



Rating
Buy

Asia
China

Utilities
Utilities

Company
Yangtze Power

Reuters 600900.SS Bloomberg 600900 CH Exchange SHH Ticker 600900

Date
31 October 2017

Forecast Change

Price at 30 Oct 2017 (CNY)	16.08
Price target - 12mth (CNY)	18.30
52-week range (CNY)	16.30 - 12.45
Shanghai Composite	3,391

Valuation & Risks

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Key changes

TP	17.50 to 18.30	↑	4.6%
Sales (FYE)	47,505 to 48,958	↑	3.1%
Op prof margin (FYE)	55.3 to 56.4	↑	2.0%
Net profit (FYE)	19,860.8 to 21,921.0	↑	10.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.7	4.9	20.6
Shanghai Composite	1.2	4.2	9.2

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	16.7
Net debt/equity (%)	56.2
Book value/share (CNY)	6.07
Price/book (x)	2.6
Net interest cover (x)	4.7
Operating profit margin (%)	56.4

Source: Deutsche Bank

Strong 3Q results; further upside from potential favorable VAT policy

Yangtze Power reported robust 3Q17 results with net profit up by 11% to Rmb9.7bn. As a result, 9M17 net profit increased by 9% yoy to Rmb17.8bn, accounting for 90% of our previous full-year forecast (historically 79-83%). The 3Q earnings growth are primarily driven by a 4% yoy increase in power output, a 87% yoy increase in investment income and a 11%/19% yoy drop in financial/operational cost. Consequently, we lift FY17/18 earnings by 10/9% on the back of strong 3Q results. With 15% upside to our new target price of Rmb18.3, we reiterate Buy on Yangtze Power given 1) a high-quality hydro power assets with stable earnings, 2) an absolute DPS commitment at Rmb0.65/sh until 2020 (4.0% yield) and >75% payout post 2020, 3) potential earnings upside if the favorable VAT rebate policy gets extended. Management will host a call at 9:00 am on 1 Nov (dial in: China: 95040123456; overseas: +86 5722760523).

3Q17 results boosted by higher output, investment income and cost savings

In 3Q17, net profit was up by 11% yoy to Rmb9.7bn driven by 4% yoy increase in net output, a 87% yoy increase in investment income and a 11%/19% yoy drop in financial/operational cost. Power generation growth recovered from a 4% decline in the first half to 4% yoy in 3Q17 thanks to improving water flows in Three Gorges (output +6% yoy) and Gezhouba (output +11% yoy). While Chuanyun (Xiluodu and Xiangjiaba)'s power output growth remains stable with 1% improvement in 3Q17.

As a result, 9M17 net profit was up 9% yoy to Rmb17.8bn. The 1% yoy decrease in net power output was well offset by 12%/24% yoy decrease in financial/operational cost and doubled investment income. 9M17 results accounts for 90% of our previous full year estimates, ahead of the historical range of 79-83%.

Further room for financial cost savings

In 9M17, Yangtze's financial cost was lowered by 12% yoy to Rmb4.4bn with stable net gearing at 110%. Effective interest rate was lowered by 0.3ppt to 4.4% per our calculation. During the 1H17 results conference call held in September, mgmt expects the debt to asset ratio to decrease gradually from 59% to 30%, after which Yangtze may consider M&A and raise the debt to asset ratio again. We see further room for financial cost savings going forward as a result of deleveraging.

Hydro VAT rebate could be extended, positive to Yangtze

According to Energy News on 8 Sep, the NDRC is soliciting feedbacks for the notice of Reduce the Tax for Enterprises in Renewables Energy Sector. In the notice, the NDRC proposes to reduce the VAT for hydro power units (with capacity



above 50MW) from 17% to 13% and to extend the VAT rebate period to 2020 for those with capacity above 1GW. If passed, Yangtze Power would be the key beneficiary and we estimate the extended VAT rebate would bring 9.6%/9.4% 2018/19E earnings upside. See report [Hydro VAT rebate could be extended, positive to Yangtze Power and SDIC](#), 8th Sep 2017 for more details.

Forecasts and ratios					
Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	24,239	48,939	48,958	48,895	48,897
EBITDA (CNYm)	19,588	40,114	40,272	40,230	40,237
Reported NPAT (CNYm)	11,520	20,781	21,921	19,938	19,813
Reported EPS FD(CNY)	0.698	0.945	0.996	0.906	0.901
DB EPS FD (CNY)	0.698	0.945	0.996	0.906	0.901
DB EPS growth (%)	-2.6	35.3	5.5	-9.0	-0.6
PER (x)	17.9	13.5	16.1	17.7	17.9
Price/BV (x)	2.5	2.2	2.6	2.5	2.5
EV/EBITDA (x)	12.0	9.0	9.9	9.7	9.3
DPS (net) (CNY)	0.476	0.713	0.650	0.650	0.650
Yield (net) (%)	3.8	5.6	4.0	4.0	4.0
ROE (%)	13.0	18.9	16.7	14.6	14.0

Source: Deutsche Bank estimates, company data



Figure 1: Yangtze Power operational summary

Operating data	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Year-end operating capacity (MW)	23,177	25,277	25,277	25,277	25,277	45,537	45,537	45,537	45,537
- Gezhouba	2,777	2,777	2,777	2,777	2,777	2,777	2,777	2,777	2,777
- Three Gorges	20,400	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
- Xiluodu						13,860	13,860	13,860	13,860
- Xiangjiaba						6,400	6,400	6,400	6,400
Average utilization hours	4,376	4,827	3,904	4,613	4,153	4,525	4,544	4,539	4,539
yoy chg %	-8.3%	10.3%	-19.1%	18.2%	-10.0%	9.0%	0.4%	-0.1%	0.0%
- Gezhouba	5,945	6,091	5,791	7,068	7,068	7,236	7,308	7,381	7,381
- Three Gorges	4,052	4,522	3,682	4,486	3,934	4,258	4,172	4,214	4,214
- Xiluodu						4,832	4,928	4,879	4,879
- Xiangjiaba						5,530	5,752	5,637	5,637
Gross generation (billion kWh)	94.54	114.75	98.69	116.60	104.98	206.06	206.92	206.71	206.71
yoy growth %	-6.0%	21.4%	-14.0%	18.2%	-10.0%	96.3%	0.4%	-0.1%	0.0%
Average tariff (Rmb/MWh, excl.VAT)	218.8	221.6	219.2	218.1	217.5	237.1	236.4	236.3	236.3
yoy chg %	0.7%	1.3%	-1.1%	-0.5%	-0.2%	9.0%	-0.3%	0.0%	0.0%
Unit core operating costs (Rmb/MWh)	89.1	80.1	91.9	80.4	87.5	93.3	94.7	95.4	95.8
yoy chg %	7.5%	-10.1%	14.7%	-12.5%	8.8%	6.6%	1.5%	0.7%	0.4%

Source: Company data, Deutsche Bank estimates

Figure 2: Yangtze Power quarterly results summary

(Rmb mn)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	3Q17 yoy	9M16	9M17	9M17 yoy
Revenue	7,835	12,234	17,182	11,689	7,855	11,435	17,942	4%	37,251	37,233	0%
Operational cost	(4,023)	(4,572)	(5,392)	(5,251)	(4,223)	(4,419)	(5,741)	6%	(13,987)	(14,383)	3%
Business tax and surcharges	(159)	(269)	(323)	(378)	(185)	(224)	(289)	-11%	(696)	(698)	0%
Selling expenses	(1)	(1)	(2)	(4)	(2)	(3)	(5)	165%	(4)	(10)	143%
Administrative expenses	(150)	(197)	(259)	(164)	(129)	(157)	(209)	-19%	(661)	(495)	-25%
Financial expenses	(1,635)	(1,610)	(1,763)	(1,671)	(1,453)	(1,372)	(1,573)	-11%	(5,008)	(4,398)	-12%
Asset impairment loss	(2)	(3)	(3)	(98)	(4)	(10)	(10)	205%	(8)	(24)	182%
Investment income	199	642	235	259	835	747	438	87%	1,076	2,020	88%
Operating profit	2,063	6,224	9,674	4,382	2,694	5,998	10,554	9%	17,961	19,246	7%
Non-operating income	860	320	646	1,086	525	508	1,016	57%	1,825	2,049	12%
Non-operating expense	(1)	(0)	(24)	(9)	(0)	(4)	(51)	115%	(25)	(55)	118%
Pre-tax profit	2,922	6,544	10,296	5,392	3,219	6,502	11,519	12%	19,761	21,240	7%
Income tax	(600)	(1,185)	(1,641)	(791)	(510)	(1,106)	(1,866)	14%	(3,425)	(3,482)	2%
Net profit	2,322	5,358	8,656	4,602	2,709	5,396	9,653	12%	16,336	17,758	9%
Minority interest	(129)	(1)	2	(159)	(1)	1	(2)	-187%	2	(2)	-182%
Net profit to shareholders	2,193	5,357	8,658	4,443	2,708	5,397	9,651	11%	16,339	17,756	9%
Net output (bn kWh)	33.0	52.3	72.7	48.1	32.9	48.8	75.4	4%	158.0	157.0	-1%
Three gorges	15.6	27.9	31.1	19.0	13.9	24.9	32.8	6%	74.6	71.6	-4%
Gezhouba	3.4	5.5	5.5	3.9	3.2	5.3	6.1	11%	14.4	14.6	1%
Xiluodu	9.0	12.1	23.8	16.1	10.2	11.6	24.0	1%	44.9	45.8	2%
Xiangjiaba	5.0	6.8	12.3	9.1	5.5	7.0	12.5	1%	24.1	25.0	4%
Implied tariff (Rmb/mwh)	237	234	236	243	239	235	238	1%	236	237	1%

Source: Company data, Deutsche Bank estimates



Model updated: 31 October 2017

Running the numbers

Asia

China

Utilities

Yangtze Power

Reuters: 600900.SS Bloomberg: 600900.CH

Buy

Price (30 Oct 17) CNY 16.08

Target Price CNY 18.30

52 Week range CNY 12.45 - 16.30

Market cap (m) CNYm 265,320
USDm 39,898

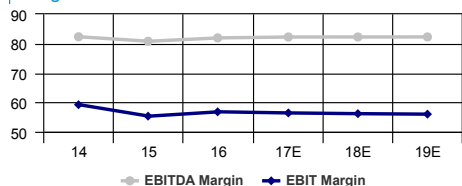
Company Profile

China Yangtze Power Co., Ltd. (CYPC) is the largest listed hydropower company in China, and is engaged primarily in hydro power generation and supply in central China, eastern China and Guangdong province. The company owns all the units of Gezhouba Hydropower Plant and Three Gorges Hydropower Plant, and acquired the Xiluodu and Xiangjiaba plants from the parentco. Yangtze has installed capacity of c.45.5GW. China

Price Performance



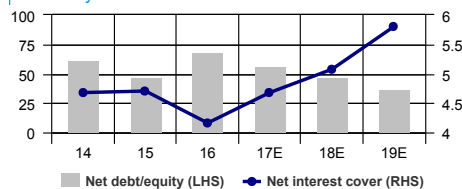
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.72	0.70	0.94	1.00	0.91	0.90
Reported EPS (CNY)	0.72	0.70	0.94	1.00	0.91	0.90
DPS (CNY)	0.38	0.48	0.71	0.65	0.65	0.65
BVPS (CNY)	5.2	5.5	5.8	6.1	6.3	6.6
Weighted average shares (m)	16,500	16,500	22,000	22,000	22,000	22,000
Average market cap (CNYm)	112,359	206,201	281,579	265,320	265,320	265,320
Enterprise value (CNYm)	149,409	234,173	359,899	398,868	388,815	373,904

Valuation Metrics

P/E (DB) (x)	9.5	17.9	13.5	16.1	17.7	17.9
P/E (Reported) (x)	9.5	17.9	13.5	16.1	17.7	17.9
P/BV (x)	2.04	2.45	2.18	2.65	2.55	2.45
FCF Yield (%)	15.2	7.0	10.7	8.0	7.7	8.3
Dividend Yield (%)	5.6	3.8	5.6	4.0	4.0	4.0
EV/Sales (x)	5.6	9.7	7.4	8.1	8.0	7.6
EV/EBITDA (x)	6.7	12.0	9.0	9.9	9.7	9.3
EV/EBIT (x)	9.4	17.5	12.9	14.4	14.2	13.7

Income Statement (CNYm)

Sales revenue	26,898	24,239	48,939	48,958	48,895	48,897
Gross profit	23,193	20,621	42,021	41,961	41,903	41,904
EBITDA	22,151	19,588	40,114	40,272	40,230	40,237
Depreciation	6,202	6,163	12,306	12,651	12,768	12,856
Amortisation	19	18	13	2	2	2
EBIT	15,929	13,408	27,794	27,619	27,460	27,379
Net interest income(expense)	-3,404	-2,850	-6,679	-5,902	-5,410	-4,717
Associates/affiliates	724	1,033	970	1,054	1,187	1,276
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	2,158	3,336	3,069	3,569	749	549
Profit before tax	15,407	14,927	25,154	26,341	23,986	24,489
Income tax expense	3,576	3,407	4,216	4,255	3,898	4,527
Minorities	0	0	157	165	150	149
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	11,830	11,520	20,781	21,921	19,938	19,813
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	11,830	11,520	20,781	21,921	19,938	19,813

Cash Flow (CNYm)

Cash flow from operations	17,894	14,867	32,310	31,189	30,354	30,929
Net Capex	-850	-460	-2,254	-3,000	-3,000	-1,500
Free cash flow	17,044	14,407	30,057	28,189	27,354	29,429
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-4,712	-9,155	-17,346	-15,688	-14,300	-14,300
Net inc/(dec) in borrowings	-11,472	-9,117	30,662	-5,550	-14,550	-15,275
Other investing/financing cash flows	-10	1,814	-41,966	1,249	779	579
Net cash flow	850	-2,051	1,406	8,201	-716	433
Change in working capital	778	-337	18,335	-281	-87	214

Balance Sheet (CNYm)

Cash and other liquid assets	3,114	3,856	3,379	11,580	10,864	11,297
Tangible fixed assets	124,493	118,852	261,782	252,131	242,363	231,007
Goodwill/intangible assets	39	66	168	166	164	163
Associates/investments	16,420	16,565	20,212	21,266	22,453	23,730
Other assets	2,929	2,659	13,354	13,649	13,625	13,607
Total assets	146,994	141,998	298,895	298,792	289,469	279,802
Interest bearing debt	56,633	47,462	92,475	86,925	77,375	64,100
Other liabilities	4,225	3,180	77,893	77,907	72,796	70,991
Total liabilities	60,858	50,643	170,369	164,832	150,171	135,092
Shareholders' equity	86,134	91,323	128,199	133,633	138,971	144,384
Minorities	2	32	327	327	327	327
Total shareholders' equity	86,136	91,355	128,526	133,960	139,298	144,711
Net debt	53,519	43,606	89,096	75,346	66,512	52,804

Key Company Metrics

Sales growth (%)	18.5	-9.9	101.9	0.0	-0.1	0.0
DB EPS growth (%)	33.4	-2.6	35.3	5.5	-9.0	-0.6
EBITDA Margin (%)	82.4	80.8	82.0	82.3	82.3	82.3
EBIT Margin (%)	59.2	55.3	56.8	56.4	56.2	56.0
Payout ratio (%)	52.9	68.2	75.5	65.2	71.7	72.2
ROE (%)	14.4	13.0	18.9	16.7	14.6	14.0
Capex/sales (%)	3.2	1.9	4.6	6.1	6.1	3.1
Capex/depreciation (x)	0.1	0.1	0.2	0.2	0.2	0.1
Net debt/equity (%)	62.1	47.7	69.3	56.2	47.7	36.5
Net interest cover (x)	4.7	4.7	4.2	4.7	5.1	5.8

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Yangtze Power	600900.SS	16.08 (CNY) 30 Oct 2017	1, 7

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm/db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.

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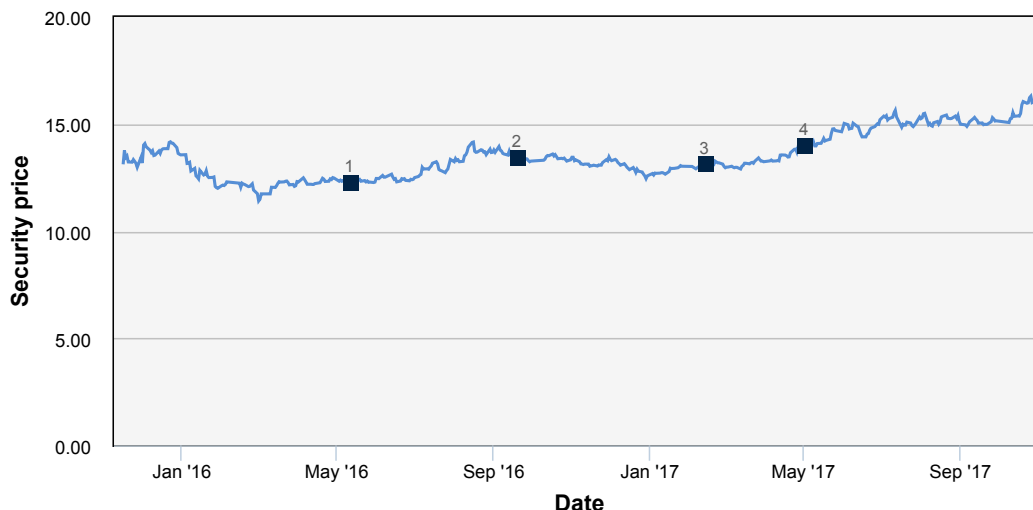
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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Michael Tong



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

(as of 10/30/2017)



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

Equity Rating Key

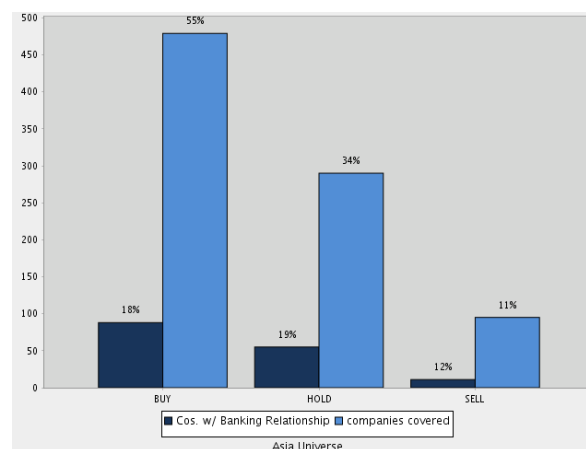
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

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

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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