Hengtai Power Generating Company	60%
Changyuan Power	000966.SZ	37.39%	Northeastern Power Generating Company	100%	Guodian Materials	100%	Dawukou Power Plant	60%
Yinglitechem	000635.SZ	51.25%	Jiangxi Power Generating Company	100%	Science and Technology Research Institute	100%	Xingjiang Kaiduhe Drainage Basin Hydropower Development Co., Ltd.	55%
ST Pingzhuang energy	000780.SZ	51.00%	Henan Power Generating Company	100%	Renewables Technology Research Institute	100%	Xingjiang Akesu Drainage Basin Hydropower Development Co., Ltd.	63%
Longyuan Tech	300105.SZ	24.27%	Sichuan Power Generating Company	100%	Energy Research Institute	100%	Suqian Co-generation Co., Ltd.	51%
			Yunnan Power Generating Company	100%	Guodian Properties	100%	Hunan Wushui Hydropower Development Co., Ltd.	86%
			Guizhou Power Generating Company	100%			Tibet Niyanghe Drainage Basin Hydropower Development Co., Ltd.	70%
			Fujian Power Generating Company	100%			Qingsongkuche Mining Company	51%
			Hubei Power Generating Company	100%			Overseas Power Company	51%
			Gansu Power Generating Company	100%			Delinha Solar Power Company	60%
			Eastern Renewables Investment	100%			Golmud Solar Power Company	60%
			Huzhou Zhebei Power Generation Company	100%			Guangzhou Guodian Jingxin Power Investment	50%
			Ledong Power Generation Company	100%				
			Guangdong Power Generation Company	100%				
			Tibet Guodian Longyuan Renewables Investment	100%				
			Haiki Solar Power Company	100%				
			Guangxi Power Generation Company	100%				

Source: Company data, Deutsche Bank



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
GD Power	600795.SS	3.60 (CNY) 18 Jul 17	NA

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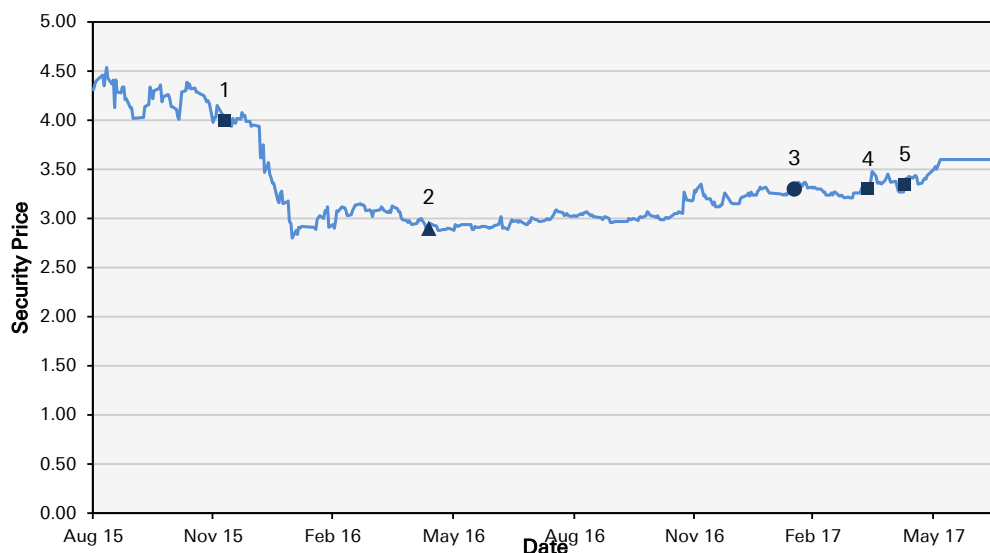
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Historical recommendations and target price: GD Power (600795.SS)

(as of 7/18/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

**Analyst is no longer at Deutsche Bank

1. 09/12/2015:	Hold, Target Price Change CNY4.70	Michael Tong, CFA	4. 11/04/2017:	Hold, Target Price Change CNY3.30	Michael Tong, CFA
2. 12/05/2016:	Upgrade to Buy, Target Price Change CNY3.60	Michael Tong, CFA	5. 09/05/2017:	Hold, Target Price Change CNY3.50	Michael Tong, CFA
3. 14/02/2017:	Downgrade to Hold, Target Price Change CNY3.40	Michael Tong, CFA			



Equity rating key

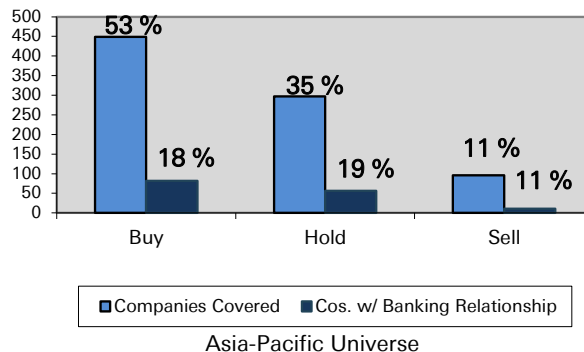
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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Equity rating dispersion and banking relationships





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