



Rating
Buy

Asia
China

Utilities
Utilities

Company
Yangtze Power

Reuters 600900.SS Bloomberg 600900 CH Exchange SHH Ticker 600900

Date
1 September 2017

Results

Price at 31 Aug 2017 (CNY)	14.99
Price target - 12mth (CNY)	17.50
52-week range (CNY)	15.64 - 12.45
Shanghai Composite	3,361

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.7	1.1	8.7
Shanghai Composite	2.7	7.8	8.9

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	15.3
Net debt/equity (%)	60.1
Book value/share (CNY)	6.00
Price/book (x)	2.5
Net interest cover (x)	4.2
Operating profit margin (%)	55.3

Source: Deutsche Bank

A high-yield hydro play with upside from thermal tariff hike

Yangtze reported in-line 1H17 results with net profit up 7% yoy. Yangtze will enjoy a higher tariff for its inter-provincial power sales in 2H17 thanks to a thermal tariff hike in July. Furthermore, it may also benefit from another round of thermal tariff hikes at year end. The company also has further room for financial cost savings as the mgmt aim to lower their debt/asset ratio to 30%. We maintain Buy on Yangtze due to its unique dividend commitment supported by highly predictable cash flows which generate a an attractive 4.3% 2017E yield.

1H17 results in line

Yangtze's net profit was up 7% yoy to Rmb8.1bn in 1H17, in line with our forecast. The growth is mainly driven by cost savings (SG&A -18% yoy; financial cost -13% yoy) and investment gains (+82% yoy), partially offset by weaker net output (-4% yoy). Generation declined in Three gorges (-11%) and Gezhouba (-4%) due to weak water flows and slightly increased in Xiluodu and Xiangjiaba (+4%). Free cash flow reached Rmb10bn in 1H17.

Key takeaways from conference call

Tariff: Mgmt expect a higher tariff in second half for their inter-provincial power sold by Xiluodu and Xiangjiaba to Shanghai and Guangdong thanks to the thermal tariff hike on 1 July. There is further room for tariff hikes if the fuel cost pass-through for thermal plants is executed at year end.

Power output: Mgmt expect full-year output to reach 191-200 bn kwh. The generation was impacted by a typhoon in July-Aug but has started to recover in Sept. Market-based volume is expected to rise over the next few years.

Capital structure and financial cost: Mgmt plan to use cash flow for debt repayment as they do not have major M&A plans currently. Mgmt expect the debt to asset ratio to decrease from the current 59% to 30%, after which Yangtze may consider M&A and raise the debt to asset ratio to 60% again. Mgmt are comfortable with a debt ratio of 42-55% . In 1H17, the average interest rate was 4.2% and mgmt expect it to increase mildly to 4.35% in 2H17.

Capex: Yangtze does not have a major M&A target for now but expects to acquire some hydro/power retail assets related to its core business. Mgmt are also looking for potential targets overseas and the company has gained experience via a



288MW wind power acquisition in Germany. Over 2018-19, the company has budgeted for Rmb10bn capex each year.

Other key takeaways: Yangtze will continue to use investment income to smooth the earnings volatility driven by water flows fluctuations.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	24,239	48,939	47,505	47,735	48,201
EBITDA (CNYm)	19,588	40,114	38,988	39,193	39,583
Reported NPAT (CNYm)	11,520	20,781	19,861	18,315	18,767
Reported EPS FD(CNY)	0.698	0.945	0.903	0.832	0.853
DB EPS FD (CNY)	0.668	0.934	0.903	0.832	0.853
DB EPS growth (%)	-6.9	39.9	-3.3	-7.8	2.5
PER (x)	18.7	13.7	16.6	18.0	17.6
Price/BV (x)	2.5	2.2	2.5	2.4	2.3
EV/EBITDA (x)	12.0	9.0	9.8	9.5	9.0
DPS (net) (CNY)	0.476	0.713	0.650	0.650	0.650
Yield (net) (%)	3.8	5.6	4.3	4.3	4.3
ROE (%)	13.0	18.9	15.3	13.7	13.6

Source: Deutsche Bank estimates, company data



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Yangtze Power	600900.SS	14.97 (CNY) 1 Sep 2017	1, 7

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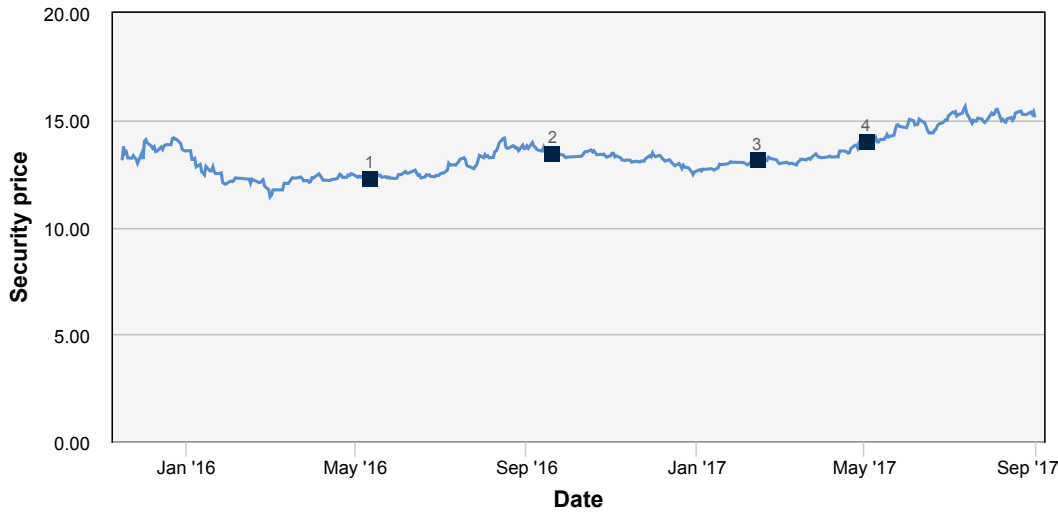
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Historical recommendations and target price. Yangtze Power (600900.SS)

(as of 08/31/2017)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1.	05/12/2016	Buy, Target Price Change CNY 17,00	Michael Tong, CFA
2.	09/20/2016	Buy, Target Price Change CNY 17,10	Michael Tong, CFA
3.	02/14/2017	Buy, Target Price Change CNY 17,40	Michael Tong, CFA
4.	05/03/2017	Buy, Target Price Change CNY 17,50	Michael Tong, CFA

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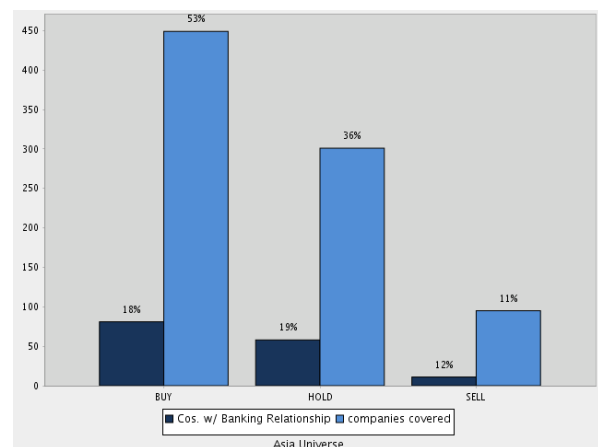
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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