

Coal-fired power sector retreats on fear of lower-than-expected 2018 on-grid tariff hike

At an internal meeting with some major independent power producers (IPPs), the National Development and Reform Commission (NDRC) revealed its intention to raise the 2018 on-grid tariff of coal-fired power by RMB0.005/kWh, lower than the market expectation of RMB0.01-0.02/kWh*.

The coal-fired power sector has dropped by 3-5% since Tuesday (28 Nov 2017) for worrying that it will be less profitable in 2018.

Note: Under the coal-electricity linkage (CEL) mechanism, the 2018 on-grid tariff of coal-fired power is estimated to hike by RMB0.03-0.04/kWh. After deducting the adjustment of RMB0.01-0.02/kWh, which has been announced by local governments and effective from 1 Jul 2017, the balance is estimated to be RMB0.01-0.02/kWh for 2018.

Our comments

This is not the NDRC's final decision. According to our channel check, the major IPPs are now actively appealing for tariff hikes higher than RMB0.005/kWh, given the tentative proposal is much lower than the estimation under the CEL mechanism, which was set up by the NDRC on 31 Dec 2015.

Coal price gradually declines with slim chance of rebounding in the peak season. Entering into the winter, the coal spot price is abnormally trending downwards under the NDRC's strict administrative measures. The QHD5,500k price is now at RMB615/t, down by RMB10/t from October. Moreover, at the coal trading conference held in Qinhuangdao during 21-23 Nov 2017, the NDRC noted that the coal price currently stays elevated and the government needs to take actions to guide it down to a reasonable range. Thus, we reiterate our view that the coal price will fluctuate between RMB600/t and RMB630/t for the remainder of 2017.

Reiterate profitability improvement in the coal-fired power sector in 2018. We've conducted a rough calculation of the profitability of five HK-listed IPPs assuming that 1) the 2018 on-grid tariff hike is RMB0.005/kWh; and 2) the 2018 on-grid volume of coal-fired power and the coal price are flat from 2017. The result remains positive in that the EPS of these IPPs are estimated grow by 10%-100% YoY, based on their respective comparable base in 2017. Thus, we maintain our BUY rating on Huaneng Power (902.HK, TP: HKD6.00), Datang Power (991.HK, TP: HKD3.30) and China Resources Power (836.HK, TP: HKD16.00).

Figure 1: Peer comparison, price as of 29 November 2017

	Ticker	Rec	Mkt cap		Price	PT	Up/ dn (%)	P/E (x)		P/B (x)		ROE (%)	
			(US\$m)	Ccy				17E	18E	17E	18E	17E	18E
CRP	836 HK	Buy	9,190	HKD	14.92	16.00	7.2	14.1	8.6	1.0	1.0	7.2	11.5
HNP	902 HK	Buy	13,103	HKD	4.99	6.00	20.2	27.4	8.8	0.8	0.8	2.9	8.5
DTP	991 HK	Buy	7,441	HKD	2.55	3.30	29.4	11.8	6.7	0.7	0.6	6.4	9.8
HDP	1071 HK	Hold	5,646	HKD	3.06	3.35	9.5	43.8	7.8	0.6	0.6	1.7	7.9
CPI	2380 HK	Hold	2,624	HKD	2.09	2.80	34.0	12.3	6.4	0.5	0.5	4.5	8.3

Source: Bloomberg, CSCI Research

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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	12-month absolute total return: $\geq 10\%$
Hold	12-month absolute total return: $> -10\%$ but $< 10\%$
Sell	12-month absolute total return: $\leq -10\%$

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