



July 8, 2015
Company Report
Rating: BUY
TP: HK\$ 7.70

| | |
|-------------------------|--------|
| Share price (HK\$) | 5.70 |
| Est. share price return | 35.09% |
| Est. dividend yield | 1.40% |
| Est. total return | 36.49% |

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Key Data

| | |
|-------------------------------------|-----------|
| Market share (HK\$m) | 49,667 |
| 3-mth avg. daily turnover (HK\$ mn) | 113 |
| 52-week high/low (HK\$) | 7.31/4.13 |
| Issued shares (mn) | 8,707 |
| Major shareholder(s) (%): | |
| Beijing Enterprises Hld | 43.92 |

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

| | |
|--------------------|--------------|
| Wastewater | 87.75 |
| Operation | 36.41 |
| Construction | 51.34 |
| Water distribution | 9.10 |
| Others | 3.14 |

Source(s): Company, ABCI Securities

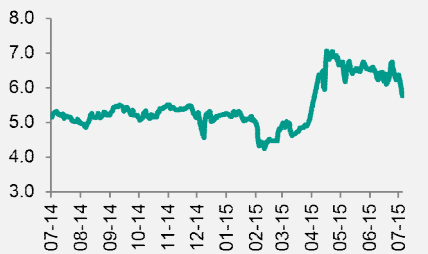
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | -17.42% | -10.27% |
| 3-mth | -12.01% | -8.48% |
| 6-mth | 5.38% | -2.40% |

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

Beijing Enterprises Water (371 HK)

Market leader with strong fundamentals

- China's urban wastewater volume is estimated to grow by 9% CAGR in 2013-2020E on increased urbanization, presenting great opportunities for the Group
- Rising tap and wastewater tariffs over the long term will improve margins for wastewater treatment operators
- We expect the Group's wastewater capacity to expand by 23% YoY in 2015E and boost earnings by 28%YoY
- We initiate coverage on Beijing Enterprises Water (BEW, 371 HK) with a **BUY** rating. Our TP HK\$7.70 is derived from a 11% WACC and represents 29x/24x FY15E/16E P/E and 3.8x/3.1x FY15E/16E P/B.

Urban wastewater volume will grow by 9% CAGR in 2013-2020E, presenting great opportunities to the Group. As China's urbanization and urban wastewater treatment rate continue to increase, total volume of urban wastewater treated should see strong growth. Assuming China's urbanization and wastewater treatment rates will reach 60% and 95% by end-2020, total wastewater treatment volume should be 72bn ton, representing a 80% increase in wastewater treatment volume from end-2013 (~40bn ton), or a 9% CAGR growth in 2013-2020. We believe this would present great opportunities for urban wastewater treatment operators like BEW.

Rising tap and wastewater tariffs as long-term positives. China's nationwide tap water tariff increased from RMB 0.99/ton in Jan 2000 to RMB 2.06/ton in Jan 2015, representing a 5% CAGR over the period. Meanwhile, wastewater tariff also recorded a more than 270% increase or 9% CAGR in 2000-2015. Given the rising living standard and urbanization rate, tap water and wastewater tariffs should continue to trend up. BEW is likely to be a beneficiary based on its exposure in both water distribution and wastewater treatment businesses.

Strong wastewater capacity growth in 2015E to boost revenue. BEW is targeting to add 3mt/day in new capacity (wastewater and water distribution) in 2015E and maintain a relatively high capacity growth in the next few years. We anticipate its wastewater capacity will increase by 1.8mt/day and 1.9mt/day in 2015E and 2016E, which translates to a YoY growth of 23%/19% YoY. In our view, strong wastewater capacity growth will boost earnings; as such, we forecast earnings to grow by 28%/23% in 2015E/16E.

Recommend BUY with TP at HK\$ 7.70. Our DCF-derived TP of HK\$ 7.70, based on an 11% WACC, is equivalent to 29x/24x 2015E/16E P/E and 3.8x/3.1x 2015E/16E P/B. We estimate a 2014-2017E EPS CAGR of 23%. Initiate with **BUY**.

Risks: (1) Default risk; (2) High net gearing ratio may prompt fundraising activities; (3) Policy risks.

Results and Valuation

| FY ended Dec 31 | 2013A | 2014A | 2015E | 2016E | 2017E |
|---------------------|-------|-------|--------|--------|--------|
| Revenue (RMB mn) | 6,406 | 8,926 | 11,692 | 14,947 | 18,323 |
| Chg (% YoY) | 71.9 | 39.3 | 31.0 | 27.8 | 22.6 |
| Net Income (RMB mn) | 1,084 | 1,794 | 2,299 | 2,826 | 3,358 |
| EBITDA (RMB mn) | 1,973 | 3,515 | 4,081 | 5,350 | 6,689 |
| Chg (% YoY) | 66.0 | 78.1 | 16.1 | 31.1 | 25.0 |
| EPS (RMB) | 0.140 | 0.208 | 0.266 | 0.327 | 0.388 |
| Chg (% YoY) | 28.7 | 48.5 | 28.1 | 22.9 | 18.8 |
| BVPS (RMB) | 1.715 | 1.826 | 2.011 | 2.310 | 2.581 |
| Chg (% YoY) | 39.9 | 6.5 | 10.1 | 14.8 | 11.8 |
| P/E (x) | 55.08 | 37.93 | 28.95 | 23.55 | 19.82 |
| P/B (x) | 4.49 | 4.22 | 3.83 | 3.33 | 2.98 |
| ROE (%) | 8.15 | 11.37 | 13.23 | 14.16 | 15.05 |
| ROA (%) | 2.45 | 3.47 | 3.56 | 3.51 | 3.48 |
| DPS (RMB) | 0.055 | 0.079 | 0.080 | 0.098 | 0.117 |
| Yield (%) | 0.71 | 1.02 | 1.04 | 1.27 | 1.51 |
| Net gearing* (%) | 84.2 | 92.3 | 153.2 | 193.8 | 230.6 |

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

Key positives

Urban wastewater volume will grow at a 9% CAGR over 2013-2020 and offer great opportunities.

As China's urbanization and urban wastewater treatment rate continue to rise, total volume of urban wastewater to be treated should see strong growth. If we assume urbanization rate and wastewater treatment rate in China to reach 60% and 95% by end-2020E, total wastewater treatment volume would reach 72bn ton, which represents an 80% increase in wastewater treatment volume (around 40bn ton) or a 9% CAGR in 2013-2020E. This should bring great opportunities for urban wastewater treatment operators like BEW.

23%YoY strong wastewater capacity growth in 2015E to boost revenue

BEW is targeting to add 3mt/day in new capacity (wastewater and water distribution) in 2015E and maintain a relatively strong growth rate in next few years. We anticipate its wastewater capacity to increase by 1.8mt/day and 1.9mt/day in 2015E and 2016E, equivalent to a YoY growth of 23%/19% YoY. In our view, strong wastewater capacity growth will boost earnings, and we forecast 2015E/16E earnings to increase by 28%/23% YoY. This strong organic growth will help BEW outperform peers.

Rising tap water and wastewater tariffs as long-term positives

China's nationwide tap water tariffs have been rising on increasing consumption per capita. According to the National Bureau of Statistics, China's tap water tariffs rose from RMB 0.99/ton in Jan 2000 to RMB 2.06/ton in Jan 2015, representing a 108% rise or a 5% CAGR over the period. At the same time, wastewater tariff has been trending up, recording a more than 270% increase or a 9% CAGR during 2000-2015 as the Chinese government is raising the environmental protection standards. Given the rising living standard and urbanization rate, tap water and wastewater tariffs would continue to rise. BEW, with its exposure in both water distribution and wastewater treatment businesses, should benefit from higher margins.

Fragmented market means ample room for growth

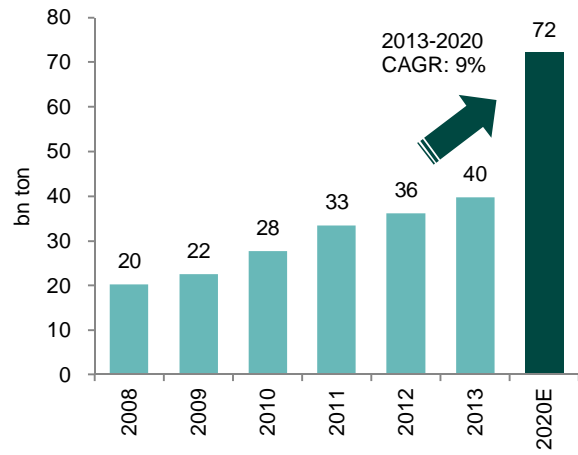
BEW is now the leading wastewater treatment operator in China by capacity after years of rapid expansion. Nonetheless, its market share by end-2013 was only ~4%, suggesting that room for growth is still ample. Furthermore, according to China Water data, aggregate market share of the top 5 wastewater treatment entities in China only amounted to 11% in China's wastewater treatment segment, indicating that the market is still fragmented, and opportunities for expansion are plentiful.

SOE with lower financing costs

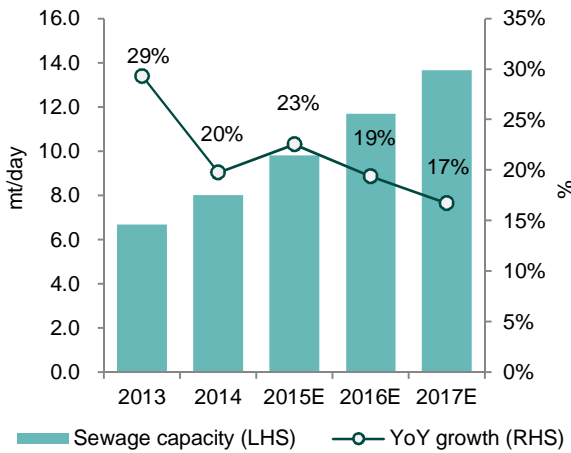
BEW is an SOE, and this status should help it maintain a strong relationship with local governments, giving the company an advantage over overseas peers and local newcomers in obtaining new contracts. SOEs also enjoy lower financing costs than private companies. According to management, BEW's interest costs are ~4%, compared to the 7% among the non-SOEs. Lower financing costs should benefit BEW in future M&A projects.

Exhibit 1: China's urban wastewater treatment rate to trend up

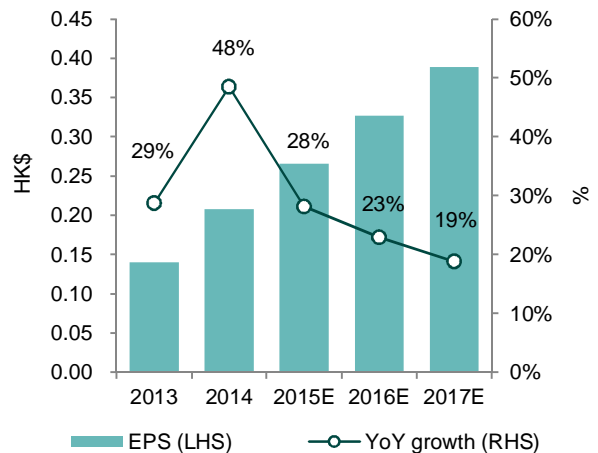

Source(s): MEP, ABCI Securities estimates

Exhibit 2: China wastewater treatment volume should grow at a 9% CAGR over 2013-2020E


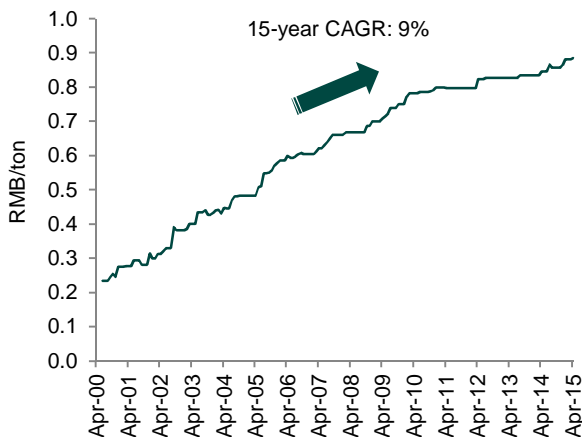
Source(s): MEP, ABCI Securities estimates

Exhibit 3: BEW's wastewater treatment capacity should continue to see strong organic growth


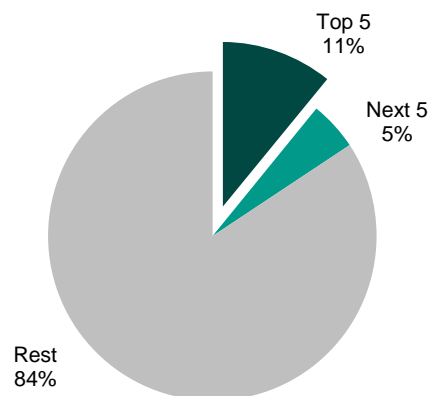
Source(s): The Company, ABCI Securities estimates

Exhibit 4: BEW's EPS growth to remain robust


Source(s): The Company, ABCI Securities estimates

Exhibit 5: Rising wastewater tariff in China


Source(s): Wind, ABCI Securities

Exhibit 6: A fragmented market suggests much growing room for BEW


Source(s): The Company, ABCI Securities

Future earnings outlook

We believe BEW would continue to benefit from China's environmental protection campaign. Wastewater treatment and water distribution businesses would continue to be the Group's key earnings drivers.

Earnings growth

Looking forward, we forecast a 32%/31% YoY growth in 2015E/16E wastewater segment revenue and a 30%/25% YoY growth in construction segment revenue. For the Group's water distribution segment, we project a 38%/35% YoY growth in 2015E/16E revenue off a low base. We therefore forecast BEW's overall net income to see a 28%/23% YoY growth in 2015E/16E.

Capacity growth

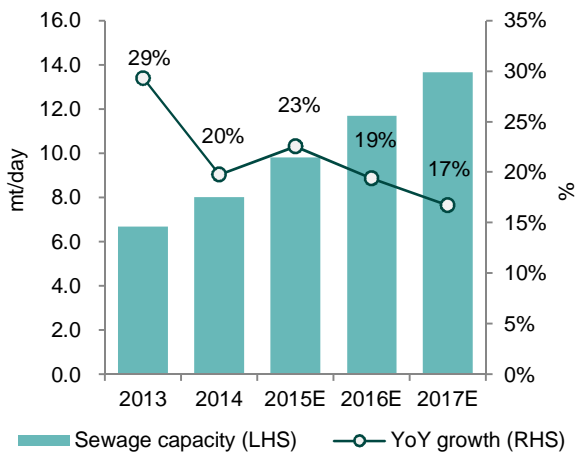
We believe BEW will continue to increase its wastewater capacity through M&A. In 2015E, we estimate the Group will add 1.8mt/day in new wastewater capacity (+23% YoY). We forecast another 1.9 mt/day in new capacity to be added in 2016E, which will result in a 19% YoY growth in wastewater capacity. For its water distribution segment, we project capacity in 2015E and 2016E will increase by 1.0mt/day and 1.3mt/day, which represents a 30% YoY growth in both years.

Gearing ratio

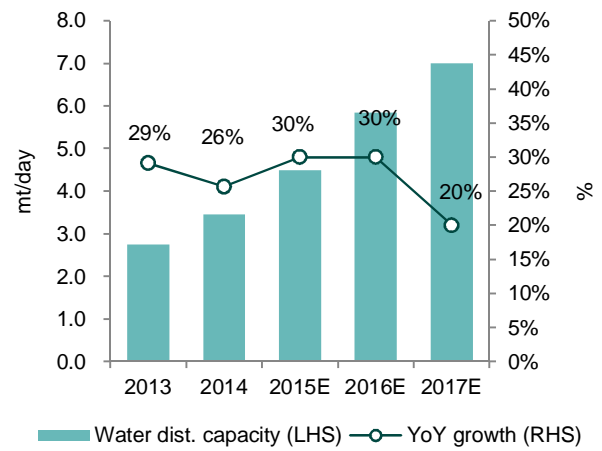
In our view, BEW will continue to ramp up its pace of wastewater project M&As; hence, its net gearing ratio will rise in the near future. Over the past years, BEW has acquired nearly 5mt/day of wastewater/water supply capacity at a total consideration of RMB 3.5 bn. Management expects its net gearing ratio to stay at ~150%-200% going forward.

Dividend policy

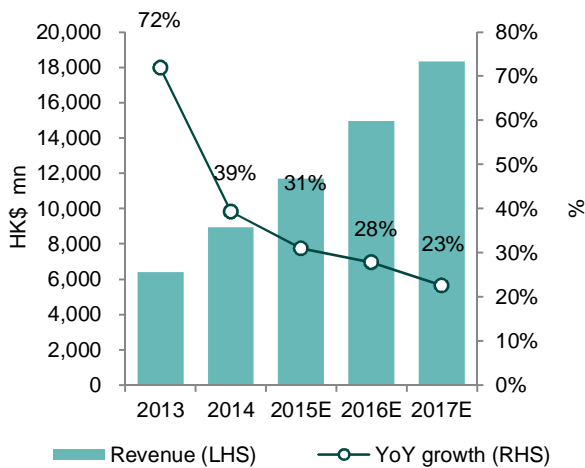
BEW's 2013/2014 dividend payouts were 39%/38%. Over the past years, BEW maintained a relatively high dividend payout ratio averaging at 37%. While increasing wastewater facilities should continue to provide strong cash flow, we expect BEW may incline to reserve capital for future M&A activities. Hence, we estimate the Group to maintain a 30% payout ratio going forward.

Exhibit 7: BEW's wastewater capacity outlook


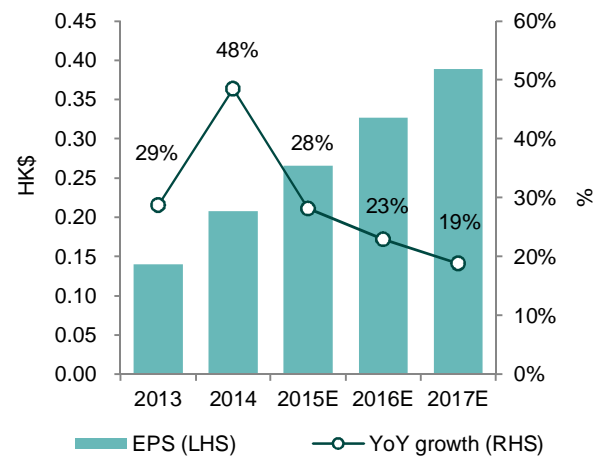
Source(s): ABCI Securities estimates

Exhibit 8: BEW's water distribution capacity outlook


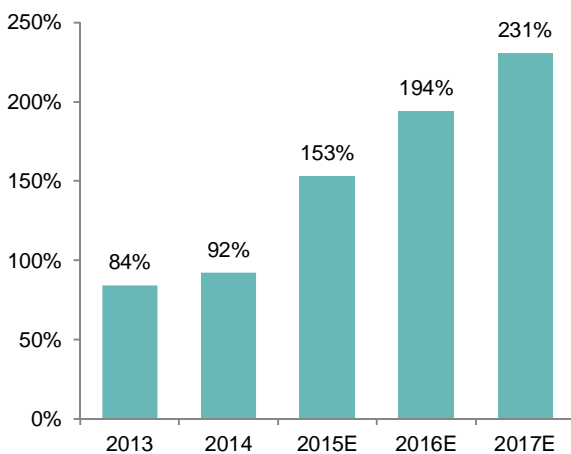
Source(s): ABCI Securities estimates

Exhibit 9: BEW's revenue outlook


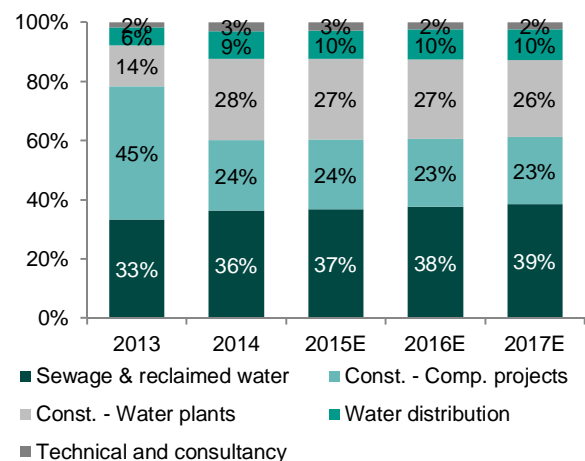
Source(s): ABCI Securities estimates

Exhibit 10: BEW's EPS outlook


Source(s): ABCI Securities estimates

Exhibit 11: BEW's net gearing ratio outlook


Source(s): ABCI Securities estimates

Exhibit 12: BEW's revenue distribution


Source(s): ABCI Securities estimates

Valuation

Initiate BUY with TP at HK\$7.70

We apply the DCF model to capture the future cash flow of BEW's increasing BOT (Build-Operate-Transfer) wastewater capacity. Our TP of HK\$7.70 is based on an 11% WACC, representing 29x/24x 2015/16E P/E, which is similar to peer average at 28x/23x among Hong Kong and Chinese players. Our TP is equivalent to 3.8x/3.3x 2015/16E PB, similar to the peer average of 3.4x/3.0x. As we estimate BEW's EPS will grow at a 23% CAGR in 2014-17E on the back of strong growth in wastewater and water distribution capacities, we believe our 2016E target P/E of 24x, equivalent to ~ 1x PEG, is undemanding.

Risks are on the upside

We believe the Company would deliver a 20% earnings growth YoY in the next two years, driven by 1) surging wastewater capacity growth on China's rising environmental protection concerns and 2) increasing water tariffs as water consumption per capita in China rises. The Company is currently trading at 22x 2015E P/E, and Bloomberg consensus projects a 3-year EPS CAGR of 25%, which translates to around 1.0x 3-year PEG. Given our expectation of strong future earnings growth, we believe the Group's current valuation is undemanding, with risks on the upside

Share price catalysts

Future share price catalysts include 1) supportive government policies for wastewater treatment investment and 2) announcement of new wastewater facilities M&A. We believe the Group's rising wastewater treatment capacity would provide a stable cash flow and trigger a re-rating for the counter.

Exhibit 13: BEW's DCF calculation (2015E-2024E)

| BEW's DCF calculation | |
|------------------------------|-------------|
| Perpetual growth rate | 1% |
| WACC | 11% |
| Terminal value | 91,620 |
| PV of terminal value | 31,217 |
| Cum PV of CF stream | 65,527 |
| Enterprise Value | 96,743 |
| Less debt | (33,243) |
| Add cash on hand | 6,610 |
| Less: MI | (3,560) |
| Equity Value | 66,551 |
| Shares o/s | 8,643 |
| Value per share(HK\$) | 7.70 |

Source(s): The Company, ABCI Securities estimates

Exhibit 14: BEW's WACC calculation (2015E-2024E)

| Assumptions | |
|--------------------------------|--------------|
| Risk Free Rate of Return | 3.6% |
| Long Term Cost of Debt | 5.0% |
| Equity Risk Premium | 10.0% |
| Beta | 0.96 |
| Tax Rate | 20.0% |
| Target Debt to Total Capital | 20.0% |
| Target Equity to Total Capital | 80.0% |
| Cost of Equity | 13.2% |
| WACC | 11.4% |

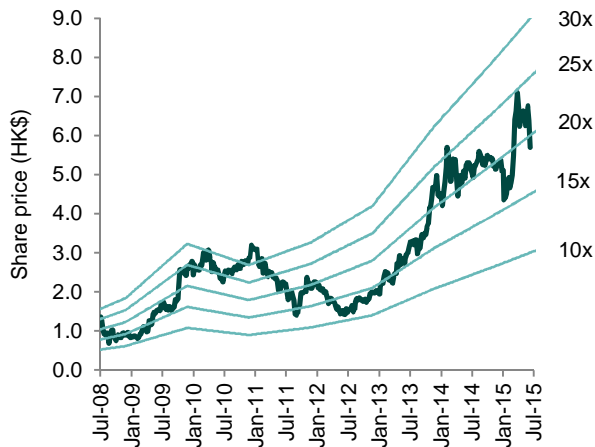
Source(s): The Company, ABCI Securities estimates

Exhibit 15: Peer comparison

| Name | Stock code | Price | Mkt Cap (USDmn) | PER (x) | | PBR (x) | | Dvd Yield | | ROE | |
|---------------------------|------------|-------|-----------------|-------------|-------------|------------|------------|-------------|-------------|-----------|-----------|
| | | | | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E |
| HK & China | | | | | | | | | | | |
| Beijing Enterprises Water | 371 HK | 5.70 | 6,406 | 22.4 | 17.5 | 2.8 | 2.5 | 17.0 | 13.4 | 2% | 2% |
| China Everbright Intl | 257 HK | 12.64 | 7,310 | 23.9 | 18.3 | 3.2 | 2.8 | 16.1 | 12.3 | 1% | 1% |
| Ct Environmental Group | 1363 HK | 9.21 | 1,817 | 22.1 | 16.5 | 5.0 | 3.9 | 16.0 | 11.9 | 1% | 1% |
| Tianjin Capital Environ | 1065 HK | 4.81 | 1,817 | 16.5 | 16.5 | 1.3 | 1.2 | 14.2 | 13.5 | 2% | 2% |
| China Water Affairs Group | 855 HK | 3.63 | 712 | 11.3 | 10.2 | n.a. | n.a. | n.a. | n.a. | 2% | 3% |
| Chongqing Water Group | 601158 CH | 9.29 | 7,181 | 24.9 | 22.7 | 3.2 | 3.1 | 24.3 | 23.4 | 3% | 3% |
| Tianjin Capital | 600874 CH | 9.17 | 1,817 | 43.1 | 39.4 | 3.0 | 2.8 | 14.2 | 13.5 | 1% | 1% |
| Beijing Originwater | 300070 CH | 40.49 | 7,022 | 28.6 | 20.8 | 6.2 | 4.9 | 26.9 | 18.7 | 0% | 1% |
| Beijing Water Business | 300055 CH | 19.13 | 2,265 | 34.3 | 27.2 | 3.4 | 3.0 | 39.9 | 27.3 | 1% | 1% |
| Heilongjiang Interchina | 600187 CH | 6.07 | 1,423 | 46.7 | 40.5 | n.a. | n.a. | n.a. | n.a. | 3% | 3% |
| Beijing Capital Co Ltd | 600008 CH | 9.43 | 3,660 | 30.3 | 24.6 | 2.8 | 2.7 | 18.3 | 14.8 | 2% | 2% |
| Avg. | | | | 27.6 | 23.1 | 3.4 | 3.0 | 20.8 | 16.5 | 2% | 2% |
| Asia | | | | | | | | | | | |
| Manila Water Company | MWC PM | 23.80 | 1,065 | 9.7 | 9.7 | 1.3 | 1.2 | 6.4 | 6.1 | 3% | 4% |
| Ttw Pcl | TTW TB | 11.20 | 1,320 | 15.0 | 15.6 | 3.8 | 3.8 | 11.5 | 11.0 | 6% | 6% |
| Eastern Water Resources | EASTW TB | 11.60 | 570 | 13.5 | 13.1 | 2.1 | 1.9 | n.a. | n.a. | 4% | 4% |
| Avg. | | | | 12.7 | 12.8 | 2.4 | 2.3 | 8.9 | 8.5 | 5% | 5% |
| International | | | | | | | | | | | |
| Aqua America Inc | WTR US | 25.20 | 4,462 | 19.8 | 18.7 | 2.7 | 2.5 | 13.0 | 12.1 | 3% | 3% |
| American States Water | AWR US | 38.31 | 1,447 | 23.9 | 22.9 | n.a. | n.a. | 10.5 | 10.0 | 2% | 2% |
| California Water Service | CWT US | 23.54 | 1,127 | 18.5 | 17.2 | 1.8 | 1.7 | 9.0 | 8.4 | 3% | 3% |
| Avg. | | | | 20.8 | 19.6 | 2.2 | 2.1 | 10.8 | 10.2 | 3% | 3% |

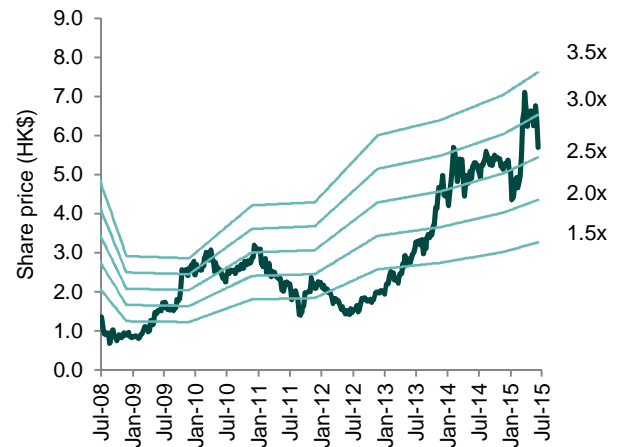
Source(s): Bloomberg, ABCI Securities estimates, prices are as of July 6, 2015

Exhibit 16: BEW's fwd. PE chart



Source(s): The Company, ABCI Securities estimates

Exhibit 17: BEW's fwd. PB chart



Source(s): The Company, ABCI Securities estimates

Major risks and concerns

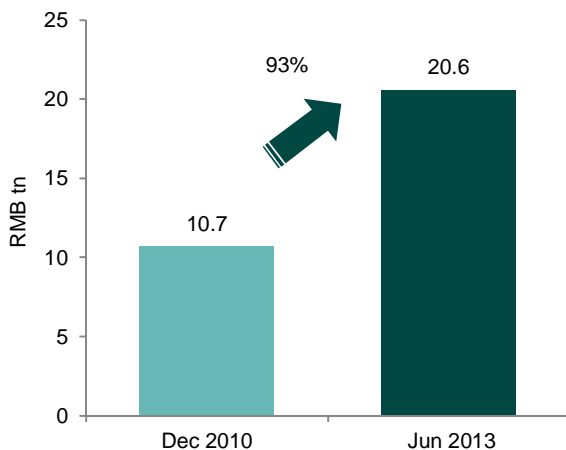
Rising local government debts

Rising local government debts may limit wastewater investment. According to China's National Audit Office, as of June 2013, total government debt was RMB 20.6tn, equivalent to 40% of China's 2012 GDP. For some local governments, debt levels are equivalent to 3 times their annual income. We believe the high debts may reduce local governments' wastewater treatment investment. Furthermore, mounting local government's debt may increase default risk for BEW, as the governments may not be able to repay the construction costs upon project completion.

High net gearing heighten equity fundraising concerns

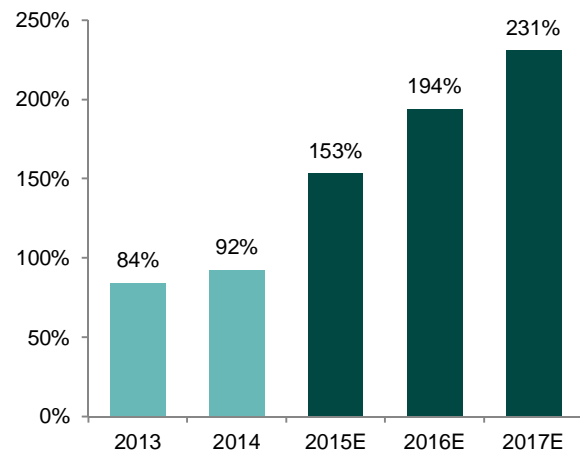
BEW's business model relies heavily on operating income from wastewater treatment business for its M&A activities. As the company accelerates its wastewater M&A activity, its operating cash flow will be stretched, driving up its net gearing ratio. The Group's net gearing ratio rose from 88% in 2009 to 92% in 2014. On Oct 17, 2013 BEW issued 350mn new shares (4.33% of total share capital) at HK\$ 3.21 to raise HK\$ 1.1bn in new capital. We believe that more equity fundraising may take place in 2015.

Exhibit 18: Rising local government debts may affect BEW's business expansion



Source(s): National Audit Office, ABCI Securities

Exhibit 19: BEW's increasing net gearing ratio heightens fundraising concerns



Source(s): The Company, ABCI Securities estimates

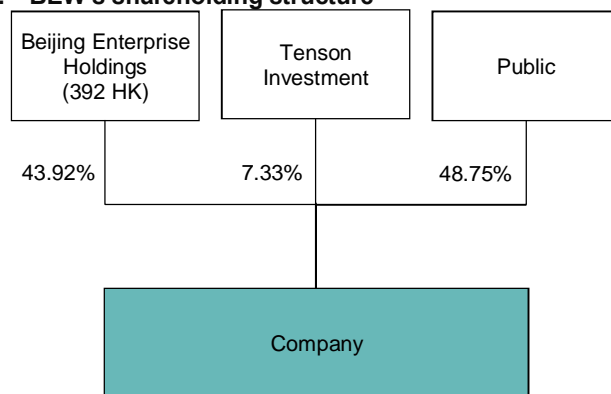
Company overview

Background

Beijing Enterprises Water (BEW) is ultimately owned by the Beijing Municipal government, which engages in water supply and wastewater treatment as well as the environmental protection business. BEW is a subsidiary of Beijing Enterprises Holdings (392 HK; NR), and as of end-2014, BEW controlled 8mt/day in domestic operating wastewater treatment capacity, making it one of the largest water treatment enterprises in China.

BEW was listed on the Main Board of the HKEx through backdoor listing in May 2008. Beijing Enterprises Holdings is the largest shareholder with a 44% stake.

Exhibit 20: BEW's shareholding structure



Source(s): The Company, ABCI Securities

Major assets and business

As of end-2014, BEW was operating 177 wastewater treatment plants and 26 water distribution plants with total operating capacities of 8mt/day and 3.4mt/day. The company specializes in wastewater treatment, reclaimed water, water supply and technical consultancy.

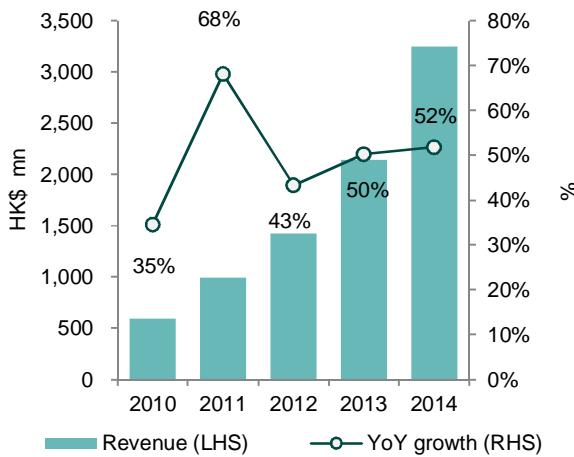
- ◆ **Wastewater treatment:** BEW's main business is wastewater treatment. It currently controls 177 treatment plants with an operating capacity of 8mt/day (China and overseas). This business contributed to 36% of BEW's total 2014 revenue with a gross margin (GM) of 61%.
- ◆ **Construction:** Another key business which contributed to 51% of BEW's 2014 revenue. This business is not as profitable as wastewater treatment with a 24% GM in 2014.
- ◆ **Water supply:** BEW controls 26 water distribution plants with 3.4mt/day in operating capacity. It is another profitable business with a 50% GM in 2014. However, this segment contributed to only 9% of 2014 revenue.
- ◆ **Technical and consultancy:** This business only contributed to 3% of 2014 revenue. However, GM can be as high as 70%, making it the company's most profitable segment.

Exhibit 21: Wastewater treatment business

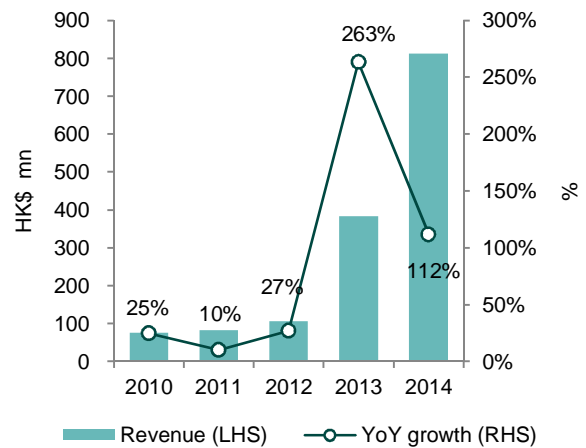

Source(s): ABCI Securities

Exhibit 22: Water distribution business


Source(s): ABCI Securities

Exhibit 23: BEW's wastewater treatment revenue trend


Source(s): The Company, ABCI Securities

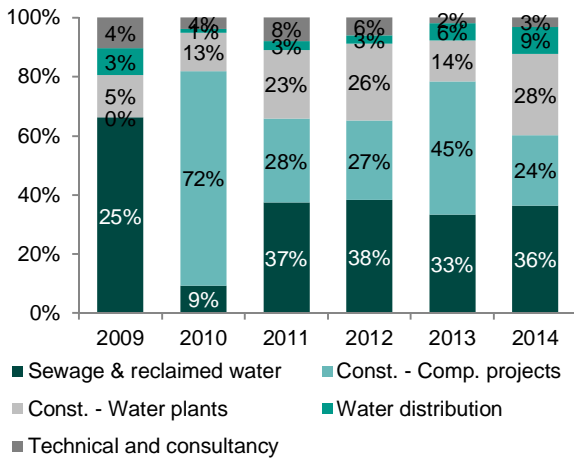
Exhibit 24: BEW's water distribution revenue trend


Source(s): The Company, ABCI Securities

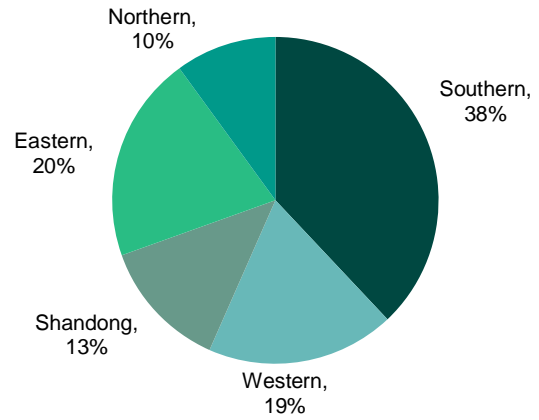
Revenue breakdown

BEW reported a 2014 revenue of HK\$ 8.9 bn, up 39% YoY, mainly driven by the 52% YoY growth in the wastewater treatment segment (accounting for 36% of overall revenue). This segment has maintained a stable growth over the years (43%/50%/52% YoY revenue growth in 2012/13/14), and we believe it will continue to be the Group's key revenue engine. Furthermore, BEW continues to boost its water distribution business. Contribution from this segment has been improving from 1% in 2010 to 9% of total revenue by end-2014.

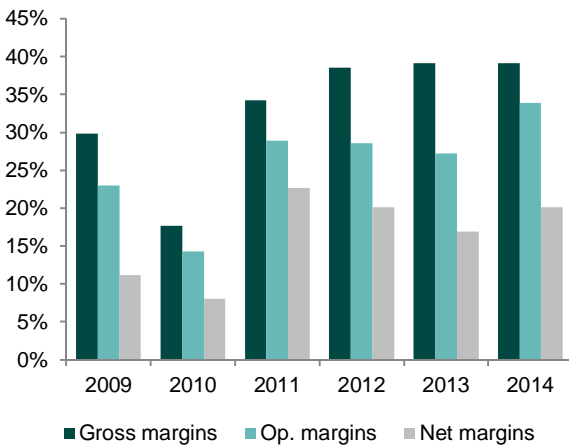
Overall gross margin saw sequential improvement from 30% in 2009 to 39% by end-2014 on increasing contribution from its high-margin wastewater treatment (2014 GM: 61%) and water distribution (2014 GM: 50%) businesses. Revenue contribution from the two businesses has risen from 28% in 2009 to 46% in 2014.

Exhibit 25: Historical revenue breakdown


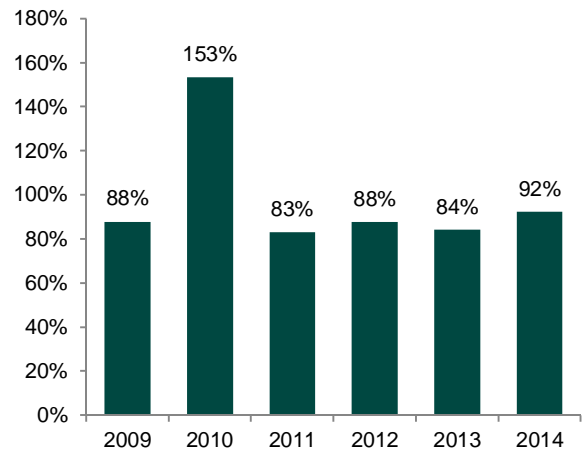
Source(s): The Company, ABCI Securities

Exhibit 26: BEW 2014 wastewater capacity breakdown (China)


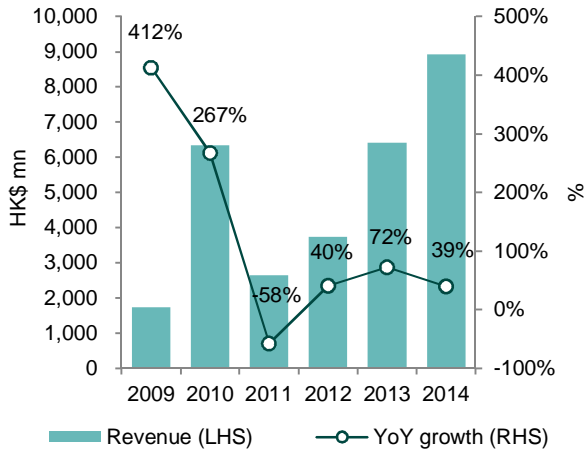
Source(s): The Company, ABCI Securities

Exhibit 27: Overall margins trend


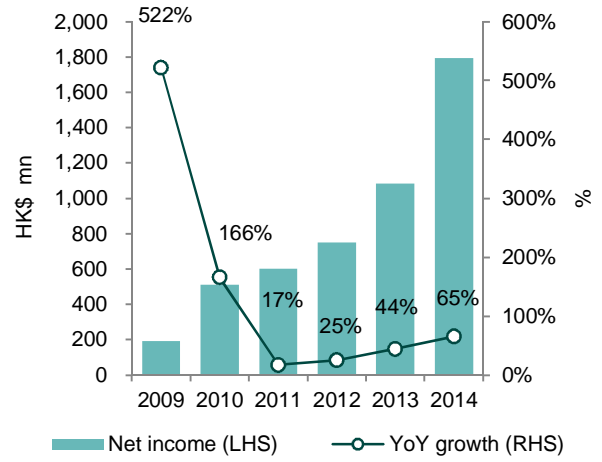
Source(s): The Company, ABCI Securities

Exhibit 28: Net gearing ratio


Source(s): The Company, ABCI Securities

Exhibit 29: Revenue growth trend


Source(s): The Company, ABCI Securities

Exhibit 30: Net income growth trend


Source(s): The Company, ABCI Securities



Consolidated income statement (2013A-2017E)

| FY Ended Dec 31 (HK\$ mn) | 2013A | 2014A | 2015E | 2016E | 2017E |
|---|---------------|---------------|---------------|---------------|----------------|
| Revenue | 6,406 | 8,926 | 11,692 | 14,947 | 18,323 |
| Sewage and reclaimed water | 5,905 | 7,833 | 10,249 | 13,061 | 16,005 |
| Water distribution | 384 | 813 | 1,121 | 1,515 | 1,892 |
| Other | 118 | 281 | 323 | 371 | 427 |
| COGS | -3,901 | -5,430 | -7,034 | -8,906 | -10,838 |
| Gross profit | 2,506 | 3,496 | 4,658 | 6,042 | 7,486 |
| SG&A | -775 | -1,066 | -1,169 | -1,495 | -1,832 |
| Net financial income (cost) | -354 | -639 | -588 | -996 | -1,448 |
| Other income and gains | 120 | 876 | 292 | 374 | 458 |
| Pre-tax profit | 1,497 | 2,667 | 3,193 | 3,925 | 4,663 |
| Income tax | -352 | -594 | -639 | -785 | -933 |
| Net profit | 1,145 | 2,073 | 2,554 | 3,140 | 3,731 |
| Profit attributable to: | | | | | |
| Minority interests | -61 | -279 | -255 | -314 | -373 |
| Equity shareholders of the Company | 1,084 | 1,794 | 2,299 | 2,826 | 3,358 |
| Basic EPS (HK\$) | 0.140 | 0.208 | 0.266 | 0.327 | 0.388 |
| DPS (HK\$) | 0.055 | 0.079 | 0.080 | 0.098 | 0.117 |

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2013A-2017E)

| As of Dec 31 (HK\$ mn) | 2013A | 2014A | 2015E | 2016E | 2017E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current assets | 15,212 | 15,078 | 16,647 | 17,906 | 19,019 |
| Cash and equivalent | 5,513 | 6,091 | 6,610 | 5,077 | 3,293 |
| Pledged and restricted bank deposits | 57 | 304 | 0 | 0 | 0 |
| Trade and bill receivables | 2,038 | 2,595 | 3,524 | 4,505 | 5,522 |
| Other receivables and prepayments | 6,431 | 5,910 | 6,407 | 8,190 | 10,040 |
| Inventories | 55 | 58 | 106 | 134 | 163 |
| Other current assets | 1,118 | 120 | 0 | 0 | 0 |
| Non-current assets | 28,974 | 36,563 | 47,875 | 62,644 | 77,332 |
| Property, plant and equipment | 379 | 1,243 | 2,102 | 2,958 | 3,812 |
| Lease prepayment | 0 | 0 | 0 | 0 | 0 |
| Intangible assets | 2,539 | 2,553 | 3,494 | 4,667 | 6,078 |
| Investment in JV and associates | 3,025 | 3,109 | 3,851 | 4,780 | 5,901 |
| Other receivables and deposits | 15,006 | 20,293 | 26,105 | 33,151 | 40,458 |
| Other non-current assets | 8,027 | 9,364 | 12,323 | 17,087 | 21,084 |
| Total assets | 44,187 | 51,641 | 64,522 | 80,550 | 96,351 |
| Current liabilities | 11,651 | 11,419 | 16,183 | 20,856 | 25,796 |
| Trade and bill payables | 2,755 | 3,564 | 4,818 | 6,100 | 7,423 |
| Other payables | 4,908 | 3,910 | 4,818 | 6,100 | 7,423 |
| Short term borrowings | 3,980 | 3,945 | 6,547 | 8,656 | 10,949 |
| Other current liabilities | 7 | 0 | 0 | 0 | 0 |
| Non-current liabilities | 16,611 | 21,133 | 27,396 | 35,859 | 43,998 |
| Deferred tax liabilities | 562 | 930 | 700 | 750 | 200 |
| Long-term borrowings | 12,780 | 17,022 | 26,696 | 35,109 | 43,798 |
| Other non-current liabilities | 3,269 | 3,182 | 0 | 0 | 0 |
| Total liabilities | 28,262 | 32,552 | 43,579 | 56,715 | 69,793 |
| Minority interests | -2,627 | -3,304 | -3,560 | -3,874 | -4,247 |
| Shareholders' equities | 13,298 | 15,784 | 17,383 | 19,961 | 22,312 |

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2017E)

| FY ended Dec 31 (HK\$ mn) | 2013A | 2014A | 2015E | 2016E | 2017E |
|---|---------------|---------------|---------------|---------------|---------------|
| Profit before tax | 1,497 | 2,667 | 3,193 | 3,925 | 4,663 |
| Change in depreciation and amortization | 122 | 209 | 299 | 429 | 578 |
| Change in working capital | -2,653 | -2,732 | -9,072 | -9,504 | -9,869 |
| Net financial cost (income) | 363 | 668 | 588 | 996 | 1,448 |
| Income tax paid | -177 | -277 | -594 | -639 | -785 |
| Net interest received | 0 | 0 | 0 | 0 | 0 |
| Others | -88 | -271 | -175 | -224 | -275 |
| CF Operating | -936 | 264 | -5,761 | -5,017 | -4,240 |
| Capex | -105 | -683 | -1,291 | -1,479 | -1,672 |
| Increase in intangible assets | -19 | -51 | -937 | -1,169 | -1,407 |
| Others | -2,734 | -1,000 | -1,886 | -2,288 | -2,701 |
| CF Investing | -2,857 | -1,734 | -4,114 | -4,936 | -5,780 |
| Net Capital raise | 2,297 | 0 | -6 | 0 | 0 |
| Net debt financing | 3,726 | 3,677 | 12,276 | 10,523 | 10,982 |
| Dividend payout | 0 | -10 | -690 | -848 | -1,007 |
| Interest paid | -789 | -1,105 | -1,084 | -1,153 | -1,637 |
| Others | 191 | -366 | 0 | 0 | 0 |
| CF Financing | 5,425 | 2,196 | 10,496 | 8,522 | 8,338 |
| Net change in cash | 1,632 | 726 | 621 | -1,432 | -1,682 |
| Cash at the beginning | 3,640 | 5,366 | 6,091 | 6,610 | 5,077 |
| Adjustment (Time deposit & FX effect) | 241 | -1 | -102 | -102 | -102 |
| Cash at the end | 5,513 | 6,091 | 6,610 | 5,077 | 3,293 |

Source(s): Company, ABCI Securities estimates

Key Ratio (2013A-2017E)

| FY ended Dec 31 (HK\$ mn) | 2013A | 2014A | 2015E | 2016E | 2017E |
|---|--------------|--------------|--------------|--------------|--------------|
| Sales mixed (%) | | | | | |
| Sewage and reclaimed water | 92.18 | 87.75 | 87.65 | 87.38 | 87.35 |
| Water distribution | 5.99 | 9.10 | 9.59 | 10.14 | 10.32 |
| Other | 1.83 | 3.15 | 2.76 | 2.48 | 2.33 |
| Total | 100 | 100 | 100 | 100 | 100 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | 39.11 | 39.17 | 39.84 | 40.42 | 40.85 |
| Operating profit margin | 27.21 | 33.92 | 30.84 | 31.42 | 31.85 |
| Pre-tax margin | 23.37 | 29.88 | 27.31 | 26.26 | 25.45 |
| Net profit margin | 17.88 | 23.23 | 21.85 | 21.01 | 20.36 |
| Selling & administrative expenses/revenue | 12.09 | 11.94 | 10.00 | 10.00 | 10.00 |
| Effective tax rate | 23.50 | 22.27 | 20.00 | 20.00 | 20.00 |
| Growth (%) | | | | | |
| Revenue | 71.88 | 39.33 | 30.99 | 27.84 | 22.59 |
| Gross profit | 74.36 | 39.53 | 33.24 | 29.71 | 23.90 |
| Operating profit | 63.85 | 73.68 | 19.09 | 30.25 | 24.28 |
| Net profit | 32.09 | 81.01 | 23.21 | 22.91 | 18.82 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.31 | 1.32 | 1.03 | 0.86 | 0.74 |
| Quick ratio (x) | 0.65 | 0.79 | 0.63 | 0.46 | 0.34 |
| Cash ratio (x) | 0.48 | 0.56 | 0.41 | 0.24 | 0.13 |
| Trade and bill receivables days | 116.11 | 106.12 | 110.00 | 110.00 | 110.00 |
| Trade and bill payables turnover days | 257.82 | 239.56 | 250.00 | 250.00 | 250.00 |
| Inventory turnover days | 5.18 | 3.88 | 5.50 | 5.50 | 5.50 |
| Total debt / equity ratio (%) | 126.04 | 132.83 | 191.24 | 219.25 | 245.38 |
| Net debt / equity ratio (%) | 84.15 | 92.32 | 153.21 | 193.82 | 230.61 |
| Returns (%) | | | | | |
| ROAA | 2.9 | 3.7 | 4.0 | 3.9 | 3.8 |
| ROAE | 10.0 | 12.3 | 13.9 | 15.1 | 15.9 |
| Payout ratio | 39.28 | 37.85 | 30.00 | 30.00 | 30.00 |

Source(s): Company, ABCI Securities estimates



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Analyst Certification

I, Kelvin Ng, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

| Rating | Definition |
|--------|--|
| Buy | Stock return \geq Market return rate |
| Hold | Market return \leq 6% \leq Stock return $<$ Market return rate |
| Sell | Stock return $<$ Market return \leq 6% |

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

| Rating | Definition |
|-----------|--|
| Very high | $2.6 \leq$ 180 day volatility/180 day benchmark index volatility |
| High | $1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6 |
| Medium | $1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5 |
| Low | 180 day volatility/180 day benchmark index volatility $<$ 1.0 |

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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