



China Nature Energy Technology[1597.HK]

Neutral

Issue Particulars

Industry sector	Construction
Listing category	Mainboard
Major Shareholders	Mr. Richard Cheng(75%)
Total new shares issued (mn)	62.5
Issue price (HK\$)	2.00-2.60
Total share offer size (HK\$m)	125.0-162.5
Shares offered for Placement (mn)	56.3
Shares offered for IPO (mn)	6.3
FY19 profit (Rmb mn)	42.5
FY19 P/E(x)	10.4-13.5
Market cap. of shares (HK\$m)	500-650
Total outstanding shares (new + existing shares)(mn)	250
NAV per share(HK\$)	0.9-1.1
Nominal Value (HK\$)	0.01
Board Lot (shares)	1,000
Sponsors	Fortune Financial

Time Table

IPO open	29-Sep-2020
IPO close	8-Oct-2020
Results announcement date	19-Oct-2020
Cheques refunded	19-Oct-2020
Dealing of shares	20-Oct-2020

Financial Data

FYE 31 Dec (RMB mn)	FY18	FY19	First 4 mths Of 2020
Revenue	144.4	222.8	51.5
Cost of sales	(99.9)	(156.4)	(38.1)
Gross profit	44.5	66.4	13.4
Other revenue	0.4	0.6	2.2
Selling expenses	(2.2)	(2.6)	(1.0)
Administration cost	(3.6)	(7.7)	(6.9)
Financial cost	(7.7)	(6.9)	(1.9)
JV	--	(0.3)	(0.3)
Pre-tax profit	31.4	49.6	5.5
Taxation	(3.5)	(6.9)	(1.2)
Non-controlling interest	(1.0)	(0.1)	
Net Profit	26.8	42.5	4.2

Clawback Structure

Over subscription for IPO (x)	% of IPO for the total share offer
15-50	30%
50-100	40%
Over 100	50%

Business

China Nature Energy Technology (CNET) is a wind power and pitch control system solution provider in the PRC. CNET also offers customised integration services of major components of pitch control systems. Pitch control system is a critical electrical system in a wind turbine for real-time regulation of the wind turbine generator's rotational speed against the changing wind velocity through control of the blade angle for optimal energy capture and minimisation of potential damages against exceedingly high speed winds.

CNET ranked third in the pitch control system market in the PRC in terms of sales volume in 2018 with a market share of 10.5% and ranked fourth in the market in terms of sales value in 2018 with a market share of 7.5%.

China government subsidy on onshore wind power would be phased out. This expected to cause significant fluctuations in pitch control systems between 2019 and 2023 since (i) wind turbines sales is estimated to rise between 2019 and 2021; and (ii) the wind turbine market size in the PRC is expected to decline between 2021 and 2023 as government subsidies on onshore wind power projects would be phased out after 2021, resulting in a CAGR of 1.4% from 2019 to 2023.

CNET is also a wind power generator through the operation of Duolun Wind Farm situated in Inner Mongolia, which is a centralised wind farm installed with 13 wind turbines with total installed capacity of 19.5 MW. (i) the on-grid price of existing Duolun Wind Farm is determined based on the year in which grid connection was accomplished and the applicable policies in force when it was developed, and (ii) its profitability and business are highly dependent on the relevant government policies and subsidies.

Since majority of CNET revenue come from pitch control systems for wind turbines, the anticipated fluctuation of wind power equipment demand in China, would impact investors confidence. Neutral.

Use Of Proceeds

• purchase of core components and raw materials	18.7%
• diversifying customer base	3.6%
• development of a new distributed wind farm	31.2%
• expand wind farm operation and maintenance services	3.8%
• strengthening R&D capabilities	11.4%
• full repayment of a loan	21.3%
• general working capital	10.0%

Analyst: Samuel Chua, CFA
schua@kgi.com

Some of KGI Asia equity research and earnings estimates are available electronically on KGIEWORLD.COM. Please contact your KGI representative for information

The information and opinions in this report are those of KGI Asia Ltd. internal research activity. KGI Asia Ltd. does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd.. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned here.