By Bei Hu and John Duce

Nov. 24 (Bloomberg) -- China Investment Corp. agreed to buy $400 million of stock in China Longyuan Power Group Corp.'s Hong Kong initial share sale, said three people familiar with the offering, as the sovereign wealth fund steps up investments in energy and commodities companies.

CIC's holding in China's largest wind-power producer will be locked up for 12 months, said the people, who declined to be identified before an official statement.

The investment marks the latest of more than $4 billion CIC has spent since September on the energy and resources industries to hedge against inflation and to meet the needs of the world's fastest-growing major economy. The fund, with almost $300 billion in assets at the end of last year, last week bought a $710 million stake in China's biggest producer of polysilicon.

"CIC's IPO participation would be considered as both an attractive investment for the sovereign fund and as an endorsement of one of the nation's high-growth industries," said Wang Lei, a Santa Fe, New Mexico-based co-manager of the $16.7 billion Thornburg International Value Fund, of the Longyuan investment.

CIC's stakes in alternative energy names such as Longyuan reflect increasing confidence in the renewable energy industry in China as the nation moves from an energy-intensive to a more environmentally friendly growth model, he said.

China WindPower Group Ltd. and China Solar Energy Holdings Ltd. have more than doubled in Hong Kong trading this year as the Chinese government encourages the use of renewable energy. China's wind-power capacity will increase more than fivefold in the next decade, Zhang Guobao, head of the government's National Energy Administration, said on May 26.

## Alternative Energy

Longyuan may raise as much as HK$17.5 billion ($2.3 billion) in the world's third-largest alternative energy initial public offering since at least 1999. The company plans to sell 2.14 billion shares at HK$6.26 to HK$8.16 apiece.

A Beijing-based CIC spokeswoman, who asked not to be identified, declined to comment on the CIC investment.

CIC is increasing investments in commodities after losing money on financial firms including Blackstone Group LP and Morgan Stanley. The fund purchased a 20 percent stake in GCL-Poly Energy Holdings Ltd., according to a stock exchange filing in Hong Kong on Nov. 18. CIC and the company agreed to set up a venture to invest in solar-power projects.

The sovereign fund also bought an 11 percent stake in Astana, Kazakhstan-based JSC KazMunaiGas Exploration Production, the London-traded unit of Kazakhstan's state-run energy company, for about $939 million, CIC said Sept. 30.

A week earlier it acquired $1.9 billion of debt from Jakarta-based PT Bumi Resources, Indonesia's biggest coal producer, and paid $850 million for a 15 percent share in Noble Group Ltd., a Hong Kong-based commodity supplier.

## Coal Reserves

SouthGobi Energy Resources Ltd., a unit of Ivanhoe Mines Ltd., said Oct. 26 it had obtained $500 million of financing from CIC to expand and develop coal reserves in southern Mongolia.

"It seems clear that China is utilizing multiple avenues of investment to achieve the overall goal as a country of acquiring commodity and resource-related assets and businesses," said Kirby Daley, a senior strategist at Newedge Group in Hong Kong.
"I expect this activity to continue to drive the commodity sector in the near term."

Four other so-called cornerstone investors, including companies linked to China Life Insurance Co.; Bank of East Asia Ltd. Chairman David Li; Hong Kong-based asset manager Value Partners Group Ltd. and WL Ross & Co. LLC, founded by billionaire Wilbur Ross, have agreed to buy shares with a combined value of $330 million in Longyuan's IPO, said the people.

Cornerstone investors are guaranteed shares in a Hong Kong IPO in exchange for a promise not to sell the stock for several months. Morgan Stanley and UBS AG are managing this sale.

## Valuation

The top end of the range values Beijing-based Longyuan, which is selling a 30 percent stake in the IPO, at HK$58.3 billion, or 28.9 times its 2010 earnings per share, as estimated by banks involved in the sale, two of the people said.

A call to Longyuan's Beijing headquarters wasn't answered.

Noel Cheung, a Morgan Stanley spokeswoman in Hong Kong, and Mark Panday, a spokesman for UBS in the city, declined to comment.

Longyuan, a subsidiary of state-controlled electricity producer China Guodian Corp., is the nation's first developer of wind farms and accounts for 24 percent of the nation's wind-power capacity, according to a Nov. 6 Morgan Stanley report.

The company's installed capacity of 2.9 gigawatts ranked it as the fifth-largest wind-power producer globally, the report said, citing data from renewable energy consulting firm BTM Consult ApS.

## Wind Power

Profit will likely rise 162 percent this year to 885 million yuan ($129.6 million) on increased capacity and electricity generation, the Morgan Stanley report said. Revenue may climb 14 percent to 7.2 billion yuan, it said.

Longyuan was capable of generating about 2,630 megawatts of wind power in 2008, and this will be raised to 6,000 megawatts by next year, Vice President Huang Qun said June 2. One thousand megawatts is enough electricity to power about a million homes.

Capital expenditure to construct new projects in the fourth quarter and next year will reach about 33 billion yuan, according to a draft IPO prospects seen by Bloomberg News. Longyuan is also looking to invest in wind projects overseas and to develop offshore wind farms off the coast of China, the prospectus said.