

# China wind

## Still an open road

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Any authors named on this report are research analysts unless otherwise indicated.

# Stocks for action – Overall bullish, prefer equipment manufacturers to operators

- **Positive on sector fundamentals, given:**

- Strong wind power capacity growth ahead, with the 12th FYP wind capacity target of 100/200GW by 2015/20F likely to be beaten (our estimate of 112/210GW).
- Continuous improvement in the wind curtailment issue, with the acceleration of UHV transmission lines' construction and approval, potential release of Renewable Portfolio Standard, as well as other government policies regarding clean energy.

- **Prefer wind equipment to wind farm operators**

- Wind equipment makers as the direct beneficiary with immediate earnings impact for wind power capacity growth.
- Wind farm operators can also benefit from the recovery in wind sector fundamentals, but this requires capex investment first before any earnings contribution, as well as a potential wind power tariff cut.

- **Prefer mixed players given their solid cash inflow and diversified risk portfolio:**

- Quality cash inflows generated from traditional fuel sources (coal/hydro/nuclear) support the rapid growth of renewable business (wind/solar)
- Diversify the policy/climate risk on single fuel source.

- **Stock picks:**

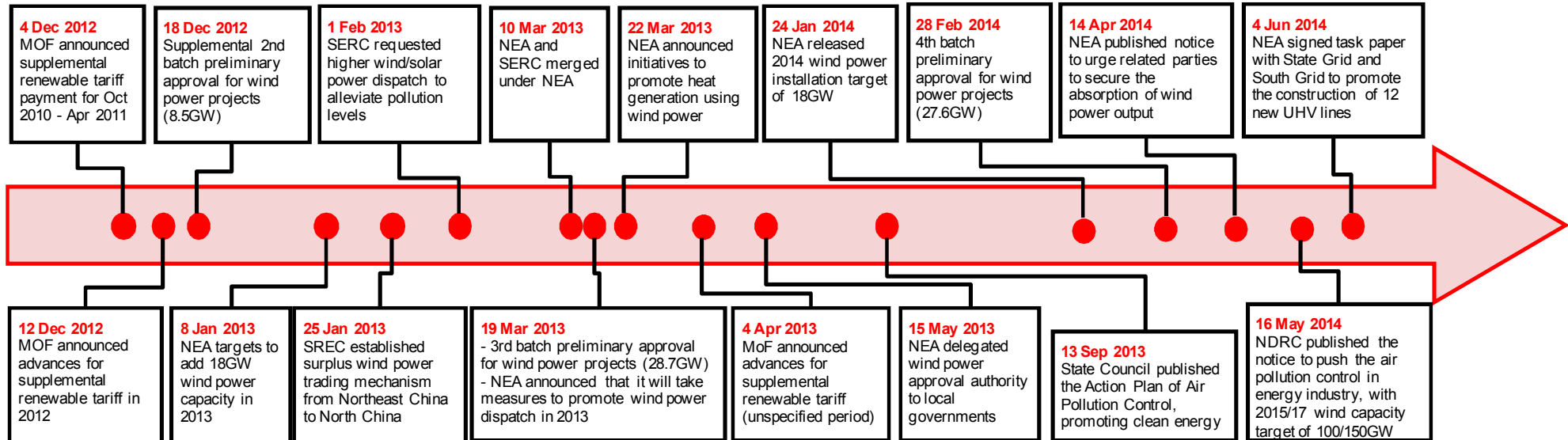
- **CHST (658 HK)** – Positioned as an industrial conglomerate: 1) the recovery of the wind gearbox business with strong sales volume growth ahead (at 23.3% y-y in 2014F); and 2) a turnaround for loss-making new businesses (including CNC and LED sapphire substrates) in 2014F.
- **Huadian Fuxin (816 HK)** – A diversified and well balanced portfolio across different fuel mix (wind, hydro, coal, nuclear, etc.), which is unique in the universe, with strong capacity growth ahead (17.6% 2013-15 CAGR across different fuel types). Relatively low equity financing risk.

## Stocks for action

Company	Ticker	Rating	Price target (HKD)
<b><u>Wind equipment</u></b>			
CHST	658 HK	Buy	7.30
Goldw ind	2208 HK	Buy	9.67
<b><u>Wind operators</u></b>			
Huadian Fuxin	816 HK	Buy	5.30
China Longyuan	916 HK	Buy	9.50
Huaneng RE	958 HK	Buy	2.90
Datang RE	1798 HK	Reduce	1.00

# Continuous governmental support and favorable policies

## China wind: Major sector-specific news flow and regulatory development/proposals

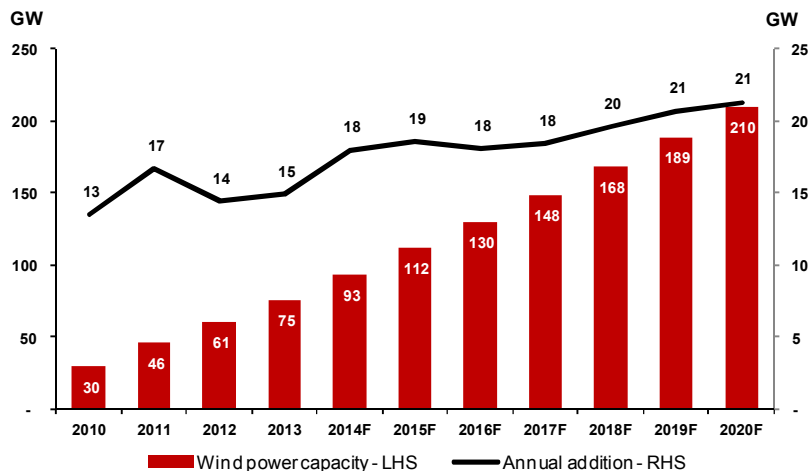


Source: Nomura research

# Wind power installed capacity to maintain its rapid growth, exceeding the government's target

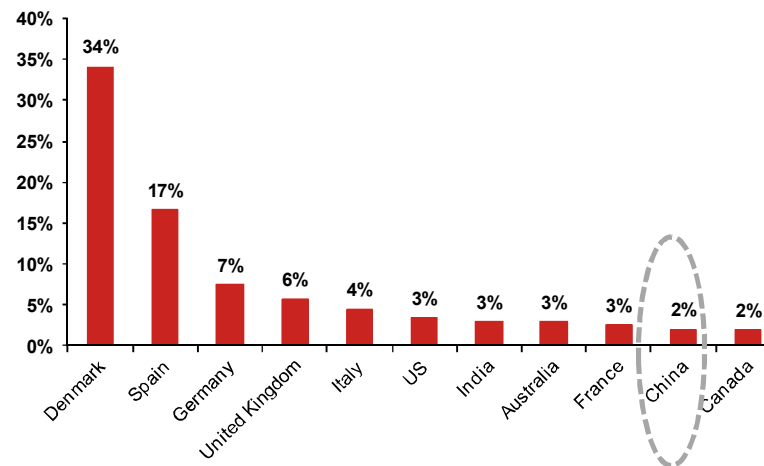
Capacity growth to remain steady; we expect the government target of 100/200GW by 2015/20F to be beaten

China wind: Wind installed capacity growth trends



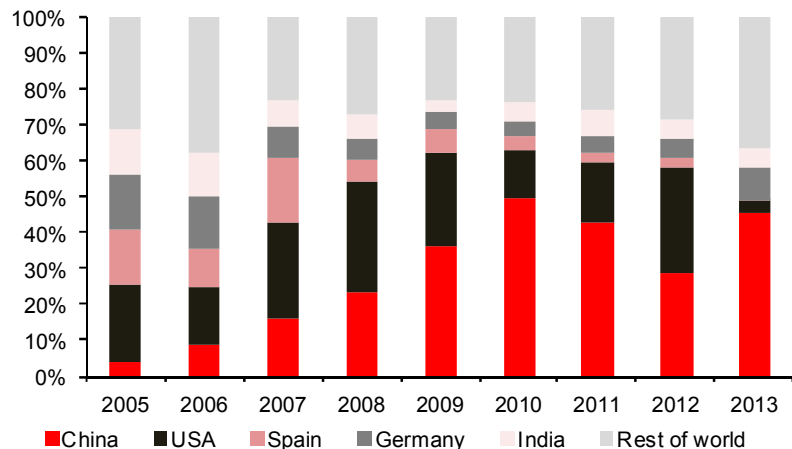
Source: CEC, Nomura estimates

China wind: Comparison of wind to total power generation across the world



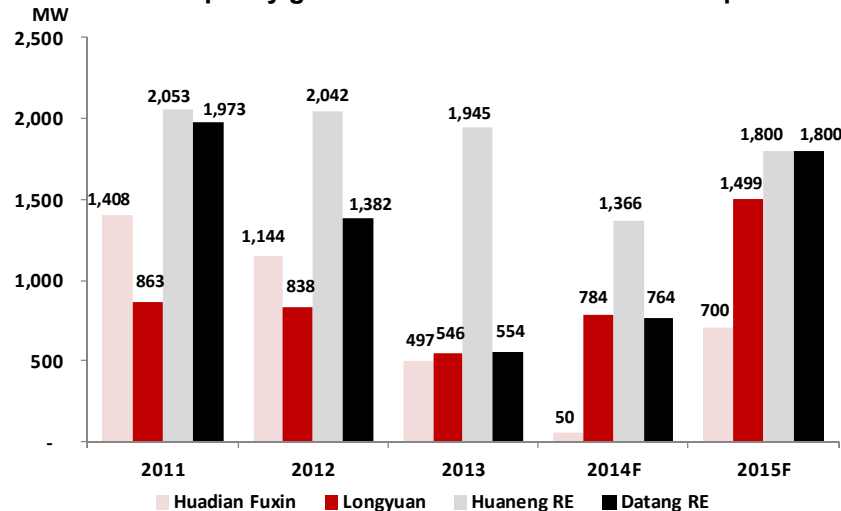
Source: BP Statistics Review, Nomura research

China wind: Shares of global wind farm growth by major country



Source: GWEC, Nomura research

China wind: Capacity growth estimates of our covered operators

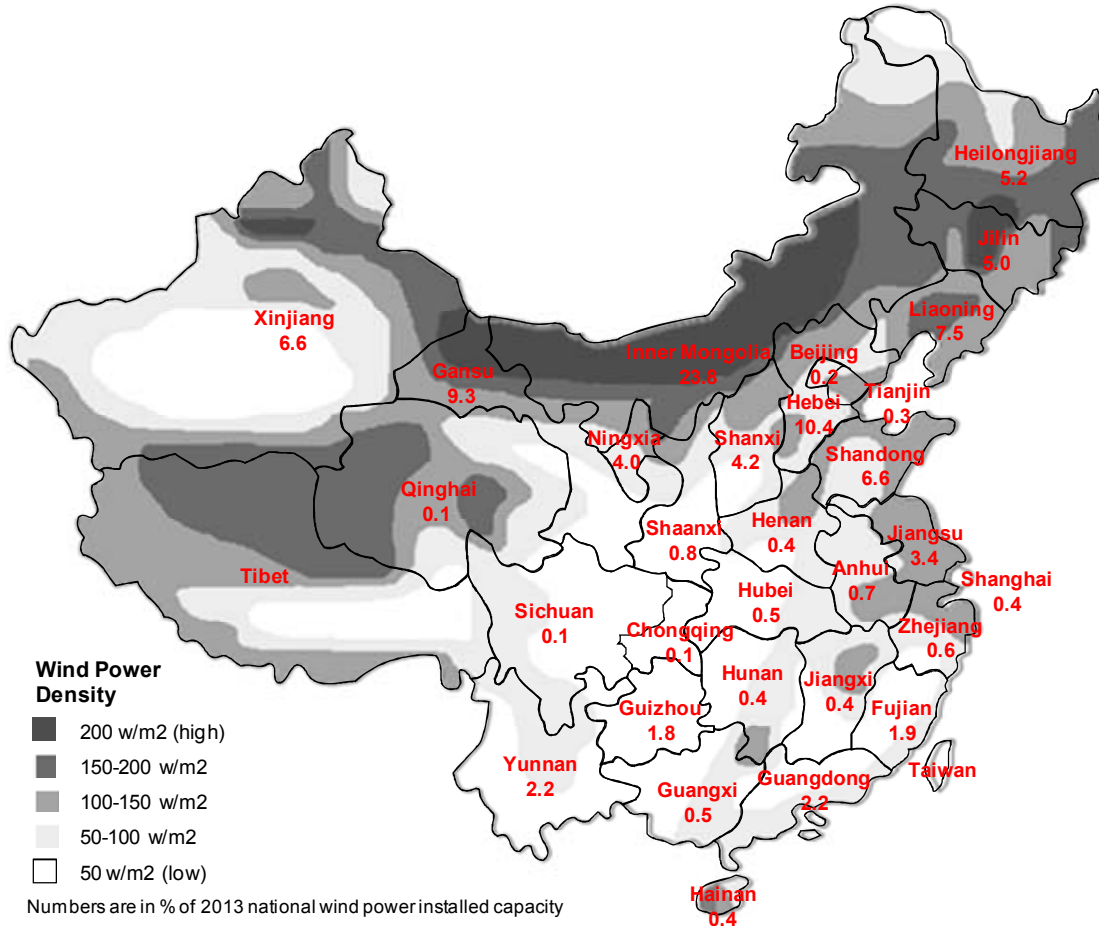


Source: Company data, Nomura estimates

# From North to South - The geographical mix of wind capacity growth tilted

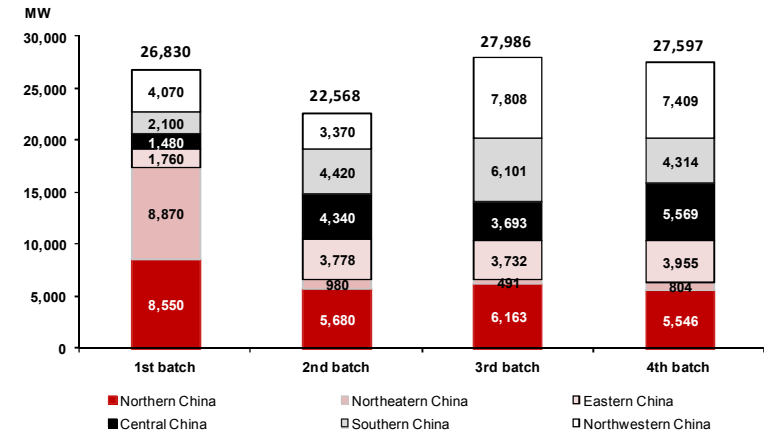
To avoid curtailment, and to enjoy the higher FIT, wind capacity addition has gradually migrated to southern regions such as Yunnan, Guizhou, Guangdong, Fujian provinces.

China wind: Map of China's wind resources and each provinces' share of China's total 75.5GW end-2013 cumulative wind installed capacity



Source: CEC, GWEC, Nomura research

China wind: Total 4 batches of preliminary approved projects breakdown by regions



Source: NEA, CEC, Nomura research

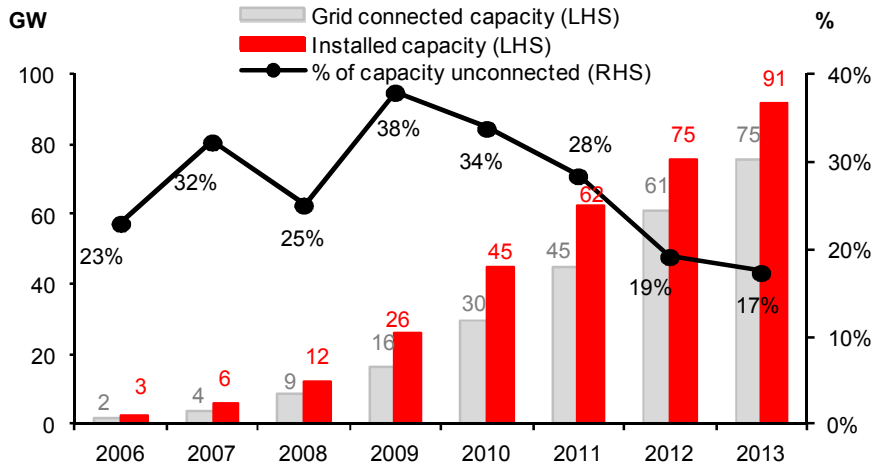
China wind: Capacity growth by regions – 2013 and 1Q14

Region	2013 Capacity growth	1Q14 Capacity growth
Northern China	17.8%	4.4%
Northeastern China	13.8%	2.6%
<b>Eastern China</b>	<b>32.3%</b>	<b>5.6%</b>
<b>Central China</b>	<b>125.0%</b>	<b>22.4%</b>
<b>Southern China</b>	<b>39.1%</b>	<b>4.0%</b>
Northern China	32.0%	12.8%

Source: CEC, Nomura research

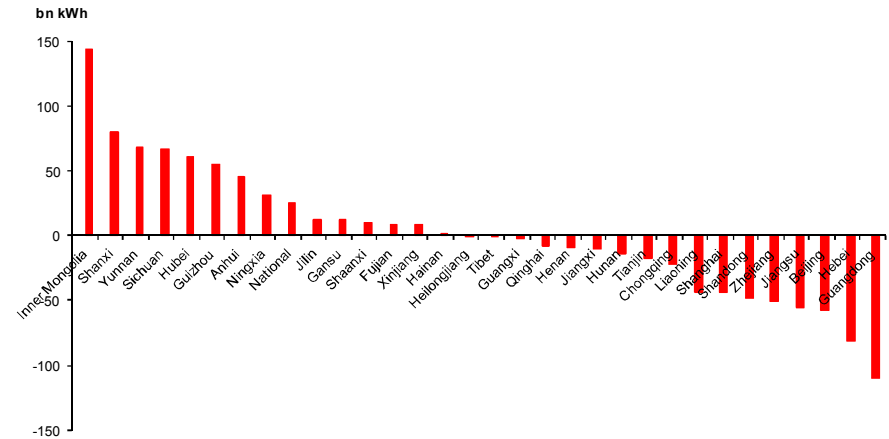
# Wind supply and demand analysis

China wind: National installed and grid connected wind power generation capacity (2006-2013)



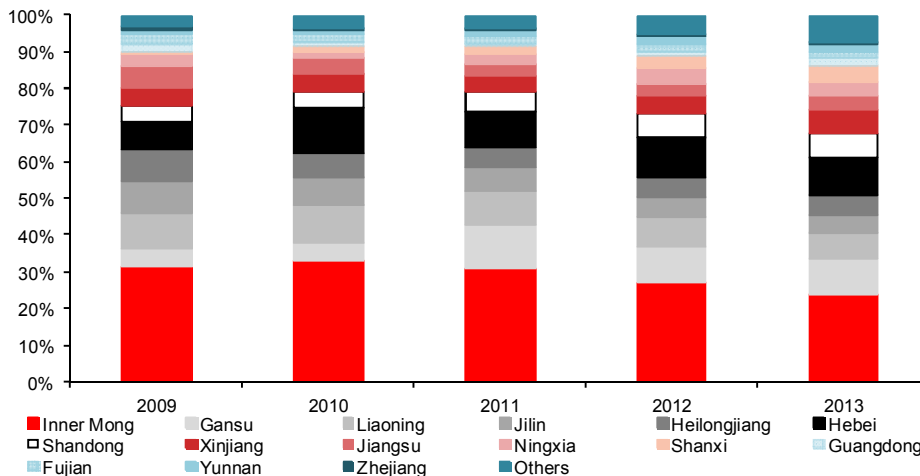
Source: GWEC, CEC, Nomura research

China: Power generation surplus over local power demand by province (2013)



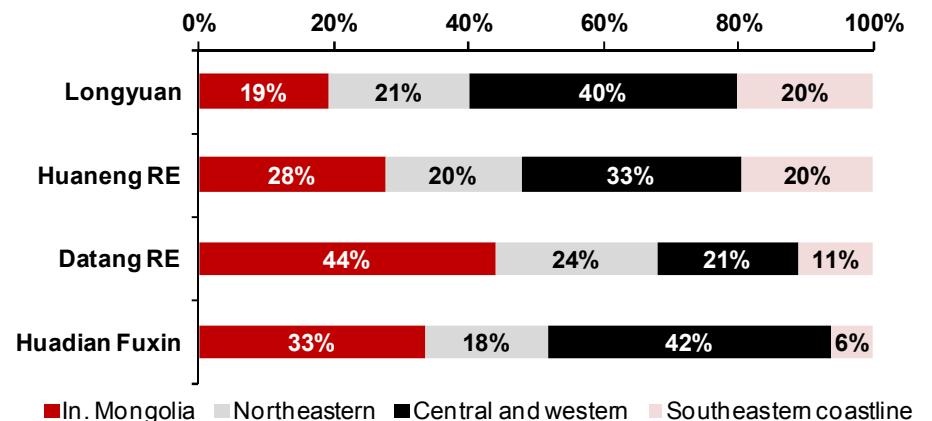
Source: CEC, Nomura research

China wind : Annual wind farm installations by province (2009-13)



Source: CEC, Nomura research

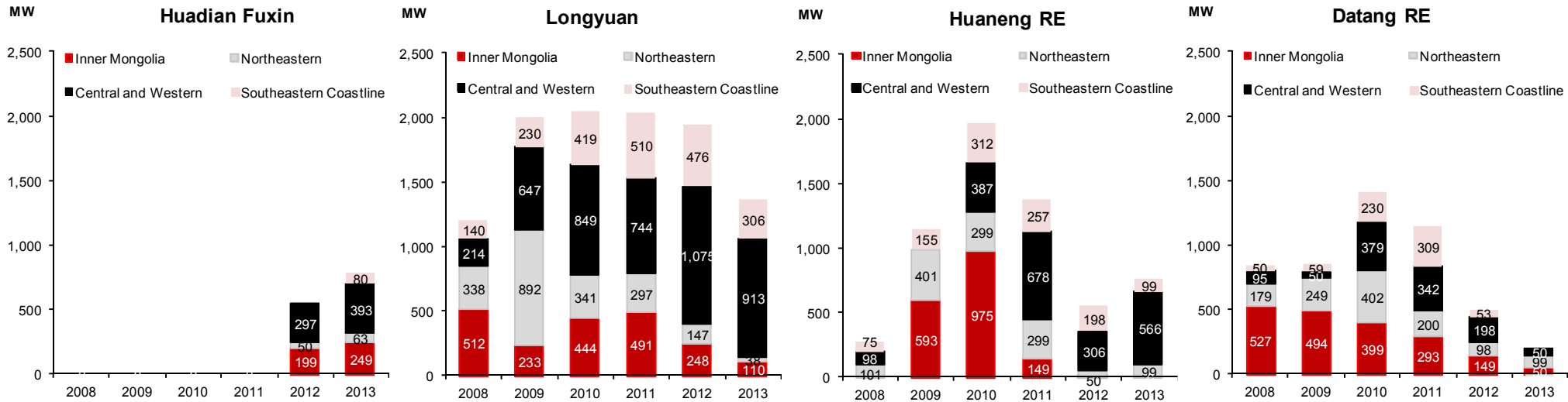
China wind: Wind farm operators current installed capacity by region



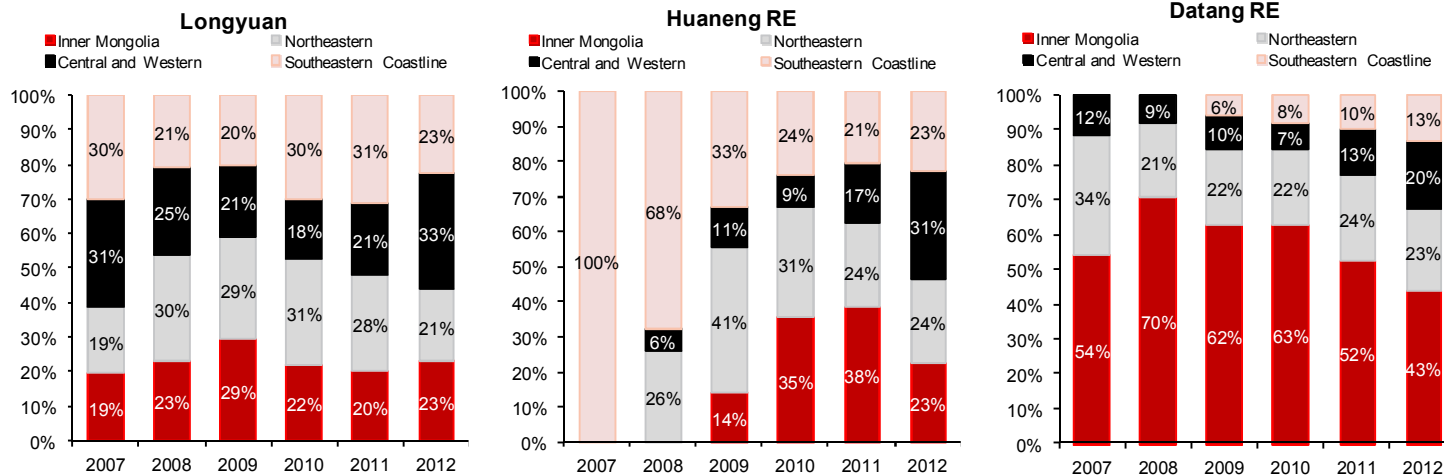
Source: NDRC, Nomura research

# Wind farm operators' strategy – Heading south

China wind: Annual wind capacity installation by region



China wind: Annual wind power generation mix by region

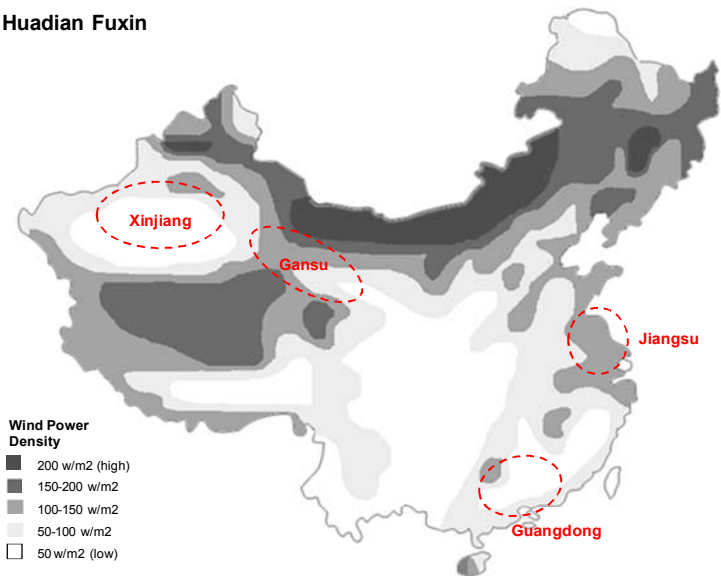


Note: Huadian Fuxin does not disclose its annual power generation by regions  
 Source: Company data, Nomura research

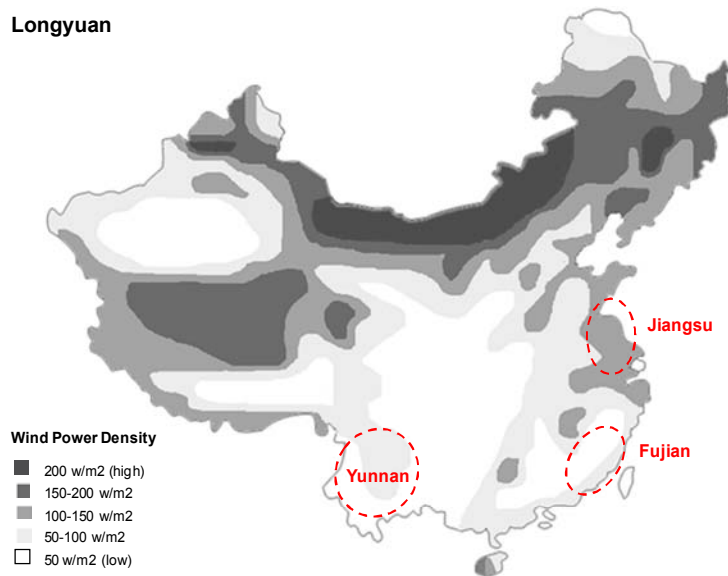
# Wind farm operators' strategy – Heading south

China wind: Wind farm operators' guidance on near-term focus areas

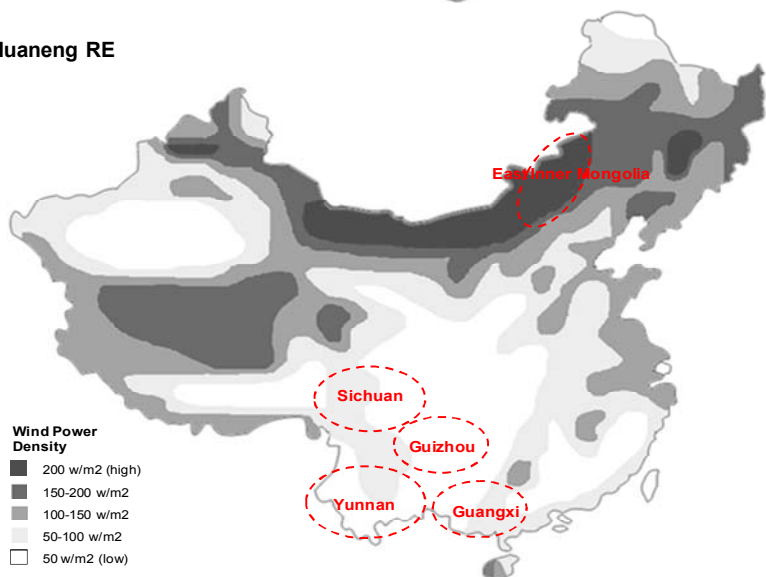
Huadian Fuxin



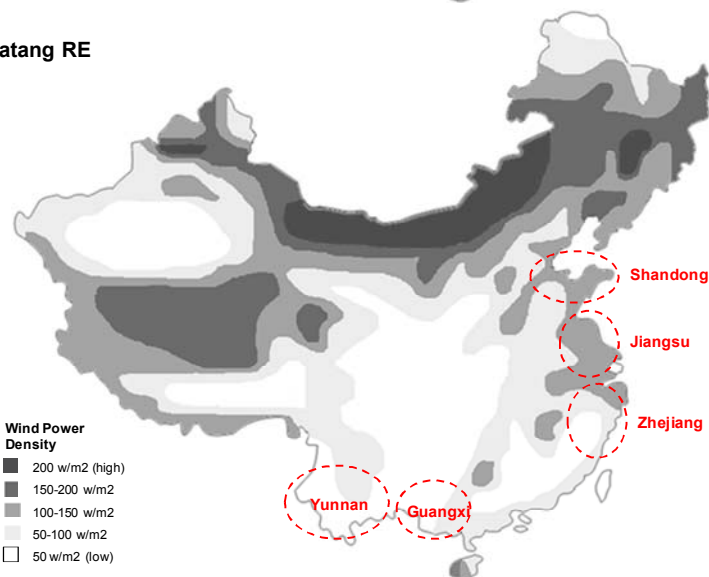
Longyuan



Huaneng RE



Datang RE

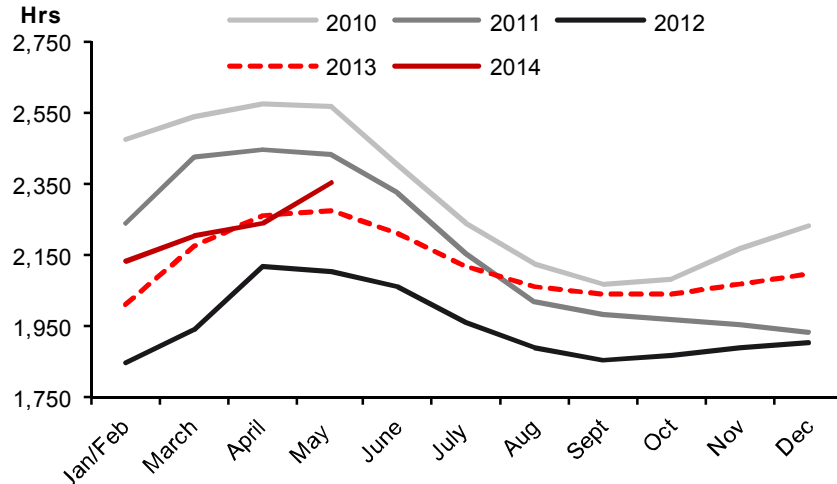


Source: Company data, Nomura research



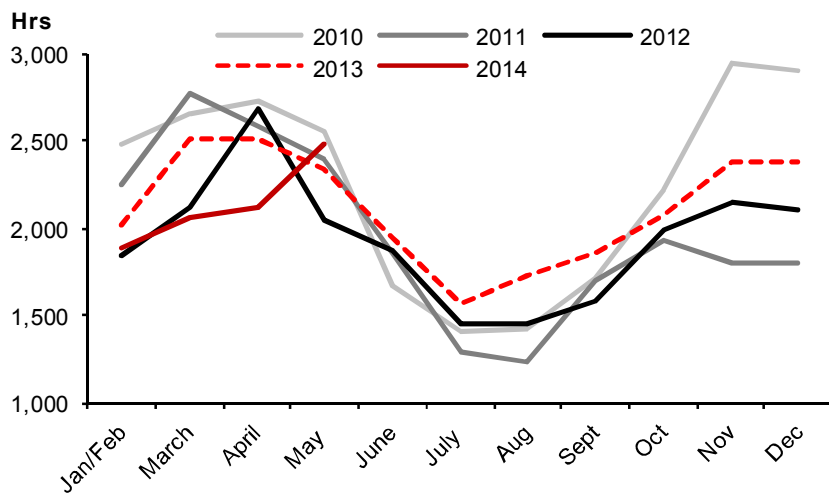
# Wind utilisation recovered robustly in 2013 from 2012 lows... and likely to be stable in 2014F

## China wind: YTD (annualised) wind farm utilisation



Source: CEC, Nomura research

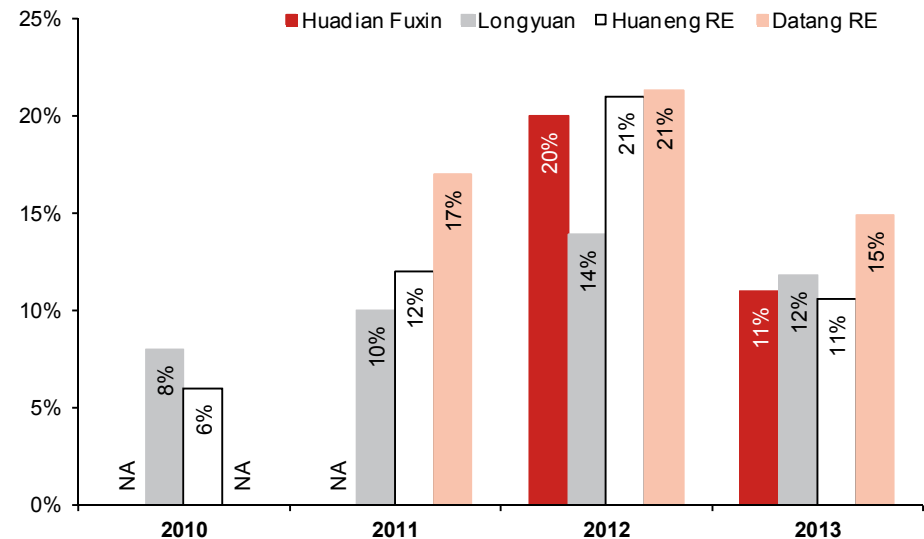
## China wind: Monthly (annualised) wind farm utilisation



Source: CEC, Nomura research

- Weak wind speed in 4M14; but seeing recovery since May
- Policy and infrastructure initiatives
  - NEA's notice to ensure the wind power absorption in 2014
  - Excess wind power generation trading system

## PRC wind farm operators' reported wind power curtailment ratios



Source: Company data, Nomura research

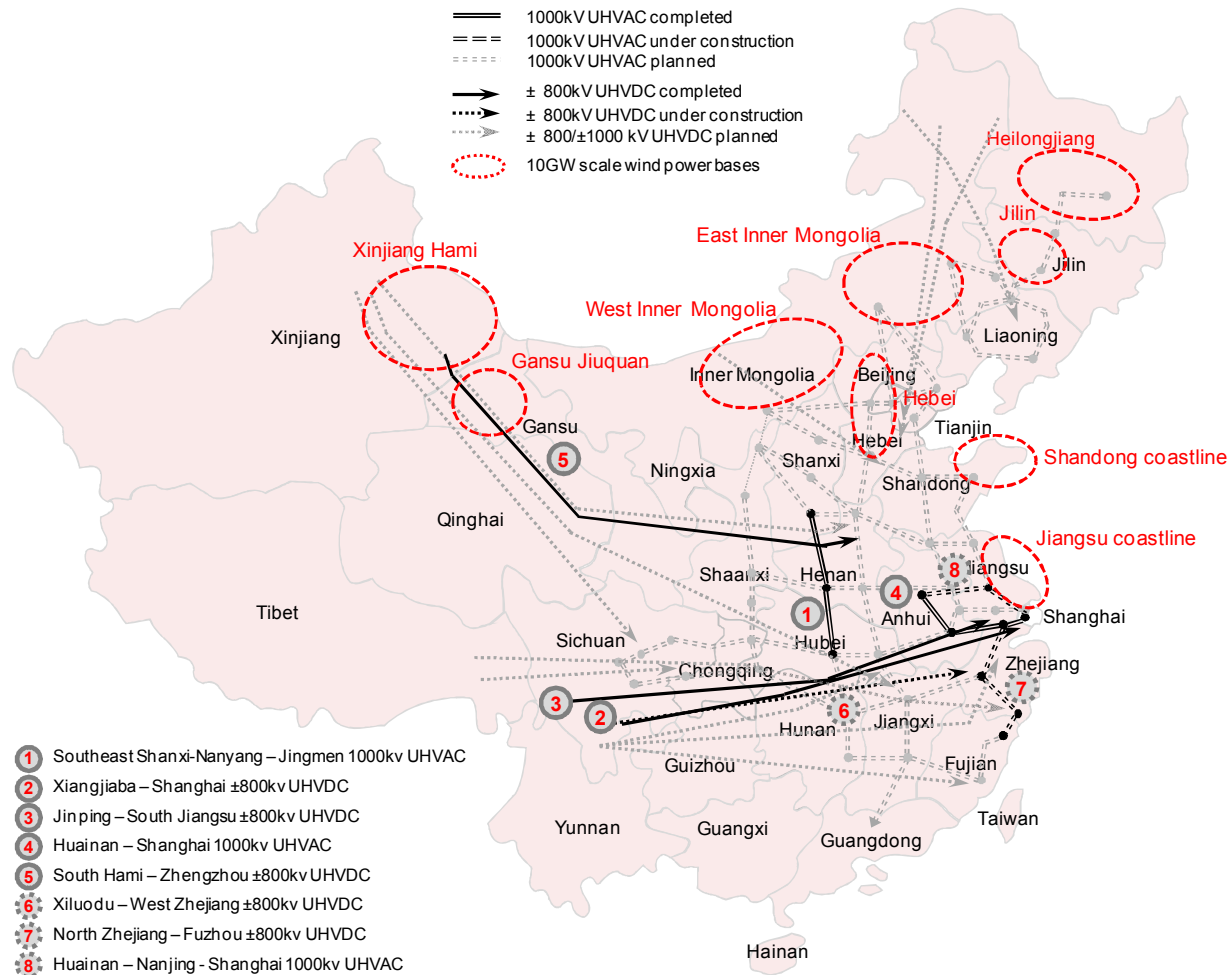


# UHV grid lines – Construction accelerating

The build-out of China’s power transmission infrastructure is of crucial importance to the wind power industry...

After years’ of debate on the applied technology, the central government seems to have made its decision and preliminary approved a whole pack of 12 UHV grid lines to be built in the next 3-5 years in early 2014

China: UHV grid expansion plans before 2020



Source: NDRC, NEA, State Grid, Nomura research

China: Details of the 12 UHV lines preliminary approved

Transmission lines	Type	Voltage	Transmission for
Ningxia - Zhejiang	DC	±800kv	Wind power
Shanghaimiao - Shandong	DC	±800kv	Wind power
Ximeng - Jiangsu	DC	±800kv	Wind power
Ximeng - Shandong	AC	1000kv	Wind power
West Inner Mongolia - South Tianjin	AC	1000kv	Wind power
Suizhong - Northern China Grid	DC	±500kv	Coal-fired
Shanxi - Hebei	DC	±500kv	Coal-fired
Shenmu - Hebei	DC	±500kv	Coal-fired
Shanxi - Zhejiang	DC	±800kv	Coal-fired
Huainan - Nanjing - Shanghai*	AC	1000kv	Coal-fired
Yuheng - Weifang	AC	1000kv	Coal-fired
Lijiang - Shenzhen	DC	±800kv	Coal-fired, Hydropower

Source: NEA, State Grid, Nomura research

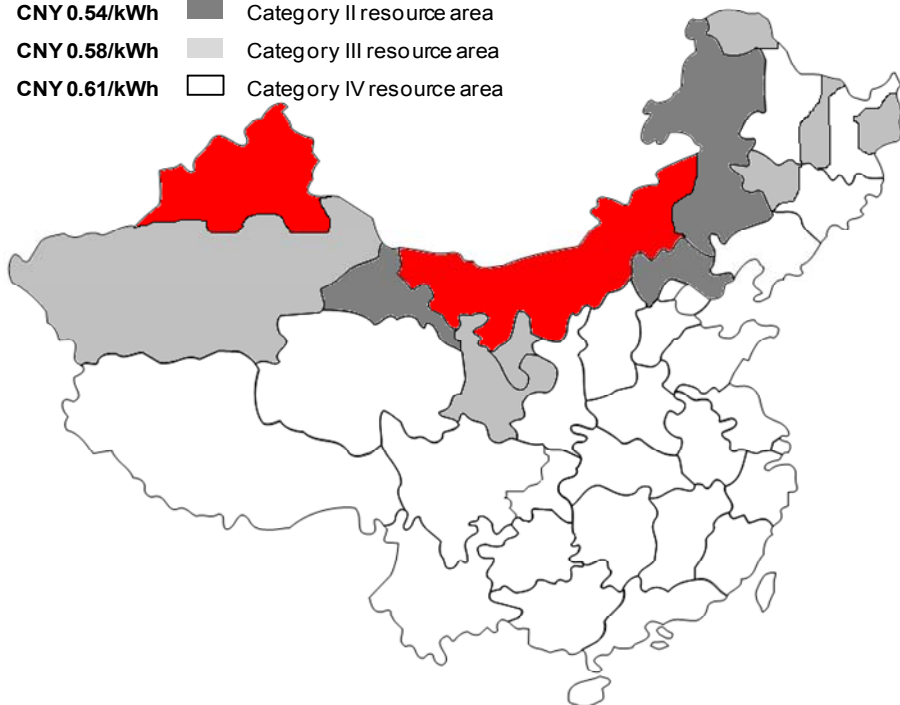
# Wind tariff – Generally stable but may see tariff cut for newly installed projects

We expect FiT for wind power will see a gradual decline – to be cut by 5% every two years starting from 2015F to 2020F, given:

- The central government targets to reach grid-parity by 2020F;
- The decline in equipment cost;
- The further improvement of curtailment issue.

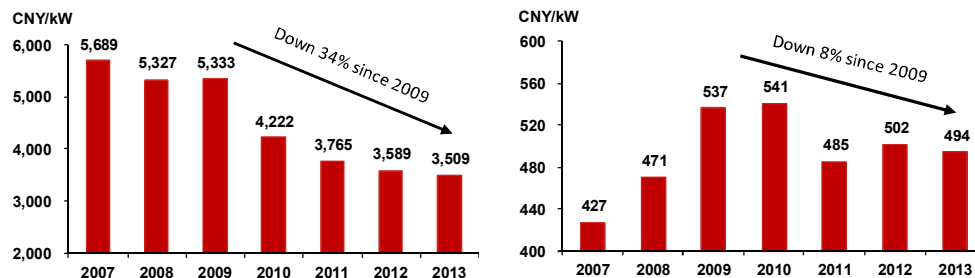
## China: The current four-tier wind FiT by region (incl. VAT)

- CNY 0.51/kWh ■ Category I resource area
- CNY 0.54/kWh ■ Category II resource area
- CNY 0.58/kWh ■ Category III resource area
- CNY 0.61/kWh □ Category IV resource area



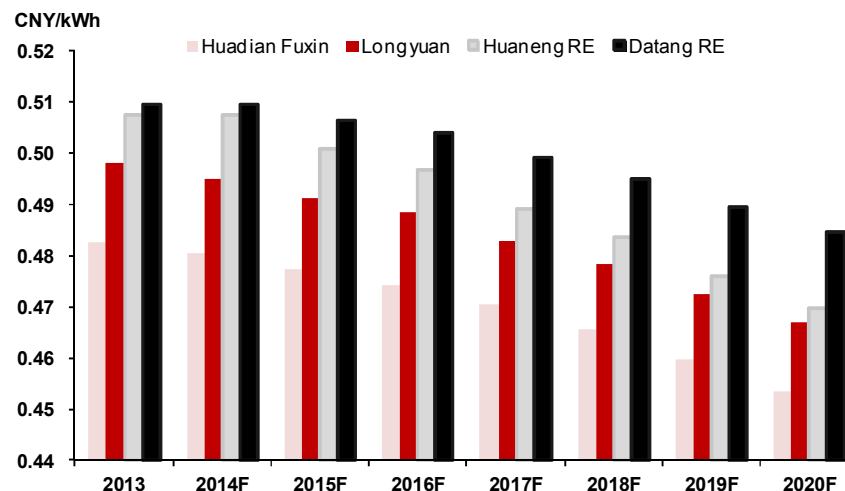
Source: China wind power outlook (2010), Nomura research

## Goldwind: Trend of 1.5MW WTG ASP CHST: Trend of 1.5MW gearbox ASP



Source: Company data, Nomura research

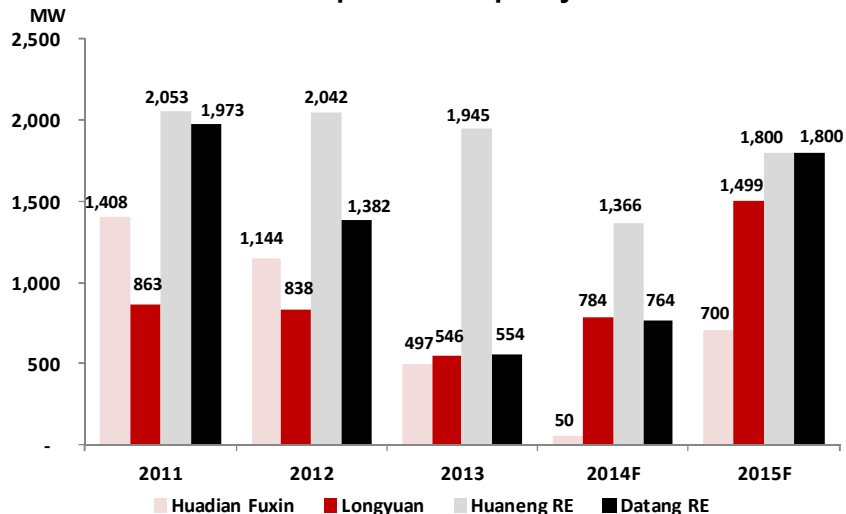
## China wind: Wind operators' blended wind tariffs (ex VAT)



Source: Company data, Nomura research

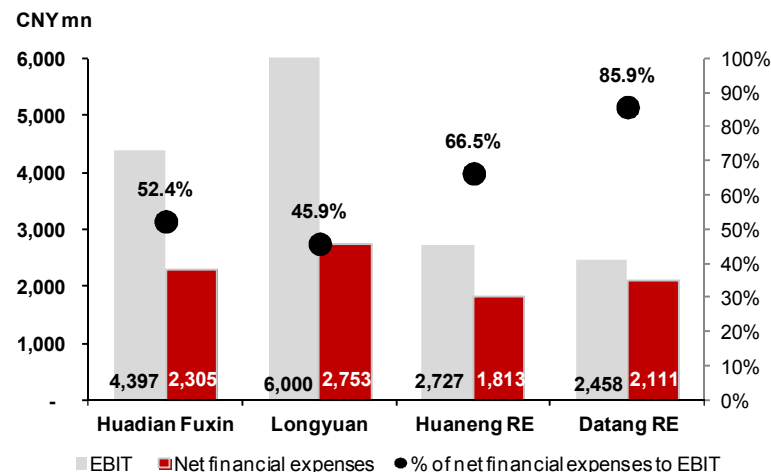
# A trade-off between capacity growth and gearing / dilution risk

China wind: Wind farm operators' capacity addition – 2011-15F



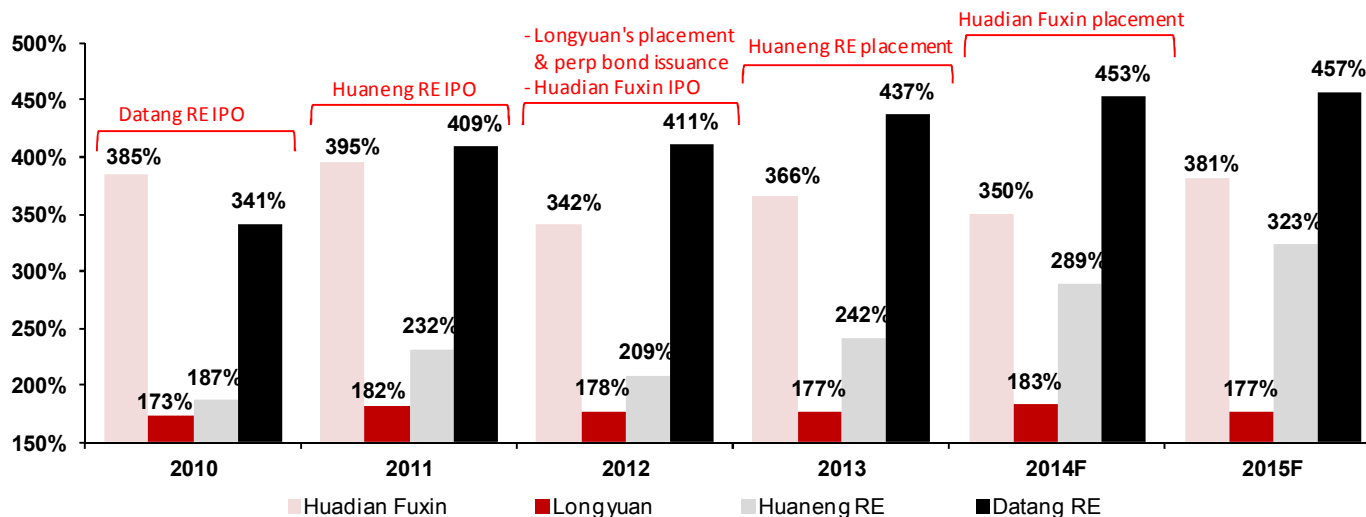
Source: Company data, Nomura estimates

China wind: Wind farm operators' financial expenses to EBIT - 2013



Source: Company data, Nomura research

PRC wind farm operators: Net D/E profiles



Source: Company data, Nomura research

# R&M cost will surge due to the increasing out-of-warranty WTGs, while remains a relatively small portion

## China wind: Wind farm operators' cost breakdown – 2012-15F

	2012	y-y	2013	y-y	2014F	y-y	2015F	y-y	2012-15F CAGR
<b>Huadian Fuxin</b>									
- Depreciation	(1,798)	44.5%	(2,175)	21.0%	(2,592)	19.2%	(3,166)	22.1%	20.8%
- Fuel cost	(4,107)	104.4%	(4,362)	6.2%	(4,381)	0.4%	(4,883)	11.5%	5.9%
- Labor	(801)	21.1%	(955)	19.3%	(1,139)	19.2%	(1,322)	16.1%	18.2%
<b>- R&amp;M</b>	<b>(335)</b>	<b>99.3%</b>	<b>(440)</b>	<b>31.3%</b>	<b>(524)</b>	<b>19.2%</b>	<b>(609)</b>	<b>16.1%</b>	<b>22.0%</b>
- Administration	(430)	89.8%	(415)	-3.5%	(494)	19.2%	(574)	16.1%	10.1%
- Financial expenses	(1,905)	58.6%	(2,305)	21.0%	(2,538)	10.1%	(3,016)	18.8%	16.6%
- Others	(451)	219.2%	(217)	-51.9%	167	na	736	na	na
<b>Total</b>	<b>(9,826)</b>	<b>73.9%</b>	<b>(10,869)</b>	<b>10.6%</b>	<b>(11,501)</b>	<b>5.8%</b>	<b>(12,833)</b>	<b>11.6%</b>	<b>9.3%</b>
<b>Total expenses / revenue</b>	<b>86.6%</b>	<b>8.9ppt</b>	<b>82.1%</b>	<b>-4.5ppt</b>	<b>77.3%</b>	<b>-4.8ppt</b>	<b>73.7%</b>	<b>-3.6ppt</b>	

	2012	y-y	2013	y-y	2014F	y-y	2015F	y-y	2012-15F CAGR
<b>Longyuan</b>									
- Depreciation	(3,697)	29.9%	(4,391)	18.8%	(5,030)	14.5%	(5,680)	12.9%	15.4%
- Fuel cost	(5,824)	-14.0%	(5,086)	-12.7%	(4,792)	-5.8%	(4,726)	-1.4%	-6.7%
- Labor	(925)	20.3%	(1,115)	20.5%	(1,193)	7.0%	(1,244)	4.3%	10.4%
<b>- R&amp;M</b>	<b>(305)</b>	<b>20.2%</b>	<b>(521)</b>	<b>71.0%</b>	<b>(538)</b>	<b>3.2%</b>	<b>(667)</b>	<b>24.0%</b>	<b>29.8%</b>
- Administration	(402)	36.6%	(396)	-1.3%	(448)	13.2%	(444)	-0.9%	3.4%
- Financial expenses	(2,485)	61.8%	(2,753)	10.8%	(2,755)	0.1%	(3,257)	18.2%	9.4%
- Others	(390)	15.4%	(980)	151.5%	(677)	-30.9%	(676)	-0.2%	20.1%
<b>Total</b>	<b>(14,027)</b>	<b>9.5%</b>	<b>(15,242)</b>	<b>8.7%</b>	<b>(15,432)</b>	<b>1.2%</b>	<b>(16,694)</b>	<b>8.2%</b>	<b>6.0%</b>
<b>Total expenses / revenue</b>	<b>81.1%</b>	<b>1.9ppt</b>	<b>79.7%</b>	<b>-1.4ppt</b>	<b>74.7%</b>	<b>-5.0ppt</b>	<b>74.1%</b>	<b>-0.6ppt</b>	

	2012	y-y	2013	y-y	2014F	y-y	2015F	y-y	2012-15F CAGR
<b>Huaneng RE</b>									
- Depreciation	(1,612)	37.9%	(1,931)	19.8%	(2,223)	15.1%	(2,799)	25.9%	20.2%
- Labor	(151)	28.0%	(205)	36.0%	(268)	30.5%	(331)	23.4%	29.9%
<b>- R&amp;M</b>	<b>(50)</b>	<b>68.3%</b>	<b>(91)</b>	<b>80.7%</b>	<b>(96)</b>	<b>5.0%</b>	<b>(168)</b>	<b>76.3%</b>	<b>49.6%</b>
- Administration	(127)	7.7%	(146)	15.4%	(191)	30.5%	(236)	23.4%	22.9%
- Financial expenses	(1,530)	50.2%	(1,813)	18.5%	(2,206)	21.7%	(2,931)	32.9%	24.2%
- Others	(104)	12.8%	(420)	303.8%	(202)	-51.8%	(265)	31.4%	36.7%
<b>Total</b>	<b>(3,574)</b>	<b>40.4%</b>	<b>(4,607)</b>	<b>28.9%</b>	<b>(5,185)</b>	<b>12.6%</b>	<b>(6,730)</b>	<b>29.8%</b>	<b>23.5%</b>
<b>Total expenses / revenue</b>	<b>88.8%</b>	<b>9.1ppt</b>	<b>79.5%</b>	<b>-9.3ppt</b>	<b>77.0%</b>	<b>-2.5ppt</b>	<b>76.1%</b>	<b>-0.9ppt</b>	

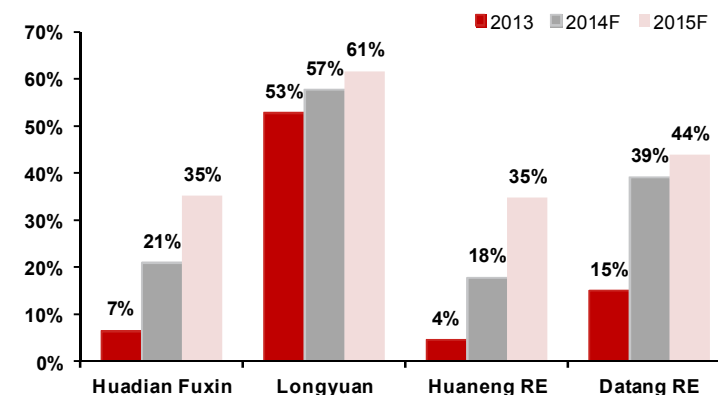
	2012	y-y	2013	y-y	2014F	y-y	2015F	y-y	2012-15F CAGR
<b>Datang RE</b>									
- Depreciation	(1,857)	36.4%	(2,201)	18.5%	(2,445)	11.1%	(2,716)	11.1%	13.5%
- Labor	(265)	41.1%	(353)	33.2%	(295)	-16.3%	(328)	11.0%	7.3%
<b>- R&amp;M</b>	<b>(83)</b>	<b>19.6%</b>	<b>(121)</b>	<b>45.6%</b>	<b>(175)</b>	<b>45.0%</b>	<b>(223)</b>	<b>27.0%</b>	<b>38.9%</b>
- Material costs	(24)	-21.0%	(65)	171.7%	(46)	-29.2%	(51)	11.0%	28.7%
- Financial expenses	(1,934)	46.8%	(2,111)	9.2%	(2,171)	2.8%	(2,387)	10.0%	7.3%
- Others	(294)	19.8%	(374)	27.1%	(390)	4.3%	(440)	12.8%	14.4%
<b>Total</b>	<b>(4,457)</b>	<b>38.8%</b>	<b>(5,224)</b>	<b>17.2%</b>	<b>(5,522)</b>	<b>5.7%</b>	<b>(6,144)</b>	<b>11.3%</b>	<b>11.3%</b>
<b>Total expenses / revenue</b>	<b>102.0%</b>	<b>18.2ppt</b>	<b>92.8%</b>	<b>-9.2ppt</b>	<b>91.9%</b>	<b>-0.8ppt</b>	<b>90.7%</b>	<b>-1.2ppt</b>	

Source: Company data, Nomura research

## Why R&M cost will surge?

- A typical warranty period for WTG is 3-5 years;
- Generally, it will cost 3-4 times for R&M expenses when a WTG's warranty is expired.

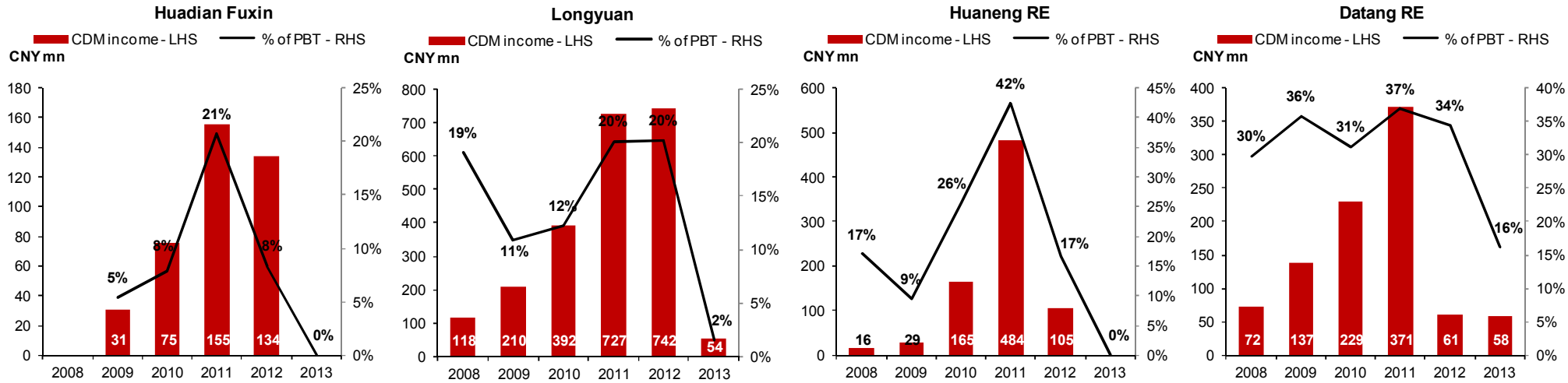
## China wind farm operators: Proportion of out-of-warranty WTG



Source: Company data, Nomura research

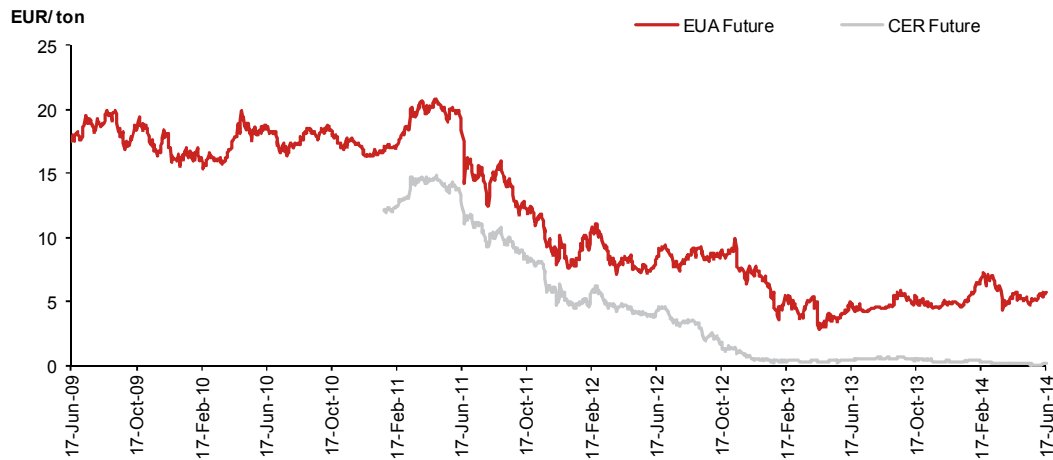
# CDM income – An old-time fairy tale

## Wind farm operators: CDM income profiles and contribution to PBT



Source: Company data, Nomura research

## CER and EUA price trends

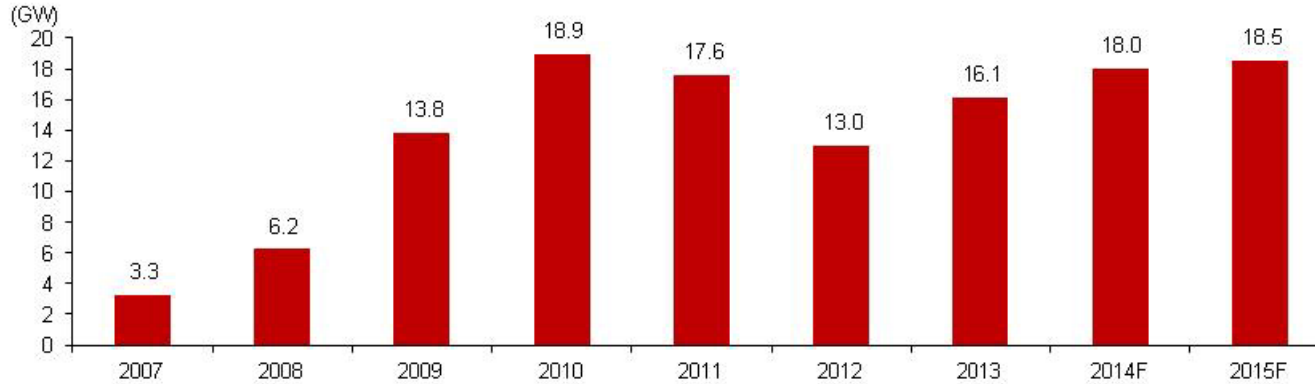


Source: Bloomberg, Nomura research

# Wind equipment – Anticipating a recovery

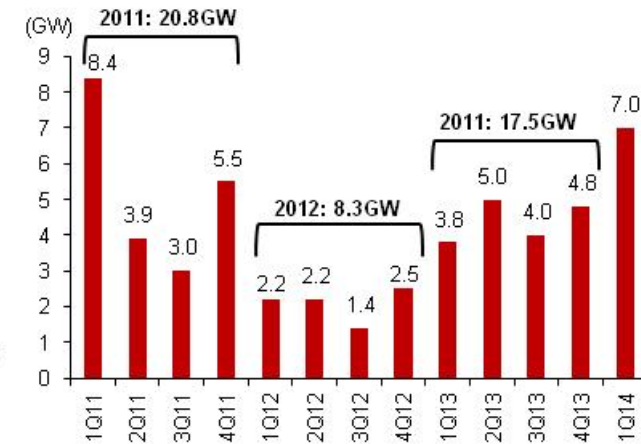
We forecast a strong recovery trend for both WTGs and wind gearboxes, with WTG installations of 18GW/18.5GW for 2014F/15F, similar to the NEA targets; and stable ASP

## Gross wind farm capacity installation trends and assumptions

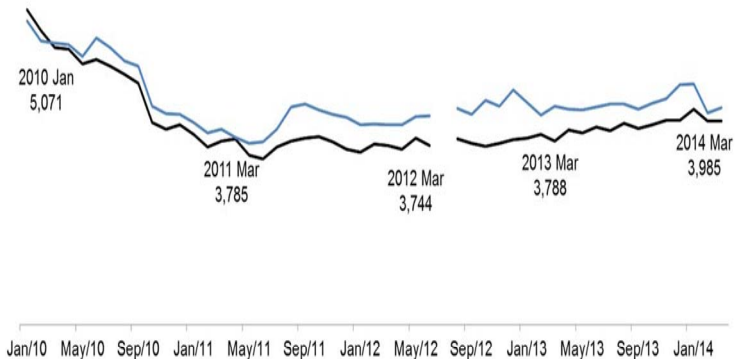


Source: CWEA, Company data, Nomura estimates

## WTG public tender trend



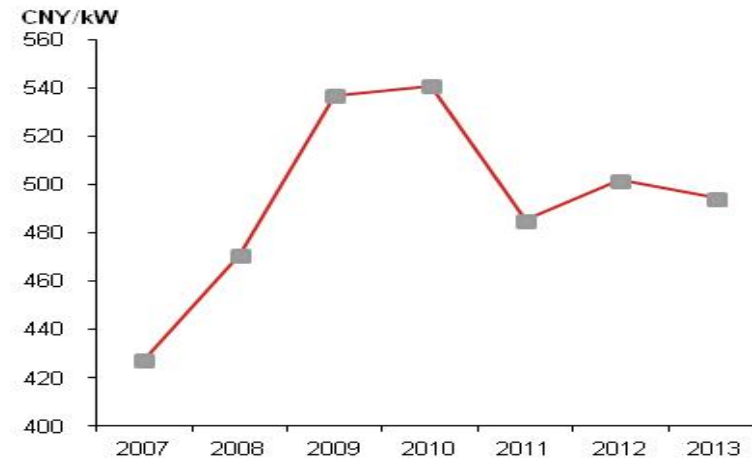
## China: Annual and quarterly 1.5MW WTG ASP trends



Note: The ASPs above reflect average industry-wide bidding prices at a point in time as opposed to the prices associated with WTG's installations in a particular year

Source: Goldwind, Nomura research

## CHST's gearbox ASP trends



Source: CHST, Nomura research



# China High Speed Transmission (658 HK, Buy)

## ■ Positioned as an industrial conglomerate

- Diversified business with six segments, namely: 1) gearbox (including wind, traditional, high-speed locomotives, etc); 2) marine gearbox; 3) computer numerical controlled (CNC) system; 4) coal mining machinery; 5) light-emitting diode (LED) sapphire substrates; and 6) mechatronics.

## ■ Wind gearbox: On a strong recovery trend with sales volume to grow 23.3% y-y in 2014F

- **Domestic market:** 15%-plus sales volume growth given the improving wind power generating environment in China since 2H13
- **Overseas market:** 50% sales volume growth due to the strong demand from GE in the US.

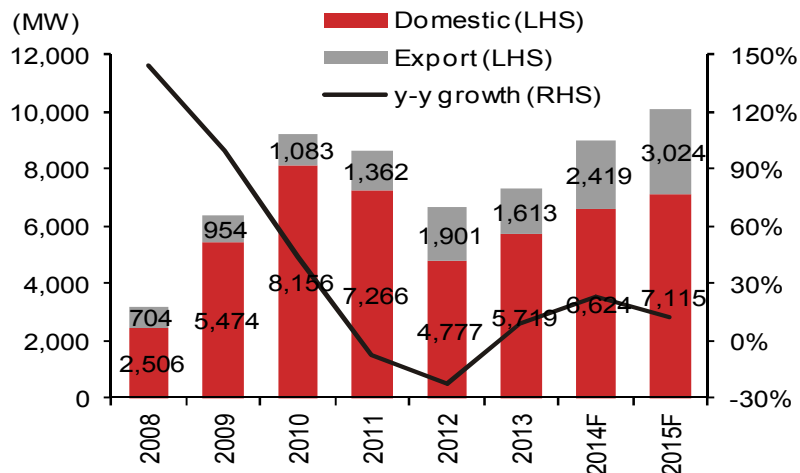
## ■ New businesses (CNC, coal mining machines and LED): we expect to see a turnaround

- **CNC:** marginally breakeven in 2013FY, and expecting a slight profit in 2014F.
- **Coal mining machines:** remain cautious given the challenging environment.
- **LED:** At early stage of the business with loss making situation in 2013FY, but CHST is expecting the business to break even or achieve a slight profit in 2014F when it achieves economies of scale (current production at ~0.3mn units / month vs. end-2014F target of 0.8mn units / month).

## ■ Valuation: Attractive valuation vs peers

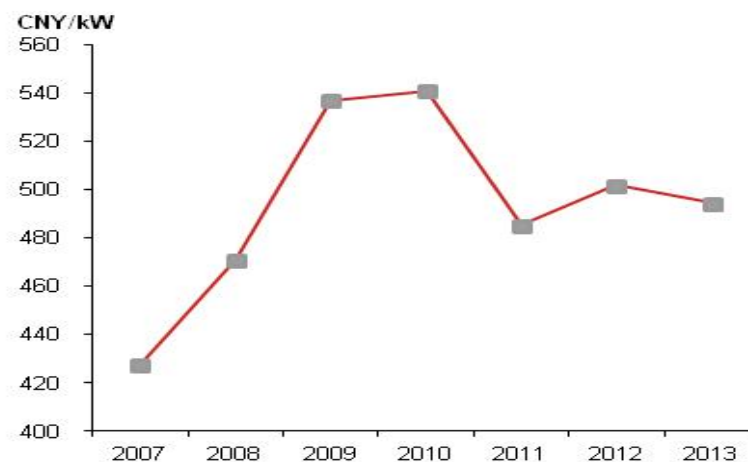
- At HKD5.42, the stock is trading at attractive 2014F P/E and P/B of 15.6x and 0.8x, respectively, vs Goldwind (2208 HK, Buy) at 26.0x P/E and 1.4x P/B.

### CHST: Wind gearboxes sales volume (2008-15F)



Source: CWEA, NEA, Company data, Nomura estimates

### CHST's gearbox ASP trends



Note: The ASPs disclosed are blended across both domestic and export sales and exclude PRC VAT at 17%

# Xinjiang Goldwind (2208 HK, Buy)

## ■ WTG sales: a direct beneficiary of expected wind power market rebound

- **Solid WTG sales volume growth** due to: 1) most of the wind farm projects approved by the NEA under the four batches are still pending construction; 2) Goldwind has a homefield advantage in the Hami Wind Farm Project Phase II; 3) we see mid- to long-term potential for offshore wind farm development; and 4) the NEA also targets 18GW of new wind installed capacity in 2014, up 11.8% y-y from 16.1GW in 2013.

- **Limited upside potential in margin expansion:** the ASP for wind turbines to remain flattish to slightly, with limited cost reduction esp. for 1.5MW WTGs

## ■ Wind power services: only a small earnings contributor

- 20% revenue growth and a slight pick up in GPM given revenue mix will shift to higher-margin maintenance service instead of lower-margin EPC.
- **Limited opportunity from ex-warranty installed base,** given: 1) usually only wind farms installed with Goldwind's wind turbines will use Goldwind's maintenance services; and 2) many mid-to-large wind farm operators have already set up their own internal teams for maintenance.

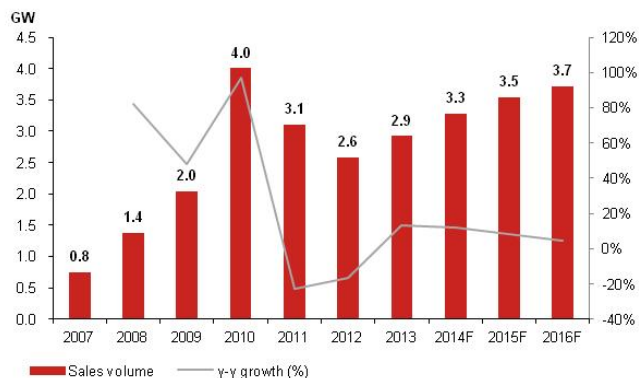
## ■ Wind farm development: gaining importance as a wind farm operator

- 700MW new capacity each year for 2014-15F, thanks to 3.1GW project pipeline under the four batch of NEA approvals
- The company will pursue more on a "build-and-operate" strategy instead of a "build-and-sell" strategy

## ■ Valuation: High valuation justified, but CHST is our preferred play

- Trading at 2014F P/E of 26.0x and P/B of 1.4x, Goldwind shares are at a premium valuation to peers and more specifically to wind equipment peer CHST, which trades at 15.6x P/E and 0.8x P/B. We believe the high valuation is justified by a three-year EPS CAGR of 37.3%. Buy.

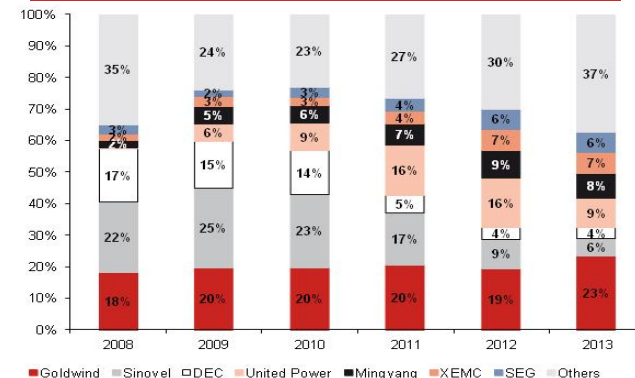
**Goldwind: WTG sales volume (2007-16F)**



**China: 1.5MW WTG monthly average public bidding price (CNY/kW)**



**Goldwind: Market share of the WTG sales in China**



# Wind farm operators – Rapid capacity growth ahead; prefer players with diversified exposure

## ■ **Huadian Fuxin (816 HK, Buy, TP HKD5.30) – A diversified clean energy exposure**

- A diversified and well balanced portfolio of generation assets across different fuel mix (wind, hydro, coal, nuclear, etc.): Unique in the universe
- Strong capacity growth ahead: At 17.6% 2013-15 CAGR across different fuel types
- Low equity financing risk
- Valuation: Trading at 13.1x 2014F P/E (at the lower end of its peers' range of 12.8x-16.9x) and 1.9x P/B. Attractive
- Initiated coverage at Buy with TP of HKD5.3 on 15 May 2014.

## ■ **Longyuan (916 HK, Buy, TP HKD9.50) – Premium for its balance sheet strength**

- The strongest balance sheet across peers: Low dilution risk
- A mix of coal-fired and wind power generation portfolio: Risk diversification across different fuels.
- Steady and quality wind capacity growth: Mediocre capacity growth across peers, but with potential margin and curtailment improvement, thanks to its exposure in overseas market and first-mover advantage in low-wind-speed regions.
- Valuation: Trading at 16.3x 2014F P/E (at the higher end of its peers' range of 12.8x-16.9x) and 1.6x P/B; at a premium to peers but justifiable given its strong balance sheet.

## ■ **Huaneng RE (958 HK, Buy, TP HKD2.90) – Wind blowing with sunshine**

- Strong capacity growth: Fastest wind capacity growth among peers at 1.8GW pa, implying a 25.6% 2013-15F CAGR.
- More emphasis on solar power business: ~200MW in new solar capacity pa at a decent IRR of 12-15%.
- Dilution risk remains given high gearing: Strong capacity growth comes with high capex needs; seeing potential equity financing in the mid- to long-term.
- Valuation: Trading at 12.8x 2014F P/E (at the low end of its peers' range of 12.8x-16.9x) and 1.3x P/B; undemanding, given its strong 2013-16F EPS CAGR of 38.9%.

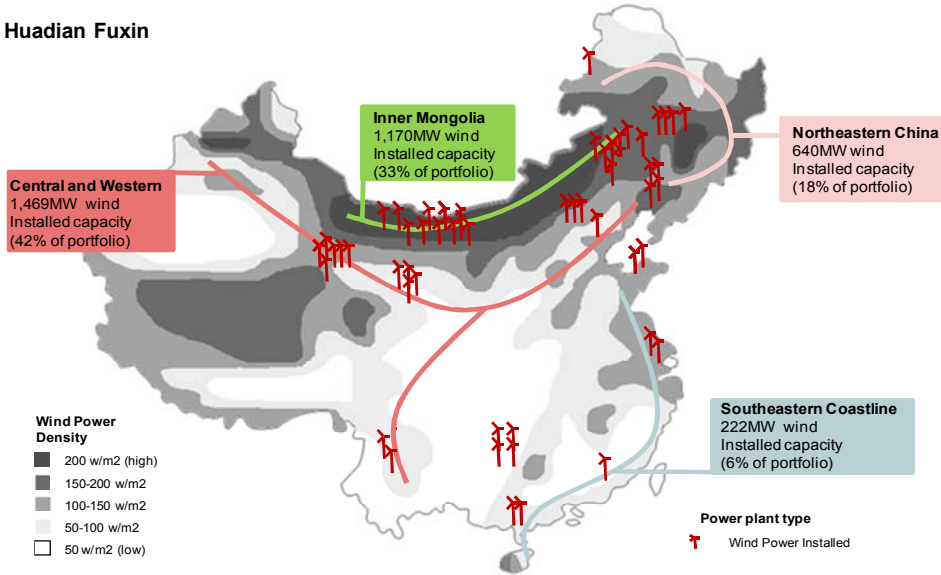
## ■ **Datang RE (1798 HK, Reduce, TPHKD1.00) – Choked by high gearing**

- Slowest wind capacity growth: With 0.6-0.8GW annual capacity additions for 2014/15F, implying a 11.6% 2013-15F CAGR, the lowest among peers.
- Curtailment eases but remains high vs peers
- Heavy financial burden given high gearing: With net gearing ranges between 430-460% in 2014-16F per our estimates, we see the company's profit being largely eroded by interest expenses, and a potential equity financing exercise in the near-term is more likely than peers.
- Valuation: Trading at 16.9x 2014F P/E (at the high end of its peers' range of 12.8x-16.9x) and 0.6x P/B; demanding.

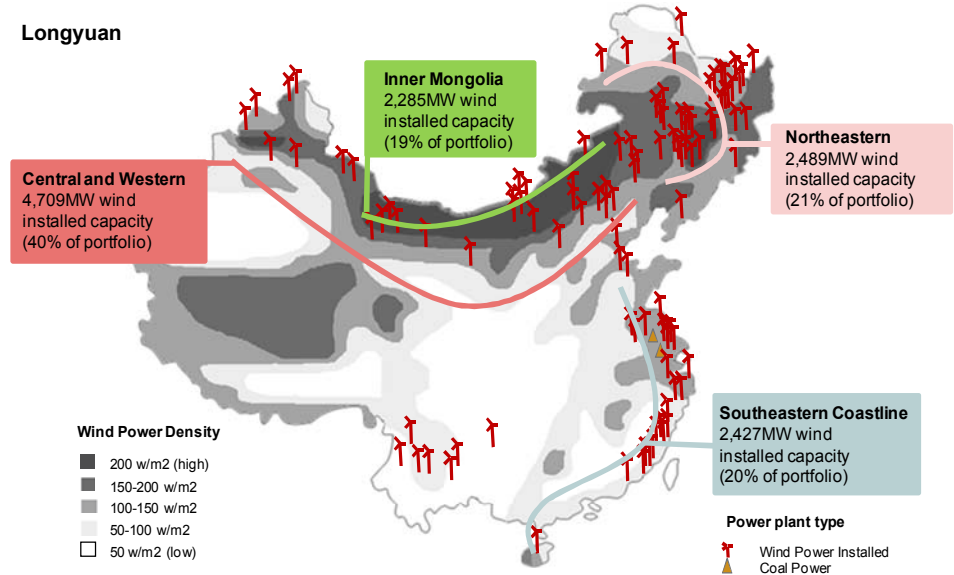
# Wind farm operators' current capacity distribution – Longyuan poised at a better position

## China wind: Wind farm operators' 2013 capacity distribution

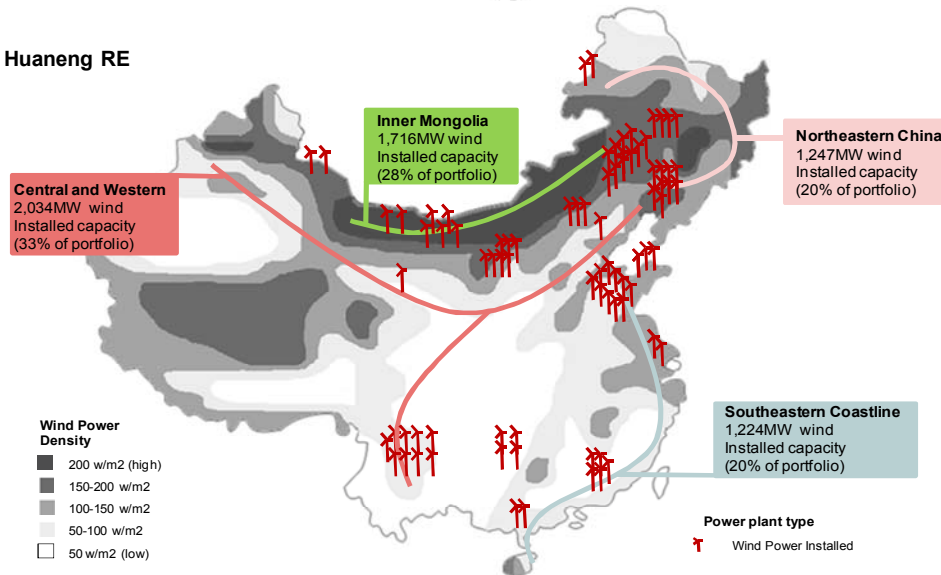
Huadian Fuxin



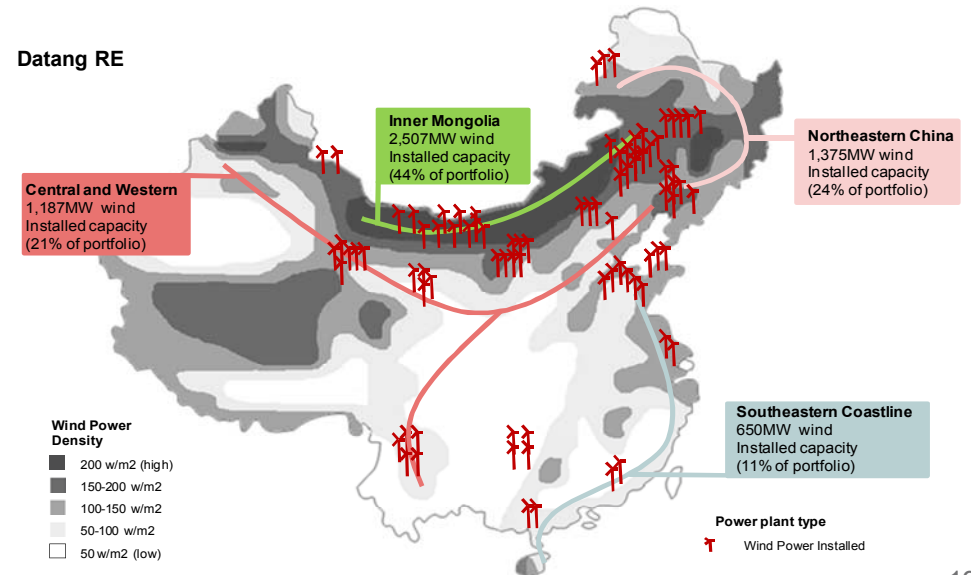
Longyuan



Huaneng RE



Datang RE



# Valuation comparison I

Company	Ticker	Reporting		No. of shares (mn)	Rating	Price target (HKD)	Price		Market cap (USD mn)	EPS (Reporting \$)		
		currency	FY end				(HKD)	% upside		2013	2014F	2015F
<b>Wind equipment</b>												
CHST	658 HK	CNY	Dec	1,635	Buy	7.30	5.42	34.7%	1,144	0.05	0.27	0.35
Goldw ind	2208 HK	CNY	Dec	2,695	Buy	9.67	9.20	5.1%	3,199	0.16	0.27	0.38
<b>Wind equipment average</b>									<b>2,171</b>	<b>0.10</b>	<b>0.27</b>	<b>0.37</b>
<b>Wind operators</b>												
Huadian Fuxin	816 HK	CNY	Dec	7,980	Buy	5.30	4.18	26.8%	4,304	0.19	0.25	0.32
China Longyuan	916 HK	CNY	Dec	8,036	Buy	9.50	8.55	11.1%	8,866	0.26	0.41	0.47
Huaneng RE	958 HK	CNY	Dec	9,029	Buy	2.90	2.73	6.2%	3,181	0.10	0.17	0.22
Datang RE	1798 HK	CNY	Dec	7,274	Reduce	1.00	1.09	-8.3%	1,023	0.03	0.05	0.06
<b>Wind operators average</b>									<b>4,343</b>	<b>0.15</b>	<b>0.22</b>	<b>0.27</b>

Company	DPS (Reporting \$)			Yield (%)			Dividend payout (%)			BVPS (Reporting \$)			
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	
<b>Wind equipment</b>													
CHST	0.00	0.00	0.07	na	na	1.7%	0.0%	0.0%	20.0%	5.21	5.48	5.82	
Goldw ind	0.08	0.08	0.12	1.1%	1.2%	1.6%	50.4%	30.0%	30.0%	4.96	5.15	5.46	
<b>Wind equipment average</b>											<b>5.08</b>	<b>5.32</b>	<b>5.64</b>
<b>Wind operators</b>													
Huadian Fuxin	0.04	0.05	0.06	1.2%	1.5%	2.0%	20.8%	20.0%	20.0%	1.47	1.72	1.99	
China Longyuan	0.05	0.08	0.09	0.7%	1.2%	1.4%	18.6%	20.0%	20.0%	3.85	4.21	4.60	
Huaneng RE	0.02	0.03	0.04	0.9%	1.5%	2.0%	20.3%	20.3%	20.3%	1.54	1.67	1.85	
Datang RE	0.00	0.01	0.01	0.3%	0.9%	1.1%	9.2%	15.0%	15.0%	1.28	1.32	1.38	
<b>Wind operators average</b>											<b>2.03</b>	<b>2.23</b>	<b>2.45</b>

Note: Pricing as of 17 June 2014; ratings and price targets are as of the date of the most recently published report (<http://www.Nomura.com>) rather than the date of this document.  
Source: Company data, Bloomberg, Nomura estimates

## Valuation comparison II

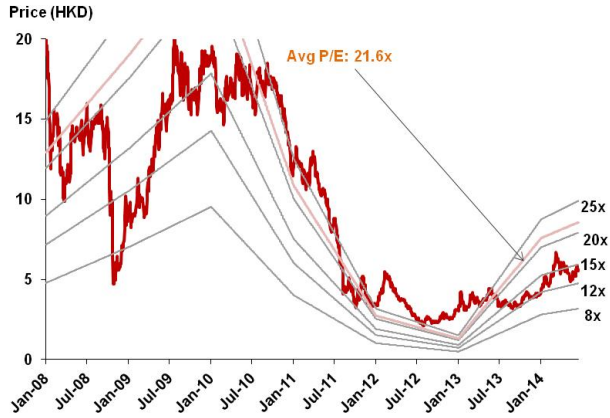
Company	P/E (x)			P/B (x)			EV/EBITDA (x)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
<b>Wind equipment</b>									
CHST	91.2	15.6	12.0	0.8	0.8	0.7	12.3	9.1	8.1
Goldwind	45.9	26.0	18.4	1.4	1.4	1.3	12.3	6.4	5.9
<b>Wind equipment average</b>	<b>68.6</b>	<b>20.8</b>	<b>15.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>12.3</b>	<b>7.7</b>	<b>7.0</b>
<b>Wind operators</b>									
Huadian Fuxin	17.2	13.1	10.2	2.2	1.9	1.6	10.7	9.7	9.0
China Longyuan	26.6	16.3	13.9	1.7	1.6	1.4	10.7	9.2	8.4
Huaneng RE	20.9	12.8	9.4	1.4	1.3	1.1	10.2	9.4	8.6
Datang RE	26.6	16.9	13.5	0.7	0.6	0.6	10.2	9.9	9.3
<b>Wind operators average</b>	<b>22.8</b>	<b>14.8</b>	<b>11.8</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>	<b>10.4</b>	<b>9.5</b>	<b>8.8</b>

Company	Net Gearing (%)			RoE (%)			RoA (%)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
<b>Wind equipment</b>									
CHST	84.7%	84.8%	79.8%	0.8%	5.0%	6.1%	2.8%	4.4%	5.1%
Goldwind	27.6%	49.0%	65.4%	3.3%	5.4%	7.2%	1.4%	3.9%	4.6%
<b>Wind equipment average</b>	<b>56.1%</b>	<b>66.9%</b>	<b>72.6%</b>	<b>2.0%</b>	<b>5.2%</b>	<b>6.7%</b>	<b>2.1%</b>	<b>4.1%</b>	<b>4.8%</b>
<b>Wind operators</b>									
Huadian Fuxin	365.7%	350.4%	380.9%	13.5%	15.6%	17.0%	7.1%	7.6%	7.9%
China Longyuan	177.7%	177.4%	183.2%	6.8%	10.1%	10.7%	6.3%	7.2%	7.7%
Huaneng RE	209.2%	241.8%	289.5%	6.9%	9.8%	12.0%	5.8%	6.3%	6.8%
Datang RE	410.9%	437.3%	453.0%	2.6%	3.8%	4.6%	4.5%	4.7%	5.0%
<b>Wind operators average</b>	<b>290.9%</b>	<b>301.7%</b>	<b>326.6%</b>	<b>7.4%</b>	<b>9.8%</b>	<b>11.1%</b>	<b>5.9%</b>	<b>6.4%</b>	<b>6.8%</b>

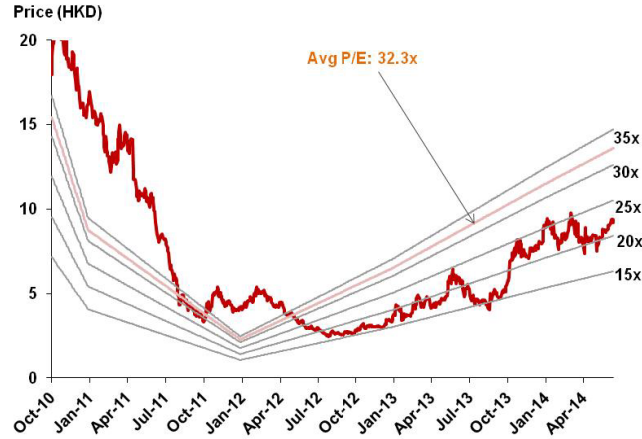
Note: Pricing as of 17 Jun 2014; Ratings and price targets are as of the date of the most recently published report (<http://www.Nomura.com>) rather than the date of this document.  
Source: Company data, Bloomberg, Nomura estimates

# P/E comparison

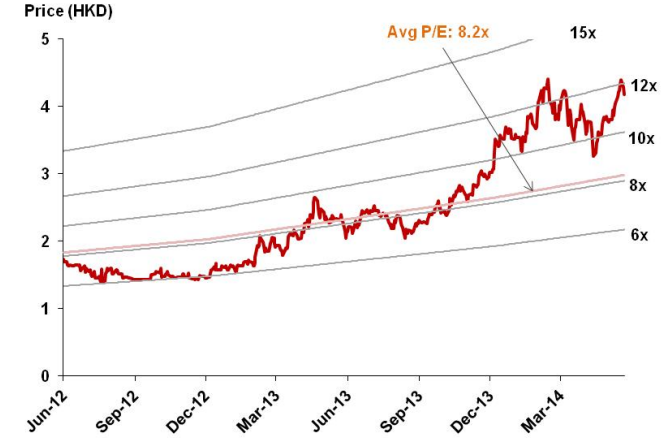
## CHST



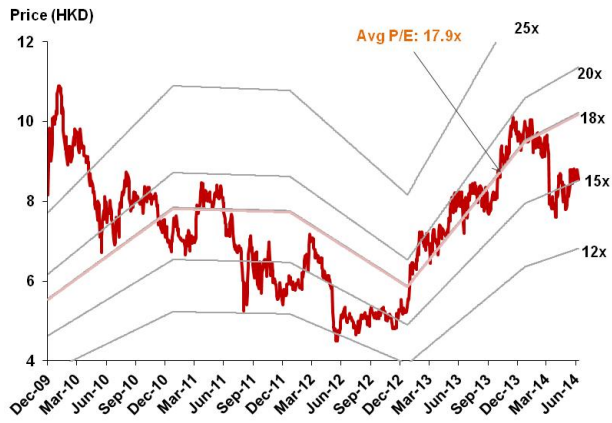
## Goldwind



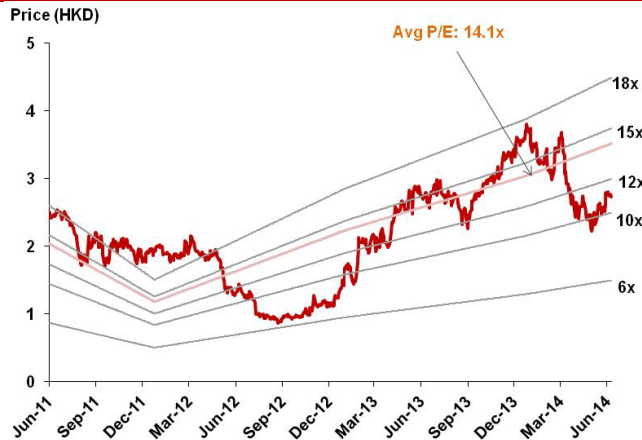
## Huadian Fuxin



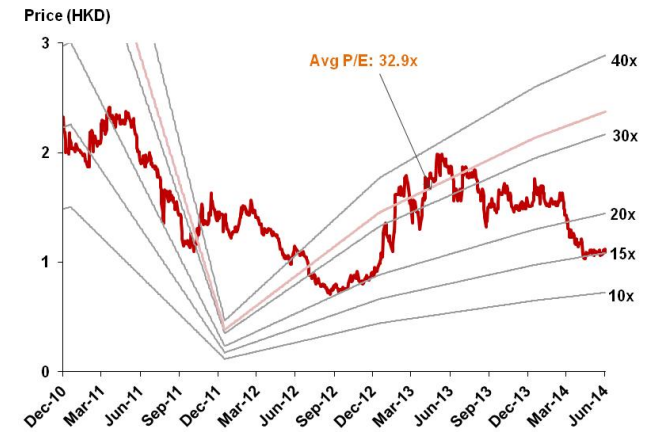
## Longyuan



## Huaneng RE



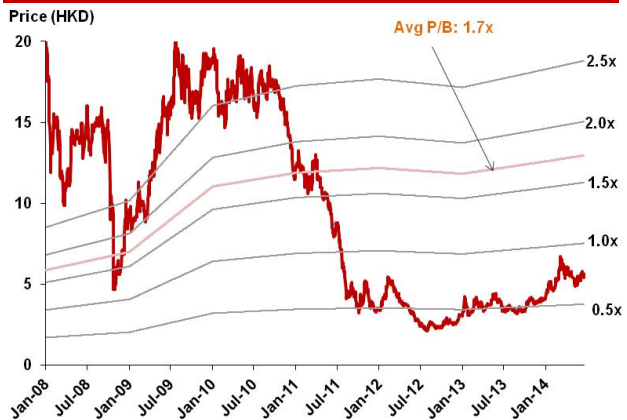
## Datang RE



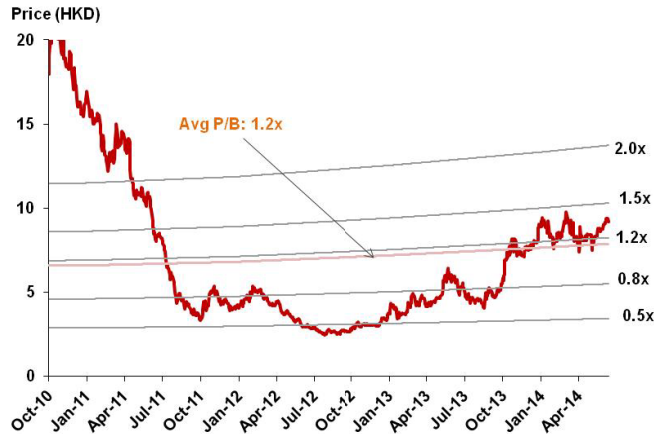
Source: Company data, Bloomberg, Nomura estimates

# P/B comparison

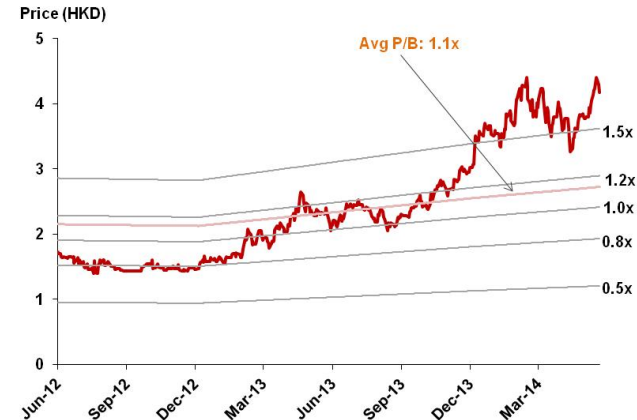
## CHST



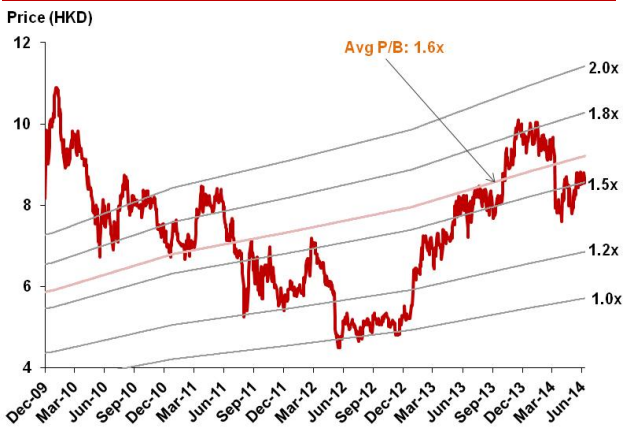
## Goldwind



## Huadian Fuxin



## Longyuan



## Huaneng RE



## Datang RE



Source: Company data, Bloomberg, Nomura estimates



# Appendix A-1

**Any Authors named on this report are Research Analysts unless otherwise indicated**

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### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Previous rating	Date of change	Sector rating
China Datang Renewable Power	1798 HK	1.08 HKD	18-Jun-2014	Reduce	Neutral	23-Jul-2013	N/A
China High Speed Transmission	658 HK	5.43 HKD	18-Jun-2014	Buy	Suspended	15-May-2014	N/A
China Longyuan Power	916 HK	8.41 HKD	18-Jun-2014	Buy	Neutral	12-Dec-2011	N/A
Huadian Fuxin	816 HK	4.28 HKD	18-Jun-2014	Buy	Not Rated	15-May-2014	N/A
Huaneng Renewables Corporation	958 HK	2.7 HKD	18-Jun-2014	Buy	Neutral	15-May-2014	N/A
Xinjiang Goldwind	2208 HK	9.2 HKD	18-Jun-2014	Buy	Suspended	15-May-2014	N/A

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The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

### STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows:

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### SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan:** Sector ratings are not assigned.

## Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

### STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc. A **'Buy'** recommendation indicates that potential upside is 15% or more. A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A **'Reduce'** recommendation indicates that potential downside is 5% or more. A rating of **'Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

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### Target Price

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