



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED



China Environmental Protection Sector

Focus on incineration sector

June 19, 2018



China's Environmental Protection Sector Focus on incineration sector

- Rising urbanization and higher living standard will remain as the key drivers for solid waste and wastewater demand in urban area
- Low penetration rate of incineration at 31% in urban areas will spur demand. We expect waste treated via incineration to grow at 18% CAGR during 2016-20E
- High penetration of urban wastewater treatment at 92% means limited growth. We expect a 5% CAGR over 2016-20E
- **OVERWEIGHT** on China Environmental Protection Sector. Recommend **BUY** for **China Everbright Int'l (257 HK)**

Rising urbanization and higher living standard remain as key drivers for solid waste and wastewater demand in urban area. According to estimates by the State Council, total population in China would reach 1.45bn by end-2020, meaning that an additional of 77mn people will move to urban areas over the next few years. As disposable income is on the rise, urban residents are likely to demand better hygienic standards, which in turn will offer great opportunities for treatment operators.

Low penetration of incineration at 31% in urban areas would spur volume of waste treated to grow at 18% CAGR during 2016-20E. Historically, around 70% of residential waste has been disposed of via landfills in China. However, according to NDRC's statement issued on Sep 22, 2016, China targets to raise the proportion of waste incinerated in urban areas from the 31% at end-2016 to 50% by end-2020E. This indicate a 87% jump or 4-year CAGR of 17% in capacity of waste incinerated during 2016-20E. In addition, solid waste produced per capita in urban areas expounded at a 0.7% CAGR in the past 10 years. As O2O activities expand rapidly and results in more solid waste, we expect the 2016-20E CAGR to be 0.7%. As such, we believe solid waste in urban areas treated via incineration would grow at 18% CAGR in 2016-20E.

High penetration of urban wastewater treatment at 92% would imply limited room for growth; we expect 5% CAGR in urban wastewater treatment volume in 2016-20E. Unlike incineration, wastewater treatment facilities have been well established. According to Ministry of Housing and Urban-Rural Development (MOHURD), wastewater treatment rate in urban area reached 92% by end-2016. Based on the State Council's 13th FYP statement issued in 2016 that stated a targeted wastewater treatment rate of 95% by end-2020, we estimate a 5% CAGR in treatment volume during 2016-20E. Further growth opportunities for wastewater operators would come from acquisition or rural area.

OVERWEIGHT sector outlook; maintain BUY for China Everbright Int'l (257 HK). We maintain our OVERWEIGHT rating for solid waste treatment sector as opportunities are bountiful with the rising urbanization and low penetration in urban area. Our top pick is **China Everbright Int'l (257 HK, BUY)** based on its solid expansion in incineration capacity and existing operating projects in prime regions. Beijing Enterprises Water (371 HK, HOLD) is a market leader in China's wastewater treatment industry but high penetration rate and tightening control in Public-Private Partnership (PPP) business model may restrain growth in its EPC segment. In short, we advise investors to focus on incineration players.

Risks. 1). Air pollution concern may hinder construction of incinerators; 2). High net gearing may compromise balance sheet 3). Balance sheet position may deteriorate on acquisition in poor regions; 4). Rising debts of local governments may slow down construction of environmental protection facilities.

Sector Valuation Summary (data as of June 15, 2018)

Company	Ticker	Rating	TP (HK\$)	FY18E P/E(x)	FY19E P/E (x)	FY18E P/B (x)	FY19E P/B (x)	FY18E Yield(%)	FY19E Yield(%)
China Everbright Int'l	257	BUY	15.00	11.2	8.9	1.9	1.6	2.7	3.4
Beijing Enterprises Water	371	HOLD	5.00	9.1	8.3	1.6	1.5	3.3	3.6

Source(s): Bloomberg, ABCI Securities estimates

Sector Report June 19, 2018 OVERWEIGHT

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Key Data

Avg.18E P/E (x)	10.2
Avg.18E P/B (x)	1.8
Avg.18E Dividend Yield (%)	3.0

Source(s): Bloomberg, ABCI Securities

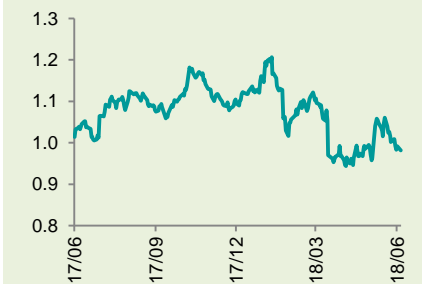
Sector Performance

	Absolute	Relative*
1-mth	1.95%	8.18%
3-mth	(9.95%)	(2.47%)
6-mth	(10.86%)	(11.24%)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (start day as 1)



Source(s): Bloomberg, ABCI Securities



Key positives and future outlook

We believe both urbanization and rising hygienic standard in China's urban areas will remain as the potent growth drivers for environmental protection operators as demand for a clean environment is strong in these wealthy areas. We believe operators in the incineration treatment industries should continue to record robust growth during the 13th Five-Year-Plan period (13th FYP, 2016-20). However, the growth of wastewater treatment operators should be quite limited due to high penetration rate in urban areas.

Rising urbanization and living standard spur demand for wastewater and solid waste treatment services

We believe rising urbanization nationwide will remain as the key investment theme in the environmental protection sector. According to National Development and Reform Committee's (NDRC) estimates, China's urbanization rate would reach 60% by end-2020, up from 57% at end-2016. The State Council estimates total population would reach at least 1.45bn by end-2020, implying an additional of 77mn people would move to urban areas in years to come. With rising disposable income and living standard, we believe solid waste and wastewater produced per capita in urban areas would trend up, spurring demand for incineration and wastewater treatment service.

- ◆ **Incineration.** This solid waste treatment method is still new in China and penetration rate in urban areas is quite low (31% by end-2016). We believe as China continues to promote such treatment method (penetration rate targeted to reach 50% by end-2020), incineration industry will undergo robust growth.
- ◆ **Wastewater.** Penetration rate of wastewater is quite high in China's urban areas (92% by end-2016). We believe further growth of this industry would come from increasing population in urban areas (urbanization) and operators entering inland rural areas.

Incineration

China targets to expand urban incineration capacity at 17% CAGR in 2016-20E

Historically, around 70% of residential waste has been disposed of via landfills in China due to its low cost and the lack of environmental consciousness. However, this situation has been changing since the government reduced such use in recent years because of limited land resources and the resultant underground water pollution. According to "The Draft of 13th FYP on Urban Residential Waste Treatment" issued by the NDRC on Sep 22, 2016, China targets to raise the proportion of waste incinerated in urban areas from the 31% at end-2016 to 50% by end-2020E, making incineration a key solid waste treatment in urban areas. NDRC also targets to raise incineration capacity in urban areas from 0.28mt/day by end-2016 to 0.52mt/day by end-2020, indicating an 86% jump or 4-year CAGR of 17% during the period. Incineration will be a major waste treatment method, presenting enormous opportunities to operators in urban areas.

Solid waste produced per capita to increase at 0.7% CAGR during 2016-20E on Increasing O2O activities

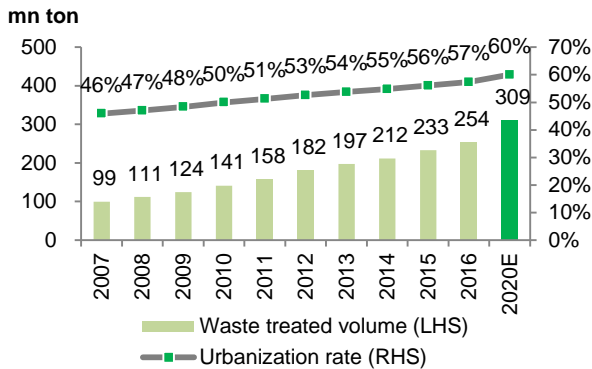
China's solid waste produced per capita has been trending down from 1.20kg/day in 2003 to 1.09kg/day in 2013 (2003-13 CAGR: -1.0%). However, the volume trended up at 2.4% CAGR from 1.09kg/day in 2013 to 1.17kg/day by end-2016. We believe such increase is related to growing online-to-offline (O2O) activities in China. According to iResearch data, O2O sales in China grew from RMB1.9tr in 2013 to RMB 4.7tr in 2016, indicating a 35% CAGR in 2013-16. We expect solid waste produced per capita would continue to increase at 0.7% CAGR in 2016-20E on proliferating O2O business.

Waste incinerated in urban areas to increase at 18% CAGR during 2016-20E

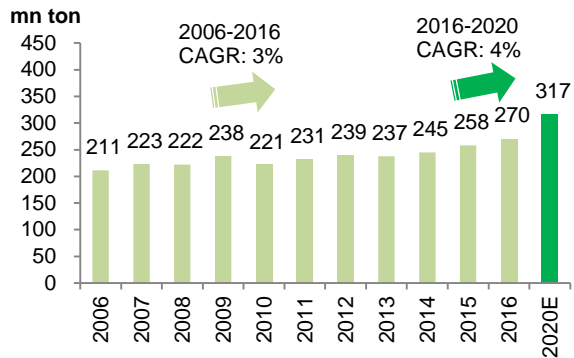
Increasing urbanization, higher volume of solid waste produced per capita, and the government's target in increasing the proportion of solid waste incinerated produced in urban areas will drive growth in waste incineration industry. According to the Ministry of Housing and Urban-Rural Development (MOHURD), 2016- 2020, population in urban areas would increase at 3.8% CAGR in 2016-20, solid waste produced per capita would increase at 0.7% CAGR, and the proportion of solid waste incinerated would rise from 31% in 2016 to 50% by end-2020. We expect waste treated by incineration in urban areas would jump 94% from 80mn tons in 2016 to 155mn tons in 2020E, representing an 18% in 2016-20E.

Low penetration rate leaves ample room for growth

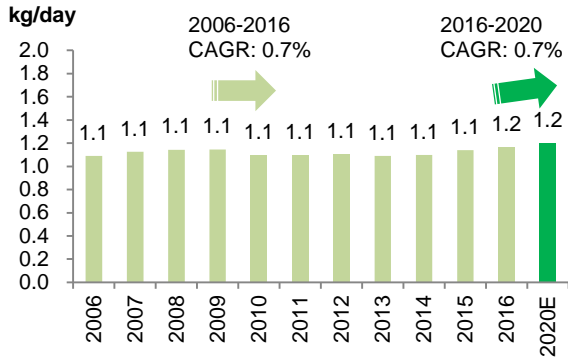
According to MOHURD, penetration of incineration treatment in China remains low, especially in inland provinces. In 2016, only Jiangsu Province managed to have 70% of residential solid waste incinerated while 5 other provinces (Zhejiang, Anhui, Fujian, Yunnan and Hainan) had an incineration rate between 50%-70%. Fifteen provinces had an incineration rate lower than 30%. With the Chinese government targeting to achieve an incineration rate of 50% by end-2020, we believe incineration facilities will continue to expand. In addition, more incineration operators will enter inland provinces for further development.

Exhibit 1: China's urbanization rate is likely to reach 60% by end-2020E


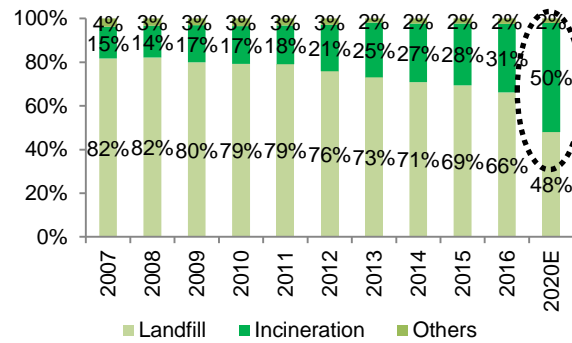
Source(s): NDCR, MOHURD, ABCI Securities estimates

Exhibit 2: Total solid waste produced in urban areas spurred by increased urbanization


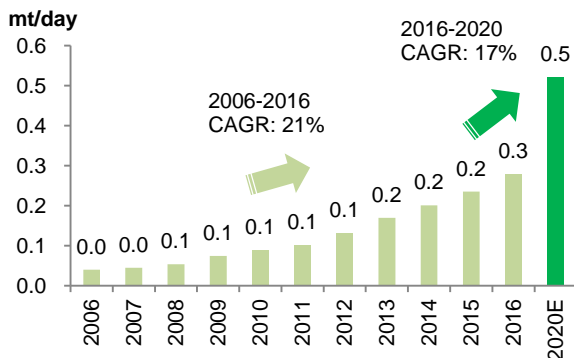
Source(s): NDCR, MOHURD, ABCI Securities estimates

Exhibit 3: Solid waste produced per capita is likely to trend up


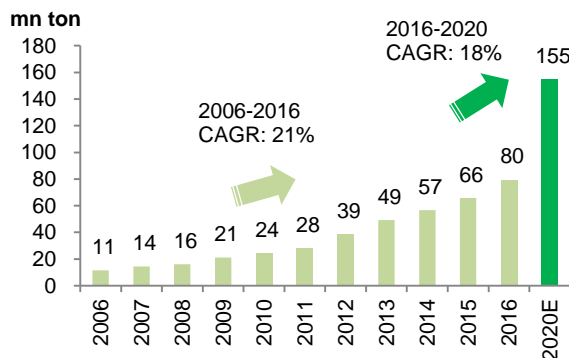
Source(s): MOHURD, ABCI Securities estimates

Exhibit 4: China targets to increase the proportion of solid waste treated via incineration in urban areas


Source(s): NDCR, MOHURD, ABCI Securities estimates

Exhibit 5: China's incineration capacity would grow rapidly in the next few years


Source(s): MOHURD, ABCI Securities estimates

Exhibit 6: China's urban solid waste to be treated via incineration would rise


Source(s): MOHURD, ABCI Securities estimates



Exhibit 7: China's incineration rate in urban area (2006)



Source(s): MOHURD, ABCI Securities

Exhibit 8: China's incineration rate in urban area (2010)



Source(s): MOHURD, ABCI Securities

Exhibit 9: 2016 incineration penetration rate in China (by provinces) – incineration operators still have ample room to grow



Source(s): MOHURD, ABCI Securities



Wastewater

China's urban wastewater treatment rate would reach 95% by end-2020

According to MOHURD, as of end-2016, wastewater treatment rate in urban areas reached 92%, close to China's target of 95% by end-2020. According to "13th Five-Year Plan for Ecological and Environmental Protection" issued by State Council in Nov 2016, China's wastewater treatment rate was targeted to reach 95% in urban area by end-2020.

Urban wastewater produced per capita should grow at 0.9% CAGR during 2016-20E

According to MOHURD, China's wastewater produced per capita in urban areas increased 7% from 85m³/person/year in 2006 to 91m³/person/year in 2016, representing 0.7% CAGR during the period. As hygiene continues to improve in urban region, we believe wastewater produced per capita would increase at 0.9% CAGR in 2016-20E.

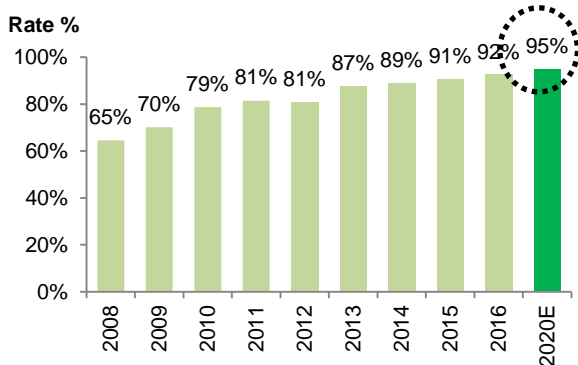
Urban wastewater treatment volume to grow at 5% CAGR in 2016-20E

With rising urbanization and wastewater produced per capita, total volume of urban wastewater to be treated will grow in years to come. According to MOHURD and NDRC, assuming an urbanization rate of 60% and a wastewater treatment rate of 95% by end-2020E, wastewater produced per capita would grow at 0.9% per year during 2016-20E (wastewater produced per capita grew 0.7% p.a. during 2006-16), and total wastewater treatment volume would be 65bn tons, representing a 23% increase on wastewater treatment volume from end-2016 (53bn tons) or a 5% CAGR in 2016-20E.

High penetration suggests further development through acquisition

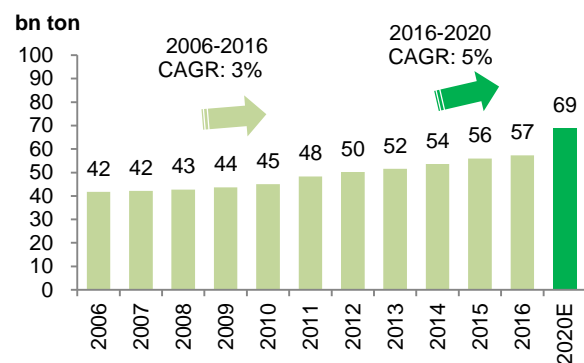
According to MOHURD, urban wastewater treatment rate in China is high. In 2016, nationwide average treatment rate reached 92%, with only 2 provinces' (Qinghai and Hainan) having a treatment rate lower than 80%. In China, 23 provinces recorded an urban treatment rate of 80%-95% and six provinces exceeded 95%. With high penetration in urban areas, wastewater treatment operators would need to expand their business through acquisition or entering the rural regions.

Exhibit 10: China's urban wastewater treatment rate would rise



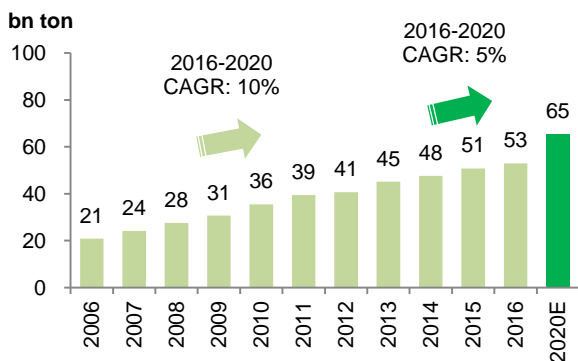
Source(s): NDRC, MOHURD, ABCI Securities estimates

Exhibit 11: China's urban wastewater volume produced would increase by 5% CAGR in 2016-20E



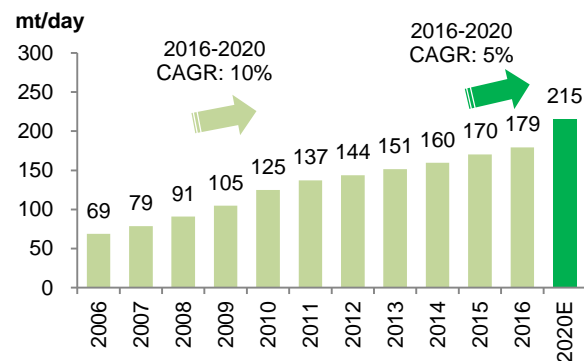
Source(s): NDRC, MOHURD, ABCI Securities estimates

Exhibit 12: China's urban wastewater treatment volume would expand at 5% CAGR in 2016-20E



Source(s): NDRC, MOHURD, ABCI Securities estimates

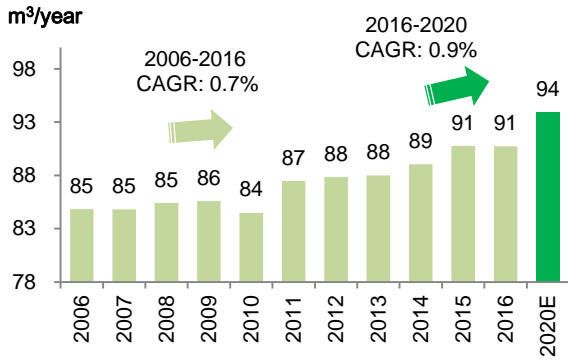
Exhibit 13: China's urban wastewater treatment capacity outlook



Source(s): NDRC, MOHURD, ABCI Securities estimates

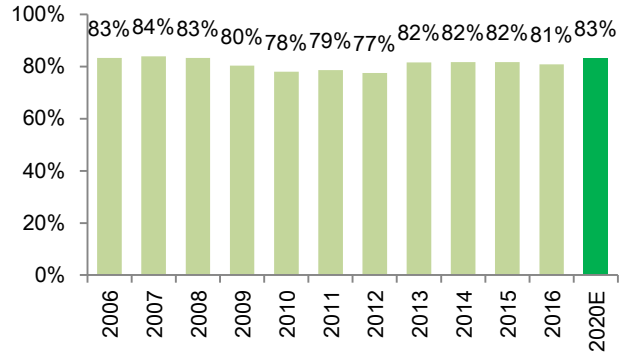


Exhibit 14: China's urban wastewater produced per capita



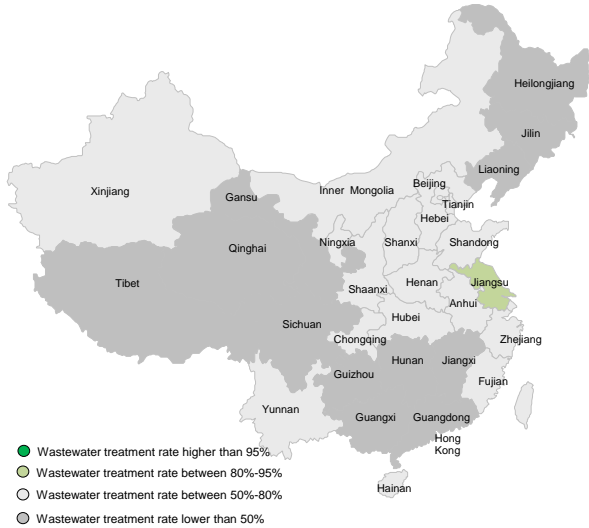
Source(s): MOHURD, ABCI Securities estimates

Exhibit 15: China's urban wastewater facilities' utilization rate would stay high



Source(s): MOHURD, ABCI Securities estimates

Exhibit 16: China's wastewater treatment rate in urban area (2006)



Source(s): MOHURD, ABCI Securities

Exhibit 17: China's wastewater treatment rate in urban area (2010)



Source(s): MOHURD, ABCI Securities



Exhibit 18: 2016 wastewater treatment rate in China (by provinces)



Source(s): MOHURD, ABCI Securites



Overhangs in the Environmental Protection Sector

Urban wastewater treatment market is becoming saturated; further earnings growth would come from acquisition

Given the high penetration of urban wastewater treatment in China (92% in 2016), we believe the market will soon be saturated. Further organic growth would come from urbanization and increased volume of wastewater produced per capita in cities. Operators seeking to expand their business would need to explore opportunities in the rural regions or M&A.

High net gearing may compromise balance sheet

Business model of China's wastewater treatment operators relies heavily on operating income to finance acquisitions. As M&A activities increase, operating cash flow is likely to be reduced and drive up net gearing. Net gearing in most China's wastewater treatment operators are close to 100%. Yet, we believe these operators are likely to continue to increase equity fundraising to finance M&As. Hence, their balance sheets and share prices could be negatively affected

Air pollution concern may hinder construction of incinerators

China's worsening air pollution raises public concerns over the use of incinerators, which may release carcinogenic pollutants such as sulfur dioxide, dioxin, furans, etc. Public resistance to incinerator construction can be a potential challenge for solid waste treatment operators.

Be aware of acquisition in poor regions

Operating in less-developed inland cities in China may not be profitable for incinerators and wastewater treatment companies since default risk may be higher. We advise investors to select operators with higher exposure in tier-1/2 cities with a lower default risk.

Rising debts of local governments

Rising debts of local governments may limit investment in the waste treatment facilities. According to China's National Audit Office, as of June 2013, total government debts were RMB 20.6tn, equivalent to 40% of China's 2012 GDP. For some local governments, debt levels are equivalent to three times the annual income. We believe waste treatment investment in heavily indebted regions would reduce. Furthermore, mounting debts of the local governments may increase default risk for waste treatment operators.



China Everbright Int'l (257 HK) A winner with ample room to grow

- Low penetration rate of urban incineration would present much room for growth. We estimate the Group's incineration operation capacity to expand by 25%/20%YoY in 2017E/18E
- EPC business revenue would continue to grow by 25%/22%YoY in 2018E/19E
- Net profit growth of 25%/25%YoY in 2018E/19E is the bright spot
- Maintain **BUY** with TP of HK\$15.00, which implies 15x/12x 2018E/19E P/E and 2.6x/2.3x 2018E/19E P/B

Penetration of urban incineration at 31% suggests ample room for growth. Current penetration rate of incineration in urban areas was only 31% by end-2016. NDRC's target of 50% by end-2020 suggests huge potential for operators such as China Everbright Int'l (CEI).

2017 results in line with expectation; capacity growth exceeds our estimate. Net profit was HK\$ 3.5bn (+26%YoY), 2% and 1% below Bloomberg and our expectations. However, incineration operation capacity grew 76%YoY, much higher than our 45%YoY growth estimate.

Incineration operation capacity to grow further by 25%/20%YoY in 2018E/19E. CEI has 27,600t/day of capacity under construction or preparation stage; the additional capacity represents 69% of the existing one (2017: 40,200t/day). With strong demand for incineration service in urban areas, we estimate the Group to increase operation capacity by 25%/20%YoY in 2018E/19E.

EPC business revenue would grow by 25%/22%YoY in 2018E/19E. We believe tightened borrowing in China and tightening regulation in Public-Private-Partnership (PPP) should dent CEI's EPC revenue growth. Hence, we only expect segment revenue to grow 25%/22%YoY in 2018E/19E.

Net profit growth of 25%/25%YoY in 2017E/18E. Supported by solid waste-to-energy capacity growth and EPC revenue growth, CEI's net profit would expand by 25%/25%YoY in 2018E/19E.

Maintain BUY with TP of HK\$15.00. We adjust up our incineration capacity growth based on its higher-than-expected growth in 2017 and robust incineration demand in China. Our DCF-derived TP of HK\$15.00 (HK\$13.90 previously) implies 15x/12x 2018E/19E P/E and 2.6x/2.3x 2018E/19E P/B. Reiterate **BUY**.

Risks. (1) Slower-than-expected capacity growth; (2) Default risk; (3) Policy risks; (4) Surge in maintenance costs; (5) Public resistance to incinerator construction

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (HK\$ mn)	13,971	20,043	25,541	31,606	36,538
Chg (% YoY)	63.8	43.5	27.4	23.7	15.6
Net profit (HK\$ mn)	2,785	3,510	4,368	5,444	6,138
Chg (% YoY)	33.6	26.0	24.5	24.6	12.8
EPS (HK\$)	0.62	0.78	0.97	1.21	1.37
Chg (% YoY)	33.6	26.0	24.4	24.6	12.8
BVPS (HK\$)	3.88	5.03	5.70	6.66	7.73
Chg (% YoY)	1.1	29.7	13.3	16.9	16.1
P/E (x)	17.48	13.87	11.15	8.94	7.93
P/B (x)	2.80	2.16	1.90	1.63	1.40
ROAE (%)	16.10	17.57	18.16	19.64	19.02
ROAA (%)	6.18	5.72	5.69	6.02	6.08
DPS (HK\$)	0.20	0.24	0.29	0.36	0.41
Dividend yield (%)	1.89	2.21	2.69	3.35	3.78
Net gearing (%)	73.5	72.0	82.8	90.8	92.4

Source(s): Bloomberg, ABCI Securities estimates

Company Report

June 19, 2018

Rating: BUY

TP: HK\$ 15.00

Analyst : Kelvin Ng

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Share price (HK\$)	10.86
Est. share price return	38.1%
Est. dividend yield	2.7%
Est. total return	40.8%

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	12.8/9.2
Issued shares (mn)	4,483
Market cap (HK\$ mn)	48,682
3-mth avg daily turnover(HK\$ mn)	97
Major shareholder(s) (%)	
China Everbright Hld	41.4%

Source(s): Company, ABCI Securities

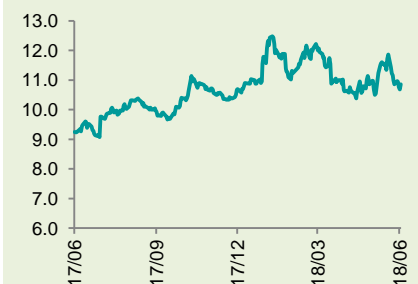
Share price performance (%)

	Absolute	Relative*
1-mth	3.04	6.96
3-mth	(7.70)	(2.50)
6-mth	1.51	(1.33)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities



2017 results highlight

FY17 earnings largely in line with expectations.

China Everbright Int'l (CEI) announced its FY17 results on Mar 5, 2018. Net profit was HK\$3,510mn (+26%YoY), below Bloomberg consensus by 1.8% and our estimate by 1.4%. Volume of residential waste treated surged 31% YoY, suggesting robust demand. Volume of wastewater treated was up by only 3% as CEI shifts focus to solid waste incineration business.

Strong growth in EPC segment boosts earnings but slash margins.

Revenue from EPC segment surged 47% YoY, driven by 42%/86%YoY revenue growth in waste-to-energy (incineration)/wastewater EPC. However, gross margins of the segment is thin (~15-20%), dragging down overall GPM from 38% in 2016 to 36% in 2017.

Operation segment to provide core support.

Operation segment (waste-to-energy, wastewater, and alternative energy) recorded a 45%YoY growth in revenue, driven by 55%/69%YoY revenue growth in waste-to-energy/alternative energy operation. Operation segment will provide long-term support to CEI given the stable cash flow and high GPM (~50%).

Strong capacity growth in incineration operation is a bright spot.

Waste-to-energy operation capacity reached 40,200t/day, up 76% YoY (2016: 22,900t/day), higher than our estimate of a 45% YoY growth. We believe such growth was driven by the strong push for incineration in urban area.

Increasing net gearing – a key concern.

Account receivable turnover days increased from 87 days in 2016 to 102 days in 2017. In our view, the lengthening is related to difficulties of PPP entities in receiving funds. Longer account receivable turnover days reduced free cash flow and therefore drove up net gearing to reach 91% in 2017 (2016: 84%), the highest level since 2006.



Results summary		2016	2017	YoY
Income Statement				
Revenue	HK\$m	13,971	20,043	43%
Operation income	HK\$m	2,734	3,975	45%
EPC	HK\$m	8,987	13,242	47%
Others	HK\$m	2,250	2,825	26%
Op. profit	HK\$m	4,629	6,222	34%
Net profit	HK\$m	2,785	3,510	26%
Basic EPS	HK\$	0.62	0.78	26%
Ratios				
Op. margin	%	33.1%	31.0%	-2ppt
Net margin	%	19.9%	17.5%	-2ppt
ROAE	%	16.0%	15.6%	0ppt
ROAA	%	5.6%	4.8%	-0.8ppt
Net gearing/(Net cash)	%	73%	72%	-1ppt
Waste-to-energy				
Installed capacity	t/day	22,900	40,200	76%
On-grid power	GWh	2,473	3,433	39%
Waste treated	mt	8.93	11.74	31%
Wastewater				
Installed capacity	mn m ³ /day	1,397	1,420	2%
Wastewater treated	mn m ³	1,148	1,188	3%
Wastewater				
Waste processing volume	mt	0.07	0.25	236%
Biomass volume	mt	0.73	1.69	131%
Hazardous waste treated	mt	0.10	0.11	15%
On-grid power	GWh	891	1,668	87%

Source(s): Company data



2018 outlook

Urban Incineration penetration at 31% suggests ample opportunities

According to MOHURD data, penetration of urban incineration was 31% by end-2016, much lower than landfill penetration at 66%. Based on NDRC's 13th FYP target as announced on Sep 22, 2016, China is aiming to raise the proportion of waste incinerated in urban areas from 31% at end-2016 to 50% by end-2020E, making incineration a key solid waste treatment in urban area. We believe such move should create ample room for incineration operators to grow further.

EPC business revenue would grow by 25%/22%YoY in 2018E/19E; tightened control over PPP is a concern

PPP business model has become popular in China as private capital is allowed to invest in urban utility infrastructure, such as wastewater and solid waste treatment operations, to ease the financial burden of local governments. Such partnership delivered a strong boost to EPC revenue in 2017. However, tightened borrowing in China, in addition to the government's increased cautiousness over the legitimacy of PPP entities, fundraising activities has calmed significantly. Since China still has a pressing need to expand its incineration treatment in urban area, we expect a 20%-25% revenue growth in CEI's EPC segment for 2018E/19E.

Waste-to-energy capacity to expand by 25%/20% YoY in 2018E/2019E

CEI has 27,600t/day of capacity under construction or preparation, equivalent to 69% of its existing operating capacity (2017: 40,200t/day). The Group has ~12,800t/day of capacity under construction, we expect 10,000t/day of new capacity would be added in 2018, boosting CEI's capacity by 25% YoY. With 14,800t/day of capacity under preparation, we expect CEI's capacity to expand by 20% YoY, or up by 10,000t/day, in 2019E

Wastewater capacity growth may slow to 3%/3%YoY in 2019E/20E.

CEI has 1.14mn m³/day of capacity under construction or preparation, which accounts for ~29% of CEI's existing capacity (2017: 3.89 mn m³/day). Wastewater treatment business capacity would only go up by 3%/3% YoY in 2018E /19E, assuming no acquisitions would take place.

2018E.19E net profit growth at 25%/25%YoY

We believe growth in incineration as an urban solid waste treatment will be a persisting trend in China. With robust growth in incineration operation capacity and EPC revenue, we forecast CEI's 2018E/19E net profit to increase by 25%/25%YoY.

Net gearing ratio would trend up

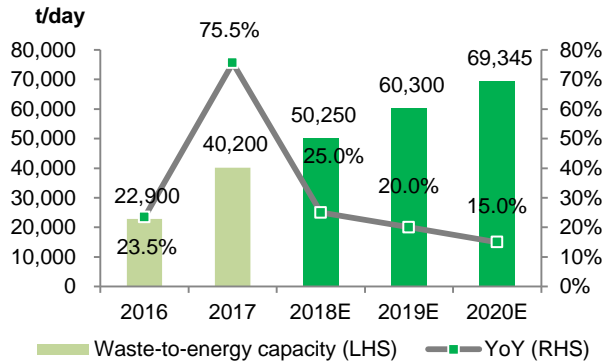
Based on our estimates, CEI's 27,600t/day of waste-to-energy capacity and 1.14mn m³/day of wastewater capacity are now under construction or preparation, meaning that its funding needs would increase. We therefore expect CEI's net gearing to reach 83% in 2018E and 91% in 2019E. New share placement may take place.

Facilities in high-tier cities would drive demand at lower risk

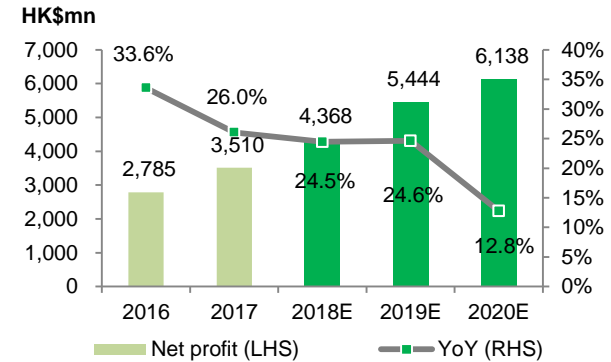
CEI's incineration and wastewater facilities in operation are mostly in tier-1/2 cities (54% for incineration and 47% for wastewater). Residents in these cities, with higher disposable incomes and stronger demand for a clean environment, would provide support for CEI's business at a lower default risk. We believe the prime locations of CEI's facilities would be beneficial.

China Everbright Greentech (1257 HK, NR) could be a financial vehicle for the Group

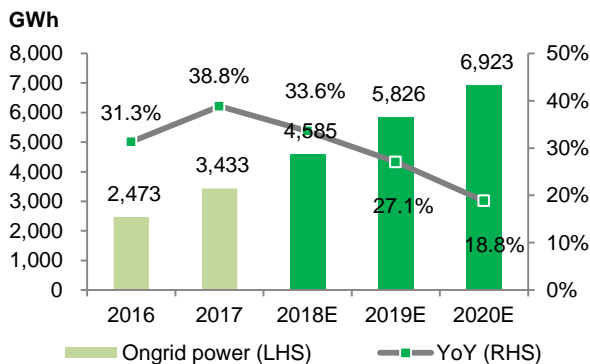
CEI spun off its green tech business, China Everbright Greentech (CEG, 1257 HK) that was listed on HKEx in May 2017. CEG's share price has gone up by ~60% since listing and is now trading at 13x 2018E P/E (Bloomberg consensus). Given CEI now holds a 72% stake of CEG and CEI is now trading at only 11x 2018E P/E (Bloomberg consensus), we believe the Group might sell off some of CEG's shares for capital as the selling should have no share dilution impact to CEI.

Exhibit 19: CEI's waste-to-energy capacity growth would remain robust in coming years


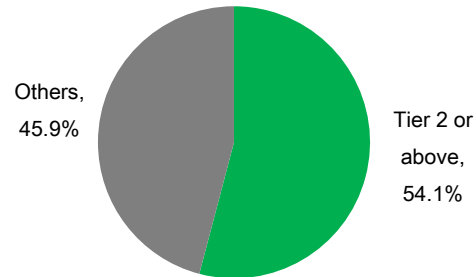
Source(s): Company, ABCI Securities estimates

Exhibit 20: CEI's net profit would show impressive growth in 2018 and 2019


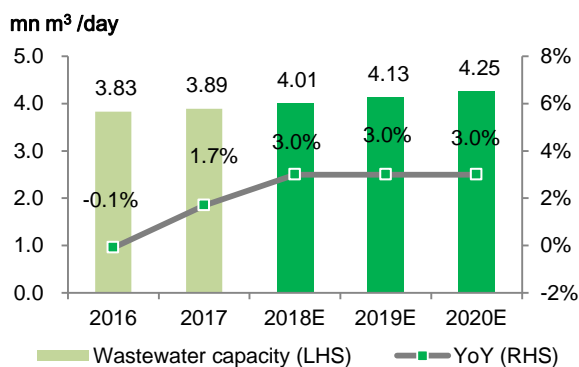
Source(s): Company, ABCI Securities estimates

Exhibit 21: CEI's power output outlook


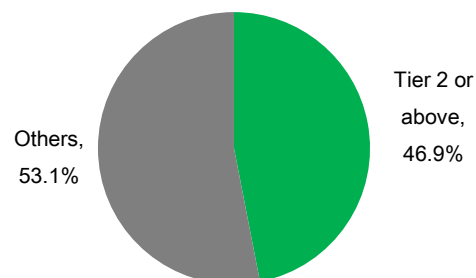
Source(s): Company, ABCI Securities estimates

Exhibit 22: CEI's waste-to-energy capacity located in wealthier regions (2017)


Source(s): Company, ABCI Securities

Exhibit 23: CEI's wastewater capacity would grow moderately over the next few years


Source(s): Company, ABCI Securities estimates

Exhibit 24: CEI's wastewater capacity located in wealthier regions (2017)


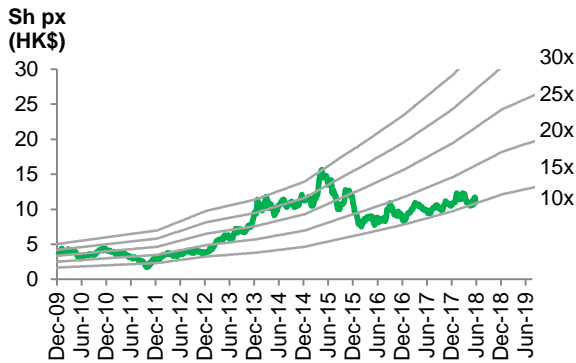
Source(s): Company, ABCI Securities

Valuation

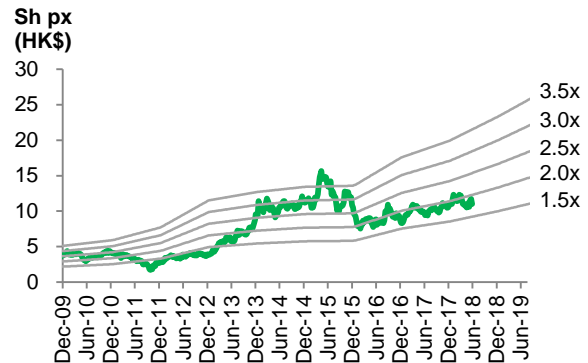
TP at HK\$15.00; maintain BUY

CEI's 2017 results are broadly in line with our expectation but waste-to-energy operation capacity growth is better than expected. We believe CEI would continue to benefit from the low penetration rate of incineration in urban area, which would enable CEI to grow further. We revise up 2018E waste-to-energy operation capacity assumption by 21%/21% but adjust down our wastewater treatment capacity assumption by 6%/8% due to worse-than-expected growth in 2017. Our 2018E net profit would be 6%/13% higher than our previous estimate. CEI is likely to report 25%/25%YoY net profit growth for 2018E/19E.

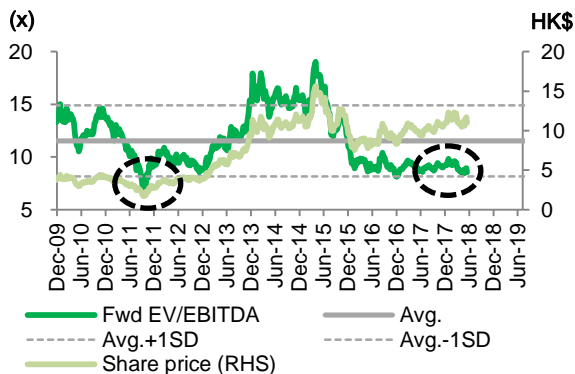
Our DCF-derived TP at HK\$15.00 (HK\$13.90 previously), equivalent to 15x/12x 2018E/19E P/E and 2.6x/2.3x 2018E/19E P/B. We believe China's increased environmental effort and rising urbanization would continue to stimulate demand for urban incineration facilities. We expect CEI to deliver a 21% EPS CAGR during 2017-20E. Reiterate **BUY**.

Exhibit 25: CEI's fwd P/E chart


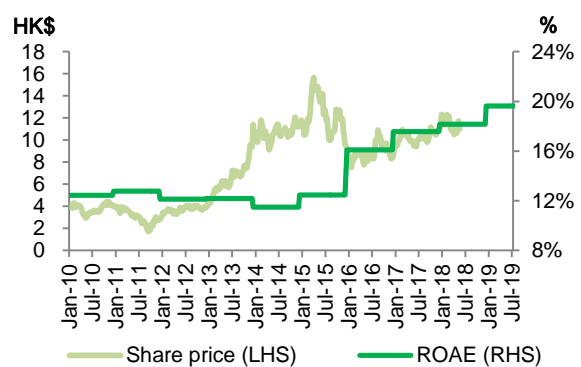
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 26: CEI's fwd P/B chart


Source(s): Bloomberg, ABCI Securities estimates

Exhibit 27: CEI's fwd EV/EBITDA chart: current valuation remains at low end


Source(s): Bloomberg, ABCI Securities estimates

Exhibit 28: CEI's share price versus ROAE


Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Revenue	13,971	20,043	25,541	31,606	36,538
Operation income	2,734	3,975	5,431	6,960	7,824
EPC	8,987	13,242	16,553	20,180	23,372
Other	2,250	2,825	3,557	4,466	5,342
Cost of sales	-8,662	-12,911	-16,616	-20,499	-23,639
Gross Profit	5,310	7,133	8,924	11,108	12,899
SG&A expenses	-1,059	-1,438	-1,788	-2,212	-2,740
Net financial income (cost)	-593	-854	-1,307	-1,625	-1,986
Other income/ (expenses)	442	588	715	885	1,023
Profit before tax	4,099	5,428	6,545	8,156	9,196
Tax	-1,062	-1,376	-1,636	-2,039	-2,299
Net profit	3,037	4,052	4,908	6,117	6,897
Profit attributable to:					
Minority interest	252	542	540	673	759
Equity shareholders of the Company	2,785	3,510	4,368	5,444	6,138
Basic EPS	0.62	0.78	0.97	1.21	1.37
DPS	0.20	0.24	0.29	0.36	0.41

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Current assets	12,307	19,637	21,217	26,377	20,020
Cash	6,341	8,657	12,127	13,336	7,481
Pledged and restricted bank deposits	697	2,181	0	0	0
Trade and bill receivables	3,337	5,589	5,607	8,248	7,769
Other receivables and prepayments	1,569	2,698	2,900	4,027	3,981
Inventories	362	510	583	765	789
Other current assets	2	2	0	0	0
Non-current assets	37,225	53,486	59,236	73,909	81,711
Property, plant & equipment	3,029	4,025	4,325	4,648	4,902
Investment properties	152	171	180	180	180
Intangible assets	7,250	10,340	12,517	14,582	16,420
Investment in JV and associates	573	792	800	800	800
Deferred tax assets	6,494	8,866	10,726	11,788	14,239
Other non-current assets	19,726	29,291	30,688	41,911	45,169
Total Assets	49,532	73,123	80,453	100,285	101,731
Current Liabilities	9,314	14,033	14,851	23,471	19,471
Trade and bill payables	4,804	8,505	5,152	11,696	7,733
Other payables	97	114	0	0	0
Short term borrowings	4,412	5,414	9,699	11,775	11,738
Other current assets	0	0	0	0	0
Non-current liabilities	20,373	30,446	33,408	39,637	39,527
Deferred tax liabilities	3,076	4,312	4,312	4,312	4,312
Long-term borrowings	17,203	26,040	29,096	35,325	35,215
Other non-current assets	94	94	0	0	0
Total Liabilities	29,687	44,480	48,259	63,108	58,998
Minority interests	2,456	6,089	6,629	7,302	8,061
Shareholders' equities	17,389	22,554	25,565	29,875	34,672

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Profit before tax	4,099	5,428	6,545	8,156	9,196
Change in depreciation and amortization	313	497	610	716	815
Change in Working Capital	-4,330	-9,846	-4,324	-8,171	-7,020
Net financial cost (income)	593	854	-108	-121	-133
Income tax paid	-335	-370	-1,376	-1,636	-2,039
Net interest received	46	84	108	121	133
Others	-166	251	0	0	0
Operating cash flow	221	-3,102	1,455	-935	952
Capex	-520	-839	-567	-621	-581
Increase in intangible assets	-2,637	-2,716	-2,268	-2,483	-2,326
Others	-1,079	-1,278	0	0	0
Investing cash flow	-4,236	-4,833	-2,834	-3,104	-2,907
Net Capital raise	-8	0	0	0	0
Net debt financing	6,220	8,810	7,341	8,304	-147
Dividend payout	-906	-1,138	-1,076	-1,311	-1,633
Interest paid	-646	-920	-1,415	-1,746	-2,119
Others	53	3,191	0	0	0
Financing cash flow	4,713	9,944	4,850	5,248	-3,899
Net change in cash	698	2,009	3,470	1,209	-5,855
Cash at the beginning	5,953	6,341	8,657	12,127	13,336
Adjustment (Time deposit & FX effect)	-311	308	0	0	0
Cash at the end	6,341	8,657	12,127	13,336	7,481

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Sales mixed (%)					
Operation income	19.57	19.83	21.26	22.02	21.41
EPC	64.33	66.07	64.81	63.85	63.97
Other	16.11	14.10	13.93	14.13	14.62
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	38.00	35.59	34.94	35.14	35.30
Operating profit margin	33.13	31.04	30.74	30.94	30.60
Pre-tax margin	29.34	27.08	25.62	25.80	25.17
Net profit margin	21.73	20.22	19.22	19.35	18.88
Selling & administrative expenses/revenue	7.58	7.18	7.00	7.00	7.50
Effective tax rate	25.91	25.36	25.00	25.00	25.00
Growth (%)					
Revenue	63.82	43.46	27.43	23.75	15.60
Gross profit	36.05	34.33	25.12	24.47	16.13
Operating profit	31.34	34.42	26.19	24.56	14.33
Net profit	30.02	33.43	21.14	24.62	12.76
Balance sheet ratios					
Current ratio (x)	1.32	1.40	1.43	1.12	1.03
Quick ratio (x)	1.11	1.17	1.19	0.92	0.78
Cash ratio (x)	0.76	0.77	0.82	0.57	0.38
Trade and bill receivables days	83.57	81.28	80.00	80.00	80.00
Trade and bill payables turnover days	160.10	188.14	150.00	150.00	150.00
Inventory turnover days	11.88	12.32	12.00	12.00	12.00
Total debt / equity ratio (%)	124.30	139.46	151.75	157.65	135.42
Net debt / equity ratio (%)	73.46	71.97	82.84	90.82	92.37
Returns (%)					
ROAA	6.2	5.7	5.7	6.0	6.1
ROAE	16.1	17.6	18.2	19.6	19.0
Payout ratio	33.00	30.65	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates



Beijing Enterprises Water (371 HK) Honeymoon is over; downgrade to HOLD

- Beijing Enterprises Water (BEW) reported a 31% YoY growth in adjusted net profit in FY17, 4% below our estimate
- China's wastewater treatment penetration rate reached 92% in 2016, leaving limit room for growth
- BEW's EPC business revenue growth should decelerate to 13%/14%YoY in 2018E/19E due to tightening control on Public-Private Partnership (PPP)
- Downgrade to **HOLD** with TP of HK\$5.00, implying 10x/9x 2018E/19E P/E and 1.8x/1.6x 2018E/19E P/B

2017 earnings missed consensus. BEW's 2017 adj. net profit reached HK\$3.7bn (+31%YoY) 5%/4% below Bloomberg/ABCI forecast, mainly due to slower-than-expected wastewater and water distribution capacity growth.

Urban market will soon be saturated; new growth would come from rural area with higher default risk or overseas market. According to MOHURD, penetration of urban wastewater treatment in China reached 92% by end-2016, which is close to 13th FYP target of 95% by end-2020. The high penetration rate would drive operators to explore opportunities in rural area where default risk is higher.

EPC business revenue would grow at 13%/14%YoY in 2018E/19E. We believe tightening control on PPP for wastewater treatment would suppress growth of BEW's EPC segment, where revenue would only increase by 13%/14%YoY in 2018E/19E based on our estimates.

TP at HK\$5.00; downgrade to HOLD. We revise down our EPC revenue estimates and growth assumptions for wastewater and water distribution capacity. Our DCF-derived TP at HK\$5.00 (HK\$7.60 previously) implies 10x/9x 2018E/19E P/E and 1.8x/1.6x 2018E/19E P/B. We believe high penetration of urban wastewater treatment in China (2016: 92%) would drive BEW to enter rural areas or overseas markets, which in turn may suppress margins. Downgrade to **HOLD**.

Risks. (1) Slower-than-expected capacity growth; (2) Default risk; (3) Policy risk; (4) High net gearing ratio.

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (HK\$ mn)	17,355	21,192	24,221	27,868	32,072
Chg (% YoY)	28.5	22.1	14.3	15.1	15.1
Adj. net profit (HK\$ mn)	2,817	3,678	4,425	4,854	5,389
Chg (% YoY)	27.9	30.6	20.3	9.7	11.0
EPS (HK\$)	0.323	0.420	0.505	0.554	0.615
Chg (% YoY)	28.0	29.8	20.3	9.7	11.0
BVPS (HK\$)	1.894	2.372	2.794	3.125	3.490
Chg (% YoY)	2.0	25.2	17.8	11.8	11.7
P/E (x)	14.13	10.89	9.05	8.25	7.43
P/B (x)	2.41	1.93	1.64	1.46	1.31
ROE (%)	19.75	19.94	19.55	18.72	18.59
ROA (%)	4.43	4.10	4.01	3.61	3.38
DPS (HK\$)	0.119	0.159	0.152	0.166	0.184
Dividend yield (%)	2.61	3.48	3.32	3.64	4.04
Net gearing (%)	82.5	92.0	100.0	115.4	122.3

Source(s): Bloomberg, ABCI Securities estimates

Company Report

June 19, 2018

Rating: **HOLD**

TP: **HK\$ 5.00**

Analyst : Kelvin Ng

Tel: (852) 2147 8869

Email: kelvinn@abci.com.hk

Share price (HK\$)	4.57
Est. share price return	9.4%
Est. dividend yield	3.3%
Est. total return	12.7%

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	6.6/4.0
Issued shares (mn)	8,794
Market cap (HK\$ mn)	43,016
3-mth avg daily turnover(HK\$ mn)	130
Major shareholder(s) (%):	
Beijing Enterprises Hld	43.5%

Source(s): Company, ABCI Securities

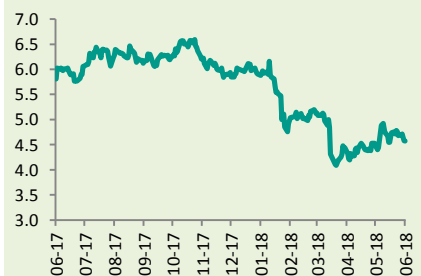
Share price performance (%)

	Absolute	Relative*
1-mth	2.93	6.85
3-mth	(10.90)	(5.70)
6-mth	(22.63)	(25.48)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities



2017 results highlight

FY17 earnings missed consensus

BEW's 2017 net profit was HK\$ 3.72bn (+15% YoY). Excluding fair value change of derivative instruments, net profit was HK\$ 3.68bn (+31% YoY), 5%/4% lower than Bloomberg consensus/our estimates. Installed wastewater capacity grew 13% YoY; wastewater treatment volume also increased 17%YoY; installed water distribution capacity increased 15%YoY and supply volume went up by 34%YoY.

13%YoY growth in wastewater capacity in 2017

BEW's wastewater capacity was 12.1mt/day in 2017, representing a 13%YoY increase over the 10.7mt/day at end-2016 and below our 18% YoY forecast. As a result of the expanded capacity, wastewater treatment volume was up 17% YoY in 2017.

Water distribution capacity increased 15%YoY, boosting volume of water supply

BEW recorded a water distribution capacity of 6.6mt/day in 2017, 15%YoY higher than 5.7mt/day capacity by end-2016 but below out 20% YoY forecast. Such strong capacity growth contributed to 34%YoY increase in water supply volume in 2017.

Wastewater/water distribution tariffs declined 6%YoY/0% YoY

BEW's average wastewater and water supply tariffs were HK\$ 1.09/t (ex. VAT) and HK\$ 1.30/t (ex. VAT), 6%YoY and 0%YoY lower than those in 2016. The decline, which drags down overall earnings, was mainly due to increased exposure in lower-tier cities with lower tariffs.

Net gearing ratio high at 92% prompts fundraising concern.

Net gearing ratio (net debt divided by total equity) increased from 82% in 2016 to 92% in 2017, which may signal fundraising needs.

Results summary		2016	2017	YoY
Income Statement				
Revenue	HK\$m	17,355	21,192	22%
Operation income	HK\$m	11,309	13,982	24%
EPC	HK\$m	5,025	5,871	17%
Others	HK\$m	1,021	1,339	31%
Op. profit	HK\$m	5,058	5,375	6%
Net profit	HK\$m	3,227	3,717	15%
Adj. Net profit	HK\$m	2,817	3,678	31%
Basic EPS	HK\$	0.37	0.42	15%
Adj. EPS	HK\$	0.32	0.42	30%
Ratios				
Op. margin	%	29.1%	25.4%	-3.8ppt
Adj. net margin	%	16.2%	17.4%	1.1ppt
Adj. ROAE	%	17.2%	19.7%	2.5ppt
Adj. ROAA	%	3.9%	4.1%	0.2ppt
Net gearing/(Net cash)	%	82%	92%	9.5ppt
Wastewater				
Installed capacity	mt/day	10.7	12.1	13%
Treatment volume	mt	3,150	3,701	17%
Tariff	HK\$/t, ex VAT	1.16	1.09	-6%
Water distribution				
Installed capacity	mt/day	5.7	6.6	15%
Supply volume	mt	1,054	1,417	34%
Tariff	HK\$/t, ex VAT	1.30	1.30	0%

Source(s): Company data



2018 outlook

EPC business revenue would grow at 13%/14%YoY in 2018E/19E

PPP for wastewater treatment has driven up demand for wastewater engineering, procurement, and construction (EPC) business in China. In 2017, BEW recorded a 24%YoY revenue jump for the segment. However, illegal fundraising prompts the government to tighten control over PPP, which may impede growth in EPC business. Nonetheless, wastewater treatment remains to be an important aspect of to China's environmental protection campaign. We expect BEW to deliver 13%/14%YoY revenue growth in 2018/19E.

Wastewater capacity to expand by 12%/13% YoY in 2018E/19E

We expect BEW's operating wastewater capacity to record a double-digit growth in coming years. With 7.4mt/day of wastewater capacity under construction (equivalent to 61% of its existing operating capacity), BEW's capacity would expand by 1.5mt/day and 1.7mt/day in 2018E and 2019E, equivalent to 12%/13%YoY growth.

Water distribution capacity to expand by 15%/15% YoY in 2018E/2019E

For water distribution operation business, the Group currently has a capacity of 5.3mt/day under construction, equivalent to 80% of its existing operating capacity. We estimate the Group's capacity would expand by 15% YoY in 2018E/19E to 1.0mt/day/1.1mt/day. With the rising capacity and improved utilization, water supply volume of BEW would grow by 26%/24% YoY in 2018E/19E.

Concern 1: Net gearing ratio would trend up amid tightened borrowing in China

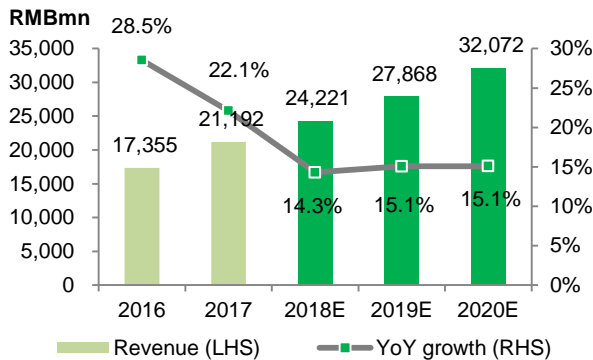
We believe a double-digit capacity growth in both wastewater and water distribution operations would continue to result in negative cash flow in BEW in 2018E and 2019E. Net gearing ratio would reach 100% and 115% in 2018E and 2019E, and fundraising may occur in the near future.

Concern 2: Urban market is about to be saturated; new growth may come from rural area or overseas market

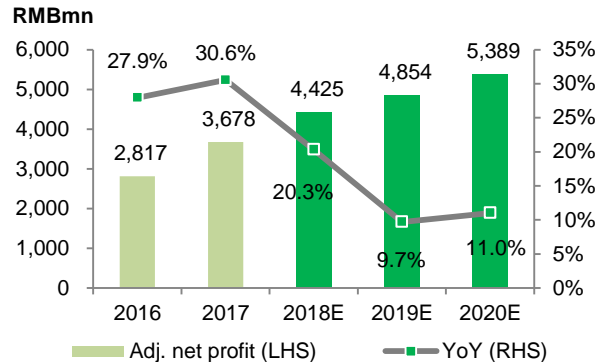
According to MOHURD, as of end-2016, urban wastewater treatment rate in China is high. In 2016, nationwide average treatment rate reached 92%, with only 2 provinces' (Qinghai and Hainan) having a treatment rate lower than 80%. In China, 23 provinces had an urban treatment rate of 80%-95% and six provinces exceeded 95%. With high penetration in urban areas, wastewater treatment operators would need to expand their business through acquisition or entering the rural regions.

Positive 1: Current valuation is far below its historical average

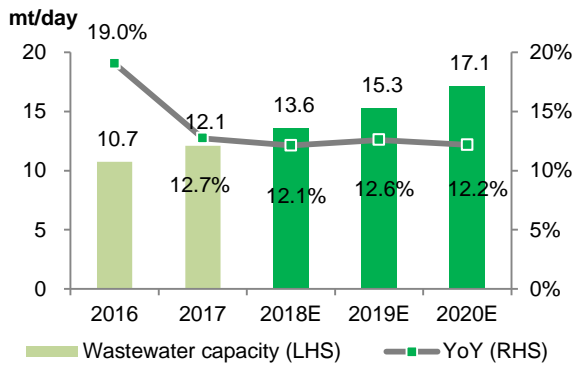
The counter now trading at 9.9x/9.6x 2018E PE based on our estimate and Bloomberg consensus, close to its historical low-end of 8.51x (on Apr 5, 2018) but far below its historical average of 18.8x. We believe the low valuation is due to 1) concerns over tightened borrowing in China, which may perpetuate BEW's already high net gearing; 2) slowdown in new PPP project approval in China may restrain EPC business growth. Nonetheless, a rerating is possible if these overhangs are removed or significantly alleviated.

Exhibit 29: BEW would show solid revenue growth on growing number of EPC projects and scale of operation


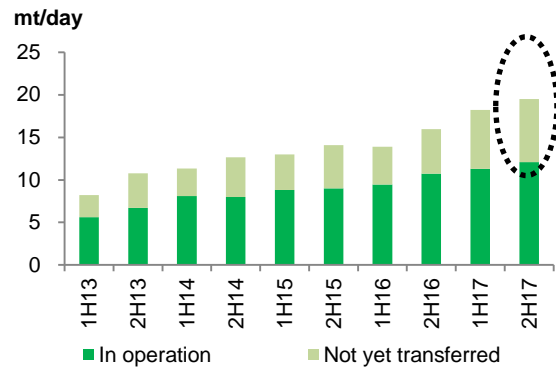
Source(s): Company, ABCI Securities estimates

Exhibit 30: BEW's adjusted net profit outlook


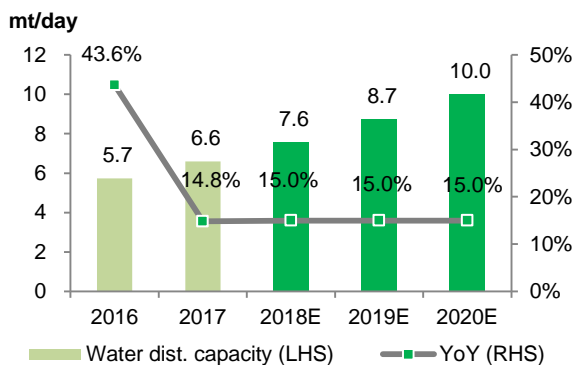
Source(s): Company, ABCI Securities estimates

Exhibit 31: BEW's wastewater treatment capacity would expand at low-teens level in coming years


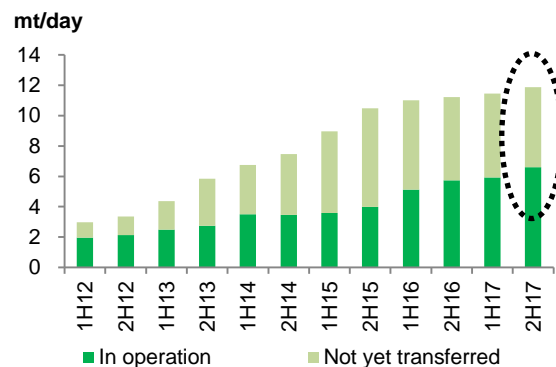
Source(s): Company, ABCI Securities estimates

Exhibit 32: BEW has numerous wastewater treatment projects in the pipeline


Source(s): Company, ABCI Securities

Exhibit 33: BEW's water distribution capacity would continue to grow at mid-teens level


Source(s): Company, ABCI Securities estimates

Exhibit 34: Numerous water distribution projects on hand suggest solid capacity growth ahead


Source(s): Company, ABCI Securities



Valuation

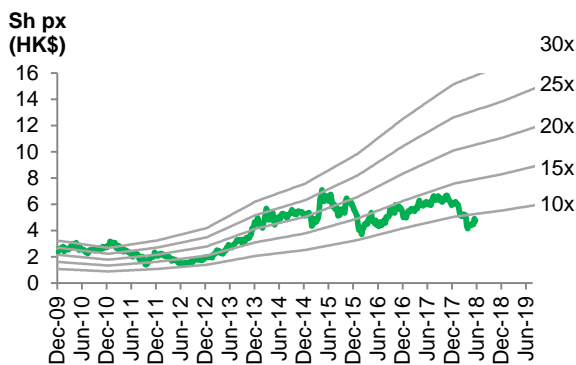
Honeymoon period is over. Downgrade to HOLD with TP at HK\$5.00

BEW's 2017 results were below our forecasts. Against the backdrop of tightened borrowing in China, we believe BEW's expansion of wastewater and water distribution capacities may slow down to 12%-15%YoY in 2018E and 2019E. For EPC business, as PPP project approval in China has turned more stringent, the segment would only deliver mid-teens revenue growth for 2018E/19E.

We revise down our assumptions for the EPC segment by 25%/29% for 2018E and 2019E to reflect the tightening of PPP. We also lower our estimates for wastewater treatment operation capacity by 6%/6% for 2018E/19E, with reference to the less-than-expected capacity growth in 2017. BEW's adjusted 2018E/19E net profits declined by 4%/10%. Our DCF-derived TP at HK\$5.00 (HK\$ 7.60 previously) implies 10x/9x 2018E/19E P/E and 1.8x/1.6x 2018E/19E P/B. Downgrade to **HOLD**.

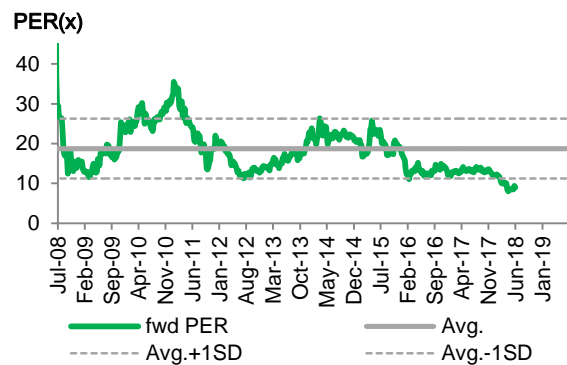
We believe the high penetration of urban wastewater treatment in China signals the end of the fast-growing era for BEW. BEW is now trading at the historical low-end of P/E and P/B ranges. We believe share price upside would mainly come from rerating on loosened money supply or reversal in PPP tightening.

Exhibit 35: BEW's fwd P/E chart



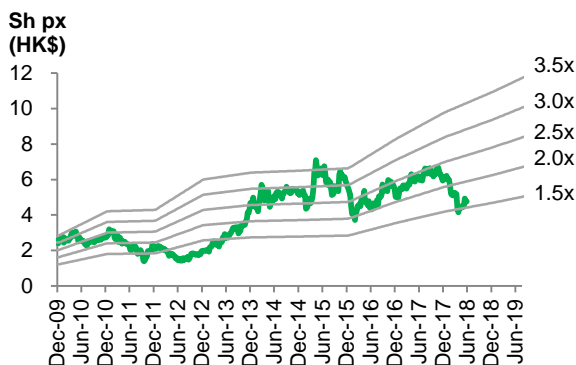
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 36: BEW's historical fwd P/E chart



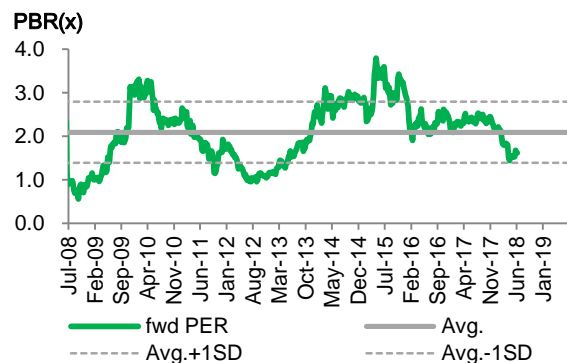
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 37: BEW's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 38: BEW's historical fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Revenue	17,355	21,192	24,221	27,868	32,072
EPC	11,309	13,982	15,800	18,004	20,518
Operation income	5,025	5,871	6,882	8,016	9,338
Other	1,021	1,339	1,539	1,847	2,217
Cost of sales	-11,570	-14,728	-16,634	-19,080	-21,891
Gross Profit	5,785	6,465	7,588	8,789	10,182
SG&A expenses	-1,538	-1,753	-1,938	-2,229	-2,566
Net financial income (cost)	-1,198	-1,177	-1,421	-2,026	-2,677
Other income/ (expenses)	1,595	1,781	1,986	2,285	2,630
Profit before tax	4,644	5,315	6,215	6,818	7,568
Tax	-971	-875	-1,243	-1,364	-1,514
Net profit	3,673	4,441	4,972	5,454	6,055
Profit attributable to:					
Minority interest	-389	-483	-547	-600	-666
Equity shareholders of the Company	3,227	3,717	4,425	4,854	5,389
Adj. Equity shareholders of the Company	2,817	3,678	4,425	4,854	5,389
Basic EPS (HK\$)	0.370	0.424	0.505	0.554	0.615
Adj. EPS (HK\$)	0.323	0.420	0.505	0.554	0.615
DPS (HK\$)	0.119	0.159	0.152	0.166	0.184

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Current assets	21,975	23,539	35,705	44,560	56,769
Cash	10,921	9,939	20,314	29,125	36,466
Pledged and restricted bank deposits	135	46	0	0	0
Trade and bill receivables	3,024	2,853	3,119	3,752	5,210
Other receivables and prepayments	6,348	9,360	11,212	10,625	13,979
Inventories	91	135	184	182	238
Other current assets	1,456	1,206	876	876	876
Non-current assets	59,072	76,922	84,318	104,222	113,310
Property, plant & equipment	2,831	3,842	4,620	5,506	6,461
Investment properties	0	0	0	0	0
Intangible assets	3,374	3,406	3,480	3,558	3,637
Investment in JV and associates	5,685	10,653	13,842	17,531	21,669
Other receivables and deposits	26,032	37,170	37,960	48,724	51,394
Other non-current assets	21,150	21,852	24,415	28,903	30,149
Total Assets	81,047	100,461	120,022	148,781	170,079
Current Liabilities	20,615	27,693	27,943	38,175	41,591
Trade and bill payables	9,843	11,688	11,098	15,038	14,949
Other payables	5,907	7,463	7,595	9,474	9,906
Short term borrowings	4,812	8,440	9,249	13,663	16,736
Other current assets	52	103	0	0	0
Non-current liabilities	33,665	39,726	54,793	69,822	83,832
Deferred tax liabilities	1,691	2,104	2,104	2,104	2,104
Long-term borrowings	28,326	31,939	48,358	62,545	74,366
Other non-current assets	3,648	5,683	4,331	5,173	7,363
Total Liabilities	54,280	67,420	82,736	107,997	125,423
Minority interests	3,961	5,634	6,180	6,780	7,446
Perpetual capital instruments	6,305	6,623	6,623	6,623	6,623
Shareholders' equities	16,501	20,785	24,483	27,381	30,586

Source(s): Company, ABCI Securities estimates



FY ended Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Profit before tax	4,644	5,315	6,215	6,818	7,568
Change in depreciation and amortization	302	405	538	645	763
Change in Working Capital	-7,879	-12,279	-6,225	-8,739	-6,173
Net financial cost (income)	1,309	1,299	1,421	2,026	2,677
Income tax paid	-329	-541	-875	-1,243	-1,364
Net interest received	0	0	0	0	0
Others	-546	-915	-1,211	-1,393	-1,604
Operating cash flow	-2,500	-6,714	-137	-1,886	1,869
Capex	-588	-1,743	-3,521	-4,080	-4,541
Increase in intangible assets	-649	-917	-38	-44	-49
Others	-792	2,545	-912	-1,051	-1,166
Investing cash flow	-2,029	-115	-4,471	-5,175	-5,756
Net Capital raise	6,463	0	-3	0	0
Net debt financing	5,595	7,265	17,228	18,601	14,894
Dividend payout	-102	-21	-1,328	-1,456	-1,617
Interest paid	-1,483	-1,540	-1,458	-1,817	-2,592
Others	-1,004	-1,735	0	0	0
Financing cash flow	9,469	3,968	14,439	15,327	10,685
Net change in cash	4,940	-2,861	9,831	8,266	6,798
Cash at the beginning	6,374	10,921	9,939	20,314	29,125
Adjustment (Time deposit & FX effect)	-392	1,878	544	544	544
Cash at the end	10,921	9,939	20,314	29,125	36,466

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (HK\$ mn)	2016A	2017A	2018E	2019E	2020E
Sales mixed (%)					
EPC	65.16	65.98	65.23	64.61	63.97
Operation income	28.96	27.71	28.41	28.77	29.12
Other	5.88	6.32	6.36	6.63	6.91
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	33.33	30.50	31.33	31.54	31.75
Operating profit margin	29.14	25.36	26.53	26.74	26.95
Pre-tax margin	26.76	25.08	25.66	24.46	23.60
Net profit margin	21.16	20.95	20.53	19.57	18.88
Selling & administrative expenses/revenue	8.86	8.27	8.00	8.00	8.00
Effective tax rate	20.90	16.46	20.00	20.00	20.00
Growth (%)					
Revenue	28.53	22.11	14.29	15.06	15.09
Gross profit	16.47	11.75	17.37	15.83	15.85
Operating profit	28.11	6.27	19.54	15.97	15.99
Net profit	32.70	20.90	11.98	9.69	11.01
Balance sheet ratios					
Current ratio (x)	1.07	0.85	1.28	1.17	1.36
Quick ratio (x)	0.68	0.46	0.84	0.86	1.00
Cash ratio (x)	0.54	0.36	0.73	0.76	0.88
Trade and bill receivables days	62.92	50.61	45.00	45.00	51.00
Trade and bill payables turnover days	246.53	266.79	250.00	250.00	250.00
Inventory turnover days	3.00	2.80	3.50	3.50	3.50
Total debt / equity ratio (%)	200.82	194.27	235.30	278.32	297.85
Net debt / equity ratio (%)	82.50	91.99	100.02	115.44	122.35
Returns (%)					
ROAA	4.43	4.10	4.01	3.61	3.38
ROAE	19.75	19.94	19.55	18.72	18.59
Payout ratio	32.21	37.54	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates



Disclosures

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Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate $<$ Market return rate (+10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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