



Rating
Buy

Asia
China

Utilities
Utilities

Company
Yangtze Power

Reuters 600900.SS Bloomberg 600900 CH Exchange SHH Ticker 600900

Date
31 October 2018

Forecast Change

Price at 30 Oct 2018 (CNY)	15.62
Price target - 12mth (CNY)	19.80
52-week range (CNY)	17.67 - 15.37
Shanghai Composite	2,568

In line 3Q18, stable outlook, Buy

Yangtze Power reported in-line 3Q18 results with net profit of Rmb9.4bn, down slightly by 3% yoy with 10% power output growth offsetting the lower investment income and the absence of a VAT rebate. We reiterate Buy on Yangtze Power as the company provides stable earnings outlook thanks to high-quality hydro power assets, and DPS commitment with an implied yield of 4%. The potential asset injection of the parentco's two hydro plants under the construction will likely provide further earnings growth potential for Yangtze starting from 2020-21. We slightly raise our earnings forecast by 4-6% over 2018-20E and lift TP to Rmb19.8. Buy.

In line 3Q18 results with robust output growth (See details in Figure 1)

In 3Q18, Yangtze's net generation reached 82.8bn kWh, up 10% yoy thanks to improving waterflows in Three Gorges (+22% yoy) and Xiluodu (+5% yoy), which more than offset the weaker output of Gezhouba (-11%) and Xiangjiaba (-3%). Average realized tariff rose slightly by 1%. Although with strong output growth, 3Q18 net profit dropped slightly by 3% yoy to Rmb9.4bn, mainly dragged by lower investment income (-69% yoy) and the absence of VAT rebate which ended at the end of 2017. Finance costs dropped by 5% yoy to Rmb1.5bn and net gearing was lowered to 94% from 99% at end-2017.

Key takeaways from result briefing

Management expects the waterflow in Yangtze river to improve by more than 5% yoy, the power output to exceed its previous target of 201.3bn kwh, and net profit to rise yoy in 2018. The construction of Wudongde/Baihetan is well on track and management expects the first unit to become operational in 2020/2021. The company has effectively reduced its average borrowing cost to 3.9% at end 3Q18 from 4.2% in 9M18. Management expects the synchronized dispatching to play a more important role to boost output, and reiterate that they will use the investment income to smooth out earnings volatilities.

Earnings revision, valuation and risks

We raise our earnings by 4%/6%/4% in 2018/19/20E to reflect higher power output assumptions and slightly higher investment income forecasts. Our TP is raised to HKD19.8 (from HKD19.2) which is based on DCF with WACC of 7.1% and zero terminal growth rate. Key risks include: 1) reductions in generation volume

Valuation & Risks

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Key changes

TP	19.20 to 19.80	↑	3.1%
Sales (FYE)	49,752 to 51,894	↑	4.3%
Op prof margin (FYE)	56.4 to 57.1	↑	1.2%
Net profit (FYE)	20,980.3 to 21,895.0	↑	4.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.6	-7.3	-2.9
Shanghai Composite	-9.0	-10.5	-24.3

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	15.9
Net debt/equity (%)	54.6
Book value/share (CNY)	6.41
Price/book (x)	2.4
Net interest cover (x)	5.2
Operating profit margin (%)	57.1

Source: Deutsche Bank

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caused by irregular water levels; 2) volatility in associates' earnings; and 3) a lower valuation/dividend contribution of Yangtze's investment portfolio.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	48,939	50,147	51,894	51,136	51,139
EBITDA (CNYm)	40,114	41,076	42,098	41,506	41,498
Reported NPAT (CNYm)	20,781	22,261	21,895	21,589	21,620
Reported EPS FD(CNY)	0.945	1.012	0.995	0.981	0.983
DB EPS FD (CNY)	0.945	1.012	0.995	0.981	0.983
DB EPS growth (%)	35.3	7.1	-1.6	-1.4	0.1
PER (x)	13.5	14.5	15.7	15.9	15.9
Price/BV (x)	2.2	2.5	2.4	2.3	2.2
EV/EBITDA (x)	9.0	10.9	8.9	8.7	6.5
DPS (net) (CNY)	0.713	0.680	0.650	0.650	0.650
Yield (net) (%)	5.6	4.6	4.2	4.2	4.2
ROE (%)	18.9	16.9	15.9	14.9	14.3

Source: Deutsche Bank estimates, company data

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Figure 1: Yangtze quarterly result summary

(Rmb mn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	3Q18 yoy	9M17	9M18	9M18 yoy
Revenue	7,855	11,435	17,942	12,914	8,149	11,060	19,856	11%	37,233	39,066	5%
Operational cost	(4,223)	(4,419)	(5,741)	(5,070)	(4,239)	(4,070)	(6,285)	9%	(14,383)	(14,595)	1%
Business tax and surcharges	(185)	(224)	(289)	(358)	(221)	(279)	(467)	62%	(698)	(967)	39%
Selling expenses	(2)	(3)	(5)	(10)	(3)	(4)	(6)	20%	(10)	(13)	40%
Administrative expenses	(129)	(157)	(209)	(346)	(134)	(159)	(203)	-3%	(495)	(497)	0%
Financial expenses	(1,453)	(1,372)	(1,573)	(1,499)	(1,360)	(1,467)	(1,500)	-5%	(4,398)	(4,327)	-2%
Asset impairment loss	(4)	(10)	(10)	(181)	2	(16)	0	NM	(24)	(13)	-44%
Investment income	835	747	438	292	1,189	1,105	137	-69%	2,020	2,431	20%
Operating profit	2,694	5,998	10,554	5,742	3,383	6,169	11,532	9%	19,246	21,084	10%
Non-operating income	525	508	1,016	205	1	664	0	-100%	2,049	665	-68%
Non-operating expense	(0)	(4)	(51)	(368)	(0)	(1)	(213)	NM	(55)	(214)	NM
Pre-tax profit	3,219	6,502	11,519	5,579	3,384	6,832	11,319	-2%	21,240	21,535	1%
Income tax	(510)	(1,106)	(1,866)	(897)	(551)	(1,139)	(1,917)	3%	(3,482)	(3,607)	4%
Net profit	2,709	5,396	9,653	4,517	2,833	5,693	9,403	-3%	17,758	17,929	1%
Minority interest	(1)	1	(2)	(12)	(1)	(3)	(3)	36%	(2)	(6)	NM
Net profit to shareholders	2,708	5,397	9,651	4,505	2,832	5,690	9,400	-3%	17,756	17,922	1%
Net output (bn kWh)	32.9	48.8	75.4	53.9	34.5	46.8	82.8	10%	157.0	164.1	5%
Three gorges	13.9	24.9	32.8	26.0	15.3	23.6	40.1	22%	71.6	79.0	10%
Gezhouba	3.2	5.3	6.1	4.5	3.4	5.1	5.5	-11%	14.6	13.9	-4%
Xiluodu	10.2	11.6	24.0	15.6	10.2	11.2	25.1	5%	45.8	46.5	2%
Xiangjiaba	5.5	7.0	12.5	7.8	5.6	6.9	12.1	-3%	25.0	24.6	-2%
Implied tariff (Rmb/mwh)	239	235	238	240	236	236	240	1%	237	238	0%

Source: Company Data

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Model updated: 31 October 2018

Running the numbers

Asia

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Reuters: 600900.SS Bloomberg: 600900 CH

Buy

Price (30 Oct 18) CNY 15.62

Target Price CNY 19.80

52 Week range CNY 15.37 - 17.67

Market cap (m) CNYm 257,730 USDm 37,017

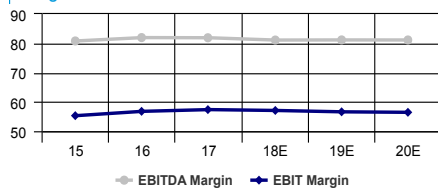
Company Profile

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

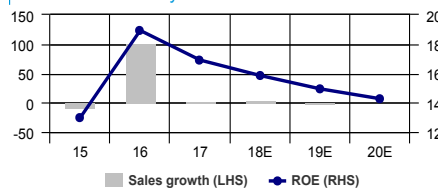
Price Performance



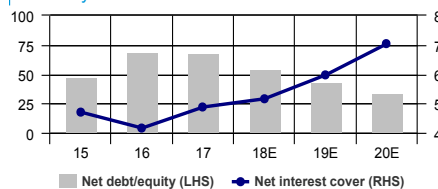
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	0.70	0.94	1.01	1.00	0.98	0.98
Reported EPS (CNY)	0.70	0.94	1.01	1.00	0.98	0.98
DPS (CNY)	0.48	0.71	0.68	0.65	0.65	0.65
BVPS (CNY)	5.5	5.8	6.1	6.4	6.7	7.1
Weighted average shares (m)	16,500	22,000	22,000	22,000	22,000	22,000
Average market cap (CNYm)	206,201	281,579	323,306	257,730	257,730	257,730
Enterprise value (CNYm)	234,173	359,899	448,090	375,578	362,592	269,925

Valuation Metrics

	2015	2016	2017	2018E	2019E	2020E
P/E (DB) (x)	17.9	13.5	14.5	15.7	15.9	15.9
P/E (Reported) (x)	17.9	13.5	14.5	15.7	15.9	15.9
P/BV (x)	2.45	2.18	2.54	2.44	2.32	2.21
FCF Yield (%)	7.0	10.7	9.7	8.3	8.5	8.9
Dividend Yield (%)	3.8	5.6	4.6	4.2	4.2	4.2
EV/Sales (x)	9.7	7.4	8.9	7.2	7.1	5.3
EV/EBITDA (x)	12.0	9.0	10.9	8.9	8.7	6.5
EV/EBIT (x)	17.5	12.9	15.6	12.7	12.5	9.3

Income Statement (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Sales revenue	24,239	48,939	50,147	51,894	51,136	51,139
Gross profit	20,621	42,021	42,991	44,293	43,673	43,673
EBITDA	19,588	40,114	41,076	42,098	41,506	41,498
Depreciation	6,163	12,306	12,287	12,468	12,546	12,624
Amortisation	18	13	11	2	2	2
EBIT	13,408	27,794	28,778	29,628	28,958	28,872
Net interest income/(expense)	-2,850	-6,679	-5,897	-5,741	-4,846	-4,100
Associates/affiliates	1,033	970	1,143	1,177	1,190	1,190
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	3,336	3,069	2,631	1,602	1,102	605
Profit before tax	14,927	25,154	26,654	26,666	26,404	26,567
Income tax expense	3,407	4,216	4,380	4,757	4,802	4,935
Minorities	0	157	14	13	13	13
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	11,520	20,781	22,261	21,895	21,589	21,620
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	11,520	20,781	22,261	21,895	21,589	21,620

Cash Flow (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash flow from operations	14,867	32,310	33,797	30,519	31,348	32,428
Net Capex	-460	-2,254	-2,556	-2,000	-2,000	-2,000
Free cash flow	14,407	30,057	31,240	28,519	29,348	30,428
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-9,155	-17,346	-19,591	-14,960	-14,300	-14,300
Net inc/(dec) in borrowings	-9,117	30,662	5,277	-7,700	-18,200	-13,700
Other investing/financing cash flows	1,814	-41,966	-7,274	1,702	1,202	705
Net cash flow	-2,051	1,406	9,652	7,561	-1,950	3,133
Change in working capital	-337	18,335	258	33	104	77

Balance Sheet (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash and other liquid assets	3,856	3,379	5,200	12,761	10,811	13,944
Tangible fixed assets	118,852	261,782	249,702	239,233	228,687	218,063
Goodwill/intangible assets	66	168	170	168	166	164
Associates/investments	16,565	20,212	31,789	32,966	34,156	35,346
Other assets	2,659	13,354	12,538	12,701	12,619	12,608
Total assets	141,998	298,895	299,398	297,829	286,439	280,126
Interest bearing debt	47,462	92,475	97,662	89,962	73,762	66,062
Other liabilities	3,180	77,893	66,217	66,413	64,434	58,501
Total liabilities	50,643	170,369	163,879	156,376	138,197	124,563
Shareholders' equity	91,323	128,199	135,101	141,036	147,825	155,145
Minorities	32	327	417	417	417	417
Total shareholders' equity	91,355	128,526	135,519	141,454	148,243	155,562
Net debt	43,606	89,096	92,462	77,201	62,951	52,118

Key Company Metrics

	2015	2016	2017	2018E	2019E	2020E
Sales growth (%)	-9.9	101.9	2.5	3.5	-1.5	0.0
DB EPS growth (%)	-2.6	35.3	7.1	-1.6	-1.4	0.1
EBITDA Margin (%)	80.8	82.0	81.9	81.1	81.2	81.1
EBIT Margin (%)	55.3	56.8	57.4	57.1	56.6	56.5
Payout ratio (%)	68.2	75.5	67.2	65.3	66.2	66.1
ROE (%)	13.0	18.9	16.9	15.9	14.9	14.3
Capex/sales (%)	1.9	4.6	5.1	3.9	3.9	3.9
Capex/depreciation (x)	0.1	0.2	0.2	0.2	0.2	0.2
Net debt/equity (%)	47.7	69.3	68.2	54.6	42.5	33.5
Net interest cover (x)	4.7	4.2	4.9	5.2	6.0	7.0

Source: Company data, Deutsche Bank estimates

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Yangtze Power	600900.SS	15.62 (CNY) 30 Oct 2018	NA

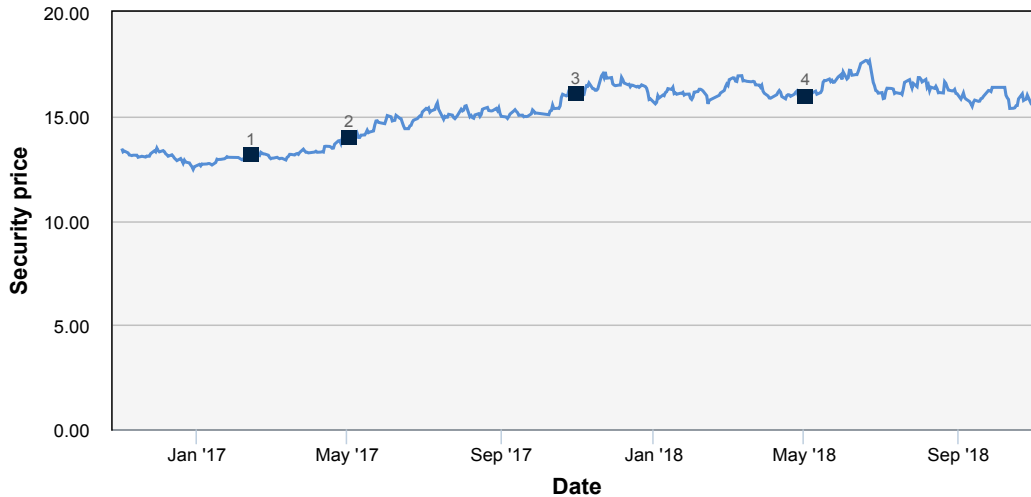
*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations 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 <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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

(as of 10/30/2018)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1.	02/14/2017	Buy, Target Price Change CNY 17.40	Michael Tong, CFA	3.	10/31/2017	Buy, Target Price Change CNY 18.30	Michael Tong, CFA
2.	05/03/2017	Buy, Target Price Change CNY 17.50	Michael Tong, CFA	4.	05/03/2018	Buy, Target Price Change CNY 19.20	Michael Tong, CFA

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Equity Rating Key

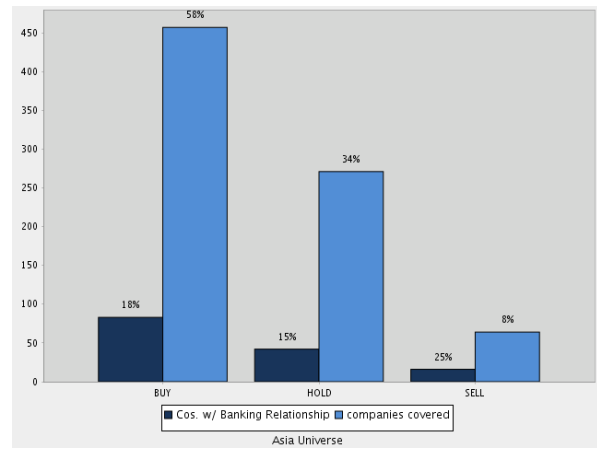
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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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