

## Emerging renewable energy play

Not Rated

**Company profile.** Previously known as Oriental Investment Co. Ltd, China Power New Energy Development (CPNE) is an emerging power producer with renewable/alternative energy focus. In 4Q06, China Power Investment injected 60.0% interests in Zhongdian Hongze Thermal and 100.0% interests in Zhongdian Hongze RSTP into CPNE at the consideration of HK\$78.0m. In return, CPNE issued 325.0m shares to China Power Investment. In July 2007, the company name changed to China Power New Energy Development to reflect its business focus. In May 2007, Li Xiaolin was appointed as the executive director and chairlady of the group. Between 4Q06 and 1Q08, CPNE acquired interests in seven power generation projects. Currently, CPNE's gross and attributable installed capacity stand at 841.0MW and 725.0MW, respectively, excluding the Shanghai Dong Hai wind farm project, which is still under development. Should we include the Shanghai Dong Hai wind farm project, CPNE's gross and attributable capacity would be 914.0MW and 749.0MW, respectively.

**Asset type breakdown.** 41.4% of CPNE's existing attributable installed capacity is hydro power asset, 39.7% is natural gas power asset, 12.4% is wind power asset, 2.5% is thermal power asset, 2.1% is biomass asset and 1.9% is waste-to-energy assets.

**Projects in the pipeline.** 17 power generating projects with gross capacity of 735.0MW are set to be developed by CPNE. These projects are expected to be launched between 2008 and 2011. 85.7% and 14.3% of the new projects are wind power assets and waste-to-energy assets, respectively.

**Aggressive capacity growth target.** Management of CPNE target to increase its gross installed capacity at 4-year CAGR of 60.1% between 2007 and 2010 by acquisition and green field project development. It aim to boost its gross installed capacity to 1,476.0MW by the end of this year, 2,545.0MW by the end of 2009, 4,000.0MW by the end of 2010 and 6,190.0MW by the end of 2011. In our view, CPNE's growth target seems aggressive but attainable, thanks to the support from its major shareholder China Power Investment (CPI). Further, CPNE has secured a loan facility from National Development Bank This should provide war chest for the its expansion. Under CPNE's expansion plan, up to 80.0% of capital requirement from project acquisition and development would be funded by project financing.

**Asset injection story.** It is estimated that CPNE's parent, CPI had power generating assets with installed capacity of 44,950.0MW as of the end of 2007. 75.3% of CPI's the total generating assets are thermal coal-fired plants, 21.5% are hydro power assets, 3.0% are nuclear generating assets and 0.2% are wind power assets. China Power

### China Utilities

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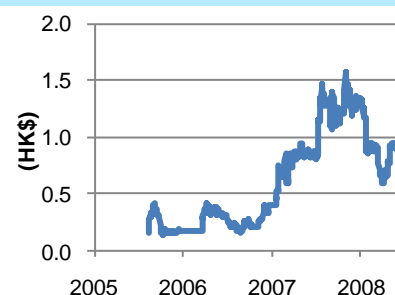
### Stock data

Price	HK\$0.94
Target price	na
12 mth range	HK\$0.55-1.64
Market cap.	US\$839.8m
Daily t/o, 3 mth	US\$4.1m
Free float %	23.8%
Ticker	0735.HK/735 HK

### Financial summary

Year to April	05A	06A	07A
Net profit (HK\$m)	21.2	(24.9)	(38.2)
Turnover (HK\$m)	39.6	37.3	121.5
EPS (HK\$m)	0.011	(0.011)	(0.014)
EPS □	na	na	na
P/E (x)	85.5	na	na
P/B (x)	15.90	9.40	9.40
EV/EBITDA (x)	na	na	652.5
Yield (%)	na	na	na
ROE (%)	18.7	na	(16.3)
ROCE (%)	(17.2)	na	0.4
N. Gear. (%)	102.3	53.4	202.7

### Price Chart



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International (2380 HK, HK\$2.09, NR), one of the listed flag ship of CPI in Hong Kong had total thermal-coal installed capacity of 17,972.0MW as of the end of 2007. Further, it is expected that CPI would inject 3,542.0MW of hydro power asset into China Power International in 2008. Excluding the thermal-coal fired generating units, the hydro power assets that will be injected into China Power International, and the nuclear generating assets, CPI has over 6,000.0.0MW of hydro power assets and 101.0MW of wind power assets which can be potentially injected into CPNE.

**Strong shareholder base.** CPI, one of the five largest IPP, and CNOOC Group, the leading state-owned offshore oil and gas producer are the major shareholders of CPNE, holding 28.4% and 12.8% interests in it, respectively.

**Potential support by major shareholders.** Other than asset injection, CPNE can leverage on CPI resources and expertise in China power industry to develop new project, source new opportunities and operate its existing projects. Further, CPNE can leverage on CNOOC Group's expertise regarding natural gas and offshore operation to develop its natural-gas fuelled generation units and offshore wind farm.

**Strong management team.** CPNE has a very strong management team with average of more than 20 years of extensive experience and proven track record in China power industry:

**Ms. Li Xiaolin joined CPNE in May 2007.** She is an Executive Director and chairlady of the Board and of the Executive Committee of CPNE. Ms. Li is a senior engineer. She graduated from Tsinghua University with a Master of Engineering degree in power systems and automation. She was also a visiting scholar at the Sloan Business School of Massachusetts Institute of Technology in the United States. Ms. Li also acts as the vice-chairman of the board and chief executive officer of China Power International Development; the vice-chairman, executive director and president of China Power International Holding Limited; and a director of Companhia de Electricidade de Macau. She has served in other senior positions including head of International Economic and Trade Division of the Ministry of Electric Power Industry and associate head of the International Economic and Trade Division of the Ministry of Energy.

**Financials and valuation.** CPNE reported a net loss of HK\$38.2m for FY04/07A and HK\$13.8m for 1H FY04/08F ended October 2007. It is worth to note that in FY04/07A and 1H FY04/08F, the power generation business did not provide much contribution to CPNE. We expect the power generation business would start to provide more contribution to it starting from FY09F onward. As of the end of October 2007, the company was in a net debt position of HK\$1,491.6m, representing a net debt to equity ratio of about 126.6%. The selected power producers/renewable energy producers listed on Hong Kong and China are trading at a one-year forward P/E of 17.1x and two-year forward P/E of 14.3x. According to consensus EPS forecasts, the group is trading at a two-year forward P/E of about 19.5x. According to the management, the company is expected to change its year-end date to December 31 instead from April 30.

Table 1: Peer group comparison

Company name	Ticker	Year End	Currency	Price	Market cap (US\$m)	P/E (x)	
						1-yr forward	2-yr forward
CHINA EVERBR INT	257 HK	Dec	HKD	2.24	900.9	15.9	12.2
CHINA WINDPOWER	182 HK	Mar	HKD	0.5	291.9	14.7	8.6
CHINA RES POWER	836 HK	Dec	HKD	18.54	9,875.1	19.4	15.3
HUANENG POWER-H	902 HK	Dec	HKD	5.24	10,781.4	12.3	10.5
DATANG INTL PO-H	991 HK	Dec	HKD	4.44	14,289.8	14.3	11.1
CHINA POWER INTE	2380 HK	Dec	HKD	2.09	966.1	9.2	6.8
HUADIAN POWER-H	1071 HK	Dec	HKD	2.03	3,540.8	11.2	8.8
GUANGDONG ELEC-B	200539 CH	Dec	HKD	3.54	2,096.6	17.3	18.3
JIONTO ENERGY-A	000600 CH	Dec	CNY	5.64	682.1	13.1	11.1
GUANGZHOU HENG-A	000531 CH	Dec	CNY	7	271.6	9.5	8.6
BAONENGYUAN-A	000690 CH	Dec	CNY	9.64	1,582.3	19.3	14.1
SHANXI ZHANGZE-A	000767 CH	Dec	CNY	5.12	986.8	7.9	11.8
SHENZHEN ENERG-A	000027 CH	Dec	CNY	8.27	2,652.1	11.5	13.0
JILIN POWER-A	000875 CH	Dec	CNY	4.53	513.9	45.3	12.9
SHENYANG JINSH-A	600396 CH	Dec	CNY	8.18	405.7	19.5	11.5
SHANGHAI ELECTRI	600021 CH	Dec	CNY	4.4	1,370.8	22.6	31.4
SICHUAN CHUAN-A	600674 CH	Dec	CNY	23.53	2,188.1	26.6	20.0
TOP ENERGY-A	600780 CH	Dec	CNY	4.7	597.4	19.6	19.6
SHENERGY CO LTD	600642 CH	Dec	CNY	9.01	3,790.8	15.2	15.6
SDIC HUAJING-A	600886 CH	Dec	CNY	6.52	1,001.2	15.8	14.3
BEIJING JINGNENG	600578 CH	Dec	CNY	11.64	971.7	42.3	34.2
GD POWER DEVEL-A	600795 CH	Dec	CNY	6.2	4,917.8	22.5	18.8
INNER MONGOL M-A	600863 CH	Dec	CNY	4.29	1,237.5	31.8	23.2
YUNNAN WENSHAN	600995 CH	Dec	CNY	11.37	660.2	27.3	21.3
GUANGXI GUIGAN-A	600236 CH	Dec	CNY	6.65	1,393.1	23.3	21.8
Average						17.1	14.3

Source: Bloomberg

### Description of the group's assets

**Zhongdian Hongze Thermal.** CPNE's 60.0% owned Zhongdian Hongze Thermal is situated in Hongze County, Jiangsu, Province. It is a co-generation plant (electricity and heat) fueled by fossil elements and coal, with installed capacity of 30.0MW. It has five coal-fuelled boilers and three steam turbine generating units generating up to 27 MW of electricity. The plant has been supplying electricity to Jiangsu Province Electric Company at an official rate applicable in Jiangsu Province in respect of electricity generated by coal-fuelled power plants. The supply contract is effective for the period from 1 October 2004 to 30 September 2009. Further, the plant is also supplying heat in the form of steam to more than 40 customers within the region.

**Zhongdian Hongze RSTP.** The group's 100.0% owned Zhongdian Hongze RSTP is situated adjacent to the Zhongdian Hongze Thermal, Zhongdian Hongze RSTP is a co-generation plant using biomass as a source of fuel with installed capacity of 15.0MW. It has one steam turbine generating unit. It is supplying electricity to Jiangsu Province Electric Company. Since it is a biomass power plant, the plant is enjoying a favorable on-grid tariff, according to the policies regarding the power generation promulgated by the NDRC. It is charging RMB0.25/kwh higher than the benchmark tariff in Jiangsu province.

**Shanghai Dong Hai Wind Power.** The group's 24.0% owned Shanghai Dong Hai Wind Power is engaged in wind power electricity development and generating business. The total registered capital of Shanghai Dong Hai is RMB460.0. Through its wholly owned subsidiary, the group paid cash of approximately RMB55.0m to Shanghai Dong Hai as a first installment for its registered capital in January 2007. China Da Tong Corporation, Shanghai Green Environmental Energy Company Limited and China Guangdong Nuclear Energy Development Company Limited own 28%, 24% and 24% interests in Shanghai Dong Hai, respectively. Shanghai Dong Hai has the right to develop a 100.0MW offshore wind farm project located near Dong Hai Bridge, Shanghai. Total investment cost of the project is expected to be approximately RMB2.3b, which will be financed by Shanghai Dong Hai's registered capital and debt. The construction of the project is expected to commence in the first half of 2007.

**Dongguan Dong Cheng Dong Xin Heat and Power Company.** The group's 80.0% owned Dongguan Dong Cheng Dong Xin Heat and Power is situated in Dongguan, Guangdong Province. The plant was launched in 1Q06. It uses natural gas as its major source of fuel to generate electricity. The plant has two power

generating units with installed capacity of 360.0MW. The electricity generated by the plant is transmitted to the grid of Dongguan City Electricity Supply Bureau for supplying electricity to industries in the vicinity.

**Dongguan City Kewei Environmental Power.** The group's 40.0% owned Dongguan Kewei is a waste incineration power plant situated in Dongguan, Guangdong Province. The plant commenced operation in July 2005. It is utilizing municipal waste and/or garbage combined with coal to generate electricity. The plant has domestic garbage processing capacity of 0.4m t.p.a. and generating capacity of 36.0MW. The electricity generated by the plant is also transmitted to the grid of Dongguan City Electricity Supply Bureau for supplying electricity to industries in the vicinity.

**CPI (Fujian) Power Development.** The group's 100.0% owned CPI (Fujian) Power Development is a hydroelectric power plant situated in the upper limb of the Men Jiang River in the Nan Ping District of Fujian Province. The plant was launched in 1994. It is one of the major development projects under the PRC Government's Seventh Five Year Plan. It has four hydro-power generating units with total installed capacity of 300.0MW.

**Gansu China Power Jiuquan Wind Electric Power.** Situated in Guazhou County, Gansu Province, Gansu China Power Jiuquan Wind Electric Power is engaged in wind power generation. The group owns 90.0% interests in the company, and the company owns 90.0% interests in Phase 1 of the Gansu Power Project. The project was completed and commenced full-scale operation in November 2007. The project is equipped with 134 wind turbines with total generating capacity of 100.0MW. The electricity generated by Phase I of the Gansu Power Project is transmitted to a central grid of the local government and the tariff is fixed at RMB0.4616 kilowatt/hour for the initial 30,000 hours and thereafter at a tariff rate of not less than the average tariff rate then prevailing at the time in Gansu Province.

In November 2006, the NDRC of Gansu Province granted approvals to the group to commence preliminary works in relation to the development of Phase II of the wind power generating project at Jiuquan City, Guazhou County, Gansu Province. Phase II of the Gansu Power Project will be located to the west of Phase I of the Gansu Power Project and east of the National Highway no. 312. Under the development plan, the project will be equipped with 66 wind turbines of 750 kilowatt each, bring the project total capacity to about 50.0MW. The total construction cost of the said project is estimated to be around RMB350.0m. Under the business plan, electricity to be generated by the project will be transmitted to a central grid of the local government.

The NDRC of Jiuquan City had referred the Group's application to the NDRC of Gansu Province in November 2007 for approving the construction of Phase III of the Gansu Power Project with capacity of 50.0MW in Jiuquan City, Guazhou County, Gansu Province. Upon the completion of construction of Phase I and III of Gansu Power Project, the total capacity of the project is estimated to be 200.0MW

**Table 2: Assets acquired by CP New Energy**

Date	Assets acquired	Interests	Consideration (HK\$m)
Nov-06	Zhongdian Hongze Thermal	60.0%	
Nov-06	Zhongdian Hongze RSTP	100.0%	78.0
Jan-08	Shanghai Dong Hai Wind Power	10.6%	102.7
Jun-07	Dongguan Dong Cheng Dong Xin Heat and Power Company	40.0%	316.0
Jun-07	Dongguan City Kewei Environmental Power	40.0%	122.0
Jan-08	Long Tu Property	100.0%	204.6
Jan-08	CPI (Fujian) Power Development	100.0%	1,230.0
Jan-08	Gansu China Power Jiuquan Wind Electric Power	90.0%	250.0
Jan-08	Shanghai Dong Hai Wind Power	13.4%	150.0
Apr-08	DDongguan Dong Cheng Dong Xin Heat and Power Company	40.0%	298.0

Source: Company

**Table 3: Corporate actions of the past 19 months**

Date	Net proceeds (HK\$m)	Details	Particulars
Sep-06	78.0	325m shares @ HK\$0.24 each	Acquisition of 60.0% interests in Zhongdian Hongze Thermal and 100.0% interests in Zhongdian Hongze RSTP
Nov-06	106.0	580m shares @ HK\$0.275 (400.0m shares + 180.0m option shares)	Fund raising
Mar-07	102.7	395m shares @ HK\$0.26 each	Acquisition of 10.6% interests in Shanghai Dong Hai Wind Power
May-07	567.0	730m shares @ HK\$0.905 each	Fund raising
Jun-07	107.8	154m shares @ HK\$0.70	Acquisition of 40.0% interests in Dongguan Dong Cheng Dong Xin Heat and Power Company
Jun-07	42.0	60m shares @ HK\$0.7 each	Acquisition of 40.0% interests in Dongguan City Kewei Environmental Power
Nov-07	1,053.0	1.3b shares @ HK\$0.81 each	Fund raising
Jan-08	1,230.0	CBs with face value of HK\$1, 230m and conversion price of HK\$1.27	Acquisition of 100.0% interests in CPI (Fujian) Power Development
Jan-08	250.0	CBs with face value of HK\$250.0m and conversion price of HK\$1.27	Acquisition of 90% interests in Gansu China Power Jiuquan Wind Electric Power
Jan-08	150.0	CBs with face value of HK\$150.0m and conversion price of HK\$1.27	Acquisition of 13.4% interests in Shanghai Dong Hai Wind Power

Source: Company

**Table 4: Projects in the pipeline**

Project	Asset Type	Gross Capacity (MW)	Expected Year of commission
Gansu Power Project- Phase II	Wind Power	50.0	2008
Gansu Power Project- Phase III	Wind Power	50.0	2009
Heilongjiang Wind Project- Hailang	Wind Power	50.0	2009
Heilongjiang Wind Project- Hongqi	Wind Power	50.0	2009
Heilongjiang Wind Project- Phase II	Wind Power	180.0	2010
Inner Mongolia Wind Power Project	Wind Power	50.0	2010
Gansu Power Projects	Wind Power	200.0	2011
Deching County Power	WTE	12.0	2009
Kumming Power	WTE	45.0	2009
Guangdong WTE Project	WTE	48.0	2009

Source: Company