



November 1, 2016

Sector Rating:
OVERWEIGHT

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Key Data

| | |
|----------------------------|-------|
| Avg.16E P/E (x) | 16.84 |
| Avg.16E P/B (x) | 2.40 |
| Avg.16E Dividend Yield (%) | 1.78 |

Source(s): Company, Bloomberg, ABCI Securities

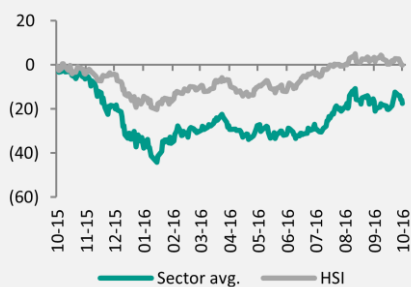
Sector performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 4.38% | 4.71% |
| 3-mth | 18.37% | 11.56% |
| 6-mth | 16.77% | 4.47% |

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year Sector performance



Source(s):Bloomberg

China Environmental Protection Sector Huge demand for China's waste treatment industry

Investment themes

- ❖ Increasing urbanization and rising hygienic standard in urban areas should spur demand for solid waste and wastewater treatment services.
- ❖ China's expansion in urban incineration and wastewater treatment capacities suggest solid waste and wastewater treated may see 12%/9% CAGR growth during 2015-20E.
- ❖ We are optimistic on incineration and wastewater operators, with China Everbright Int'l (257 HK) and Beijing Enterprises Water (371 HK) as our preferred choices.

Increased urbanization is pressuring urban wastewater and solid waste treatment systems. Urbanization rate in China will continue to rise as people pursues higher living standard. According to estimates by The National Development and Reform Committee (NDRC), urbanization in China would reach 60% by end-2020, up from the current 56% at end-2015, suggesting an extra 99mn people will move into urban areas. Increasing population and improving hygienic standard would spur demand for wastewater and solid waste treatment services in major cities.

Urban solid waste treated via incineration to expand by 12% CAGR during 2015-20E. According to the "the draft of 13th Five-year plan on urban residential waste treatment" issued by NDRC in Sep 2016, China targets to raise the proportion of waste incinerated in urban areas from 34% at end-2015 to 50% by end-2020E. Assuming residential waste per capita to remain unchanged in 2015-20, with the increasing urbanization, residential solid waste produced in urban areas would reach 217mt by end-2020E (2015: 180mt), and solid waste to be treated via incineration would reach 108mt (2015: 61mt), indicating a 78% increase or a 12% CAGR in 2015-20E. This should bring great opportunities to solid waste treatment operators.

A 9% CAGR growth in urban wastewater treatment volume in 2014-20E will create enormous business opportunities. Wastewater would be another key issue. Assuming China's urbanization would reach 60% and wastewater treatment rate in urban areas would reach 95% by end-2020E, total wastewater treatment volume would be 71bn tons, which represents a 65% increase from end-2014 (~43bn tons), or a 9% CAGR during 2014-2020E. This rapid growth should benefit urban wastewater treatment operators.

Overweight sector outlook; recommend BUY for China Everbright Int'l (257 HK) and Beijing Enterprises Water (371 HK). We are positive on the outlook for wastewater and solid waste treatment sectors as increasing urbanization and rising living standard would spur demand for waste treatment. Our top pick is China Everbright Int'l (257 HK, BUY) due to its solid growth in incineration capacity and projects in prime regions; we also like Beijing Enterprises Water (371 HK, BUY) due to its leading position in wastewater treatment industry and its strong capacity growth in water distribution should boost earnings growth.

Risk factors: (1) Slower-than-expected capacity growth; (2) High gearing of operators; (3) Default risk; (4) Policy risks; (5) Economic slowdown in China.

Sector Valuation Summary (data as of Oct 31, 2016)

| Company | Ticker | Rating | Price (HK\$) | TP (HK\$) | FY16E P/E(x) | FY17E P/E (x) | FY16E P/B (x) | FY17E P/B (x) | FY16E Yield (%) | FY17E Yield (%) |
|---------------------------|--------|--------|--------------|-----------|--------------|---------------|---------------|---------------|-----------------|-----------------|
| China Everbright Int'l | 257 HK | Buy | 9.30 | 13.00 | 16.67 | 13.66 | 2.11 | 1.88 | 1.80 | 2.20 |
| Beijing Enterprises Water | 371 HK | Buy | 5.63 | 7.00 | 17.01 | 13.81 | 2.68 | 2.31 | 1.76 | 2.17 |

Source(s): Companies, ABCI Securities estimates



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Key positives and future outlook

Increasing urbanization and rising hygienic standard in urban areas should spur demand for both wastewater treatment and incineration services in China over the next few years. Operators of wastewater and incineration treatment should develop swiftly in the 13th Five-year plan period (13th FYP, 2016-2020).

Increased urbanization is pressuring urban wastewater and solid waste treatment systems

Urbanization rate in China will continue to rise. According to the estimates by the National Development and Reform Committee (NDRC), urbanization rate in China would reach 60% by end-2020, up from the 56% at end-2015, suggesting an additional 99mn people would move to the urban areas. Increasing population and rising hygienic standard should spur demand for wastewater and solid waste treatment services in major cities.

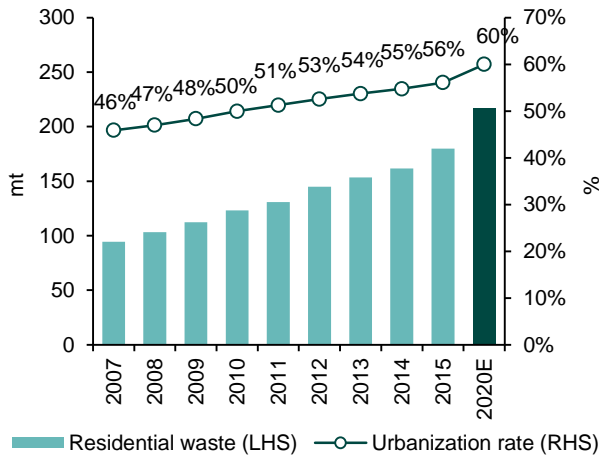
Incineration

China targets to expand urban incineration capacity by 19% CAGR during 2015-20E

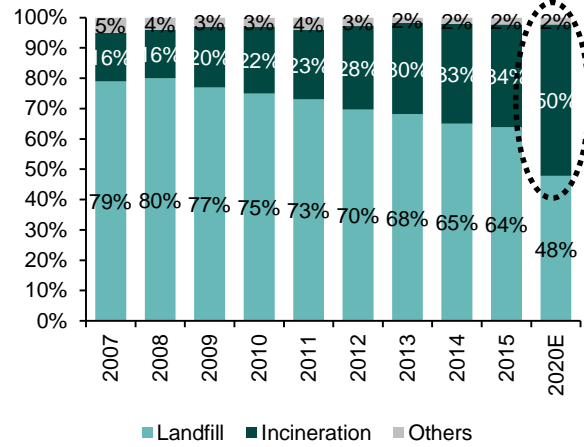
Historically, around 70% of residential waste has been disposed of via landfills in China. The government is reducing its use because of limited land resources and the resultant underground water pollution. According to “the draft of 13th FYP on urban residential waste treatment” issued by the NDRC on Sep 22, 2016, China targets to raise the proportion of waste incinerated in urban areas from the 34% at end-2015 to 50% by end-2020E, making incineration the key solid waste treatment in urban areas. NDRC also targets to raise incineration capacity in urban areas from 216kt/day by end-2015 to 520kt/day by end-2020, indicating a 141% jump or 5-year CAGR of 19% during the period. Incineration will be a major waste treatment method, presenting enormous opportunities to operators in urban areas.

Increasing urbanization and the government’s promotion for incineration would increase waste incinerated by 12% CAGR during 2015-20E

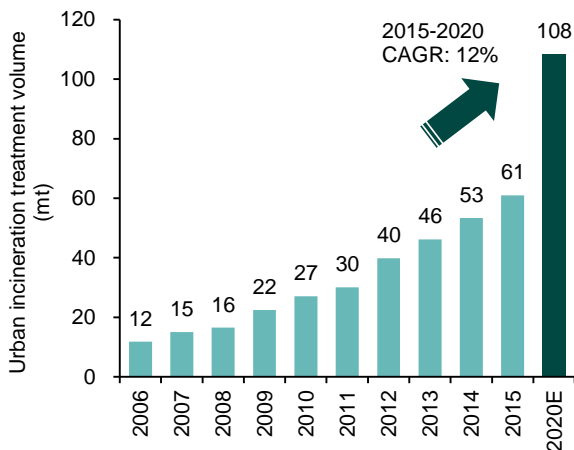
According to the “the draft of 13th FYP on urban residential waste treatment” issued by the NDRC in Sep 2016, China would raise the proportion of waste incinerated in urban areas from 34% at end-2015 to 50% by end-2020E. If we assume residential waste per capita to remain unchanged in 2015-20, residential waste produced would reach 217mt by end-2020E (2015: 180mt), of which 108mt (2015: 61mt) of solid waste would be treated via incineration, indicating a 78% increase or a 12% CAGR during 2015-20E. Hence, waste treatment operators would benefit for the rising demand.

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


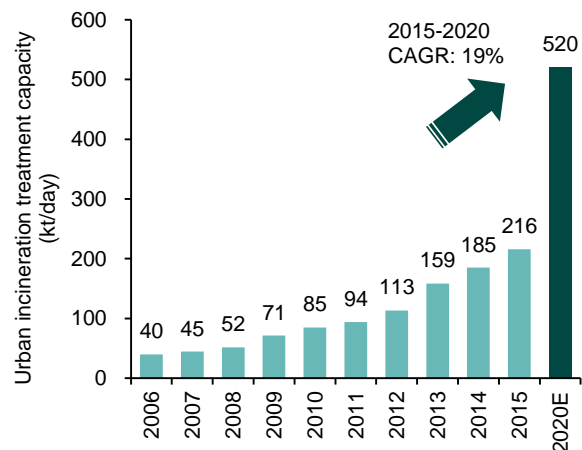
Source(s): NDRC, ABCI Securities

Exhibit 2: China targets to increase proportion of solid waste treated via incineration in urban areas


Source(s): NDRC, ABCI Securities

Exhibit 3: China's urban solid waste to be treated via incineration would rise


Source(s): NDRC, ABCI Securities

Exhibit 4: China's incineration capacity would record robust growth in the next few years


Source(s): NDRC, ABCI Securities

Wastewater

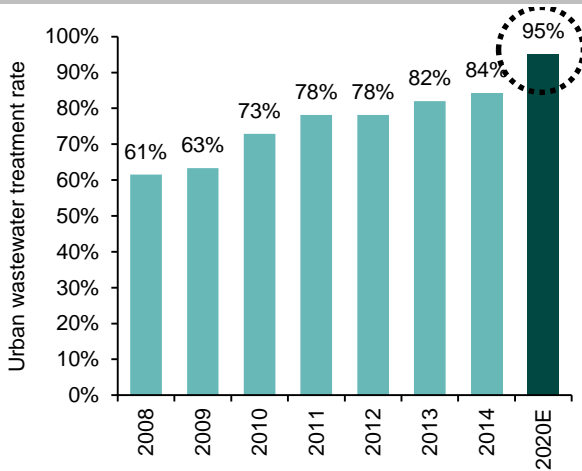
China's rising urban wastewater treatment rate indicates more services are required

The Chinese government will continue to raise wastewater treatment rate in urban areas to improve hygienic standard. Urban wastewater treatment rate has been maintaining an uptrend, rising from 61% in 2008 to 84% by end-2014, adhering closely to the end-2015 target of 85% set in the "12th FYP on wastewater facilities construction" issued in 2012. In the announcement of "Action Plan for Water Pollution" issued by the State Council on Apr 2, 2015, the end-2020E target of urban wastewater is 95%. We believe the current wastewater treatment system would be overloaded and demand for new capacity would increase. The rising wastewater treatment volume should provide great opportunities for operators.

A 9% CAGR growth in urban wastewater treatment volume in 2014-20E will create enormous business opportunities

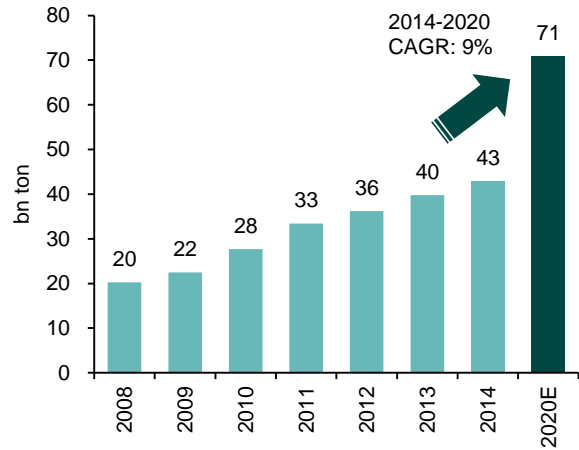
With rising urbanization and the government's effort to boost urban wastewater treatment rate, total volume of urban wastewater to be treated would grow strongly in years to come. Assuming an urbanization rate of 60% and a wastewater treatment rate of 95% by end-2020E, total wastewater treatment volume would be 71bn tons, representing a 65% increase on wastewater treatment volume from end-2014 (~43bn tons), or a 9% CAGR during 2014-20E. We believe urban wastewater treatment operators should benefit from the rapid development.

Exhibit 5: China's urban wastewater treatment rate would rise



Source(s): NDRC, ABCI Securities

Exhibit 6: China's urban wastewater treatment volume would expand by 9% CAGR in 2014-2020E



Source(s): NDRC, ABCI Securities



Overhangs of environmental protection

Air pollution concern may hinder construction of incinerators

China's worsening air pollution raises public concerns about incinerator construction. As incineration may produce toxic pollutants such as sulfur dioxide, dioxin, furans, etc., public resistance to incinerator construction can represent a potential challenge for solid waste treatment operators.

High net gearing may compromise balance sheet

Business model of China's wastewater treatment operators relies heavily on operating income to finance acquisitions. As the operators speed up their M&A activities, operating cash flow is likely to be stretched, driving up the net gearing. We believe the wastewater treatment operators in China are likely to ramp up equity fundraising on the rising M&A activities. Hence, their balance sheets and share prices could be negatively affected.

Rising debts of local governments

Rising debts of local governments may limit investment in the wastewater treatment sector. According to China's National Audit Office, as of June 2013, total government debts was RMB 20.6tn, equivalent to 40% of China's 2012 GDP. For some local governments, debt levels are equivalent to 3 times the annual income. We believe wastewater treatment investment in heavily indebted regions would reduce. Furthermore, mounting debts of the local governments may increase default risk for wastewater treatment operators if the former are unable to repay the construction costs upon project completion.

November 1, 2016
 Company Report
 Rating: BUY
 TP: HK\$ 13.00

Share price (HK\$) 9.30
 Est. share price return 39.78%
 Est. dividend yield 1.80%
 Est. total return 41.58%

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Key Data

Market share (HK\$ mn) 41,689
 3-mth avg. daily turnover (HK\$ mn) 90
 52-week high/low (HK\$) 12.90/7.11
 Issued shares (mn) 4,484
 Major shareholder(s) (%):
 China Everbright Hld 41.4

Source(s): Company, Bloomberg, ABCI Securities

1H16 Revenue breakdown (%)

EPC 61.5
 Operation 23.5
 Others 15.0

Source(s): Company, ABCI Securities

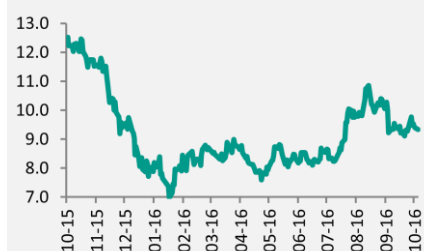
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 0.87% | 2.42% |
| 3-mth | 12.96% | 7.46% |
| 6-mth | 11.58% | 0.66% |

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

China Everbright Int'l (257 HK) Ride on China's strong incineration demand

- Incineration capacity to grow 25%/25%YoY in 2016E/17E
- 55%/42% of CEI's waste-to-energy/wastewater capacities are located in tier1/2 cities where default risk is relatively lower
- Net profit to grow 20%/22% YoY in 2016E/17E
- Our DCF-derived TP is HK\$13.00, which represents 23x/19x 2016E/17E P/E and 3.0x/2.6x 2016E/17E P/B.

Robust growth of 25%/25%YoY in 2016E/17E incineration capacity. We believe CEI would continue to expand its incineration operation capacity. A promising capacity growth is in sight – 26,600t/day of new waste-to-energy capacity is now under construction or in preparation stage, representing a significant increase to its existing operating capacity of 19,700t/day. In addition, management guided that overall capex for 2016 should not be less than RMB 5bn (2015: RMB 5bn). Capex is likely to remain high going forward given the current unit investment cost is at ~RMB 0.5mn/t/day. We believe CEI's waste-to-energy capacity is likely to expand by 25%/25% YoY in 2016E/17E. Strong capacity growth will serve as a solid support to net profit growth.

GreenTech segment as another income driver. The GreenTech segment includes renewable energy (biomass, wind and solar), hazardous waste treatment, and sludge treatment. In 1H16, operation revenue in the segment was up 43% YoY. Also, possible spin-off has been indicated by the management although details are yet to be confirmed.

Projects in prime regions to reduce default risk. Most of CEI's existing waste-to-energy projects are located in the wealthier regions in China such as Suzhou, Jinan, Nanjing, etc. According to CEI, as of 1H16, 59%/43% of its waste-to-energy/wastewater capacities are located in tier1/2 cities where default risk should be relatively lower, hence minimizing disruption to CEI's cash flow.

Maintain BUY; TP at HK\$13.00. Our DCF-derived TP is HK\$13.00 (unchanged), which represents 23x/19x 2016E/17E P/E and 3.0x/2.6x 2016E/17E P/B. CEI is likely to achieve robust EPS CAGR at 20% during 2015-18E. Our TP is equivalent to 0.95x 2017E PEG, which we deem as reasonable. Maintain **BUY**.

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

Results and Valuation

| FY ended Dec 31 | 2014A | 2015A | 2016E | 2017E | 2018E |
|----------------------|-------|-------|--------|--------|--------|
| Revenue (HK\$ mn) | 6,355 | 8,535 | 11,389 | 14,469 | 17,550 |
| Chg (% YoY) | 19.5 | 34.3 | 33.4 | 27.0 | 21.3 |
| Net profit (HK\$ mn) | 1,703 | 2,085 | 2,501 | 3,053 | 3,613 |
| Chg (% YoY) | 28.6 | 22.4 | 19.9 | 22.1 | 18.3 |
| EPS (HK\$) | 0.38 | 0.47 | 0.56 | 0.68 | 0.81 |
| Chg (% YoY) | 16.5 | 22.4 | 19.9 | 22.1 | 18.3 |
| BVPS (HK\$) | 3.63 | 3.84 | 4.40 | 4.95 | 5.11 |
| Chg (% YoY) | 10.2 | 5.7 | 14.8 | 12.3 | 3.3 |
| P/E (x) | 24.48 | 20.00 | 16.67 | 13.66 | 11.54 |
| P/B (x) | 2.56 | 2.42 | 2.11 | 1.88 | 1.82 |
| ROE (%) | 10.47 | 12.12 | 12.66 | 13.76 | 15.77 |
| ROA (%) | 5.46 | 5.13 | 5.22 | 5.31 | 5.69 |
| DPS(HK\$) | 0.11 | 0.19 | 0.17 | 0.20 | 0.24 |
| Dvd yield (%) | 1.18 | 1.99 | 1.80 | 2.20 | 2.60 |
| Net gearing* (%) | 24.5 | 53.2 | 64.2 | 72.7 | 83.0 |

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

Key positives and future outlook

Robust growth of 25%/25%YoY in 2016E/17E waste-to-energy capacity

Strong capacity growth serves as solid support to CEI's future net profit growth. Currently, 26,600t/day of waste-to-energy of new capacity is under construction or in preparation stage, representing a significant addition to its existing operating capacity at 19,700t/day. In addition, management guided that overall capex for 2016 should not be less than RMB 5bn (2015: RMB 5bn). Capex is likely to remain high going forward given the current unit investment cost is as high as ~RMB 0.5mn/t/day. We believe CEI's waste-to-energy capacity is likely to expand by 25%/25% YoY in 2016E/17E.

Wastewater capacity growth may slow to 4%/5% YoY in 2016E/17E

Thanks to the M&A with Dongda Group (acquired in Aug 2015), CEI's wastewater capacity expanded by 43%YoY to 3.72mn m³/day in 1H16. CEI's wastewater capacity under construction or preparation is 1.03mn m³/day. We project CEI's wastewater capacity would expand by 4%/5% YoY in 2016E/17E, assuming no M&A project takes place.

GreenTech segment to serve as another income driver

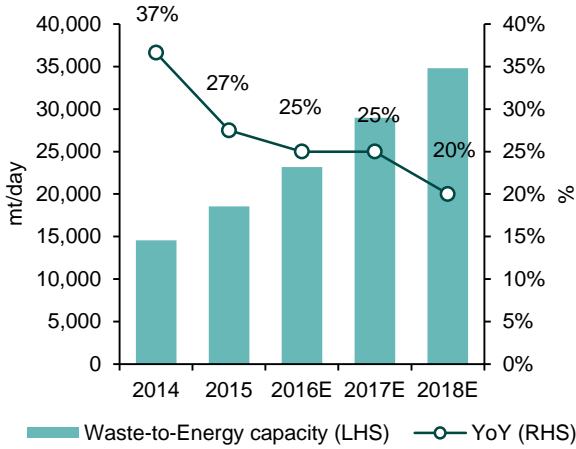
The GreenTech segment includes renewable energy (biomass, wind and solar), hazardous waste treatment, and sludge treatment. In 1H16, operation revenue in the segment was up 43% YoY. Possible spin-off has been mentioned by the management although details are yet to be confirmed.

Net profit growth of 20%/22% YoY in 2016E/17E is achievable

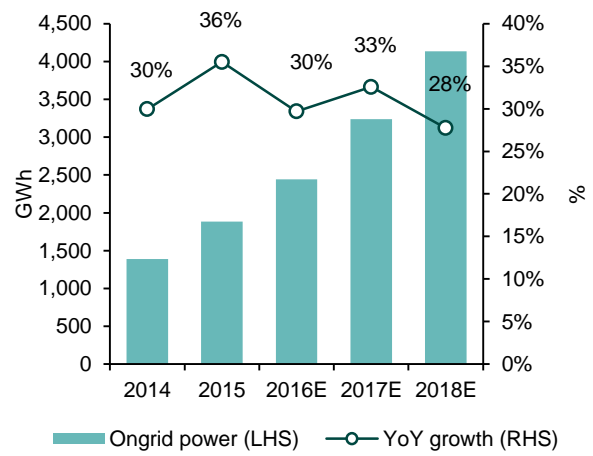
China's strong push on incineration treatment in urban areas as well as CEI's strong capacity growth will allow the Company to attain substantial net profit growth. We expect CEI's waste-to-energy capacity to expand by 25%/25%YoY and EPC revenue to rise 44%/24% in 2016E/17E. Hence, 2016E/17E net profit would increase 20%/22%YoY during the same period.

Projects in prime regions to reduce default risk

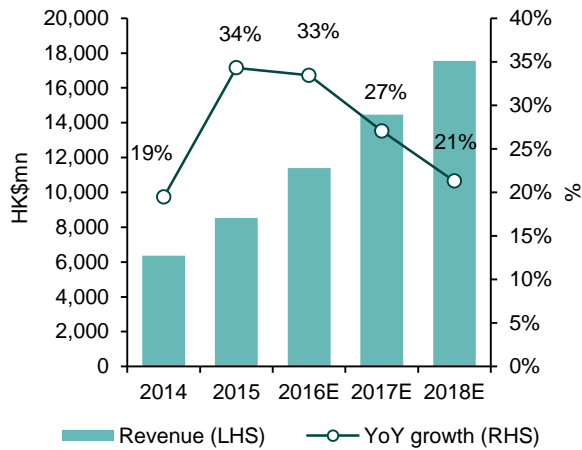
CEI's existing waste-to-energy projects are mostly located in wealthier regions such as Suzhou, Jinan, Nanjing, etc. According to CEI, as of 1H16, 59%/43% of its waste-to-energy/wastewater capacities are located in tier-1/2 cities where default risk should be relatively lower, hence reducing disruption to the Company's cash flow. We view these favorable project locations as one of CEI's competitive advantages.

Exhibit 7: CEI's future waste-to-energy capacity growth would remain strong


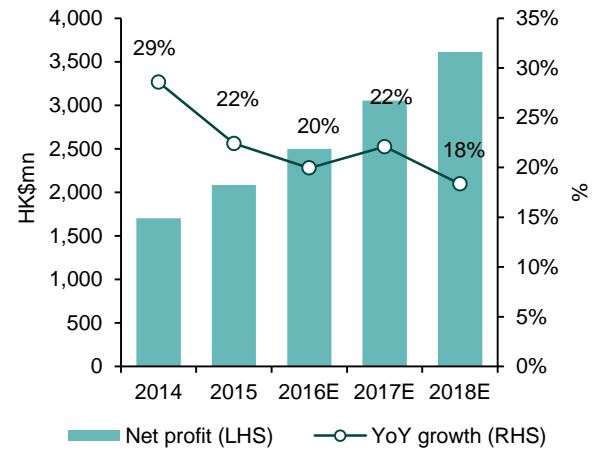
Source(s): Company data, ABCI Securities estimates

Exhibit 8: CEI's on-grid power generation would rise significantly


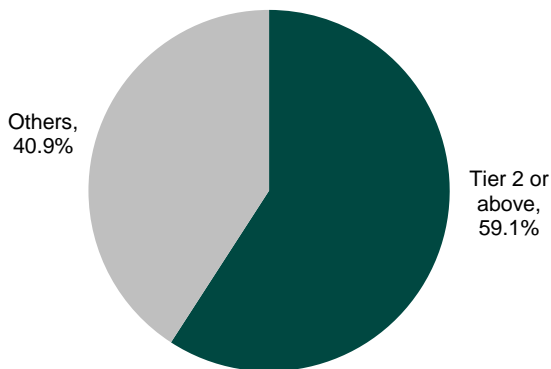
Source(s): Company data, ABCI Securities estimates

Exhibit 9: CEI's revenue outlook


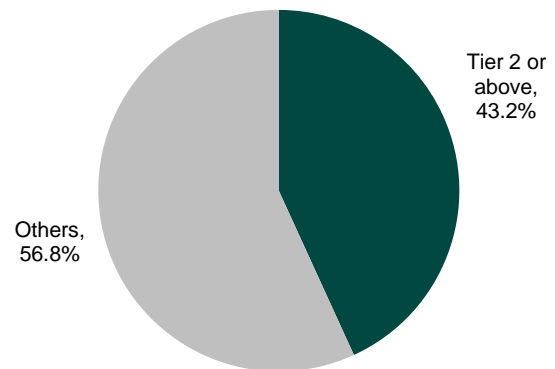
Source(s): Company data, ABCI Securities estimates

Exhibit 10: CEI's net profit outlook


Source(s): Company data, ABCI Securities estimates

Exhibit 10: Distribution of CEI's waste-to-energy capacity by city tier (1H16)


Source(s): Company data, ABCI Securities

Exhibit 10: Distribution of CEI's wastewater capacity by city tier (1H16)


Source(s): Company data, ABCI Securities

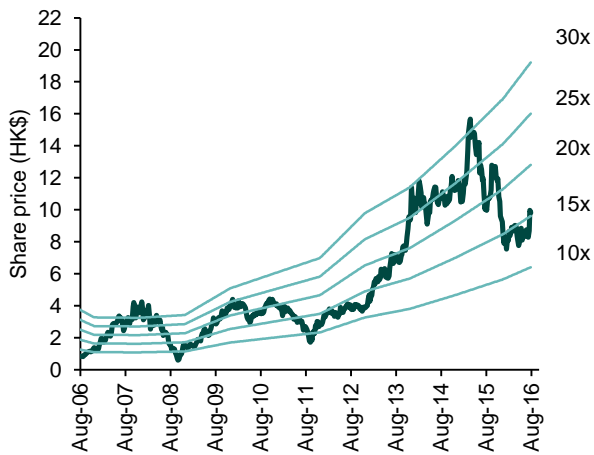
Valuation

Reiterate BUY; TP at HK\$ 13.00

We believe CEI would continue to be a market leader in China's incineration industry (the Company controls 8.6% of China's nationwide incineration capacity in 2015) and benefit enormously from the government's promoting incineration for waste treatment nationwide. In addition, prime locations of CEI's projects should allow the Group to bear a lower default risk than its peers.

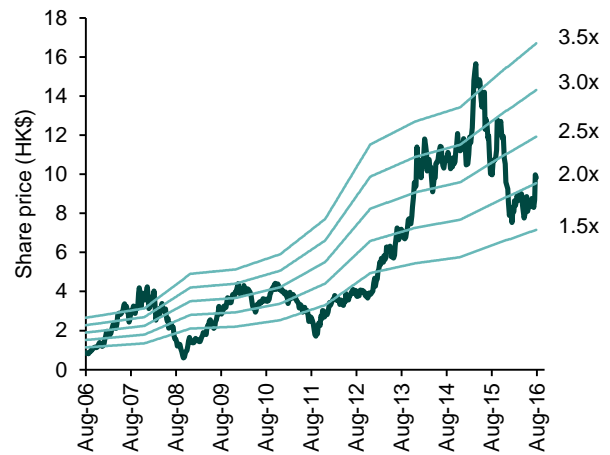
Our DCF-derived TP arrives at HK\$13.00 (unchanged), equivalent to 23x/19x 2016E/17E P/E and 3.0x/2.6x 2016/17E P/B. CEI is likely to achieve a robust EPS CAGR at 20% in 2015-18E. Our TP is equivalent to 0.95x 2017E PEG, which we deem reasonable. Reiterate **BUY** and CEI is our top pick in China's Environmental Protection sector.

Exhibit 7: CEI's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 8: CEI's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2014A-2018E)

| FY Ended Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|-------------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Revenue | 6,355 | 8,535 | 11,389 | 14,469 | 17,550 |
| Operation income | 1,765 | 2,185 | 2,711 | 3,480 | 4,306 |
| EPC | 3,627 | 4,916 | 7,089 | 8,825 | 10,560 |
| Other | 963 | 1,434 | 1,589 | 2,163 | 2,685 |
| COGS | -3,387 | -4,626 | -6,710 | -8,710 | -10,631 |
| Gross profit | 2,969 | 3,909 | 4,679 | 5,759 | 6,919 |
| SG&A | -540 | -768 | -854 | -1,085 | -1,316 |
| Net financial income (cost) | -318 | -400 | -645 | -813 | -1,051 |
| Other income and gains | 188 | 378 | 444 | 564 | 684 |
| Pre-tax profit | 2,299 | 3,119 | 3,624 | 4,425 | 5,236 |
| Income tax | -534 | -783 | -906 | -1,106 | -1,309 |
| Net profit | 1,765 | 2,336 | 2,718 | 3,318 | 3,927 |
| Profit attributable to: | | | | | |
| Minority interests | -62 | -251 | -217 | -265 | -314 |
| Equity shareholders of the Company | 1,703 | 2,085 | 2,501 | 3,053 | 3,613 |
| Basic EPS (HK\$) | 0.380 | 0.465 | 0.558 | 0.681 | 0.806 |
| DPS (HK\$) | 0.110 | 0.185 | 0.167 | 0.204 | 0.242 |

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

| As of Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current assets | 8,487 | 11,488 | 12,824 | 16,794 | 19,368 |
| Cash and equivalent | 4,094 | 5,953 | 6,931 | 9,301 | 10,276 |
| Pledged and restricted bank deposits | 1,056 | 720 | 0 | 0 | 0 |
| Trade and bill receivables | 1,974 | 3,060 | 3,744 | 4,757 | 5,770 |
| Other receivables and prepayments | 1,211 | 1,547 | 1,872 | 2,378 | 2,885 |
| Inventories | 117 | 202 | 276 | 358 | 437 |
| Other current assets | 35 | 5 | 0 | 0 | 0 |
| Non-current assets | 22,713 | 29,135 | 35,074 | 40,715 | 44,108 |
| Property, plant and equipment | 1,511 | 2,350 | 2,922 | 3,556 | 4,122 |
| Investment properties | 36 | 151 | 0 | 0 | 0 |
| Intangible assets | 3,406 | 4,419 | 7,147 | 11,339 | 15,192 |
| Investment in JV and associates | 282 | 448 | 0 | 0 | 0 |
| Deferred tax assets | 4,377 | 5,697 | 6,241 | 7,928 | 9,617 |
| Other non-current assets | 13,102 | 16,069 | 18,764 | 17,893 | 15,177 |
| Total assets | 31,200 | 40,623 | 47,897 | 57,509 | 63,476 |
| Current liabilities | 4,981 | 6,323 | 8,578 | 11,128 | 13,148 |
| Trade and bill payables | 2,302 | 2,794 | 3,676 | 4,773 | 5,825 |
| Other payables | 68 | 119 | 0 | 0 | 0 |
| Short term borrowings | 2,611 | 3,410 | 4,902 | 6,355 | 7,323 |
| Other current liabilities | 0 | 0 | 0 | 0 | 0 |
| Non-current liabilities | 8,375 | 14,879 | 17,130 | 21,490 | 24,394 |
| Deferred tax liabilities | 1,834 | 2,425 | 2,425 | 2,425 | 2,425 |
| Long-term borrowings | 6,525 | 12,411 | 14,705 | 19,066 | 21,969 |
| Other non-current liabilities | 16 | 43 | 0 | 0 | 0 |
| Total liabilities | 13,357 | 21,203 | 25,708 | 32,618 | 37,542 |
| Minority interests | 1,580 | 2,224 | 2,442 | 2,707 | 3,021 |
| Shareholders' equities | 16,263 | 17,196 | 19,747 | 22,184 | 22,913 |

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2018E)

| FY ended Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|-----------------------------------------|--------------|---------------|---------------|---------------|---------------|
| Profit before tax | 2,299 | 3,119 | 3,624 | 4,425 | 5,236 |
| Change in depreciation and amortization | 115 | 184 | 363 | 532 | 693 |
| Change in working capital | -2,676 | -4,839 | 362 | -505 | -546 |
| Net financial cost (income) | 318 | 400 | -67 | -69 | -93 |
| Income tax paid | -173 | -217 | -783 | -906 | -1,106 |
| Net interest received | 62 | 52 | 67 | 69 | 93 |
| Others | -68 | -236 | 0 | 0 | 0 |
| CF Operating | -123 | -1,538 | 3,566 | 3,546 | 4,277 |
| Capex | -216 | -661 | -709 | -804 | -767 |
| Increase in intangible assets | -870 | -421 | -4,016 | -4,554 | -4,346 |
| Others | 647 | -1,594 | 0 | 0 | 0 |
| CF Investing | -439 | -2,676 | -4,725 | -5,358 | -5,113 |
| Net Capital raise | 0 | 660 | 0 | 0 | 0 |
| Net debt financing | 1,187 | 6,793 | 3,678 | 5,814 | 3,871 |
| Dividend payout | -448 | -565 | -829 | -750 | -916 |
| Interest paid | -381 | -458 | -712 | -882 | -1,144 |
| Others | -75 | -226 | 0 | 0 | 0 |
| CF Financing | 283 | 6,204 | 2,137 | 4,181 | 1,811 |
| Net change in cash | -279 | 1,989 | 978 | 2,369 | 976 |
| Cash at the beginning | 4,426 | 4,094 | 5,953 | 6,931 | 9,301 |
| Adjustment (Time deposit & FX effect) | -53 | -130 | 0 | 0 | 0 |
| Cash at the end | 4,094 | 5,953 | 6,931 | 9,301 | 10,276 |

Source(s): Company, ABCI Securities estimates

Key Ratio (2014A-2018E)

| FY ended Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|-------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mixed (%) | | | | | |
| Operation income | 27.77 | 25.60 | 23.80 | 24.06 | 24.53 |
| EPC | 57.08 | 57.60 | 62.24 | 60.99 | 60.17 |
| Other | 15.15 | 16.80 | 13.96 | 14.95 | 15.30 |
| Total | 100 | 100 | 100 | 100 | 100 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | 46.71 | 45.80 | 41.09 | 39.80 | 39.42 |
| Operating profit margin | 41.20 | 41.30 | 37.49 | 36.20 | 35.82 |
| Pre-tax margin | 36.18 | 36.54 | 31.82 | 30.58 | 29.84 |
| Net profit margin | 27.77 | 27.37 | 23.87 | 22.94 | 22.38 |
| Selling & administrative expenses/revenue | 8.49 | 9.00 | 7.50 | 7.50 | 7.50 |
| Effective tax rate | 23.23 | 25.11 | 25.00 | 25.00 | 25.00 |
| Growth (%) | | | | | |
| Revenue | 19.46 | 34.29 | 33.45 | 27.04 | 21.30 |
| Gross profit | 24.97 | 31.67 | 19.72 | 23.06 | 20.15 |
| Operating profit | 24.67 | 34.62 | 21.14 | 22.68 | 20.04 |
| Net profit | 29.38 | 32.32 | 16.38 | 22.08 | 18.34 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.70 | 1.82 | 1.49 | 1.51 | 1.47 |
| Quick ratio (x) | 1.43 | 1.54 | 1.24 | 1.26 | 1.22 |
| Cash ratio (x) | 1.03 | 1.06 | 0.81 | 0.84 | 0.78 |
| Trade and bill receivables days | 113.35 | 130.89 | 120.00 | 120.00 | 120.00 |
| Trade and bill payables turnover days | 248.15 | 220.50 | 200.00 | 200.00 | 200.00 |
| Inventory turnover days | 12.66 | 15.96 | 15.00 | 15.00 | 15.00 |
| Total debt / equity ratio (%) | 56.18 | 92.00 | 99.29 | 114.59 | 127.84 |
| Net debt / equity ratio (%) | 24.51 | 53.19 | 64.19 | 72.67 | 82.99 |
| Returns (%) | | | | | |
| ROAA | 6.2 | 5.8 | 5.7 | 5.8 | 6.0 |
| ROAE | 11.5 | 12.5 | 13.5 | 14.6 | 16.0 |
| Payout ratio | 28.96 | 39.79 | 30.00 | 30.00 | 30.00 |

Source(s): Company, ABCI Securities estimates



November 1, 2016
Company Report
Rating: BUY
TP: HK\$ 7.00

| | |
|-------------------------|--------|
| Share price (HK\$) | 5.63 |
| Est. share price return | 24.33% |
| Est. dividend yield | 1.76% |
| Est. total return | 26.10% |

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

Key Data

| | |
|-------------------------------------|-----------|
| Market share (HK\$m) | 49,043 |
| 3-mth avg. daily turnover (HK\$ mn) | 110 |
| 52-week high/low (HK\$) | 6.20/3.45 |
| Issued shares (mn) | 8,723 |
| Major shareholder(s) (%): | |
| Beijing Enterprises Hld | 43.9 |

Source(s): Company, Bloomberg, ABCI Securities

1H16 Revenue breakdown (%)

| | |
|-----------|------|
| EPC | 66.7 |
| Operation | 28.4 |
| Others | 4.9 |

Source(s): Company, ABCI Securities

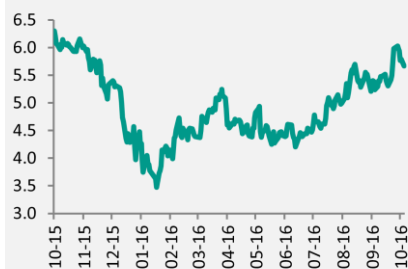
Share performance (%)

| | Absolute | Relative* |
|-------|----------|-----------|
| 1-mth | 7.44% | 9.00% |
| 3-mth | 23.19% | 17.70% |
| 6-mth | 21.39% | 10.47% |

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance



Source(s): Bloomberg, ABCI Securities

Beijing Enterprises Water (371 HK)
Solid net profit growth to continue

- BEW's water distribution capacity would expand by 40%/20% YoY in 2016E/17E ,
- Wastewater treatment capacity growth would be 8%/11% YoY in 2016E/17E
- Solid net profit growth of 31%/23%YoY for 2016E/17E would support BEW's share price.
- We maintain **BUY** with a DCF-derived TP at HK\$ 7.00, which represents 21x/17x 2016E/17E P/E and 3.2x/2.9x 2016E/17E P/B.

Water distribution capacity growth of 40%/20%YoY in 2016E/17E is the bright spot. BEW's water distribution operation capacity would grow significantly over the next few years. As of 1H16, a capacity of 5.9mt/day was under construction, equivalent to 115% of BEW's existing operating capacity (1H16: 5.1mt/day). We estimate BEW's water distribution operation capacity to expand by 40%/20%YoY in 2016E/17E.

Wastewater capacity growth of 8%/11%YoY in 2016/17E. In 2010-12, BEW recorded robust capacity growth in its wastewater operation, partially attributable to the low base and moderate competition in asset acquisition. However, as rivalry for wastewater operation acquisition increases in China, the Group may slow down its pace of asset purchase. We therefore expect a see a low-teen capacity growth for the wastewater operation going forward.

Solid net profit growth at 31%/23%YoY would support share price. Thanks to the robust growth in the EPC segment, we expect net profit to rise 31%YoY in 2016E and 23%YoY in 2017E on the back of strong demand in urban wastewater and water distribution services. As an industry leader in China, BEW would continue to benefit from the country's increasingly stringent water treatment standard during the 13th Five-year plan (FYP) period (2016-20). We expect GPM to trend down, but the EPS CAGR at 25% CAGR in 2015-18E should support share price.

BUY with TP at HK\$7.00. Our DCF-derived TP was HK\$7.00 based on a WACC of 8%, representing 21x/17x FY16E/17E P/E and 3.2x/2.9x FY16E/17E P/B. Maintain **BUY**.

Risk factors: (1) Slower-than-expected capacity growth; (2) Default risk; (3) Policy risks; (4) High net gearing ratio; (5) Negative operating cashflow; (6) Margin decline.

Results and Valuation

| FY ended Dec 31 | 2014A | 2015A | 2016E | 2017E | 2018E |
|----------------------|-------|--------|--------|--------|--------|
| Revenue (HK\$ mn) | 8,926 | 13,503 | 18,548 | 25,047 | 31,334 |
| Chg (% YoY) | 39.3 | 51.3 | 37.4 | 35.0 | 25.1 |
| Net profit (HK\$ mn) | 1,794 | 2,202 | 2,885 | 3,553 | 4,283 |
| Chg (% YoY) | 65.5 | 22.7 | 31.0 | 23.1 | 20.5 |
| EPS (HK\$) | 0.208 | 0.253 | 0.331 | 0.408 | 0.491 |
| Chg (% YoY) | 48.5 | 21.7 | 31.0 | 23.1 | 20.5 |
| BVPS (HK\$) | 1.826 | 1.857 | 2.104 | 2.435 | 2.767 |
| Chg (% YoY) | 6.5 | 1.7 | 13.3 | 15.7 | 13.7 |
| P/E (x) | 27.12 | 22.29 | 17.01 | 13.81 | 11.46 |
| P/B (x) | 3.08 | 3.03 | 2.68 | 2.31 | 2.03 |
| ROE (%) | 11.37 | 15.17 | 15.73 | 16.74 | 17.75 |
| ROA (%) | 3.47 | 3.81 | 3.69 | 3.62 | 3.61 |
| DPS(HK\$) | 0.079 | 0.095 | 0.099 | 0.122 | 0.147 |
| Dvd yield (%) | 1.40 | 1.69 | 1.76 | 2.17 | 2.62 |
| Net gearing* (%) | 92.3 | 131.0 | 170.7 | 180.6 | 207.3 |

*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

1H16 results highlight

BEW announced 1H16 results in Aug 2016. Net profit was HK\$1.57bn (+36%YoY) and adjusted net profit was HK\$1.37bn (+31%YoY), equivalent to 48% of our 2016E full-year estimate. The result suggests the Group is on track to achieve our full-year net profit target that entailed a 31%YoY growth.

Robust revenue growth of 58%YoY in EPC business drive up 1H16 net profit growth

Revenue from EPC business was HK\$5.2bn in 1H16, up 58%YoY and accounted for 67% of BEW's overall revenue. The increase shows BEW has gained more shares in the wastewater and water distribution construction markets.

Revenue of wastewater operation business was down 10% YoY due to decline in wastewater tariff

Revenue from wastewater operation business was HK\$ 1.6bn in 1H16, down 10%YoY, contributing to 21% of total revenue. The decline can be attributed to BEW's increased exposure in low-tier cities where tariffs are usually lower. Hence, BEW's overall wastewater tariff declined 25% YoY despite the 17%YoY increase in treatment volume during the period.

Exhibit 9: Result comparison for 1H15 and 1H16

| Results summary | | 1H15 | 1H16 | YoY |
|---------------------------|----------------|-------|-------|-------|
| Income Statement | | | | |
| Revenue | HK\$m | 5,764 | 7,852 | 36% |
| EPC | HK\$m | 3,319 | 5,237 | 58% |
| Operation (BOT) | HK\$m | 2,204 | 2,234 | 1% |
| Others | HK\$m | 241 | 381 | 58% |
| Op. profit | HK\$m | 1,918 | 2,402 | 25% |
| Net profit | HK\$m | 1,160 | 1,574 | 36% |
| Adj. net profit | HK\$m | 1,045 | 1,370 | 31% |
| Basic EPS | HK\$ | 0.13 | 0.18 | 36% |
| Adj. EPS | HK\$ | 0.12 | 0.16 | 31% |
| Ratios | | | | |
| Op. margin | % | 33.3% | 30.6% | -3ppt |
| Net margin | % | 20.1% | 20.0% | 0ppt |
| Net gearing/(Net cash) | % | 119% | 163% | 44ppt |
| Wastewater | | | | |
| Installed capacity | mt/day | 8.8 | 9.5 | 7% |
| Treatment volume | mt | 1,216 | 1,424 | 17% |
| Tariff | HK\$/t, ex VAT | 1.54 | 1.15 | -25% |
| Water distribution | | | | |
| Installed capacity | mt/day | 3.6 | 5.1 | 43% |
| Treatment volume | mt | 313.4 | 475.8 | 52% |
| Tariff | HK\$/t, ex VAT | 1.26 | 1.26 | 0% |

Source(s): Company data

Key positives and future outlook

BEW would continue being as the market leader in wastewater treatment in China. Its robust capacity growth in water distribution and revenue growth in EPC business should drive impressive earnings growth going forward.

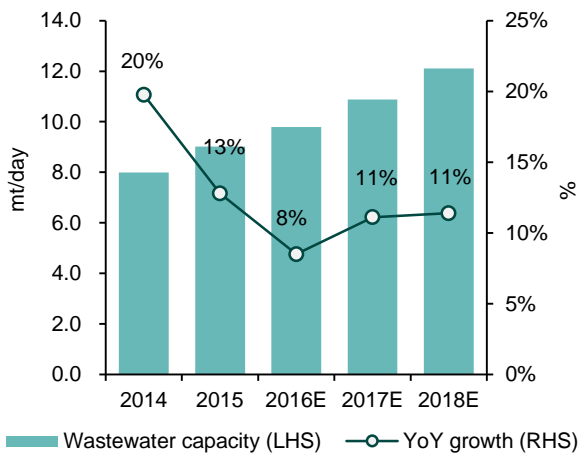
Water distribution capacity growth of 40%/20%YoY in 2016E/17E is the bright spot

BEW's water distribution operation capacity should maintain robust growth over the next few years. As of 1H16, a capacity of 5.9mt/day was under construction, equivalent to 115% of BEW's existing operating capacity (1H16: 5.1mt/day). We estimate BEW's water distribution operation capacity to expand by 40%/20%YoY in 2016E/17E.

Wastewater capacity growth of 8%/11%YoY in 2016/17E

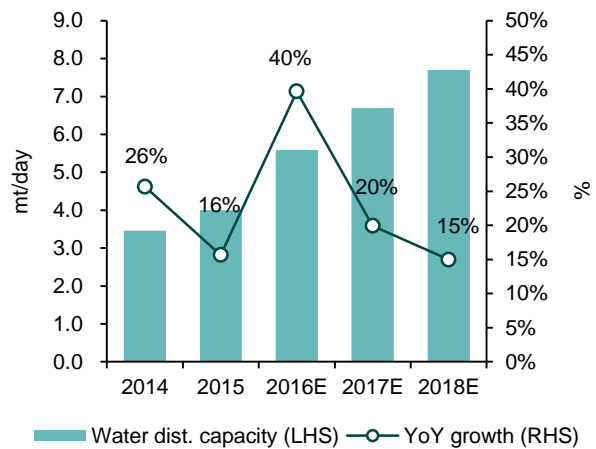
In 2010-12, BEW recorded robust capacity growth in its wastewater operation, partially attributable to the low base and moderate competition in asset acquisition. However, as rivalry for wastewater operation acquisition increases in China, the Group may slow down its pace of asset purchase in the future. We therefore expect a see a low-teen capacity growth in the wastewater operation going forward.

Exhibit 10: BEW's wastewater capacity growth would stay at low-teen levels



Source(s): Company data, ABCI Securities estimates

Exhibit 11: BEW's water distribution capacity growth would be 40%/20%YoY in 2016/17E



Source(s): Company data, ABCI Securities estimates

EPC business should see robust growth going forward

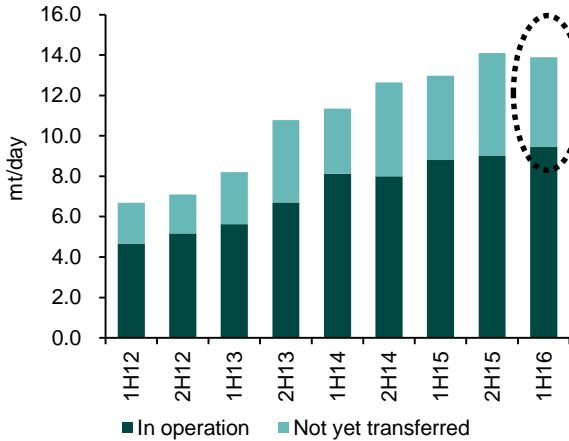
BEW would continue to expand its EPC business whose revenue jumped 58%YoY revenue in 1H16. In order to spur net profit growth, we believe BEW would participate in more EPC projects, and segmental revenue would record 59%/43%YoY revenue growth in 2016E/17E. Despite EPC business has lower GPM than that of operation (23% vs. 50%), the increase in EPC revenue should elevate net profit growth.

Solid net profit growth at 31%/23%YoY would support share price

Thanks to the robust growth in the EPC segment, we expect net profit to rise by 31%YoY in 2016E, and 23%YoY growth in 2017E on the back of strong demand in urban wastewater and water distribution services. As an industry

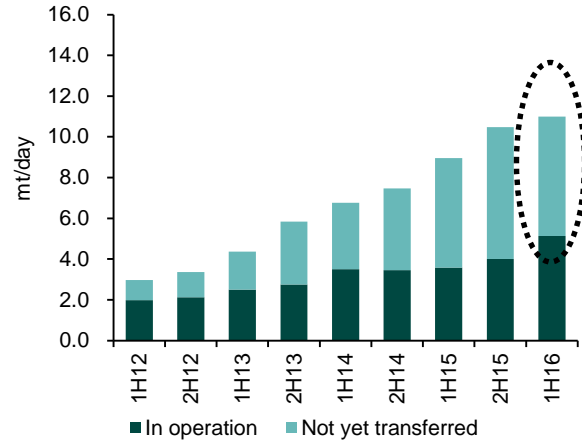
leader in China, BEW would continue to benefit from the country's increasingly stringent water treatment standard during the 13th Five-year plan (FYP) period (2016-20). We expect GPM to trend down, but the EPS CAGR at 25% CAGR in 2015-18E should support share price.

Exhibit 12: BEW's wastewater capacity still has ample room to grow due to sufficient projects on hand



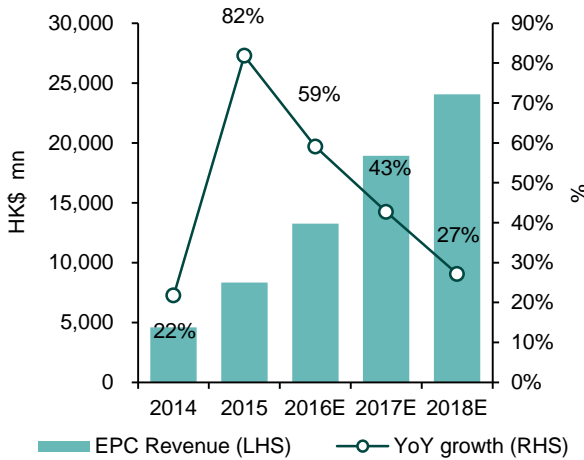
Source(s): Company data, ABCI Securities estimates

Exhibit 13: BEW's ample water distribution capacity projects on hand suggests robust growth ahead



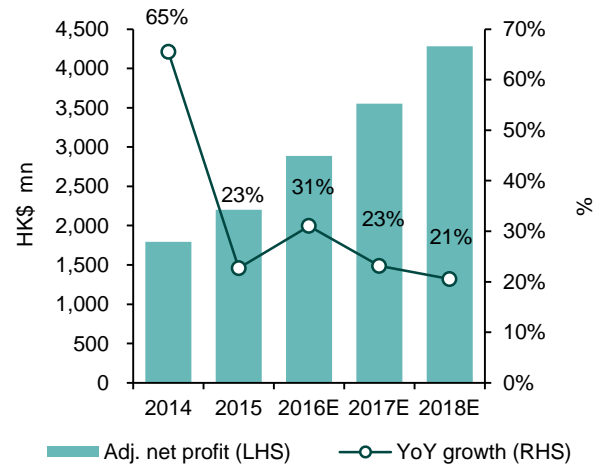
Source(s): Company data, ABCI Securities estimates

Exhibit 14: BEW's future EPC revenue would maintain a double-digit growth



Source(s): Company data, ABCI Securities estimates

Exhibit 15: BEW's net profit outlook



Source(s): Company data, ABCI Securities estimates

Major concerns

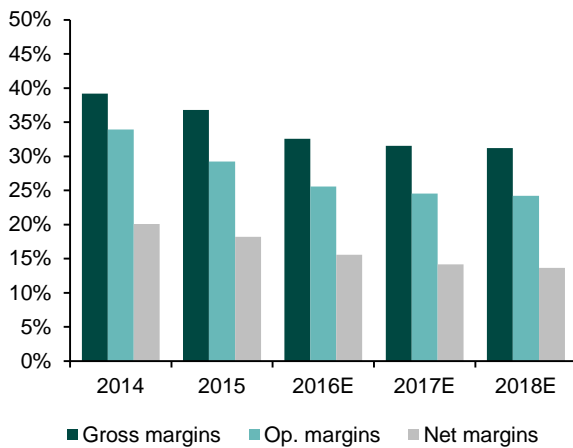
Margin squeeze may lead to de-rating

Given GPM of EPC business is much lower than that of operation segment (1H16: 23% vs. ~50%), increased contribution of EPC business in the near future would pressure margins. We estimate BEW's 2016E-18E GPM to be 33%/32%/31% and NPM would be 16%/14%/14% for the same period. Despite 2016E-18E net profit would expand by 31%/23%/21%, as declining margins could be interpreted as deterioration in earnings quality and trigger derating.

Increasing net gearing ratio may prompt equity fundraising

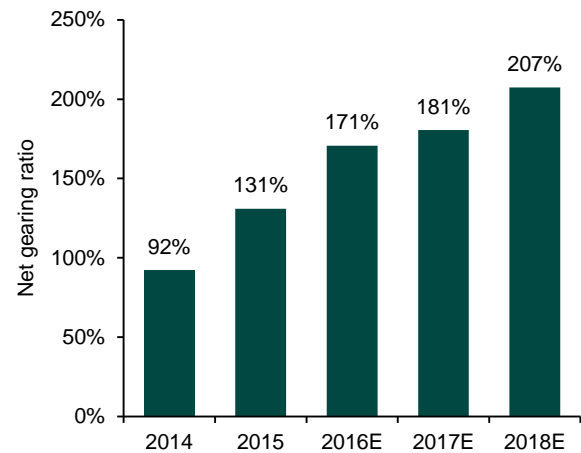
BEW's net gearing ratio would maintain at high levels going forward as the Group has been reducing the contribution from operation segment and this may lower cash inflow. Since BEW's account receivable is unlikely to improve significantly in the short term, we therefore expect BEW's net gearing ratio to stay around 200% going forward. Such high gearing may prompt fundraising activities going forward.

Exhibit 16: BEW's margins would trend down



Source(s): Company data, ABCI Securities estimates

Exhibit 17: Increasing net gearing ratio would be another concern



Source(s): Company data, ABCI Securities estimates

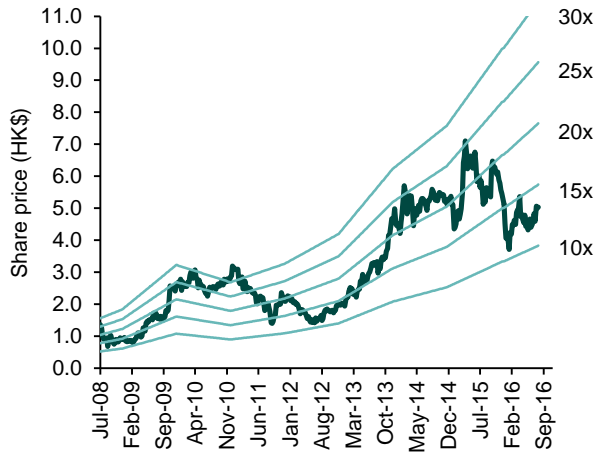
Valuation

Maintain BUY, TP at HK\$7.00

BEW's 1H16 results are broadly in line with our estimates. We adjust our EPC business assumptions and fine-tune the estimates for the Operation segment. BEW would deliver 37%/35%YoY revenue growth in 2016/17E, driven by the 59%/43%YoY revenue growth expected for the EPC segment. Net profit would grow by 31%/23%YoY in 2016/17E. We roll over our valuation basis from 2016 to 2017 and our DCF-derived TP is HK\$ 7.00 (previously at HK\$6.70), implying 21x/17x 2016E/17E PE and 3.3x/2.9x 2016E/17E P/B

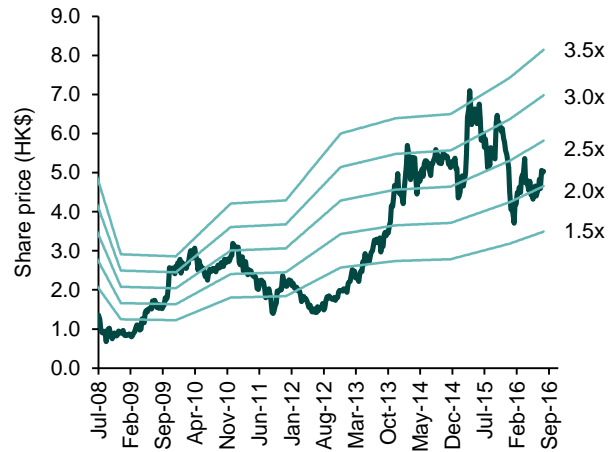
We believe BEW should deliver a 25% EPS CAGR in 2015-18E. Our TP is equivalent to 2017E PEG of 0.7, which is inexpensive in our view. Despite BEW's long-term GPM would decline, but we are optimistic on its net profit growth outlook. Moreover, as a leader in China's wastewater market, it would benefit more than its peers from policies encouraging environmental protection. Maintain **BUY**.

Exhibit 18: BEW's fwd P/E chart



Source(s): Bloomberg, ABCI Securities estimates

Exhibit 19: BEW's fwd P/B chart



Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (2014A-2018E)

| FY Ended Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|------------------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Revenue | 8,926 | 13,503 | 18,548 | 25,047 | 31,334 |
| EPC | 4,583 | 8,331 | 13,252 | 18,912 | 24,048 |
| Operating income | 4,063 | 4,396 | 4,404 | 5,108 | 6,157 |
| Other | 281 | 776 | 892 | 1,026 | 1,129 |
| COGS | -5,430 | -8,536 | -12,509 | -17,143 | -21,559 |
| Gross profit | 3,496 | 4,967 | 6,040 | 7,904 | 9,775 |
| SG&A | -1,066 | -1,226 | -1,669 | -2,254 | -2,820 |
| Net financial income (cost) | -639 | -831 | -947 | -1,515 | -2,013 |
| Other income and gains | 876 | 635 | 686 | 927 | 1,159 |
| Pre-tax profit | 2,667 | 3,546 | 4,110 | 5,061 | 6,101 |
| Income tax | -594 | -778 | -904 | -1,113 | -1,342 |
| Net profit | 2,073 | 2,768 | 3,206 | 3,948 | 4,759 |
| Profit attributable to: | | | | | |
| Minority interests | -279 | -312 | -321 | -395 | -476 |
| Equity shareholders of the Company | 1,794 | 2,455 | 2,885 | 3,553 | 4,283 |
| Adj. Equity shareholders of the Company | 1,794 | 2,202 | 2,885 | 3,553 | 4,283 |
| Basic EPS (HK\$) | 0.208 | 0.282 | 0.331 | 0.408 | 0.491 |
| Adj. EPS (HK\$) | 0.208 | 0.253 | 0.331 | 0.408 | 0.491 |
| DPS (HK\$) | 0.079 | 0.095 | 0.099 | 0.122 | 0.147 |

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2018E)

| As of Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|--------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Current assets | 15,078 | 18,153 | 19,689 | 26,998 | 30,688 |
| Cash and equivalent | 6,091 | 6,374 | 9,691 | 14,863 | 15,504 |
| Pledged and restricted bank deposits | 304 | 269 | 0 | 0 | 0 |
| Trade and bill receivables | 2,595 | 2,959 | 3,557 | 4,803 | 6,009 |
| Other receivables and prepayments | 5,910 | 6,746 | 6,098 | 6,862 | 8,585 |
| Inventories | 58 | 99 | 343 | 470 | 591 |
| Other current assets | 120 | 1,705 | 0 | 0 | 0 |
| Non-current assets | 36,563 | 46,339 | 58,532 | 71,220 | 88,062 |
| Property, plant and equipment | 1,243 | 1,380 | 2,522 | 3,521 | 4,481 |
| Investment properties | 0 | 0 | 0 | 0 | 0 |
| Intangible assets | 2,553 | 3,005 | 3,534 | 4,031 | 4,536 |
| Investment in JV and associates | 3,109 | 4,466 | 4,947 | 5,490 | 6,113 |
| Deferred tax assets | 20,293 | 23,253 | 28,106 | 37,721 | 47,880 |
| Other non-current assets | 9,364 | 14,235 | 19,422 | 20,458 | 25,052 |
| Total assets | 51,641 | 64,492 | 78,220 | 98,219 | 118,750 |
| Current liabilities | 11,419 | 17,773 | 25,863 | 34,743 | 43,278 |
| Trade and bill payables | 3,564 | 5,786 | 8,567 | 11,742 | 14,766 |
| Other payables | 3,910 | 5,309 | 5,140 | 7,045 | 8,860 |
| Short term borrowings | 3,945 | 6,615 | 12,155 | 15,956 | 19,652 |
| Other current liabilities | 0 | 63 | 0 | 0 | 0 |
| Non-current liabilities | 21,133 | 26,428 | 29,594 | 37,431 | 46,054 |
| Deferred tax liabilities | 930 | 1,321 | 750 | 200 | 200 |
| Long-term borrowings | 17,022 | 21,226 | 28,844 | 37,231 | 45,854 |
| Other non-current liabilities | 3,182 | 3,881 | 0 | 0 | 0 |
| Total liabilities | 32,552 | 44,201 | 55,457 | 72,174 | 89,331 |
| Minority interests | 3,304 | 4,107 | 4,427 | 4,822 | 5,298 |
| Shareholders' equities | 15,784 | 16,184 | 18,336 | 21,223 | 24,121 |

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2018E)

| FY ended Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|-----------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Profit before tax | 2,667 | 3,546 | 4,110 | 5,061 | 6,101 |
| Change in depreciation and amortization | 209 | 207 | 295 | 376 | 458 |
| Change in working capital | -2,732 | -6,859 | -9,169 | -7,567 | -12,676 |
| Net financial cost (income) | 668 | 893 | 947 | 1,515 | 2,013 |
| Income tax paid | -277 | -253 | -778 | -904 | -1,113 |
| Net interest received | 0 | 0 | 0 | 0 | 0 |
| Others | -271 | -160 | -315 | -426 | -533 |
| CF Operating | 264 | -2,627 | -4,910 | -1,944 | -5,749 |
| Capex | -683 | -2,475 | -1,552 | -1,452 | -1,479 |
| Increase in intangible assets | -51 | -195 | -517 | -484 | -493 |
| Others | -1,000 | -1,085 | -533 | -501 | -511 |
| CF Investing | -1,734 | -3,755 | -2,602 | -2,437 | -2,483 |
| Net Capital raise | 0 | 0 | -1 | 0 | 0 |
| Net debt financing | 3,677 | 9,062 | 13,158 | 12,188 | 12,318 |
| Dividend payout | -10 | -18 | -866 | -1,066 | -1,285 |
| Interest paid | -1,105 | -1,189 | -1,147 | -1,253 | -1,845 |
| Others | -366 | -783 | 0 | 0 | 0 |
| CF Financing | 2,196 | 7,073 | 11,145 | 9,869 | 9,189 |
| Net change in cash | 726 | 691 | 3,633 | 5,488 | 956 |
| Cash at the beginning | 5,366 | 6,091 | 6,374 | 9,691 | 14,863 |
| Adjustment (Time deposit & FX effect) | -1 | -408 | -316 | -316 | -316 |
| Cash at the end | 6,091 | 6,374 | 9,691 | 14,863 | 15,504 |

Source(s): Company, ABCI Securities estimates

Key Ratio (2014A-2018E)

| FY ended Dec 31 (HK\$ mn) | 2014A | 2015A | 2016E | 2017E | 2018E |
|-------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mixed (%) | | | | | |
| Wind power | 51.34 | 61.70 | 71.45 | 75.51 | 76.75 |
| Solar power | 45.51 | 32.56 | 23.74 | 20.39 | 19.65 |
| Other | 3.15 | 5.75 | 4.81 | 4.10 | 3.60 |
| Total | 100 | 100 | 100 | 100 | 100 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | 39.17 | 36.78 | 32.56 | 31.56 | 31.20 |
| Operating profit margin | 33.92 | 29.24 | 25.56 | 24.56 | 24.20 |
| Pre-tax margin | 29.88 | 26.26 | 22.16 | 20.21 | 19.47 |
| Net profit margin | 23.23 | 20.50 | 17.28 | 15.76 | 15.19 |
| Selling & administrative expenses/revenue | 11.94 | 9.08 | 9.00 | 9.00 | 9.00 |
| Effective tax rate | 22.27 | 21.94 | 22.00 | 22.00 | 22.00 |
| Growth (%) | | | | | |
| Revenue | 39.33 | 51.28 | 37.36 | 35.04 | 25.10 |
| Gross profit | 39.53 | 42.08 | 21.60 | 30.87 | 23.67 |
| Operating profit | 73.68 | 30.39 | 20.10 | 29.72 | 23.27 |
| Net profit | 81.01 | 33.50 | 15.82 | 23.14 | 20.54 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.32 | 1.02 | 0.76 | 0.78 | 0.71 |
| Quick ratio (x) | 0.79 | 0.54 | 0.51 | 0.57 | 0.50 |
| Cash ratio (x) | 0.56 | 0.37 | 0.37 | 0.43 | 0.36 |
| Trade and bill receivables days | 106.12 | 79.99 | 70.00 | 70.00 | 70.00 |
| Trade and bill payables turnover days | 239.56 | 247.42 | 250.00 | 250.00 | 250.00 |
| Inventory turnover days | 3.88 | 4.24 | 10.00 | 10.00 | 10.00 |
| Total debt / equity ratio (%) | 132.83 | 172.03 | 223.60 | 250.61 | 271.57 |
| Net debt / equity ratio (%) | 92.32 | 130.98 | 170.75 | 180.57 | 207.29 |
| Returns (%) | | | | | |
| ROAA | 3.7 | 4.2 | 4.0 | 4.0 | 3.9 |
| ROAE | 12.3 | 15.4 | 16.7 | 18.0 | 18.9 |
| Payout ratio | 37.85 | 33.70 | 30.00 | 30.00 | 30.00 |

Source(s): Company, ABCI Securities estimates

Disclosures

Analyst Certification

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

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Definition of equity rating

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

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

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

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

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

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

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