

Company Flash

Jun Yang Solar Power Investment Limited

0397 HK

Expanding its solar portfolio

- *Jun Yang Solar Power Investment Ltd. is a green energy company focusing on the solar power business*
- *Base on its project pipeline, we expect revenue generated from the sale of solar power will increase at a CAGR of 59.2% in the next 3 years*
- *The current BVPS of the company is approximately HKD0.31, implying a P/B of 0.64x, which is significantly lower than its peers*

Research Team
 (852) 2533 3700
 research@sbichinacapital.com

Stock Data (397 HK)

	Not Rated
Rating	0.198
Price (HK\$)	n.a.
Target Price (HK\$)	0.195-0.448
12m Price Range (HK\$)	880.4
Market cap. (HK\$m)	4.4
Daily t/o (HK\$m)	80.6
Free float (%)	

Source: Bloomberg

Solar business expands with more projects added to their portfolio: Driven by the full-year contribution of its rooftop power station in Henan from FY12/14E, the additional contribution from the 2 new projects in Shangdong from FY12/15E, as well as the expansion of its solar farm in Qinghai in FY12/15E, we expect total power generation of the company will increase from 15.2m kwh in FY12/13 to 65.0m kwh in FY12/16E, representing a CAGR of 62.3% during the 3-year period. Assuming the company recognizes its revenue under an accrual basis, we expect the company's revenue generated from the sale of electricity will increase from RMB16.1m in FY12/13 to RMB65.0m in FY12/16E, representing a CAGR of 59.1%.

Profitability enhanced with the use of leverage: Under new policies suggested by the Chinese government, distributed solar power generation projects in China may soon be allowed to be financed with loans with the right to charge tariff as the collateral. Equity IRR of its solar-power projects can be enhanced greatly with the use of leverage.

Prefer distributed power generation to traditional power generation: We are more favorable towards the distributed generation of solar power than traditional power generation. First, the distributed model does not rely on the long-distance super-high-voltage transmission of a traditional centralized energy system. Second, the tariff that the company charges its local customers under the distributed solar generation model is higher than the FIT, and can therefore generate a higher project return. In addition, a lot of capital expenditure can be saved under the distributed generation model with land acquisition not necessary.

Attractive valuation with P/B significantly below its peers: As of 30 Jun 2014, the company has a total equity attributable to shareholders of HKD1,165.3m, and a BVPS of HKD0.52. Taking into consideration that the company has redeemed all of its outstanding CB, and total issued share capital has expanded after several rounds of placement, we believe the company's current BVPS is approximately HKD0.31, implying a P/B of 0.64x per share which is below the average level of 3.0x that its peers are currently trading.

Figure 1: Financials and valuation

	FY12/11	FY12/12	FY12/13	1H FY12/14
Total revenue (HKD m)	92.8	17.7	63.0	22.8
Revenue growth (YoY)	3909.3%	-81.0%	256.8%	25.7%
Gross profit (HKD m)	(2.2)	15.4	50.0	9.3
gross profit growth (YoY)	n.a.	n.a.	224.3%	-22.9%
Net profit (HKD m)	(599.1)	(558.5)	(33.9)	118.8
Net profit growth (YoY)	n.a.	-6.8%	-93.9%	401.9%
EPS (HK cents)	(7.6)	(6.6)	(0.2)	1.4
P/B (x)	0.2	0.4	0.4	0.4

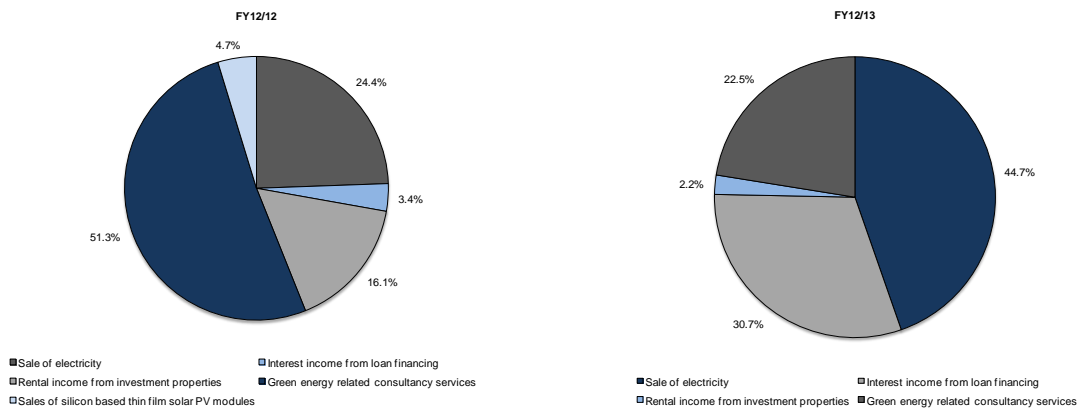
Source: Company data

Please refer to important disclosures at the end of this report

Company Background

Jun Yang Solar Power Investment Ltd. (“Jun Yang”) is mainly engaged in 3 lines of businesses: 1) solar power generation; 2) asset investment, which includes investment in listed and unlisted securities as well as investment properties; and 3) money lending, which includes the provision for loan financing in HK. The company’s solar energy related business, which includes consultancy services, sale of electricity and sale of PV modules, is the major revenue source of the company, representing 67.1% and 80.5% of its total revenue in FY12/12 and FY12/13 respectively (See Figure 2).

Figure 2. Revenue breakdown by segment



Source: Company data

Currently, the company owns and operates 3 solar-power projects in China, including 1) a 10MW large-scale grid-connected PV power station project in Golmud, Qinghai province, 2) a 20MW rooftop power station project in Xuchang, Henan Province, and 3) a 1.5MW rooftop power station project in Zhengzhou, Henan Province. These solar-power projects command a total attributable capacity of 31.5MW and have already commenced full operation in 2014.

Apart from these projects, the company has 2 more projects in its pipeline: a 10MW and a 20MW rooftop power station project in Weihai, Shangdong. The 10MW project has already obtained approval from the government and is under construction stage. It is expected that the project can commence operation by 1Q FY12/15. On the other hand, the 20MW project is in the process of obtaining government approval and we expect the company to begin the construction after receiving the approval in 1H FY12/15E, with operation beginning in 4Q FY12/15E. It is also worth noting that the company’s large-scale grid-connected PV power station project in Qinghai will undergo expansion in FY12/15E, and its capacity will increase from 10MW to 30MW upon the completion of expansion. Coupled with the two new projects in Shangdong, it is expected that the total attributable capacity of its solar-power projects will reach 81.5MW at the end of FY12/16E, representing a CAGR of 37.3% during the 3-year period.

Figure 3. Total attributable capacity of the company’s solar-power projects (FY12/11-FY12/16E)

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
	MW	MW	MW	MW	MW
Large-scale grid-connection PV power station project in Golmud, Qinghai	10.0	10.0	10.0	10.0	30.0
Rooftop power station in Xuchang, Henan	0.0	20.0	20.0	20.0	20.0
Rooftop power station in Zhengzhou, Henan	0.0	1.5	1.5	1.5	1.5
Rooftop power station in Weihai, Shangdong - 10MW	0.0	0.0	0.0	10.0	10.0
Rooftop power station in Weihai, Shangdong - 20MW	0.0	0.0	0.0	20.0	20.0
Total attributable capacity	10	31.5	31.5	61.5	81.5

Source: Company data

Our views

Solar business expands with more projects in the portfolio: Driven by the full-year contribution of its rooftop power station in Henan from FY12/14E, the additional contribution from the 2 new projects in Shangdong from FY12/15E, as well as the expansion of its solar farm in Qinghai in FY12/15E, we expect total power generation of the company, which is a determinant of the company’s earnings, will increase from 15.2m kwh in FY12/13 to

65.0m kwh in FY12/16E, representing a CAGR of 62.3% during the 3-year period.

Figure 4. Total power generation of the company's solar-power projects (FY12/11-FY12/16E)

	FY12/12 m kWh	FY12/13 m kWh	FY12/14E m kWh	FY12/15E m kWh	FY12/16E m kWh
Large-scale grid-connection PV power station project in Golmud, Qinghai	13.0	13.1	13.2	14.0	20.0
Rooftop power station in Xuchang and Xhengzhou, Henan	0.0	2.1	13.0	14.0	15.0
Rooftop power station in Weihai, Shangdong - 10MW	0.0	0.0	0.0	8.0	10.0
Rooftop power station in Weihai, Shangdong - 20MW	0.0	0.0	0.0	1.0	20.0
Total power generation	13.0	15.2	26.2	37.0	65.0

Source: Company data

It is worth noting that the company recognizes government subsidy, which is the portion in Feed-in-tariff (FIT) that is above the coal-fired power, as revenue only when they receive the subsidy in cash. This is in contrast with other solar power operators, which recognize the whole FIT as revenue during the period. The company explains this as an act of prudence since they are not certain whether and when they will receive the subsidy from the government. Assuming the company recognizes its revenue under an accrual basis, rather than cash basis, we expect that the company's revenue generated from the sale of electricity will increase from RMB16.1m in FY12/13E to RMB65.0m in FY12/16E, representing a CAGR of 59.2%.

Figure 5. Tariff of the company's solar-power projects (FY12/11-FY12/16E)

	FY12/12 RMB/kWh	FY12/13 RMB/kWh	FY12/14E RMB/kWh	FY12/15E RMB/kWh	FY12/16E RMB/kWh
Large-scale grid-connection PV power station project in Golmud, Qinghai	1.15	1.15	1.15	1.15	1.15
Rooftop power station in Xuchang and Xhengzhou, Henan	0.5	0.5	0.5	0.5	0.5
Rooftop power station in Weihai, Shangdong - 10MW	1.15	1.15	1.15	1.15	1.15
Rooftop power station in Weihai, Shangdong - 20MW	1.15	1.15	1.15	1.15	1.15

Source: Company data

Figure 6. Revenue generated from the sale of electricity, assuming accrual basis (FY12/11-FY12/16E)

	FY12/12 RMB m	FY12/13 RMB m	FY12/14E RMB m	FY12/15E RMB m	FY12/16E RMB m
Large-scale grid-connection PV power station project in Golmud, Qinghai	15.0	15.1	15.2	16.1	23.0
Rooftop power station in Xuchang and Xhengzhou, Henan	0.0	1.0	6.5	7.0	7.5
Rooftop power station in Weihai, Shangdong	0.0	0.0	0.0	9.2	11.5
Rooftop power station in Weihai, Shangdong	0.0	0.0	0.0	1.2	23.0
Total revenue generated from the sale of electricity	15.0	16.1	21.7	33.5	65.0

Source: Company data

Profitability enhanced with the use of leverage: Under the new policies suggested by the Chinese government this year, distributed solar power generation projects in China may soon be allowed to be financed with loans with the right to charge tariff as the collateral. Equity IRR of its solar-power projects can be enhanced greatly with the use of leverage. The following figure shows the sensitivity of project IRR and equity IRR to project capacity and capital structure. We assume a project life of 20 years, construction cost of RMB7.5/watt, tariff of RMB1.15/kWh, and capacity factor of 1,500 hours.

Figure 7. Sensitivity of project IRR and equity IRR to project capacity and capital structure

Project IRR				Equity IRR					
		Capacity				Capacity			
		10MW	20MW	30MW		10MW	20MW	30MW	
loan/Equity	50%	11.4%	14.6%	15.7%	loan/Equity	50%	15.2%	21.1%	22.9%
	60%	11.4%	14.7%	15.7%		60%	17.1%	24.2%	26.5%
	70%	11.5%	14.7%	15.8%		70%	20.1%	29.4%	32.4%

Source: Company data

Distributed PV power generation is more favorable than traditional power generation: Junyang mainly operates its PV power generation under a distributed generation model, in which the solar panels are built on the rooftops of factories, schools, hospitals, government agencies and buildings in the community. We are more favorable towards the distributed generation of solar power than the traditional power generation. First, the solar power generated from the distributed model can be directly provided to the local end users, as opposed to being

connected to the grid, which then transmits the electricity to other provinces. In other words, a distributed model does not rely on the long-distance super-high-voltage transmission of a traditional centralized energy system, and therefore electricity wastage during the process of transmission is less of an issue. Second, the tariff the company charges its local customers under the distributed solar generation model is higher than the FIT, and therefore generates a higher project return. In addition, a lot of capital expenditure can be saved under the distributed generation model. For the traditional solar power generation, operators normally need to spend a considerable amount of resources on land acquisition and the construction of plants, therefore requiring huge up-front investment. In contrast, distributed generation model is more flexible as land acquisition is not necessary.

Valuation

As of 30 Jun 2014, the company has a total equity attributable to shareholders of HKD1,165.3m, and a BVPS of HKD0.52. Taking into the consideration that the company has utilized all its proceeds from placing in Aug 2014 to redeem all of its outstanding CB, and total issued share capital has expanded after several rounds of placement, we believe the company's current BVPS is approximately HKD0.31. At the last closing price of HKD0.198 per share, the company is trading at a P/B of 0.64x, which is significantly below the average level of 3.0x at which its peers are currently trading (or 1.7x if excluding GCL New Energy). The company's valuation may converge to the industry average as its portfolio of solar projects grows larger in the future.

Figure 8. Peer comparison

Company	Ticker	Mkt Cap (HKD m)	3M avg turnover (HKD m)	2014E P/E (x)	2015E P/E (x)	P/book (x)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
Jun Yang Solar Power Investment	0397 HK	880.4	4.4	n.a.	n.a.	0.4	7.4	4.8	0.0	(53.4)
Solar - upstream										
GCL-Poly Energy	3800 HK	32,527.2	340.8	14.7	10.5	1.9	7.1	1.5	0.0	221.3
Solar - midstream										
China Singyes Solar Technologies	0750 HK	9,193.1	63.0	10.5	8.4	2.6	22.0	9.2	0.7	25.2
Comtec Solar	0712 HK	1,614.5	9.5	23.6	15.8	0.8	(7.3)	(4.7)	0.0	7.4
Solargiga Energy	0757 HK	1,140.2	3.2	n.a.	0.2	0.8	(1.3)	(0.4)	0.0	145.4
Solar - downstream										
United Photovoltaics	0686 HK	4,056.0	41.7	33.2	23.8	2.2	(65.8)	(10.1)	0.0	465.3
GCL New Energy	0451 HK	4,155.2	27.0	34.7	24.1	9.9	27.5	9.8	1.0	(25.1)
	Average*	8,781.0	80.9	23.3	13.8	3.0	(3.0)	0.9	0.3	139.9

Source: Company data

*Average figure does not include Jun Yang Solar Power Investment

Figure 9. Per share items

	FY12/11	FY12/12	FY12/13	1H FY12/14
EPS (HK cents)				
- Basic	(7.56)	(6.63)	(0.23)	1.36
- Diluted	(7.56)	(6.63)	(0.23)	1.35
BVPS (HK cents)	81.0	52.0	45.00	52.00

Source: Company data

Figure 10. Income statement (HKD m)

	FY12/11	FY12/12	FY12/13	1H FY12/14
Revenue	92.8	17.7	63.0	22.8
Cost of sale	(95.0)	(2.2)	(13.0)	(13.5)
Gross profit	(2.2)	15.4	50.0	9.3
Other income and gains	5.1	4.0	25.4	5.9
Employee benefits expense	(7.2)	(12.2)	(26.5)	(8.1)
Depreciation of PPE	(16.7)	(60.0)	(2.5)	(1.1)
Loss arising on change in fair value of held-for-trading investments	(382.7)	(176.1)	9.0	161.5
Gain on disposals of subsidiaries	-	29.1	14.1	0.6
Impairment loss of PPE	(59.8)	(315.2)	(59.0)	-
Impairment loss of value-added tax recoverable	(75.3)	-	-	-
Gain arising on change in fair value of investment properties	9.4	23.1	-	-
Write-down of inventories	(19.0)	(2.4)	-	-
Others	(49.2)	(63.9)	(44.1)	(49.7)
	0.0	0.0	0.0	0.0
Profit before tax	(597.5)	(558.2)	(33.6)	118.5
Income tax expense	(1.7)	(0.3)	(0.3)	0.3
Profit for the year	(599.1)	(558.5)	(33.9)	118.8
Profit attributable to shareholders	(522.5)	(418.0)	(18.0)	121.0

Source: Company data

Figure 11. Cash flow statement (HKD m)

	FY12/11	FY12/12	FY12/13	1H FY12/14
Net cash generated from operating activities	(198.6)	114.6	(247.5)	(237.8)
Net cash used in investing activities	(349.1)	(0.9)	84.9	(46.1)
Net cash used in financing activities	90.5	1.1	111.8	219.4
Net increase/ (decrease) in cash and cash equivalent	(457.3)	114.9	(50.7)	(64.6)
Opening cash and cash equivalents	601.5	146.3	260.4	208.6
Exchange losses on cash and cash equivalents	2.0	(0.7)	(1.1)	-
Closing cash and cash equivalents	146.3	260.4	208.6	144.0

Source: Company data

Figure 12. Balance sheet (HKD m)

	FY12/11	FY12/12	FY12/13	1HFY12/14
Non-current assets				
PPE	719.8	445.0	404.3	392.3
Investment properties	97.9	121.0	-	-
Goodwill	2.9	3.1	0.1	0.1
Other	13.9	19.9	228.8	204.8
Total non-current assets	834.5	588.9	633.3	597.2
Current assets				
Inventories	11.2	-	-	-
Trade and other receivables	33.0	21.2	32.3	50.5
Loans receivable	-	67.3	180.6	344.9
Held-for-trading investments	594.4	287.0	366.3	604.3
Bank balances and cash	146.3	260.4	208.6	144.0
Others	171.0	92.7	28.6	30.1
Total current assets	955.8	728.7	816.4	1,173.8
Non-current liability				
Deferred income	(5.8)	(143.6)	(142.8)	(139.3)
Bank borrowings	(79.3)	-	-	-
Others	0.0	-	-	(148.7)
Total non-current liabilities	(85.1)	(143.6)	(142.8)	(287.9)
Current liabilities				
Trade and other payables	(99.7)	(249.0)	(232.2)	(217.6)
Others	(263.5)	(0.3)	(19.4)	(44.1)
Total current liabilities	(363.2)	(249.3)	(251.6)	(261.7)
Net assets	1,342.0	924.7	1,055.2	1,221.3
Equity				
Share capital	126.2	126.2	177.9	177.9
Reserves	1,151.4	698.0	818.2	987.4
Non-controlling interests	64.5	100.5	59.1	56.1
Total equity	1,342.0	924.7	1,055.2	1,221.3

Source: Company data

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Disclosure of interest: SBI China Capital was the placing agent of Jun Yang Solar Investment Limited (0397) in Nov 2014

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