



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED



China Environmental Protection Sector

Stay with the Market Leaders

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China's Environmental Protection Sector Stay with the market leaders

- National penetration rate at 34% suggests ample room for incineration operators to grow in future
- With support from the government's policy, incineration capacity would grow at 16% CAGR in 2017-20E.
- Penetration rate of urban wastewater treatment facilities reached 94% in 2017; limited capacity expansion in 2017-20E (5% CAGR) can be expected. Large and profitable players are preferred.
- OVERWEIGHT** sector outlook; prefer **China Everbright Int'l (257 HK)** and **Beijing Enterprises Water (371 HK)**

Nationwide penetration rate at 34% suggests ample room for incineration operators to grow. According to MOHURD, incineration treatment rate in China remains low. In 2017, Jiangsu was the only province with more than 70% of residential solid waste treated via incineration; six provinces (Zhejiang, Anhui, Fujian, Shandong, Yunnan, and Hainan) achieved an incineration rate between 50%-70%. The average penetration rate in coastal provinces was higher than that of inland province (49% vs. 28%), meaning that operators may develop further in inland provinces.

With support from the government's policy, incineration capacity would grow at 16% CAGR in 2017-20E. According to "The Draft of 13th FYP on Urban Residential Waste Treatment" issued by the NDRC in 2016, China targets to raise the proportion of waste incinerated in urban areas from 34% at end-2017 to 50% by end-2020, making incineration a key solid waste treatment in urban areas. NDRC also targets to raise incineration capacity in urban areas from 0.33mt/day by end-2017 to 0.52mt/day by end-2020, indicating a 57% jump or 3-year CAGR of 16% during the period. Incineration will be a major waste treatment method in urban areas.

High penetration rate at 94% for urban wastewater treatment implies limited capacity growth for urban wastewater treatment in 2017-20E. According to MOHURD, as of end-2016, wastewater treatment rate in urban areas reached 94%, close to the government's target of 95% by end-2020. As a result, capacity growth in urban wastewater treatment would expand at only 5% CAGR in 2017-20E, and players may prefer to expand via acquisition.

Large and profitable players are preferred. Population in coastal and developed urban areas would increase as urbanization continues. The rise in living standard would spur demand for wastewater treatment, which in turn would drive up consumer-borne tariffs. Large players, especially those with wastewater facilities running in affluent regions, would be more profitable, partially because tariffs in wealthier regions have greater potential to increase in the future

OVERWEIGHT sector outlook; BUY for China Everbright Int'l (257 HK) and Beijing Enterprises Water (371 HK). We are positive on solid waste treatment sectors as rising urbanization and low penetration rate in urban areas present strong growth opportunities. Our top pick is **China Everbright Int'l (257 HK, BUY)**. Despite high penetration rate in wastewater treatment, we believe **Beijing Enterprises Water (371 HK)** would continue outperform peers based on its large size and high profitability.

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 the campaign for environmental protection facilities

Sector Valuation Summary (data as of Nov 1, 2019)

Company	Ticker	Rating	TP (HK\$)	FY19E P/E(x)	FY20E P/E (x)	FY19E P/B (x)	FY20E P/B (x)	FY19E Yield(%)	FY20E Yield(%)
China Everbright Int'l	257 HK	BUY	7.50	7.2	6.3	1.0	0.9	4.2	4.8
Beijing Enterprises Water	371 HK	BUY	5.10	7.6	6.6	1.3	1.1	3.9	4.6

Source(s): Bloomberg, ABCI Securities estimates

Sector Report Nov 4, 2019 OVERWEIGHT

Analyst : Kelvin Ng

Tel: (852) 2147 8869

Email: kelvinng@abci.com.hk

Key Data

Avg.20E P/E (x)	6.42
Avg.20E P/B (x)	0.99
Avg.20E Div. Yield (%)	4.68

Source(s): Bloomberg, ABCI Securities

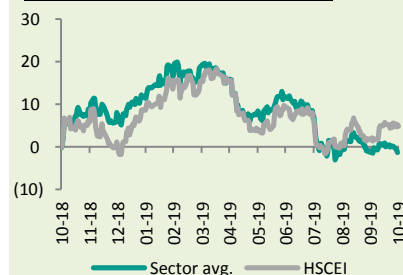
Sector Performance

	Absolute	Relative*
1-mth	0.51%	(3.41%)
3-mth	(7.44%)	(6.24%)
6-mth	(13.97%)	(5.35%)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (%)



Source(s): Bloomberg, ABCI Securities



Incineration: Ample room for growth

Average penetration for inland provinces low at 28%, suggesting ample room for growth

According to MOHURD, incineration treatment rate in China is low, especially for inland provinces. In 2017, 70% of residential solid waste in Jiangsu province was treated via incineration; meanwhile, six provinces (Zhejiang, Anhui, Fujian, Shandong, Yunnan, and Hainan) achieved an incineration rate between 50%-70%, and 14 provinces had an incineration rate lower than 30%. The average penetration rate of incineration facilities in coastal provinces was higher than that of inland provinces (49% vs. 28%), suggesting opportunities in the latter.

China's incineration capacity would expand at 16% CAGR in 2017-20E

Historically, around 70% of residential waste has been disposed via landfills in China due to its low cost and weak environmental consciousness; the proportion of residential waste incinerated was ~20%. The situation, however, has been changing 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 34% at end-2017 to 50% by end-2020E. NDRC also targets to raise incineration capacity in urban areas from 0.33mt/day by end-2017 to 0.52mt/day by end-2020, indicating a 57% jump or 3-year CAGR of 16% during the period. Incineration will be a major waste treatment method, presenting enormous opportunities to operators in urban areas.

Solid waste produced per capita maintain an uptrend due to increasing O2O activities; we expect 0.5% CAGR in 2017-20E

China's solid waste produced per capita has been trending down in 2003-13 from 1.44kg/day to 1.11kg/day, representing -2.6% CAGR during the period. The figure rebounded to 1.20kg/day by end-2016, equivalent to 1.9% CAGR during the period. We believe the increase in solid waste produced per capita is related to increasing online-to-offline (O2O) activities nationwide. According to iResearch data, O2O sales in China grew from RMB 1.9tr in 2013 to RMB 6.3tr in 2017 indicating 35% CAGR in 2013-17. We believe O2O shopping would spur solid waste produced per capita in urban area due to the disposal of packaging materials. We expect solid waste produced per capita would expand at 0.5% CAGR in 2017-2020E.

2017-20E outlook: waste incinerated in urban areas to rise at 19% CAGR

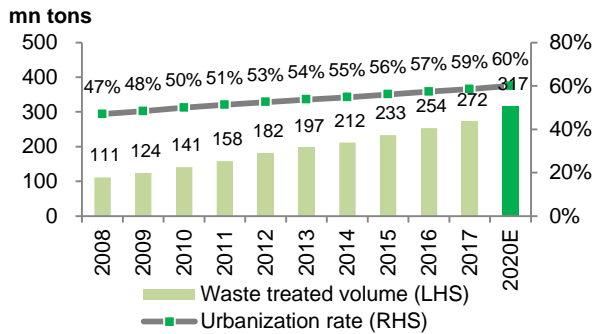
We believe increasing urbanization, rising solid waste produced per capita, and the government's ambitious target in increasing the use of incineration in urban areas would drive up the amount of solid waste treated via incineration in the next few years. We estimate urbanization to reach 60% by end-2020E, meaning that an additional of 57mn people would reside in urban areas; solid waste produced per capita would increase at 0.5% CAGR in 2017-20E due to robust O2O activities in China. The government's target to have 50% of solid waste in urban area incinerated would have to be reached by end-2020. We expect waste treated by incineration in urban areas should jump from 93mn tons in 2017 to 159mn tons in 2020E, suggesting a 70% jump or a 3-year CAGR of 19%.

Stock pick: Stick with the leader

We believe China's solid waste incineration industry will grow rapidly. The industry requires large initial capital investments as well as close relationships with the local governments, meaning that small players may find it difficult to thrive. We advise investors to focus on SOEs such as **China Everbright Int'l (CEI, 257 HK, BUY)**. We believe the Group has 1) a relatively low financing cost compared to the smaller players; 2) abundant experience in operation across China; 3) an SOE background that facilitates cooperation with local governments.

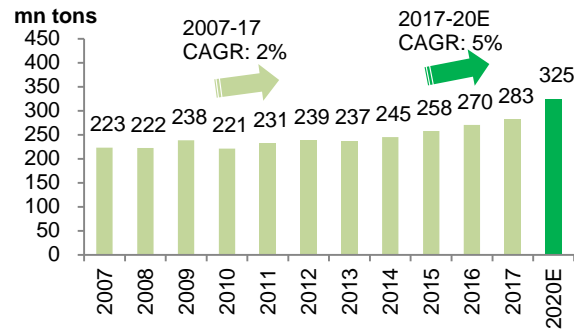


Exhibit 1: China's urbanization rate is likely to reach 60% by end-2020E



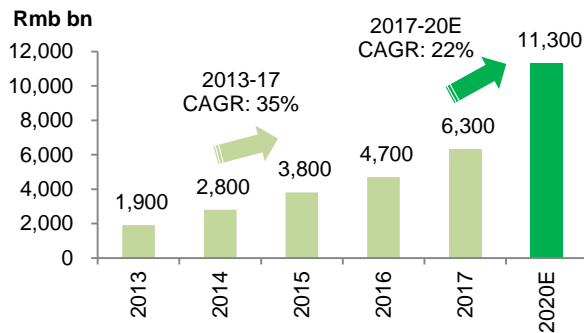
Source(s): NDRC, NBS, ABCI Securities estimates

Exhibit 2: Total solid waste produced in urban areas would also grow with increased urbanization



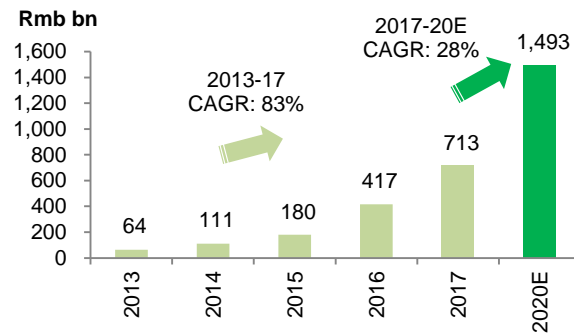
Source(s): NDRC, NBS, ABCI Securities estimates

Exhibit 3: China's O2O market size is likely to maintain a robust growth in 2017-20E



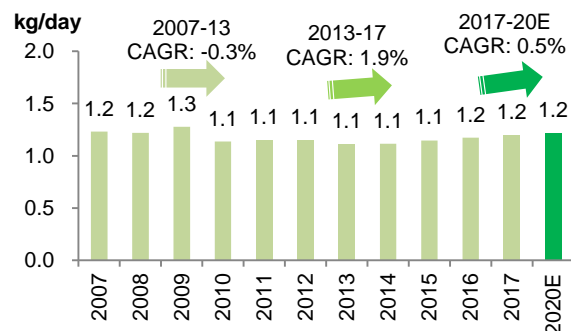
Source(s): iResearch, ABCI Securities estimates

Exhibit 4: China's catering O2O market size has shown explosive growth in recent years



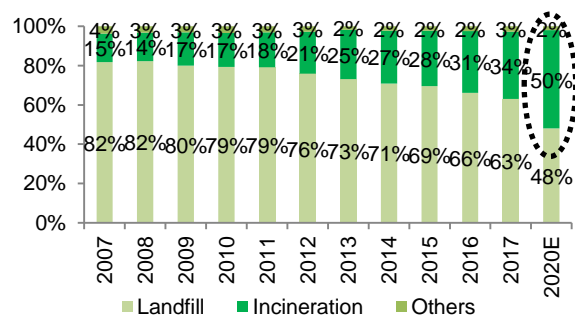
Source(s): iResearch, ABCI Securities estimates

Exhibit 5: Solid waste produced per capita is likely to trend up as O2O activities remain robust



Source(s): MOHURD, ABCI Securities estimates

Exhibit 6: China targets to increase the proportion of solid waste treated via incineration in urban areas



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



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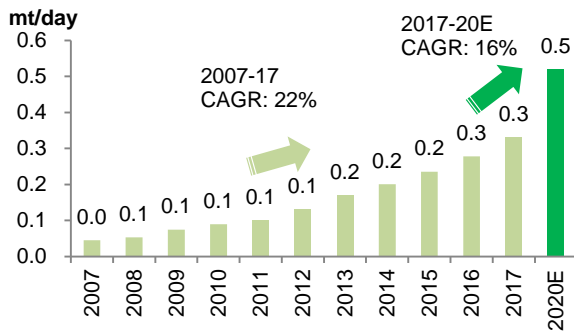
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China Environmental Protection Sector - OVERWEIGHT

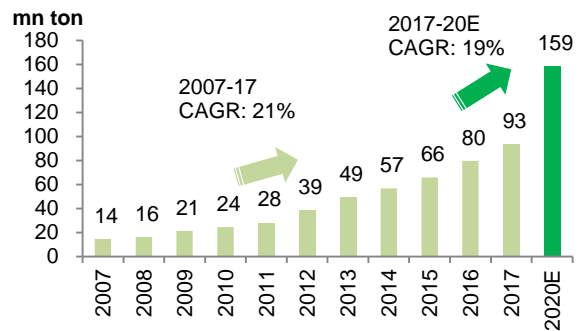
Nov 4, 2019

Exhibit 7: China's incineration capacity would grow rapidly in the next few years



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

Exhibit 8: China's urban solid waste to be treated via incineration would rise



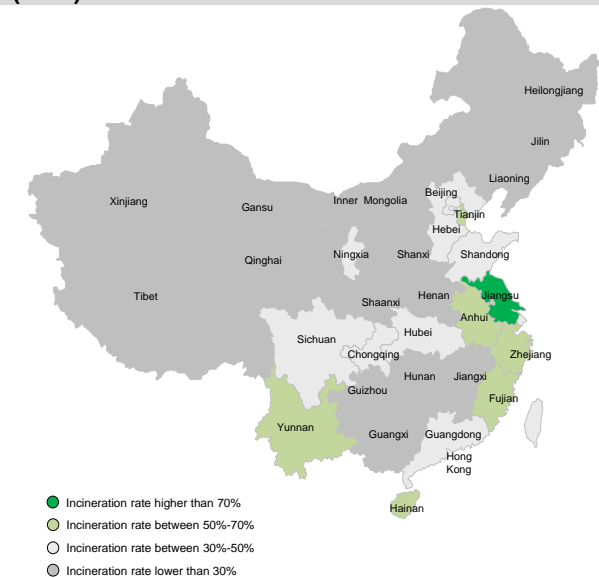
Source(s): MOHURD, NDRC, ABCI Securities estimates

Exhibit 9: China's incineration rate in urban area (2006)



Source(s): MOHURD, ABCI Securities

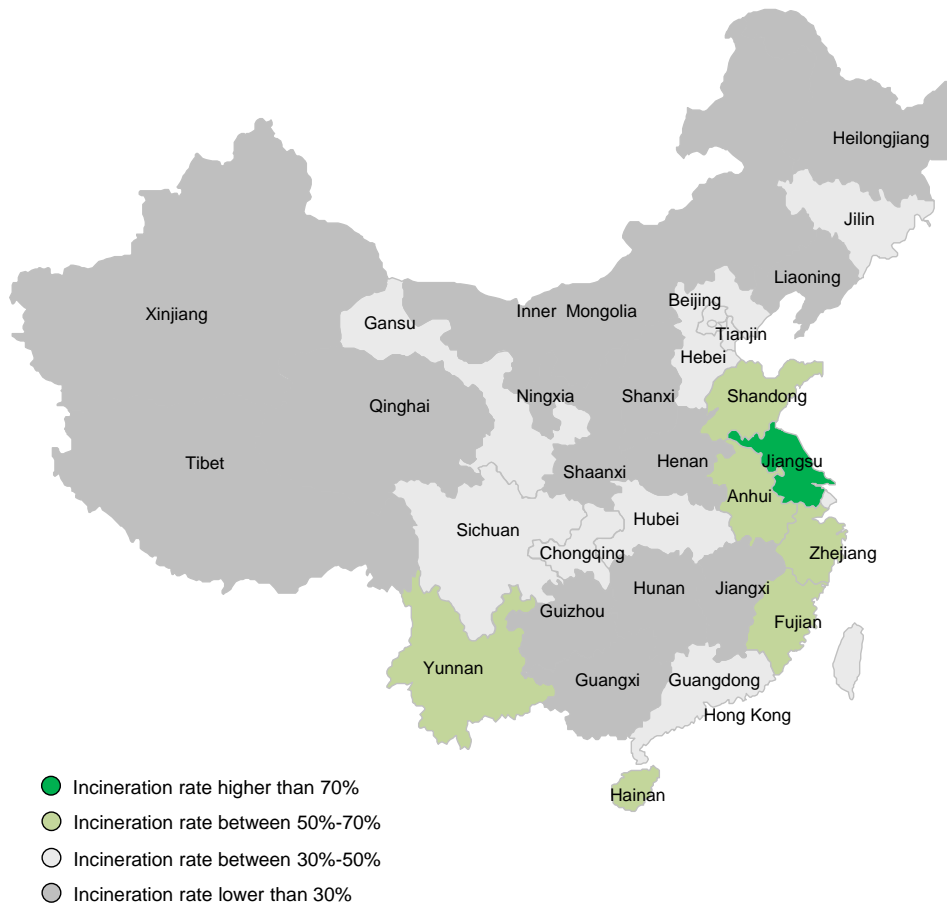
Exhibit 10: China's incineration rate in urban area (2016)



Source(s): MOHURD, ABCI Securities



Exhibit 11: 2017 incineration penetration rate in China (by province) – incineration operators still have much room to grow



Source(s): MOHURD, ABCI Securites



Wastewater: High penetration suggests large and strong earners will be winners

China's urban wastewater treatment rate reached 94% by end-2017 and would reach 95% by end-2020E

According to MOHURD, as of end-2017, wastewater treatment rate in urban areas reached 94%, close to China's end-2020 target of 95%. Given the current run rate in urban areas, this target is likely to be achieved.

Urban wastewater produced per capita would grow at 0.7% CAGR in 2017-20E

We believe rising living standard would increase wastewater produced per capita. According to MOHURD, China's wastewater produced per capita in urban areas increased from 85m³/ppl/year in 2007 to 91m³/ppl/year in 2017, up 7% (or 0.7% CAGR) during the period. We believe the uptrend will persist with the rise in hygiene level. We expect wastewater produced per capita would expand at 0.7% CAGR in 2017-20E.

Modest 5% CAGR in urban wastewater treatment volume in 2017-20E

We believe 1) rising urbanization means more citizens would reside in urban areas, hence raising demand for wastewater treatment service; 2) rising living standard would boost wastewater produced per capita. Current penetration rate of wastewater treatment facilities exceeding 90% suggests future growth would mostly come from newcomers to the cities (4% CAGR in 2017-20E) and increase in urban wastewater produced per capita (0.7% CAGR in 2017-20E). We therefore expect China's wastewater treatment volume to increase at 5% CAGR in 2017-20E.

94% high penetration rate suggests further development should via acquisition

According to MOHURD, urban wastewater treatment rate in China is high. In 2017, nationwide average treatment rate reached 94%; only one province (Qinghai) has a wastewater treatment rate lower than 80%. In China, 19 provinces recorded a treatment rate of 80%-95% and 11 provinces exceeded 95%. Unlike incineration, penetration rates of wastewater treatment facilities in both coastal and urban provinces are high (94% and 93%, respectively). We believe high penetration rate would mean wastewater treatment operators would expand through acquisition or entering the less explored rural markets.

Large and profitable players are preferred

High penetration rate of wastewater treatment in urban areas means new growth drivers would be coming from rural, inland areas. Nonetheless, population in coastal and developed urban areas would continue to ramp up as urbanization and living standard rise. Demand for wastewater treatment would increase, hence supporting the hike in consumer-borne treatment tariff. Large players, especially those with wastewater facilities in affluent regions (e.g. tier-1 cities), would have a higher profitability partially because they are more able to raise tariff in the richer areas.

Public-Private Partnership (PPP) no longer a boost to wastewater treatment industry

In 2016, the Chinese government introduced private capital to civil service facilities industry, such as wastewater treatment, to lower the financial burden of local governments. This campaign has achieved a certain degree of success. Regrettably, PPP-related scams started to emerge, in response, the government delayed the approval of new projects so as to contain the credit risk. We believe it would take time for monitoring policies and regulations surrounding PPP to be finessed; therefore, PPP is unlikely to benefit wastewater treatment operators in the near future.

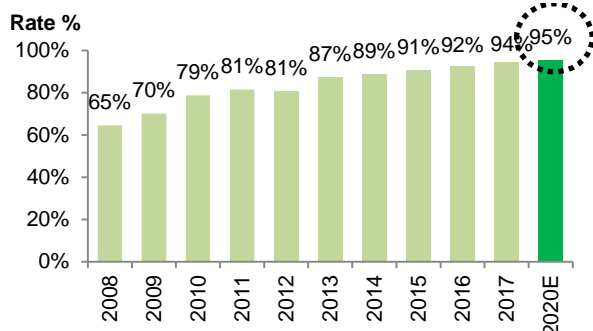
Water environment business can be a future growth point, but cash collection is a concern

We believe China's next focus will be on water environment services (rivers, lakes and underground water protection and remediation) since penetration of urban wastewater treatment facilities is now high at 94%. Unlike urban wastewater treatment service, the cost of these services will be borne by the local governments. Tight financial situations in some local governments would mean that cash collection would be an issue of concern.

Stock pick: Go for the large, profitable players

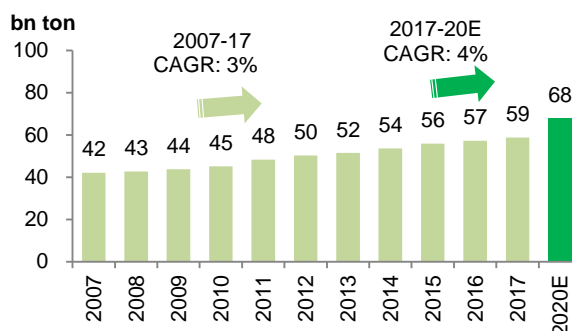
In China, the wastewater treatment industry is fragmented with numerous players. With the high penetration of wastewater treatment facilities, opportunities for greenfield projects are limited. Instead of organic growth, we believe companies, especially the dominant players with larger operating scale, more experience, and stronger financials, would expand their capacities through M&A instead of building new facilities. We favor **Beijing Enterprises Water (BEW, 371 HK, BUY)** based on its highest ROAE and revenue size among peers.

Exhibit 12: China's urban wastewater treatment rate would rise



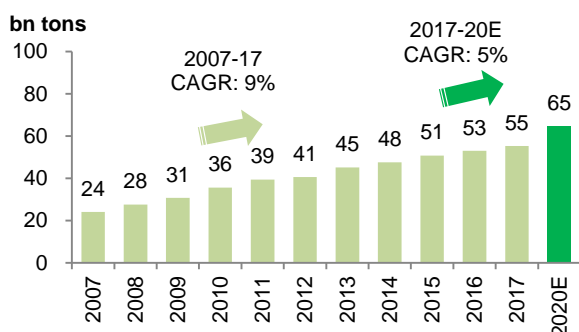
Source(s): NDRC, MOHURD, ABCI Securities estimates

Exhibit 13: China's urban wastewater volume produced would increase at 4% CAGR in 2017-20E



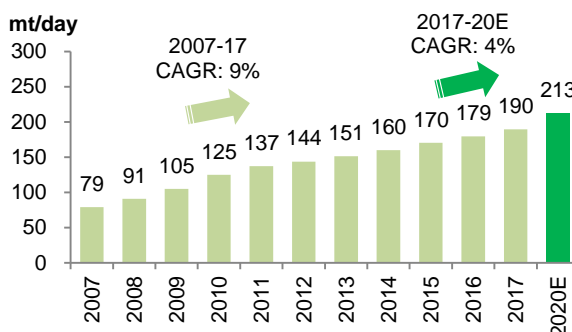
Source(s): NDRC, MOHURD, ABCI Securities estimates

Exhibit 14: China's urban wastewater treatment volume would expand at 5% CAGR in 2017-20E



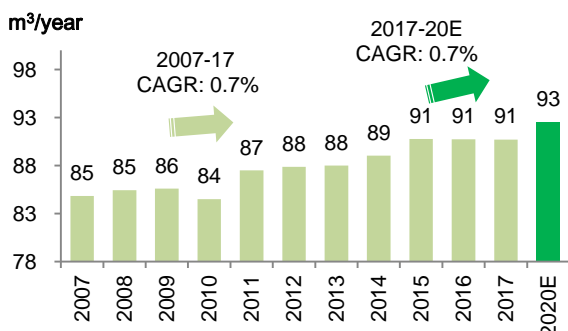
Source(s): NDRC, MOHURD, ABCI Securities estimates

Exhibit 15: China's urban wastewater treatment capacity outlook



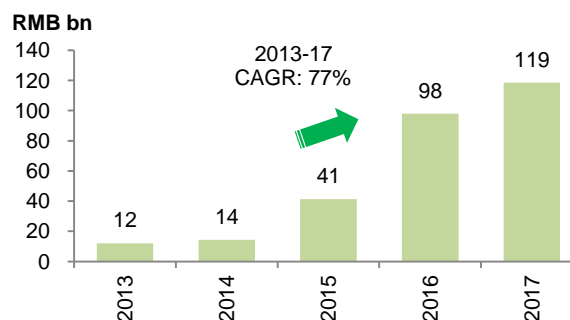
Source(s): NDRC, MOHURD, ABCI Securities estimates

Exhibit 16: China's urban wastewater produced per capita



Source(s): MOHURD, ABCI Securities estimates

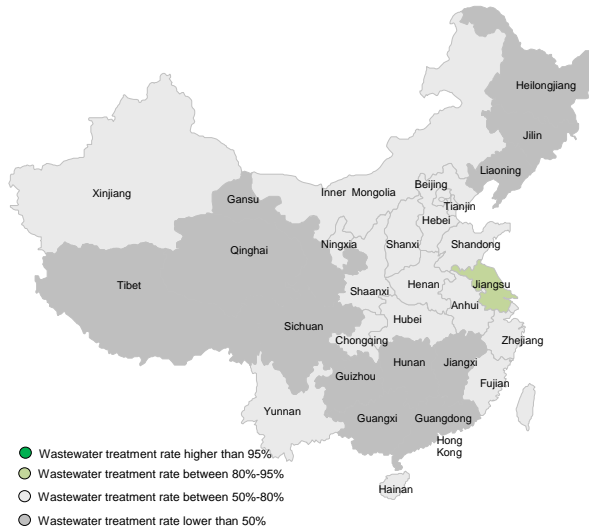
Exhibit 17: China's annual contract value of water environment management market



Source(s): MOHURD, Frost & Sullivan



Exhibit 18: China's wastewater treatment rate in urban areas (2006)



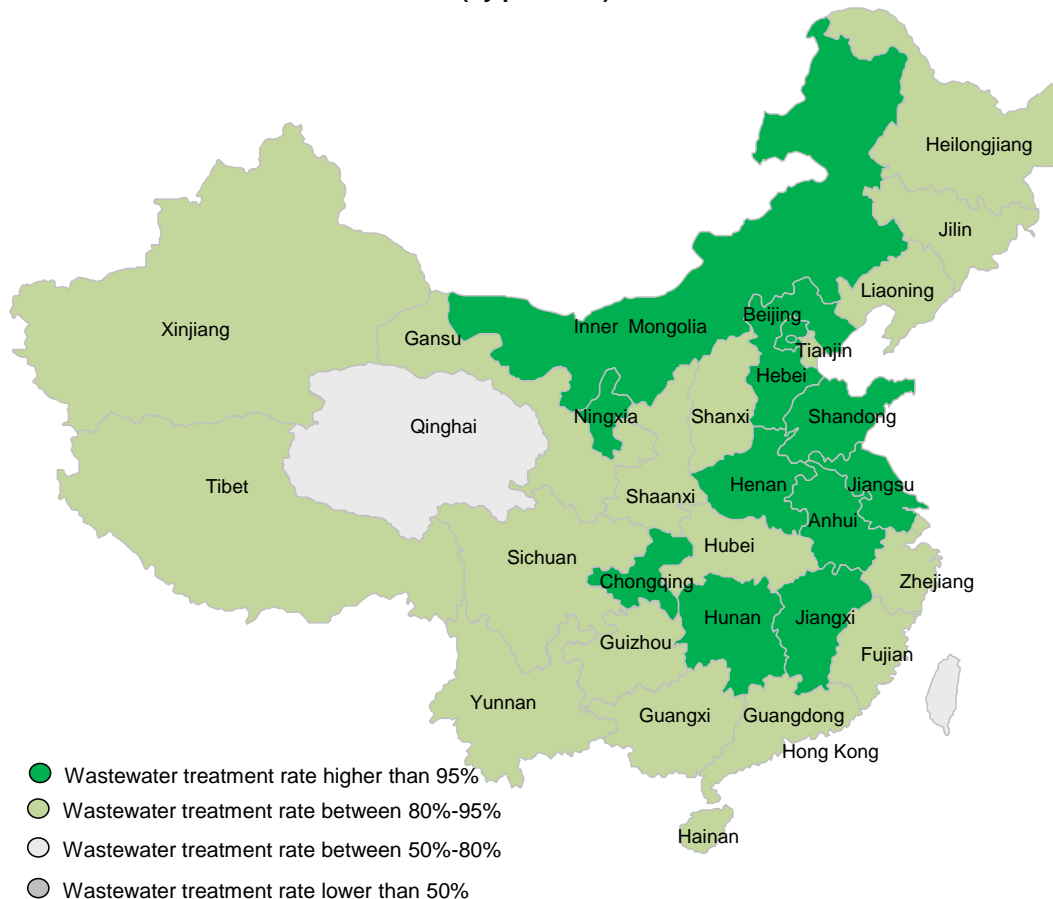
Source(s): MOHURD, ABCI Securities

Exhibit 19: China's wastewater treatment rate in urban areas (2016)



Source(s): MOHURD, ABCI Securities

Exhibit 20: 2017 wastewater treatment rate in China (by province)



Source(s): MOHURD, ABCI Securities

China Everbright Int'l (257 HK)

Incineration and Greentech to drive growth

- By capacity, China Everbright Int'l (CEI) has the highest market share in China's incineration industry
- 15%/15%YoY capacity growth in incineration would fuel CEI's future earnings growth.
- Power output of Biomass business would increase by 32%/36% YoY in 2019E/20E.
- 19%/15%YoY net profit growth in 2019E/20E indicates solid earnings capability
- Maintain **BUY** with TP of HK\$ 7.50, implying 9.0x/7.8x 2019E/20E P/E and 1.22x/1.07x 2019E/20E P/B

By capacity, CEI has the highest market share in China's incineration industry. In 2012-17, CEI's market share in China's incineration industry ranged from 7%-12% (2017: 12%) on capacity basis. We believe the industry leader would continue to benefit from China's continuous shift to incineration.

15%/15%YoY capacity growth in incineration would fuel future earnings growth. We believe CEI would continue to secure its leading position in China's incineration industry with capacity expansion. We expect a CAPEX of ~RMB 20bn each in 2019E/20E to support an annual incineration capacity growth of 15% in both years.

Power output of Biomass business would increase by 32%/36%YoY in 2019E/20E. Utilization rate of CEI's biomass power generation has remained low in previous years (2017/18: 20%/36%), but we expect the rate to improve (1H19 at 46%). Increasing utilization rate would boost biomass treatment volume and power output, which we estimate would increase by 32%/36% YoY in 2019E/20E.

19%/15%YoY net profit growth in 2019E/20E. CEI's 1H19 net profit grew 20%YoY, achieving 49% of our full-year estimate while its historical run rate has been 46% in 1H on average. 1H19 results are lower than our expected. Despite a worse-than-expected 1H19 results, we believe CEI's rapid expansion in incineration capacity and Greentech segment would help boost net profit growth by 19%/15%YoY in net profit in 2019E/20E and continue to secure its leading position in the industry.

TP at HK\$7.50; maintain BUY. We roll over our valuation to 2020E and our DCF-based TP is HK\$7.50 (previously at HK\$ 8.90), which implies 9.0x/7.8x 2019/20E P/E and 1.22x/1.07x 2019E/20E P/B. We believe CEI's incineration and Greentech segments would maintain their robust growth trends. CEI, as a leader in China's incineration industry would continue to benefit from China's shift to incineration for waste treatment. Maintain **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	2017A	2018A	2019E	2020E	2021E
Revenue (HK\$ mn)	20,043	27,228	34,152	40,380	46,789
Chg (% YoY)	43.5	35.8	25.4	18.2	15.9
Net profit (HK\$ mn)	3,510	4,319	5,117	5,893	6,689
Chg (% YoY)	26.0	23.1	18.5	15.2	13.5
EPS (HK\$)	0.762	0.858	0.833	0.959	1.089
Chg (% YoY)	22.7	12.6	-2.9	15.2	13.5
BVPS (HK\$)	4.896	6.737	6.167	7.001	7.926
Chg (% YoY)	26.2	37.6	-8.5	13.5	13.2
P/E (x)	7.87	7.00	7.20	6.26	5.51
P/B (x)	1.23	0.89	0.97	0.86	0.76
ROAE (%)	17.57	15.29	14.25	14.57	14.59
ROAA (%)	5.72	5.13	4.98	4.84	4.67
DPS (HK\$)	0.23	0.25	0.25	0.29	0.33
Dividend yield (%)	3.89	4.22	4.16	4.80	5.44
Net gearing (%)	72.0	55.4	68.5	76.4	94.6

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Nov 4, 2019

Rating: **BUY**
 TP: HK\$ 7.50

Analyst : Kelvin Ng
 Tel: (852) 2147 8869
 kelvinng@abci.com.hk

Share price (HK\$)	6.00
Est. share price return	25.0%
Est. dividend yield	4.2%
Est. total return	29.2%
Previous Rating	BUY
Previous Report Date	Jun 11, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	8.5/5.8
Issued shares (mn)	6,143
Market cap (HK\$ mn)	37,104
3-mth avg daily turnover(HK\$ mn)	77
Major shareholder(s) (%):	
China Everbright Hld.	42.0%

Source(s): Company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	(1.32)	(6.00)
3-mth	(7.88)	(13.24)
6-mth	(20.03)	(11.80)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

1H19 results highlight

Earnings edged up 20%YoY, missing consensus and our estimate

CEI's 1H19 net profit was HK\$ 2,630mn (+20%YoY), 2.7% lower than Bloomberg consensus (1 observation), achieving 50%/50% of Bloomberg and our full-year estimates. Historically, 1H earnings contributed to ~48% of CEI's full-year earnings on average. We view this set of results as slightly below expectations.

23%/24%YoY growth in on-grid power and waste treated in incineration segment suggest strong demand for incineration service in China

CEI reported 3,105GWh of on-grid power in 1H19, 23% higher than 2,520GWh in 1H18. CEI treated 10.69mt of solid waste in 1H19, 24% higher than 8.59mt in 1H18. Increases in on-grid power output and solid waste treated indicate strong demand for incineration service in China.

4%/11%YoY increase in wastewater BOT and EPC revenue, which is worse than expected

CEI reported 673mt of wastewater treated in 1H19, up 10% YoY. However, revenue growth for its wastewater treatment BOT sub-segment was up only 4%YoY growth, while the EPC sub-segment was up 11% YoY during the period, much lower than our run-rate estimates of 12%/25%YoY. A slower-than-expected growth indicates high penetration rate of wastewater treatment facilities in urban areas, which in turn would urge players to increase efficiency and expand through M&As.

54%/43%YoY increase in biomass volume treated and on-grid power indicates rapid development in greentech business

The Group treated 2.02mt of biomass in 1H19, 54% higher than 1H18. On-grid power reached 1,792GWh during the period, up 43% YoY. Volume of hazardous waste treated was 0.08mt, 19% higher than 1H18, indicating demand for hazardous waste treatment is strong.

Net gearing ratio increased from 55% in end-2018 to 73% in 1H19

CEI's net gearing ratio improved from 85% in 1H18 to 55% by end-2018 due to the right issue taken place in Aug 2018, which raised HK\$9.9bn new capital. The figure increased from 55% to 73% in 1H19 on increasing CAPEX in incineration and Greentech businesses. Without any new fundraising activities, we believe net gearing ratio would climb further by end-2019.

2019E /20E outlook

CEI is a proxy play for China's incineration sector with the highest market share in the industry by capacity

CEI maintained its leading status in China's incineration industry. By capacity, its market share ranged from 7%-12% in 2012-2017 (2017: 12%). We believe this industry leader would continue to benefit from China's shift to incineration as a waste treatment measure because; 1) economies of scale would lower operating cost; 2) abundant project experience across China would facilitate facility construction; 3) established relationship with local governments would help lower the hurdle for expansion of existing plants.

15%/15%YoY capacity growth in incineration would continue to fuel future earnings growth

We believe CEI would continue to expand capacity and CAPEX would be ~RMB 20bn per year in 2019E/20E to support a capacity expansion of 15%/15%YoY during the period. Capacity growth would serve as a key net profit driver for the next few years.

Power output of Biomass business would expand by 32%/36%YoY growth in 2019E/20E

CEI's Greentech segment includes three sub-segments, namely the biomass power generation, hazardous waste treatment, and solar & wind power generation. Biomass alone contributed to more than 70% of total segmental revenue. For biomass power generation, utilization rate has remained low in previous years (2017/18: 20%/36%). In 1H19, the figure rose to 46%, and we expect improvement to continue in the future. Higher utilization would increase volume of biomass treated and power output, which we estimate would grow by 32%/36%YoY in 2019E/20E.

3%/4%YoY modest growth in wastewater revenue due to the high penetration rate of facilities

Assuming no M&A would take place, we estimate CEI's wastewater operating capacity to grow at 3%/3%YoY in 2019E/20E due to high penetration rate of wastewater treatment facilities in urban areas (2017: 94% nationwide). Therefore we expect revenue growth from CEI's wastewater (BOT) segment would be modest at 3%/4% YoY during the period. Investors should regard CEI's wastewater treatment operation business as a source of steady cash flow instead of a growth driver as room for expansion is relatively limited especially when compared to incineration operation.

19%/15%YoY net profit growth in 2019E/20E

CEI's 1H19 net profit grew 20%YoY, achieving 49% of our full-year estimate while its historical run rate has been 46% in 1H on average. 1H19 results are lower than our expected. Despite a worse-than-expected 1H19 results, we believe CEI's rapid expansion in incineration capacity and Greentech segment would help boost net profit growth by 19%/15%YoY in net profit in 2019E/20E and continue to secure its leading position in the industry.

Concern: Net gearing ratio would trend up in the next few years

After the right issue in 2018 (1,660mn new shares at HK\$6/shr, 31.4% discount to share price at that time, 1,660m new shares which has 37% share dilution), CEI's net gearing ratio has improved from 72% in 2017 to 55% in 2018. As we believe CEI is still in the expansion phase on the incineration side (2017: 12% market share by capacity in China), its CAPEX would remain large. We therefore estimate CEI's 2019E/20E net gearing ratio to be 68%/76%, which may suppress share price.

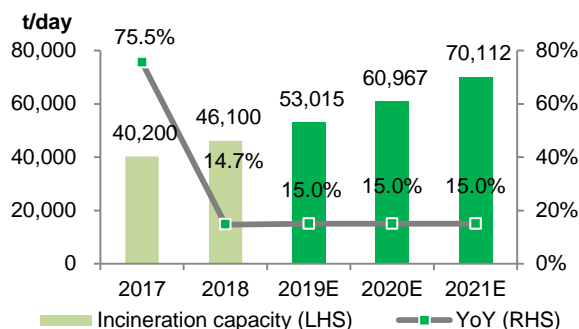
TP at HK\$ 7.50; maintain BUY

We roll over our valuation to 2020E and our DCF-based TP is HK\$ 7.50 (previously at HK\$ 8.90), which implies 9.0x/7.8x 2019/20E P/E and 1.22x/1.07x 2019E/20E P/B. 1H19 net profit was lower than expected on limited growth in wastewater treatment business. We revise down EPC revenue estimates for the wastewater treatment segment by 12%/23% in 2019E/20E on slowdown in PPP. Net profit estimates are reduced by 2.5%/2.2% for 2019E/20E. However, we believe incineration and Greentech segment would undergo robust growth. CEI will remain to be the leader in China's incineration industry and its biomass business would serve as a new growth driver in the future. Maintain **BUY**.

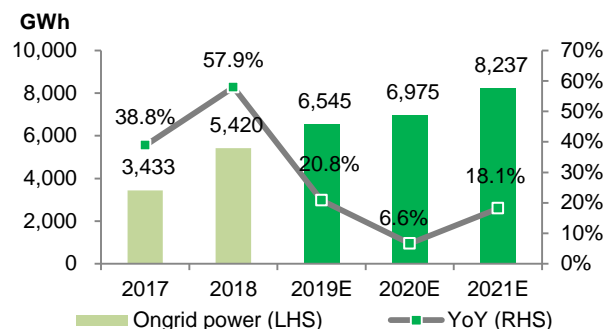
Exhibit 21: Change of estimates and assumptions

	Units	Old estimates		New estimates		Change		Main reasons
		2019E	2020E	2019E	2020E	2019E	2020E	
Net profit	HK\$m	5,246	6,020	5,117	5,893	-2.5%	-2.1%	1H19 results is lower than expected, we have adjusted its EPC and tariff assumptions.
Valuation	HK\$m	54,681		46,080		-15.7%		CEI's future EPC business would be affected by cooling down of PPP in China where would drag valuation
TP	HK\$	8.90		7.50		-15.7%		CEI's future EPC business would be affected by cooling down of PPP in China where would drag valuation

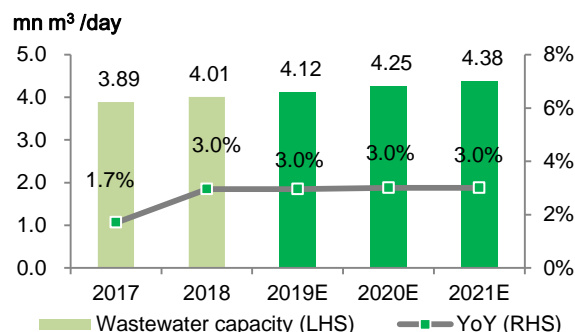
Source(s): ABCI Securities estimates

Exhibit 22: CEI's incineration capacity outlook


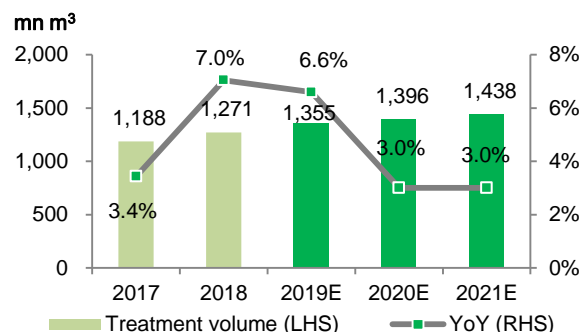
Source(s): Company, ABCI Securities estimates

Exhibit 23: CEI's incineration on-grid power output


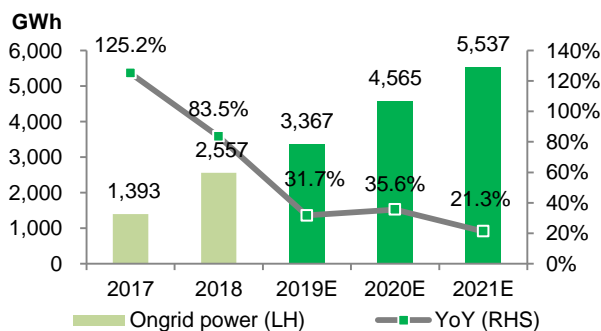
Source(s): Company, ABCI Securities estimates

Exhibit 24: Wastewater treatment: without M&A, capacity growth would be modest


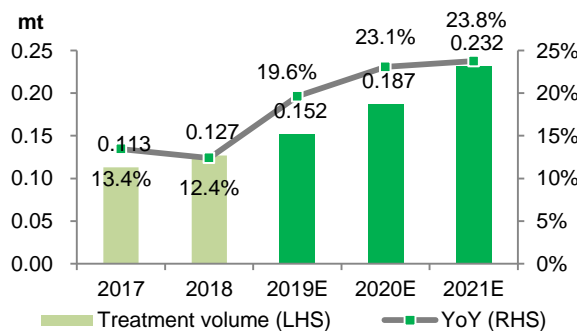
Source(s): Company, ABCI Securities estimates

Exhibit 25: Wastewater treatment: treatment volume would grow slowly


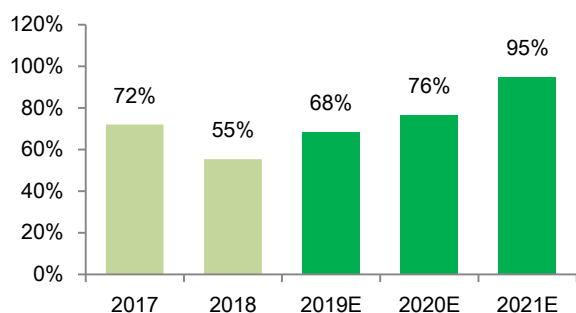
Source(s): Company, ABCI Securities estimates

Exhibit 26: Greentech: biomass on-grid power volume would maintain a strong growth


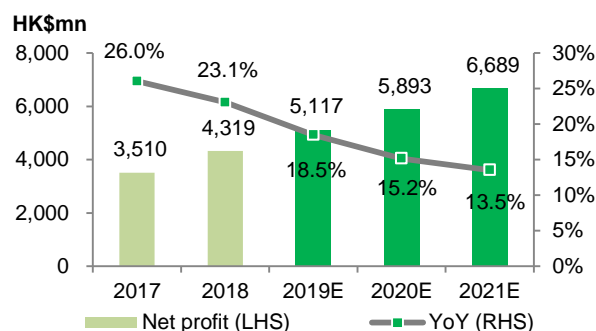
Source(s): Company, ABCI Securities estimates

Exhibit 27: Greentech: hazardous waste treatment volume would surge


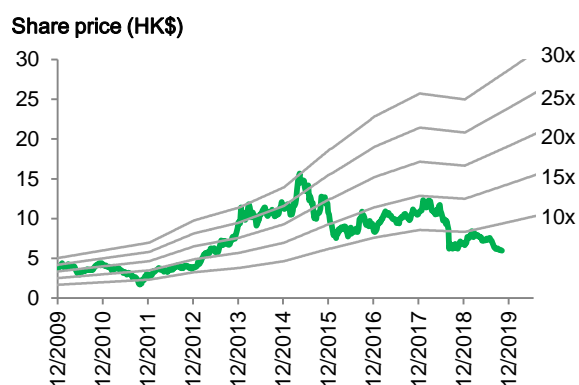
Source(s): Company, ABCI Securities estimates

Exhibit 28: CEI's net gearing ratio outlook


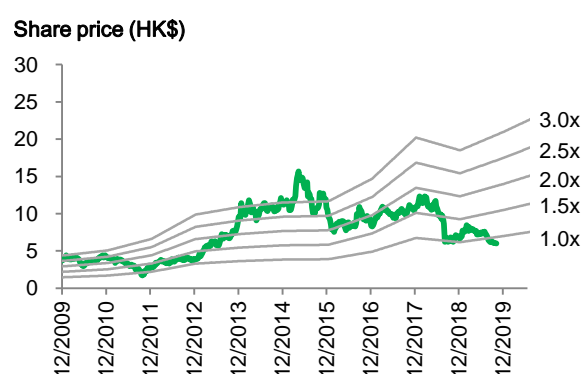
Source(s): Company, ABCI Securities estimates

Exhibit 29: CEI's net profit growth outlook


Source(s): Company, ABCI Securities estimates

Exhibit 30: CEI's fwd P/E chart


Source(s): Bloomberg, ABCI Securities estimates

Exhibit 31: CEI's fwd P/B chart


Source(s): Bloomberg, ABCI Securities estimates



Financial Statements

Consolidated income statement

FY Ended Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Revenue	20,043	27,228	34,152	40,380	46,789
Operation income	3,896	6,396	7,912	9,550	11,598
EPC	13,322	16,599	20,983	24,508	27,896
Other	2,825	4,233	5,256	6,322	7,295
Cost of sales	(12,911)	(17,797)	(22,840)	(27,069)	(31,263)
Gross Profit	7,133	9,431	11,312	13,311	15,526
SG&A expenses	(1,438)	(1,899)	(2,391)	(2,827)	(3,275)
Net financial income (cost)	(854)	(1,263)	(1,574)	(1,957)	(2,595)
Other income/ (expenses)	588	730	973	1,054	1,221
Profit before tax	5,428	6,998	8,320	9,581	10,877
Tax	(1,376)	(1,729)	(2,080)	(2,395)	(2,719)
Profit after tax	4,052	5,270	6,240	7,186	8,158
Profit attributable to:					
Minority interest	542	951	1,123	1,294	1,468
Equity shareholders of the Company	3,510	4,319	5,117	5,893	6,689
Basic EPS (HK\$)	0.762	0.858	0.833	0.959	1.089
DPS (HK\$)	0.234	0.253	0.250	0.288	0.327

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Current assets	19,637	29,664	32,417	41,033	36,616
Cash	8,657	12,136	12,598	19,883	13,048
Pledged and restricted bank deposits	2,181	3,838	3,000	3,000	3,000
Trade and bill receivables	5,589	7,537	9,305	10,608	12,465
Other receivables and prepayments	2,698	5,492	6,672	6,604	6,984
Inventories	510	659	843	937	1,119
Other current assets	2	2	0	0	0
Non-current assets	53,486	65,457	77,979	92,083	116,526
Property, plant & equipment	4,025	4,410	4,986	5,823	6,518
Investment properties	171	213	213	213	213
Intangible assets	10,340	14,397	17,566	21,907	25,799
Investment in JV and associates	792	1,014	1,014	1,014	1,014
Deferred tax assets	8,866	1,572	2,171	2,255	2,873
Other non-current assets	29,291	43,851	52,029	60,872	80,109
Total Assets	73,123	95,122	110,396	133,116	153,142
Current Liabilities	14,033	15,234	18,463	21,014	25,655
Trade and bill payables	8,505	10,168	12,359	12,855	16,266
Other payables	114	132	0	0	0
Short term borrowings	5,414	4,935	6,104	8,159	9,389
Other current assets	0	0	0	0	0
Non-current liabilities	30,446	39,192	46,150	59,901	68,135
Deferred tax liabilities	4,312	5,301	5,301	5,301	5,301
Long-term borrowings	26,040	33,591	40,849	54,600	62,834
Other non-current assets	94	299	0	0	0
Total Liabilities	44,480	54,426	64,613	80,915	93,790
Minority interests	6,089	6,769	7,892	9,186	10,654
Shareholders' equities	22,554	33,926	37,890	43,015	48,697

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Profit before tax	5,428	6,998	8,320	9,581	10,877
Change in depreciation and amortization	497	620	863	1,082	1,287
Change in Working Capital	(9,846)	(12,386)	(7,615)	(7,070)	(15,458)
Net financial cost (income)	854	1,263	(160)	(156)	(229)
Income tax paid	(370)	(498)	(1,729)	(2,080)	(2,395)
Net interest received	84	113	160	156	229
Others	251	(476)	(188)	(125)	(145)
Operating cash flow	(3,102)	(4,366)	(349)	1,388	(5,834)
CAPEX	(839)	(905)	(921)	(1,252)	(1,175)
Increase in intangible assets	(2,716)	(4,274)	(3,686)	(5,008)	(4,699)
Others	(1,278)	(2,319)	0	0	0
Investing cash flow	(4,833)	(7,498)	(4,607)	(6,260)	(5,874)
Net Capital raise	0	9,924	0	0	0
Net debt financing	8,810	7,990	8,426	15,806	9,464
Dividend payout	(1,138)	(1,198)	(1,275)	(1,535)	(1,768)
Interest paid	(920)	(1,368)	(1,734)	(2,113)	(2,824)
Others	3,191	304	0	0	0
Financing cash flow	9,944	15,652	5,418	12,158	4,872
Net change in cash	2,009	3,789	461	7,286	(6,836)
Cash at the beginning	6,341	8,657	12,136	12,598	19,883
Adjustment (Time deposit & FX effect)	308	(309)	0	0	0
Cash at the end	8,657	12,136	12,598	19,883	13,048

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Sales mixed (%)					
Operation income	19.44	23.49	23.17	23.65	24.79
EPC	66.47	60.96	61.44	60.69	59.62
Other	14.10	15.55	15.39	15.66	15.59
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	35.59	34.64	33.12	32.96	33.18
Operating profit margin	31.04	29.75	28.42	28.26	28.48
Pre-tax margin	27.08	25.70	24.36	23.73	23.25
Net profit margin	20.22	19.35	18.27	17.80	17.43
Selling & administrative expenses/revenue	7.18	6.98	7.00	7.00	7.00
Effective tax rate	25.36	24.70	25.00	25.00	25.00
Growth (%)					
Revenue	43.46	35.85	25.43	18.24	15.87
Gross profit	34.33	32.22	19.95	17.68	16.64
Operating profit	34.42	30.18	19.83	17.58	16.77
Net profit	33.43	30.06	18.42	15.16	13.52
Balance sheet ratios					
Current ratio (x)	1.40	1.95	1.76	1.95	1.43
Quick ratio (x)	1.17	1.54	1.35	1.59	1.11
Cash ratio (x)	0.77	1.05	0.84	1.09	0.63
Trade and bill receivables days	81.28	87.98	90.00	90.00	90.00
Trade and bill payables turnover days	188.14	191.48	180.00	170.00	170.00
Inventory turnover days	12.32	11.98	12.00	12.00	12.00
Total debt / equity ratio (%)	139.46	113.56	123.92	145.90	148.31
Net debt / equity ratio (%)	71.97	55.42	68.49	76.39	94.65
Returns (%)					
ROAA	5.72	5.13	4.98	4.84	4.67
ROAE	17.57	15.29	14.25	14.57	14.59
Payout ratio	30.65	29.52	30.00	30.00	30.00

Source(s): Company, ABCI Securities estimates

Beijing Enterprises Water (371 HK)

The leader would benefit the most; upgrade to BUY

- Beijing Enterprises Water (BEW) is the leader in China's wastewater treatment industry
- Yangtze River restoration project would serve as a positive to BEW's long-term development
- 11%/11%YoY capacity growth in wastewater treatment operation business in 2019E/20E; EPC segment revenue would increase by 12%/10%YoY for 2019E/20E.
- Upgrade to **BUY** with TP of HK\$ 5.10, which implies 9.4x/8.1x 2019/20E P/E and 1.58x/1.40x 2019/20E P/B

BEW is the proxy play for China's wastewater treatment industry. BEW is the wastewater treatment industry leader in China because it has 1) the highest wastewater treatment capacity among peers (2018: 12.84mt/day); 2) highest ROAE among peers (2018: 19% versus peers' average of 10.5%); 3) highest revenue among peers (2018: HK\$24.6bn).

Yangtze River restoration project would be positive to BEW's long-term development. Three Gorges Corporation has invested in BEW and held a 4.8% stake in Jan 2019; the aim of this investment is to set up a platform with BEW to restore the Yangtze River basin. The restoration project will be a long-term project of mammoth size, which will serve to boost BEW's reputation and earnings in the long run.

11%/11%YoY capacity growth in wastewater treatment operation business in 2019E/20E; EPC segment revenue growth would be 12%/10%YoY in 2019E/20E. As a market leader in the industry, BEW would expand its capacity by 11%/11%YoY in 2019E/20E. Cooling of Public-Private Partnership (PPP) in China would slow the Group's EPC business, whose earnings would grow by 12%/10%YoY in 2019E/20E.

Adjusted net profit to increase by 19%/18%YoY in 2019E/20E. Benefiting from revenue growth in wastewater and water distribution BOT segment, we estimate BEW's adjusted net profit (excluded one-off impairment loss) to increase by 19%/18%YoY in 2019E/20E.

TP at HK\$5.10; upgrade to BUY. We roll over our valuation to 2020E and our DCF-based TP is HK\$ 5.10 (previously at HK\$ 5.00), which implies 9.4x/8.1x 2019/20E P/E and 1.58x/1.40x 2019E/20E P/B. Upgrade to **BUY**.

Risks. (1) Slower-than-expected capacity growth; (2) Default risk; (3) Policy risk; (4) High net gearing ratio; (5) Negative cash flow

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (HK\$ mn)	21,192	24,597	27,931	31,927	35,549
Chg (% YoY)	22.1	16.1	13.6	14.3	11.3
Net profit (HK\$ mn)	3,678	4,471	5,317	6,280	6,961
Chg (% YoY)	30.6	21.6	18.9	18.1	10.8
EPS (HK\$)	0.420	0.479	0.542	0.627	0.695
Chg (% YoY)	29.8	14.2	13.2	15.7	10.8
BVPS (HK\$)	2.372	2.731	3.238	3.650	4.136
Chg (% YoY)	25.2	15.1	18.5	12.7	13.3
P/E (x)	9.84	8.62	7.62	6.58	5.94
P/B (x)	1.74	1.51	1.28	1.13	1.00
ROE (%)	19.94	19.33	18.58	18.40	17.86
ROA (%)	4.10	3.94	3.88	4.04	4.04
DPS (HK\$)	0.159	0.185	0.163	0.188	0.209
Dividend yield (%)	3.86	4.48	3.94	4.56	5.05
Net gearing (%)	92.0	103.3	108.7	115.2	124.0

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Nov 4, 2019

Rating: BUY
TP: HK\$ 5.10

Analyst : Kelvin Ng
 Tel: (852) 2147 8869
 kelvinng@abci.com.hk

Share price (HK\$)	4.13
Est. share price return	23.5%
Est. dividend yield	3.9%
Est. total return	27.4%
Previous Rating	HOLD
Previous Report Date	Jun 19, 2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	4.9/3.6
Issued shares (mn)	10,011
Market cap (HK\$ mn)	41,374
3-mth avg daily turnover(HK\$ mn)	68
Major shareholder(s):	
Beijing Enterprises Hld.	41.2%

Source(s): Company, ABCI Securities

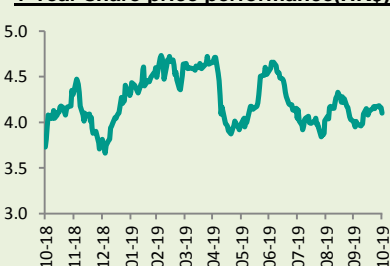
Share Performance (%)

	Absolute	Relative*
1-mth	3.77	(2.15)
3-mth	5.38	(1.97)
6-mth	(9.03)	(4.71)

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities

1H19 results highlight

17%YoY earnings growth in 1H19 exceeded expectations

1H19 net profit was HK\$ 2,770mn (+17% YoY), achieving 52%/57% of Bloomberg and our full-year estimates. Historically, 1H earnings contributed to ~49% of BEW's full-year earnings. This set of results is better than consensus and our estimates.

12%YoY tariff increment in wastewater operation was better than expected

The better-than-expected tariff increase was the key driver to earnings growth. Wastewater operation (BOT) tariff was HK\$1.23/ton in 1H19, 12% higher than that in 1H18, driven by more projects with upgraded tariffs.

10%/10%YoY capacity growth for wastewater and water distribution was in line with estimate

In 1H19, operating capacities (BOT) for wastewater and water distribution were 13.8mt/day and 8.8mt/day, which were 10% YoY higher than 1H18 for both. These figures suggest development is on track.

Net gearing at 102%, 1ppt better than FY18, but 18ppt higher than 1H18

Net gearing ratio was 102% in 1H19, down 1ppt from 103% in FY18 but 18ppt higher than 84% in 1H18. We believe such increment was mainly due to increasing CAPEX for wastewater treatment and water distribution businesses.

2019E/20E Outlook

BEW is the proxy play for China's wastewater treatment industry

BEW is the wastewater treatment industry leader in China based on its highest wastewater treatment capacity (2018: 12.84mt/day), highest ROAE among peers (2018: 19% vs. peer average of 10.5%), and highest revenue among peers (2018: HK\$ 24.6bn). We believe the industry leader would continue to be aided by its project experience across China, economies of scale and established relationship with local governments.

High profitability indicates sound operation strategy

BEW's revenue was the highest in China's wastewater treatment industry in 2018. To gauge its profitability among peers, we compare the Group's financials with several HK-listed and China-listed peers. In 2018, BEW's net margin was 18%, the second highest among peers; its ROAE at 19% was the highest among peers; its ROAA at 4% was ranked third among peers. With its large size and high profitability, we believe the Group's sound operation strategy should serve it well in the long haul.

12%/11%YoY capacity growth in wastewater treatment operation business for 2019E/20E

BEW has maintained a fast expansion pace in wastewater treatment capacity (BOT) during 2009-18, (27% CAGR). However, high penetration rate in urban regions (2017: 94% nationwide) indicates growth in wastewater treatment capacity would slow. We estimate BEW's wastewater treatment capacity to increase by 12%/11%YoY for 2019E/20E. The double-digit growth would further solidify its leading position in the industry and boost future earnings.

8%/7%YoY capacity growth in water distribution capacity for 2019E/20E; high margin is key

We believe growth in BEW's water distribution capacity (BOT) in 2019E/20E would be mild due to the high base. In 2009-18, rapid capacity growth (56% CAGR) was seen. With 8%/7%YoY growth estimated by us for 2019E/20E, BEW's water distribution capacity would reach 8.9mt/day and 9.5mt/day in 2019E/20E. High GPM of water distribution business (2019E/20E: 48%/46%) would support overall margins.

Yangtze River restoration project would serve as a long-term positive to BEW

Three Gorges Corporation has invested in BEW and held a 4.8% stake in Jan 2019; the aim of this investment is to set up a platform with BEW to restore the Yangtze River basin. The restoration project will be a long-term project of mammoth size. It will serve to boost BEW's reputation and earnings in the long run.

Net gearing to go up

Management estimated 2019 CAPEX to be RMB 1.2bn, despite lower than RMB1.65bn in 2018, net gearing will continue to climb. Considering that BEW would continue to expand its wastewater and water distribution businesses in domestic and overseas markets, and preliminary preparation for Yangtze River restoration project will soon ensue, we estimate net gearing ratio would rise to 109%/115% in 2019E/20E. A higher net gearing ratio would raise finance cost and affect net profit.

EPC segment revenue to increase by 12%/10%YoY in 2019E/20E; BOT would be the key driver for earnings growth

Cooling of PPP will slow down the EPC business of wastewater treatment players in China. We expect revenue of BEW's EPC segment would expand by 12%/10%YoY in 2019E/20E, much lower than its peak growth of 82% YoY in 2015. However, increasing contribution from BOT business would help improve the overall GPM of BEW as it entails a higher GPM than that of EPC (55% vs. 25%).

Adjusted net profit to increase by 19%/18%YoY for 2019E/20E

Robust revenue growth in wastewater and water distribution BOT segment would drive growth in adjusted net profit (excluded one-off impairment loss), which we expect to increase by 19%YoY/18%YoY to HK\$5.3bn/HK\$6.3bn for 2019E/20E.

TP at HK\$5.10; upgrade to BUY

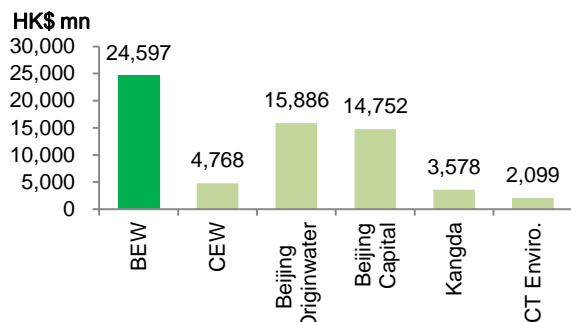
We view BEW's 1H19 results as better than expected and current valuation has factored in negative impact from slowdown in PPP. We revise up our wastewater tariff assumptions for 2019E/20E/21E by 21%/28%/31% to factor in increased tariff in 1H19. We lower our estimates for EPC revenue by 24%/26%/21% for 2019E-21E. Rolling over our valuation to 2020E, we derive a DCF-based TP of HK\$ 5.10 (previously at HK\$ 5.00), which implies 9.4x/8.1x 2019/20E P/E and 1.58x/1.40x 2019E/20E P/B.

We believe BEW would stay as a leader in China's wastewater treatment industry with its highest capacity and profitability among peers and the Yangtze River restoration project would act as a share price catalyst for the Group. Upgrade to **BUY**.

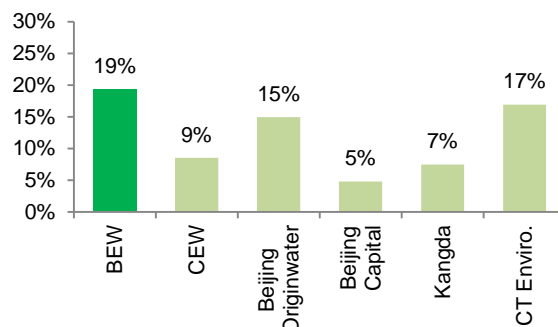
Exhibit 32: Change of estimates and assumptions

	Units	Old estimates		New estimates		Change		Main reasons
		2019E	2020E	2019E	2020E	2019E	2020E	
Net profit	HK\$m	4,854	5,389	5,317	6,280	9.5%	16.5%	1H19 results is better than expected, we revise up its tariff assumptions.
Valuation	HK\$m	43,815		51,058		16.5%		Future BOT capacity growth would benefit BEW, Yangtze River restoration project would spur BEW's future expansion
TP	HK\$	5.00		5.10		2.0%		New share placement in 2018-2019 has diluted valuation per share.

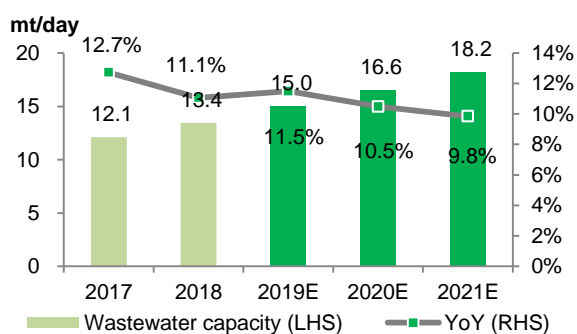
Source(s): ABCI Securities estimates

Exhibit 33: BEW had the highest revenue among peers (2018)


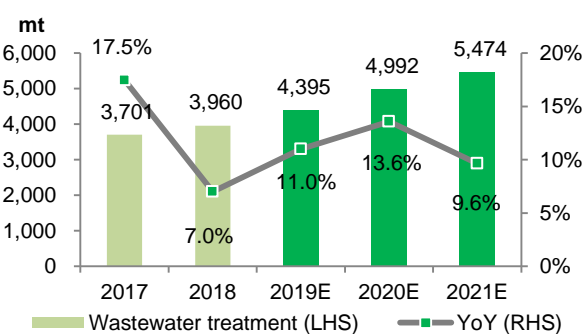
Source(s): Company, ABCI Securities

Exhibit 34: BEW had the highest ROAE among peers (2018)


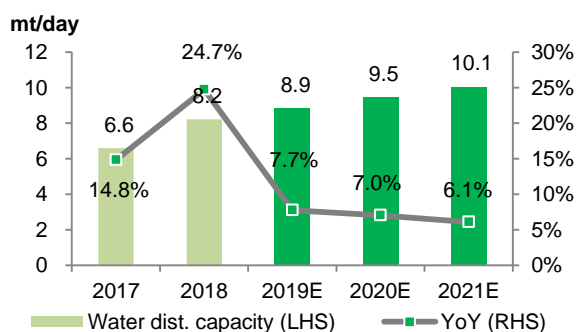
Source(s): Company, ABCI Securities

Exhibit 35: BEW's wastewater treatment capacity outlook


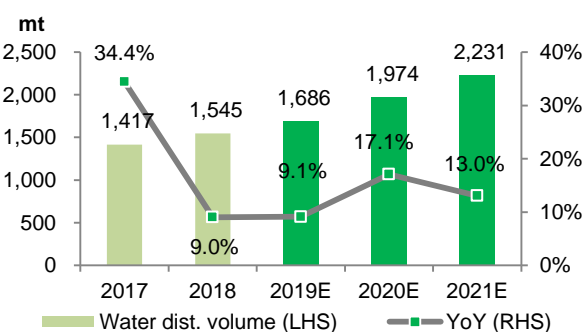
Source(s): Company, ABCI Securities estimates

Exhibit 36: BEW's wastewater treatment volume outlook


Source(s): Company, ABCI Securities estimates

Exhibit 37: BEW's water distribution capacity growth outlook


Source(s): Company, ABCI Securities estimates

Exhibit 38: BEW's water distribution volume outlook


Source(s): Company, ABCI Securities estimates



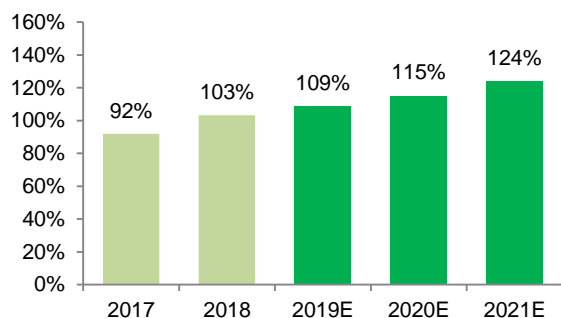
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ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

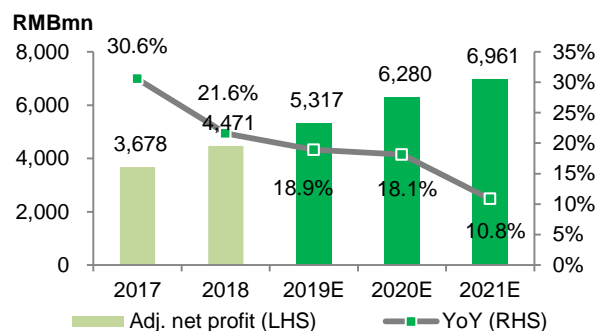
Beijing Enterprises Water (371 HK, BUY)
China Environmental Protection Sector- OVERWEIGHT
Nov 4, 2019

Exhibit 39: BEW net gearing ratio would trend up in the next few years



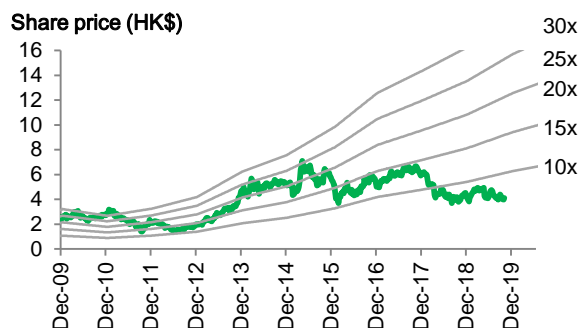
Source(s): Company, ABCI Securities estimates

Exhibit 40: BEW's adjusted net profit would continue to rise



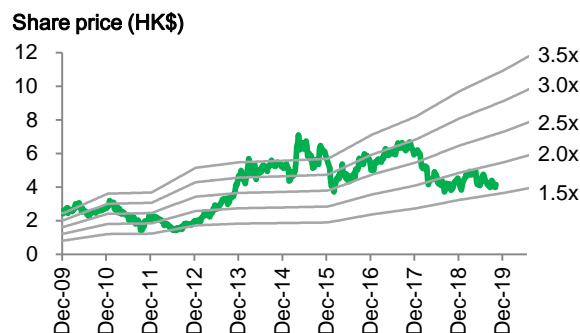
Source(s): Company, ABCI Securities estimates

Exhibit 41: BEW's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 42: BEW's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates



Financial Statements

Consolidated income statement

FY Ended Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Revenue	21,192	24,597	27,931	31,927	35,549
EPC	13,982	15,306	17,139	18,853	20,738
Operating income	5,871	6,986	8,303	10,336	11,662
Other	1,339	2,305	2,489	2,738	3,149
Cost of sales	(14,728)	(15,821)	(17,847)	(20,322)	(22,553)
Gross Profit	6,465	8,776	10,084	11,605	12,996
SG&A expenses	(1,753)	(2,206)	(2,234)	(2,554)	(2,844)
Net financial income (cost)	(1,177)	(1,682)	(2,116)	(2,597)	(3,011)
Other income/ (expenses)	1,781	1,892	2,095	2,394	2,666
Profit before tax	5,315	6,779	7,828	8,848	9,807
Tax	(875)	(1,549)	(1,722)	(1,947)	(2,158)
Profit after tax	4,441	5,230	6,106	6,902	7,650
Profit attributable to:					
Minority interest	(483)	(513)	(550)	(621)	(688)
Equity shareholders of the Company	3,717	4,471	5,317	6,280	6,961
Adj. Equity shareholders of the Company	3,678	4,471	5,317	6,280	6,961
Basic EPS (HK\$)	0.424	0.479	0.542	0.627	0.695
Adj. EPS (HK\$)	0.420	0.479	0.542	0.627	0.695
DPS (HK\$)	0.159	0.185	0.163	0.188	0.209

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Current assets	23,539	31,976	38,222	39,577	40,595
Cash	9,939	12,938	15,241	14,753	12,875
Pledged and restricted bank deposits	46	657	0	0	0
Trade and bill receivables	2,853	4,197	4,680	5,467	5,831
Other receivables and prepayments	9,360	10,635	15,077	16,062	18,610
Inventories	135	226	215	287	270
Other current assets	1,206	3,325	3,009	3,009	3,009
Non-current assets	76,922	94,404	109,105	124,042	139,988
Property, plant & equipment	3,842	4,223	4,859	5,453	6,106
Investment properties	0	0	0	0	0
Intangible assets	3,406	3,949	4,027	4,102	4,177
Investment in JV and associates	10,653	11,692	14,441	17,283	20,456
Deferred tax assets	37,170	33,114	36,208	40,275	44,226
Other non-current assets	21,852	41,427	49,570	56,929	65,023
Total Assets	100,461	126,381	147,326	163,618	180,583
Current Liabilities	27,693	36,517	44,120	47,811	51,388
Trade and bill payables	11,688	17,873	23,200	23,568	24,627
Other payables	7,463	9,921	9,753	11,248	11,831
Short term borrowings	8,440	8,633	11,167	12,995	14,929
Other current assets	103	90	0	0	0
Non-current liabilities	39,726	52,052	58,590	65,776	73,602
Deferred tax liabilities	2,104	2,544	2,544	2,544	2,544
Long-term borrowings	31,939	44,015	52,562	59,401	66,902
Other non-current assets	5,683	5,493	3,484	3,831	4,156
Total Liabilities	67,420	88,569	102,710	113,587	124,990
Minority interests	5,634	5,972	6,521	7,142	7,831
Perpetual capital instruments	6,623	6,351	6,351	6,351	6,351
Shareholders' equities	20,785	25,490	31,744	36,538	41,411

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement

FY ended Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Profit before tax	5,315	6,779	7,828	8,848	9,807
Change in depreciation and amortization	405	511	595	685	784
Change in Working Capital	(12,279)	(13,358)	(11,054)	(9,317)	(11,332)
Net financial cost (income)	1,299	1,838	2,116	2,597	3,011
Income tax paid	(541)	(567)	(1,549)	(1,722)	(1,947)
Net interest received	0	0	0	0	0
Others	(915)	(775)	(1,117)	(1,277)	(1,422)
Operating cash flow	(6,714)	(5,573)	(3,180)	(187)	(1,098)
CAPEX	(1,743)	(1,638)	(3,132)	(3,151)	(3,521)
Increase in intangible assets	(917)	(388)	(34)	(34)	(38)
Others	2,545	(984)	(833)	(841)	(935)
Investing cash flow	(115)	(3,010)	(3,999)	(4,027)	(4,495)
Net Capital raise	0	3,602	2,546	21	0
Net debt financing	7,265	12,881	11,082	8,666	9,435
Dividend payout	(21)	(122)	(1,595)	(1,884)	(2,088)
Interest paid	(1,540)	(2,137)	(2,105)	(2,632)	(3,186)
Others	(1,735)	(1,185)	0	0	0
Financing cash flow	3,968	13,040	9,929	4,170	4,161
Net change in cash	(2,861)	4,458	2,749	(43)	(1,432)
Cash at the beginning	10,921	9,939	12,938	15,241	14,753
Adjustment (Time deposit & FX effect)	1,878	(1,459)	(445)	(445)	(445)
Cash at the end	9,939	12,938	15,241	14,753	12,875

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (HK\$ mn)	2017A	2018A	2019E	2020E	2021E
Sales mixed (%)					
EPC	65.98	62.23	61.36	59.05	58.34
Operating income	27.71	28.40	29.73	32.37	32.80
Other	6.32	9.37	8.91	8.58	8.86
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	30.50	35.68	36.10	36.35	36.56
Operating profit margin	25.36	30.68	31.60	31.85	32.06
Pre-tax margin	25.08	27.56	28.03	27.71	27.59
Net profit margin	20.95	21.26	21.86	21.62	21.52
Selling & administrative expenses/revenue	8.27	8.97	8.00	8.00	8.00
Effective tax rate	16.46	22.85	22.00	22.00	22.00
Growth (%)					
Revenue	22.11	16.06	13.56	14.30	11.35
Gross profit	11.75	35.76	14.91	15.08	11.99
Operating profit	6.27	40.42	16.96	15.19	12.08
Net profit	20.90	17.78	16.75	13.03	10.84
Balance sheet ratios					
Current ratio (x)	0.85	0.88	0.87	0.83	0.79
Quick ratio (x)	0.46	0.49	0.45	0.42	0.36
Cash ratio (x)	0.36	0.37	0.35	0.31	0.25
Trade and bill receivables days	50.61	52.31	58.00	58.00	58.00
Trade and bill payables turnover days	266.79	340.99	420.00	420.00	390.00
Inventory turnover days	2.80	4.16	4.50	4.50	4.50
Total debt / equity ratio (%)	194.27	206.55	200.76	198.14	197.61
Net debt / equity ratio (%)	91.99	103.28	108.68	115.21	124.04
Returns (%)					
ROAA	4.10	3.94	3.88	4.04	4.04
ROAE	19.94	19.33	18.58	18.40	17.86
Payout ratio	37.54	38.58	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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183