

## July 8, 2015 Company Report Rating: BUY TP: HK\$ 16.50

Share price (HK\$)	12.64
Est. share price return	30.54%
Est. dividend yield	1.01%
Est. total return	31.55%

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

### Key Data

Market share (HK\$ mn)	56,674
3-mth avg daily turnover (HK\$ mn)	109
52-week high/low (HK\$)	16.3/9.8
Issued shares (mn)	4,484
Major shareholder(s) (%):	
China Everbright Hld	41.39

Source(s): Company, Bloomberg, ABCI Securities

### FY14 Revenue breakdown (%)

Waste-to-energy	63.09
Wastewater	11.64
Others	25.26

Source(s): Company, ABCI Securities

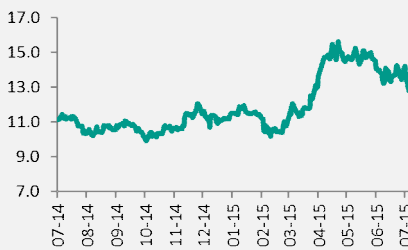
### Share performance (%)

	Absolute	Relative*
1-mth	-9.59%	-2.16%
3-mth	-14.01%	-10.20%
6-mth	10.17%	2.72%

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-Year stock performance



Source(s): Bloomberg, ABCI Securities

## China Everbright Intđ (257 HK) Entering the incineration era

- China's rising urbanization and living standard should strongly support demand for urban waste treatment service
- Increasing transportation cost and concerns over underground water pollution has made incineration a more preferable method of urban solid waste treatment over landfill; China is set to adopt incineration nationwide
- China Everbright Intđ (CEI) is likely to expand its waste-to-energy capacity by 25%YoY, which in turn will drive up its earnings
- We initiate **BUY** with DCF-derived TP at HK\$16.50, representing 32x/25x FY15/16E P/E and 4.1x/3.6x FY15/16E P/B

**Urbanization and incineration trends present significant opportunities.** The National Development and Reform Commission (NDRC) estimates that China's urbanization rate will reach 60% by end-2020E, which represents a 19% rise in the urban population from end-2013. Hence, demand for urban solid waste treatment will be strong. Rising concerns regarding underground water pollution has made landfills less viable for residential waste treatment, and we estimate the use of incineration would increase. The Chinese government targets to increase incineration to overall solid waste treatment from 30% by end-2013 to 35% by end-2015E and the State Council targets a total incineration capacity of 307k tons/day by end-2015E, implying a 28% CAGR from 2010-15E. Incineration operators, therefore, will benefit from the strong demand.

**25% increase in waste-to-energy capacity in 2015E/16E.** We expect CEI to increase its waste-to-energy capacity with a 25% YoY growth in 2015E /2016E. The Company currently has a waste-to-energy capacity of 12,200 tons/day under construction, doubling that of the existing operating capacity. We believe CEI has strong potential in this segment.

**An SOE with a solid relationship with local governments and lower financing costs.** CEI is an SOE that has a strong tie with local governments, which gives the company an advantage over other overseas and local competitors in obtaining new contracts. SOEs also benefit from lower financing costs (5% for CEI vs. 7% for non-SOEs, according to management). Lower financing costs should aid CEI in future M&As and business expansion.

**BUY with TP at HK\$ 16.50.** Our DCF-derived TP at HK\$ 16.50 is based on a WACC of 9%, representing 32x/25x FY15/16E P/E and 4.1x/3.6x FY15/16E P/B. CEI is the key beneficiary of China's strong push for urban incineration and the 13<sup>th</sup> Five-year plan on urban solid waste to be published later this year, which we believe will serve as potential share price catalyst in the near future.

**Risk factors:** (1) Customer default risk; (2) Air pollution concern may slow down construction of incinerators; (3) Policy risks.

### Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	5,320	6,355	8,577	11,363	14,785
Chg (% YoY)	56.0	19.5	35.0	32.5	30.1
Net Income (RMB mn)	1,325	1,703	2,296	2,931	3,688
EBITDA (RMB mn)	2,191	2,733	3,801	4,872	6,189
Chg (% YoY)	42.1	24.8	39.1	28.2	27.0
EPS (RMB)	0.326	0.380	0.512	0.654	0.823
Chg (% YoY)	40.2	16.5	34.8	27.7	25.8
BVPS (RMB)	3.291	3.628	3.997	4.577	5.260
Chg (% YoY)	49.3	10.2	10.2	14.5	14.9
Target P/E (x)	50.66	43.43	32.22	25.24	20.06
Target P/B (x)	5.01	4.55	4.13	3.61	3.14
ROE (%)	9.90	10.47	12.81	14.28	15.64
ROA (%)	5.64	5.46	6.39	6.77	7.04
DPS (RMB)	0.090	0.110	0.128	0.163	0.206
Target yield (%)	0.55	0.67	0.78	0.99	1.25
Net gearing* (%)	8.3	24.5	24.9	23.4	25.2

\*Net gearing=Net debt/Total equity

Source(s): Bloomberg, ABCI Research estimates

## Key positives

### China is set to enter the era of incineration

Rising transportation costs and concerns over underground water pollution have made landfills a less viable option for residential waste treatment. Technological advancement in incineration, such as the development of waste-to-energy technology, should make it a more preferable treatment method and increase adoption nationwide. We believe waste-to-energy is likely to become the major solid waste treatment method in China. The State Council has already announced its target of attaining an incineration capacity of 307kt/day by end-2015E (a 28% CAGR from 2010-15E), suggesting that China is likely to enter the era of incineration.

### Increasing urbanization and incineration use present significant opportunities

The National Development and Reform Commission (NDRC) estimates China's urbanization will reach 60% by end-2020E, which represents a 19% rise in the urban population from 2013. Treatment rate of residential solid waste in urban areas is likely to maintain an uptrend (2013: 89%) and reach 99% by end-2020, meanwhile, the Chinese government intended to increase the proportion of solid waste incinerated from 30% by end-2013 to 35% by end-2015E, and we estimate the ratio is likely to reach 45% by end-2020. If we assume residential waste per capita to decline by 1% every year in 2013-2020 due to technology advancement in reducing solid waste, residential waste produced would reach 189mt by end-2020 (2013: 153mt) and solid waste to be treated via incineration would reach 85mt (2013: 46mt) indicating a 84% increase or a 9% CAGR during 2013-2020E. This should bring great opportunities for incineration operators including CEI.

### Waste-to-energy capacity to expand by 25%YoY in 2015E/16E

We believe CEI will continue to increase waste-to-energy capacity by 25% YoY in 2015E and 2016E. The company currently has a waste-to-energy capacity of 12,200t/day under construction, doubling that of the existing operating capacity. This suggests that CEI has a strong potential in increasing its revenue in the specific segment. In addition, EBITDA margin from this segment is high (2008-2014 average at 51%) which should help CEI maintaining its profitability. We estimate CEI can deliver 35%/28% YoY EPS growth in 2015/16E on the back of sustainable capacity growth of 25% YoY in 2015E and 2016E.

### An SOE with solid relationships with local governments and lower financing costs

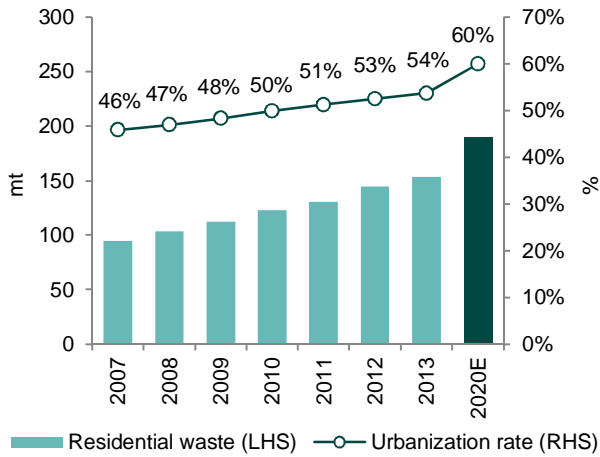
CEI is an SOE that have strong ties with local governments, which gives the company an advantage over other overseas and local competitors in obtaining new contracts. SOEs also benefit from lower financing costs (5% for CEI vs. 7% for non-SOEs, according to management). Lower financing costs should aid CEI in future M&As and business expansion.

### Profitable industrial and hazardous waste businesses are future growth drivers

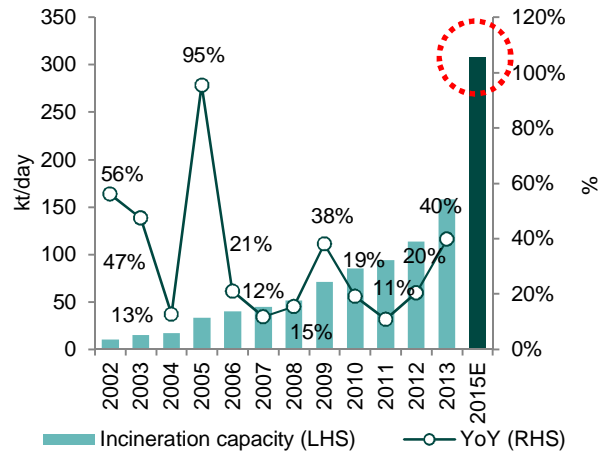
According to management, the Internal Rate of Return (IRR) of industrial waste and hazardous waste treatments can be as high as 15% and 18%, exceeding the 10% for its residential waste treatment business. The government estimates the total volume of hazardous waste could reach 60mn tons in 2015, a 90% jump from the 2013 level, which suggests that nationwide treatment capacity has to increase at a 21% CAGR from 2010-15E. This should provide opportunities for CEI to develop its industrial and hazardous waste treatment businesses, which we believe would serve as its future revenue growth engines.

**Projects in affluent coastal regions reduce default risk**

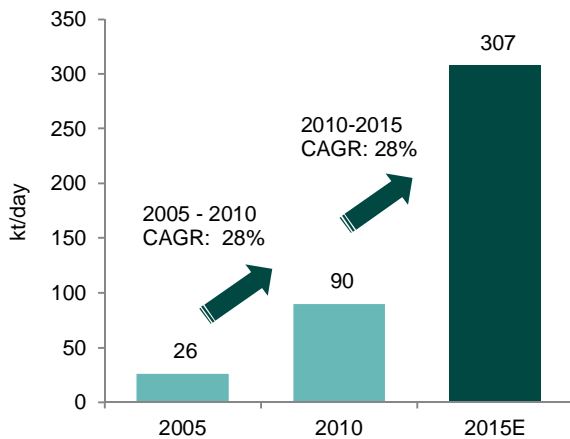
Most of CEI's existing waste-to-energy projects are located in wealthier coastal regions in China such as Suzhou, Jinan, Yixing, etc. In general, default risk is lower in more affluent regions, and this should allow the Group to maintain a strong cash flow.

**Exhibit 1: Increasing urbanization is likely to spur demand for solid waste treatment**


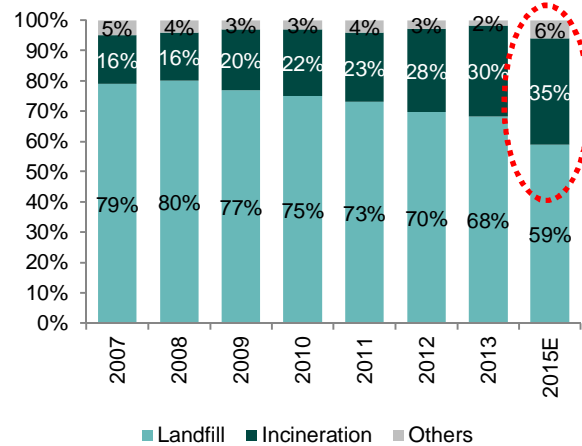
Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 2: China's incineration capacity**


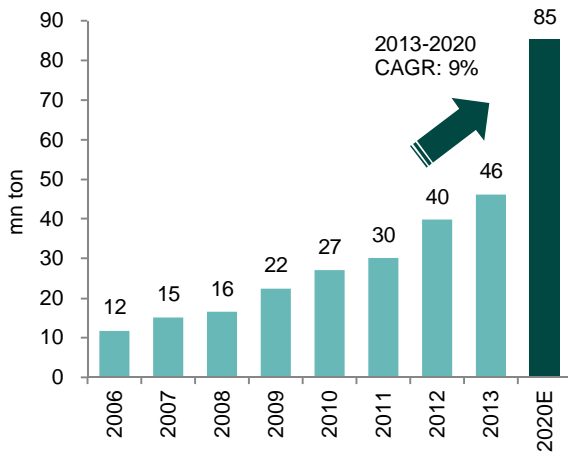
Source(s): MEP, ABCI Securities estimates

**Exhibit 3: China's urban incineration treatment capacity target**


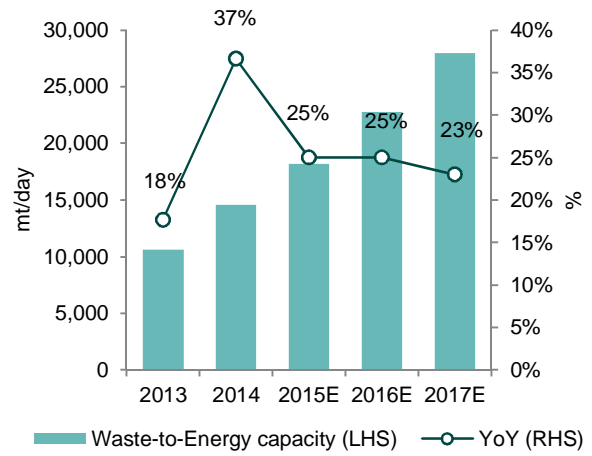
Source(s): MEP, ABCI Securities estimates

**Exhibit 4: Incineration to become a major waste treatment method in China**


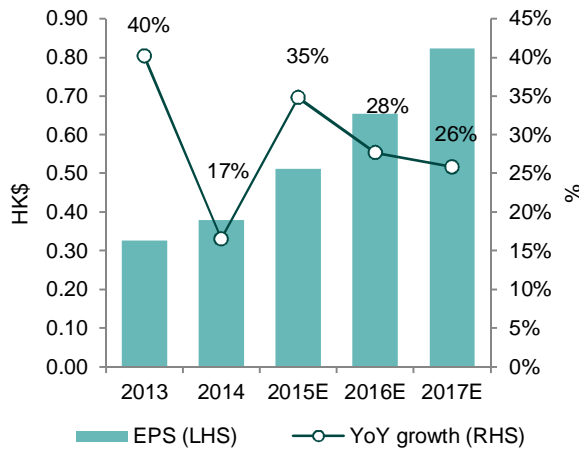
Source(s): MEP, ABCI Securities estimates

**Exhibit 5: Urban incineration treatment volume is likely to expand by 9% CAGR in 2013-2020E**


Source(s): MEP, ABCI Securities estimates

**Exhibit 6: CEI's strong waste-to-energy capacity growth will serve as its key earnings growth driver**


Source(s): MEP, ABCI Securities estimates

**Exhibit 7: CEI's e EPS growth should stay strong on the high profitability of waste-to-energy projects**


Source(s): The Company, ABCI Securities estimates

**Exhibit 8: CEI's existing waste-to-energy projects are located along the coastal regions**


Source(s): The Company, ABCI Securities

## Future earnings outlook

We believe incineration will be used as one of the major disposal methods for residential waste. CEI should benefit from its advanced waste-to-energy technology; also, as an SOE, it would have an advantage over other non-SOEs in project bidding.

### Earnings growth

Looking forward, we forecast waste-to-energy operation revenue to grow by 54%/31% YoY in 2015E/16E and wastewater treatment operation revenue to expand by 68%/37% YoY growth in 2015E/16E off the low base (the 2 segments only contributed to 13% and 10% of CEI's 2014 total revenue). We believe the waste-to-energy segment (include both operation and construction) will continue to see strong organic growth on China's push for incineration, which would boost CEI's overall earnings. We therefore expect CEI's earnings to go up by 35%/28% YoY in 2015E/16E.

### Capacity growth

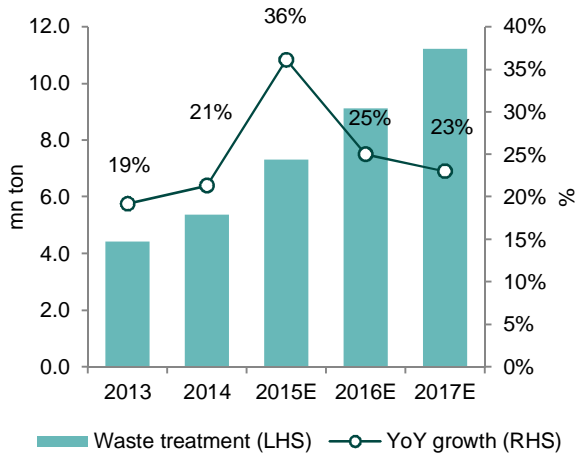
We expect nationwide waste-to-energy treatment capacity to continue to trend up due to government's advocating of such use in the urban regions. We anticipate CEI to add 3,638 tons/day in new capacity in 2015E, representing a 25% YoY growth. We also forecast a 25% YoY capacity growth in 2016E as CEI maintains its pace of expansion. For its wastewater treatment business, we believe the Group will achieve a 25%/23% YoY growth in 2015/16E capacity on strong demand for wastewater treatment service by China's urban residents.

### Net gearing ratio

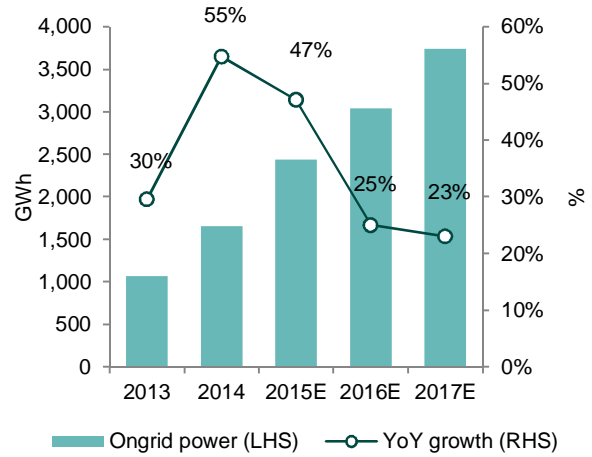
After the share placement in Dec 2013, CEI's net gearing ratio fell from 41% in 1H13 to 8% at end-2013. But as the Group has paced up its wastewater business acquisition since 2014, net gearing ratio rose from 8% in 2013 to 25% in 2014. As cash flow from waste-to-energy and wastewater treatment operations remain strong, CEI's net gearing ratio should be maintained at a relatively low level in 2015E. While management targets to maintain a net gearing ratio below 60%, we believe increasing cash flow from the Group's waste-to-energy operation should keep its net gearing ratio below 50% over the long run.

### Dividend policy

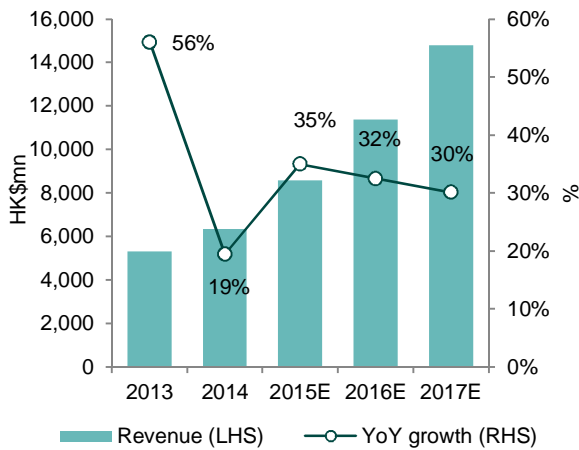
CEI had a 28% and 29% dividend payout ratio in 2013 and 2014. While management has not announced any long-term payout guidance, its average payout ratio was 22% in 2008-2014; together with its low net gearing (25% in 2014), the Group should be able to sustain its payout ratio at a similar level. Hence, we estimate CEI payout ratio to be 25% going forward.

**Exhibit 9: CEI's residential waste treatment volume (waste-to-energy)**


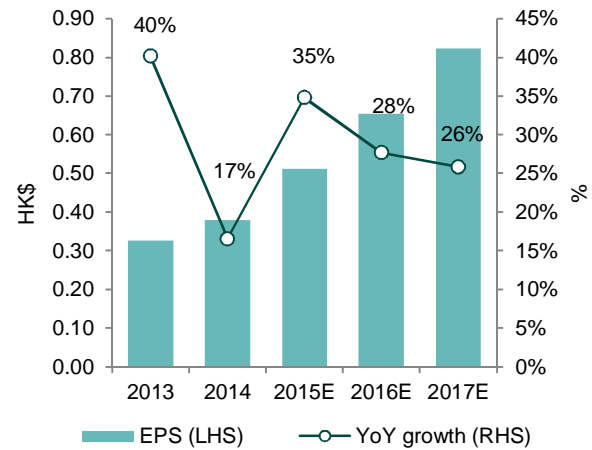
Source(s): The Company, ABCI Securities estimates

**Exhibit 10: CEI's on-grid power (waste-to-energy)**


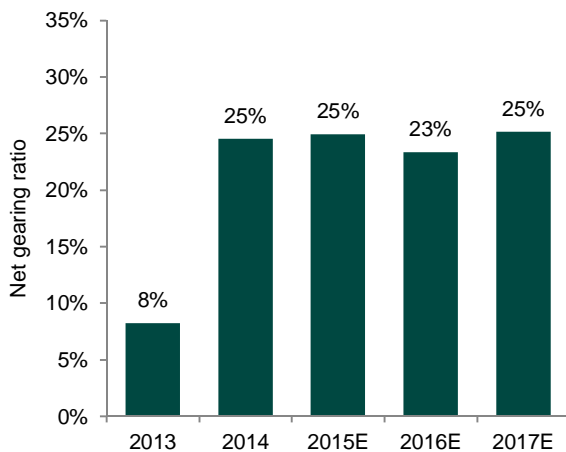
Source(s): The Company, ABCI Securities estimates

**Exhibit 11: CEI's revenue growth outlook**


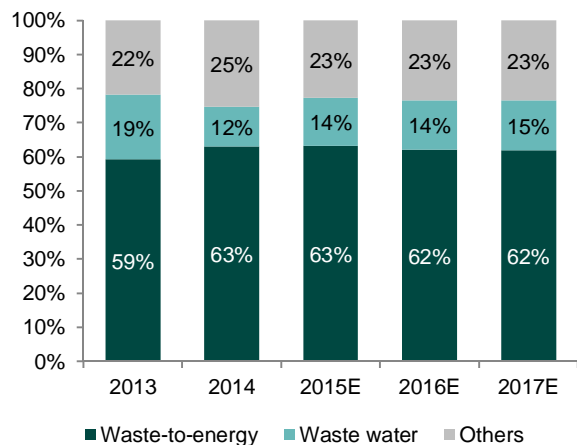
Source(s): The Company, ABCI Securities estimates

**Exhibit 12: CEI's EPS growth outlook**


Source(s): The Company, ABCI Securities estimates

**Exhibit 13: CEI's net gearing ratio outlook**


Source(s): The Company, ABCI Securities estimates

**Exhibit 14: CEI's revenue breakdown**


Source(s): The Company, ABCI Securities estimates

## Valuation

### Initiate BUY with TP at HK\$ 16.50

We believe DCF is the most appropriate method as it captures CEI's strong future cash flow from its waste-to-energy and wastewater treatment operations.

Our TP of HK\$16.50 is based on a 9% WACC, and is equivalent to 32x/25x 2015/16E P/E, which represents a premium to the peer average of 22x/18x among global waste treatment players. CEI is one of the few Hong Kong-listed Chinese incinerator operators with sizable capacities in China's affluent coastal regions. We believe operations in these regions entail a lower default risk and higher profitability given the rising living standards. We estimate CEI's EPS to grow at a 29% CAGR in 2014-17E, driven by the government's advocating of the use of incineration for waste disposal. In our view, CEI deserves a valuation premium over peers, given its quality assets, sustainable earnings growth, and SOE status.

### A key beneficiary of the government's push for incineration

We believe the Chinese government is likely to increase the use of incineration in urban regions as 1) rising urbanization may aggravate pollution problems and 2) worsening underground water pollution has made landfill a less viable option for residential waste treatment. As the Chinese government targets to raise the proportion of residential waste disposed of via incineration from 25% in 2012 to 35% by end-2015E, we believe CEI will maintain a sustainable earnings growth going forward.

### Share price catalysts

Future share price catalysts include announcements from 1) the government on development of incinerators in urban areas and 2) successful bid of waste-to-energy projects by CEI.

**Exhibit 15: CEI's DCF calculation (2015E-2024E)**

CEI's DCF calculation	
Perpetual growth rate	1%
WACC	9%
Terminal value	112,731
PV of terminal value	47,308
Cum PV of CF stream	32,790
Enterprise Value	80,098
Less debt	(11,402)
Add cash on hand	6,936
Less: MI	(1,651)
Equity Value	73,981
Shares o/s	4,484
<b>Value per share(HK\$)</b>	<b>16.50</b>

Source(s): The Company, ABCI Securities estimates

**Exhibit 16: CEI's WACC calculation (2015E-2024E)**

Assumptions	
Risk Free Rate of Return	2.4%
Long Term Cost of Debt	5.0%
Equity Risk Premium	10.0%
Beta	0.90
Tax Rate	25.0%
Target Debt to Total Capital	30.0%
Target Equity to Total Capital	70.0%
Cost of Equity	11.4%
<b>WACC</b>	<b>9.1%</b>

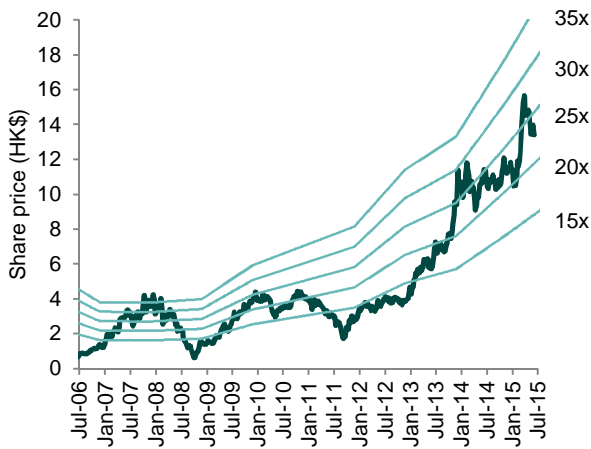
Source(s): The Company, ABCI Securities estimates



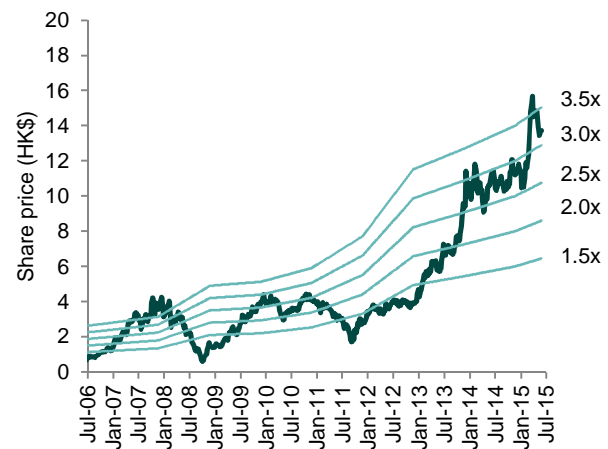
**Exhibit 17: Peer comparison**

Name	Stock code	Price	Mkt Cap (USDmn)	PER (x)		PBR (x)		Dvd Yield		ROE		
				FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	
<b>HK &amp; China</b>												
China Everbright Intl	257 HK	12.64	7,310	23.9	18.3	3.2	2.8	16.1	12.3	1%	1%	
Dongjiang Environmental	895 HK	12.92	2,188	19.2	11.8	1.6	1.2	21.9	15.1	1%	2%	
<b>Avg.</b>				<b>21.6</b>	<b>15.1</b>	<b>2.4</b>	<b>2.0</b>	<b>19.0</b>	<b>13.7</b>	<b>1%</b>	<b>1%</b>	
<b>Asia</b>												
Asahi Holdings Inc	5857 JP	2,100	620	10.2	9.3	n.a.	n.a.	7.2	6.8	3%	3%	
Daiseki Co Ltd	9793 JP	2,400	882	23.9	21.6	1.9	1.7	8.0	7.5	1%	1%	
Transpacific Industries	TPI AU	0.77	909	27.3	20.1	0.7	0.7	5.8	5.1	2%	3%	
<b>Avg.</b>				<b>20.5</b>	<b>17.0</b>	<b>1.3</b>	<b>1.2</b>	<b>7.0</b>	<b>6.5</b>	<b>2%</b>	<b>2%</b>	
<b>International</b>												
Republic Services Inc	RSG US	39.66	13,934	19.6	18.1	1.8	1.8	8.3	8.0	3%	3%	
Waste Connections Inc	WCN US	47.18	5,844	23.9	21.3	2.6	2.5	11.2	10.6	1%	1%	
Clean Harbors Inc	CLH US	52.00	3,051	29.3	23.0	2.4	2.2	8.0	7.4	n.a.	n.a.	
Waste Management Inc	WM US	46.53	21,302	18.7	17.3	3.6	3.3	8.8	8.4	3%	3%	
Progressive Waste Solutions	BIN CN	33.53	3,059	20.8	17.8	2.3	2.1	8.7	8.0	2%	2%	
<b>Avg.</b>				<b>22.4</b>	<b>19.5</b>	<b>2.5</b>	<b>2.4</b>	<b>9.0</b>	<b>8.5</b>	<b>2%</b>	<b>2%</b>	

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

**Exhibit 18: CEI's fwd PE chart**


Source(s): The Company, ABCI Securities estimates

**Exhibit 19: CEI's fwd PB chart**


Source(s): The Company, ABCI Securities estimates



## Major risks

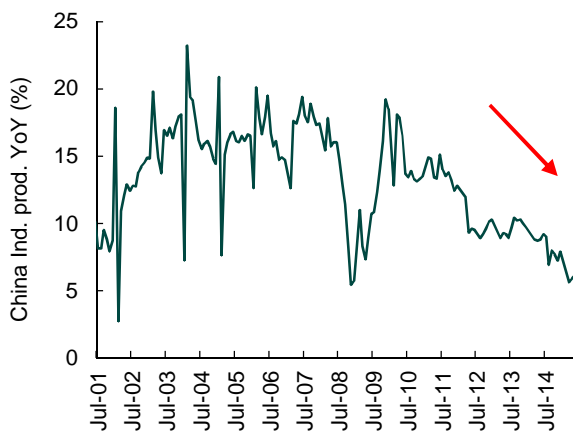
### Default risk from industrial and hazardous waste customers

Default risk from industrial and hazardous waste customers may increase against the backdrop of slowing industrial activities in China. Maintaining its downtrend since Dec 2009, China's monthly industrial production growth rose 6.1% YoY in May 2015. Nonetheless, management revealed that it may aim to increase revenue contribution from its industrial and hazardous waste treatment business.

### Air pollution concerns may delay construction of incinerators

Despite the fact that waste-to-energy technology can significantly reduce air pollutants through complete combustion, concerns over the release of toxic pollutants such as sulfur dioxide, dioxin, furans, etc. that are usually produced by traditional incineration plants may result in public resistance against construction of waste-to-energy plants.

**Exhibit 20: China's weakening industrial production increases default risk among CEI's customers**



Source(s): Bloomberg, ABCI Securities

**Exhibit 21: Protest against incineration construction**



Source(s): nanzao.com

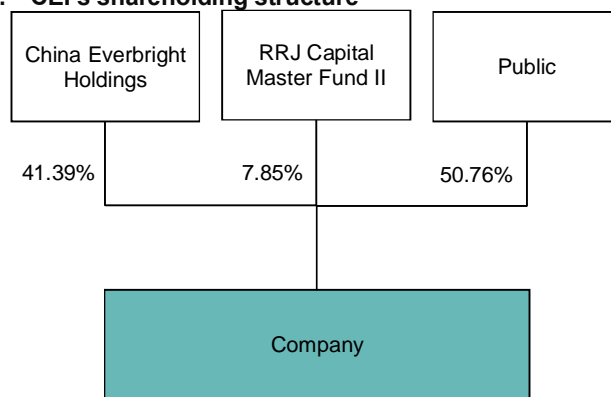
## Company overview

### Background

China Everbright International (CEI) is one of the largest integrated environmental solutions providers in China. The company mainly invests in environmental energy, environmental water, and alternative energy. As of end-2014, CEI controlled 14,550 tons/day of waste-to-energy capacity and 938m sqm/year of wastewater capacity.

CEI used to concentrate on infrastructure construction and timber businesses in China. In 2004, the company shifted its main business to environmental solutions and has since become one of the largest solution providers in China. China Everbright Holdings is the Group's largest shareholder with a 41% stake.

**Exhibit 22: CEI's shareholding structure**



Source(s): The Company, ABCI Securities

### Major assets and business

CEI's main businesses include construction and operation of waste-to-energy, wastewater treatment and alternative energy generation. As of 2014, CEI was operating 15 waste-to-energy plants and 23 wastewater treatment plants.

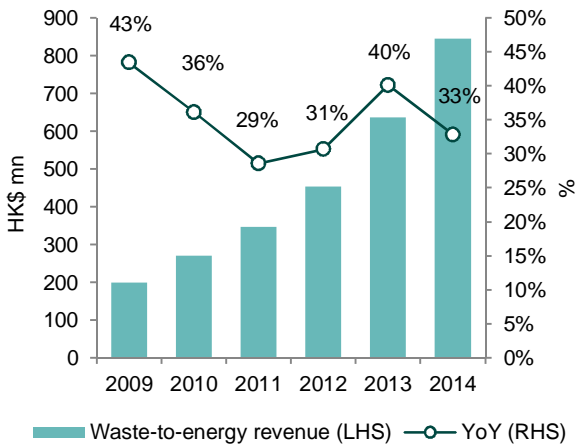
- ◆ **Waste-to-energy:** By end-2014, CEI was operating 15 waste-to-energy plants for residential waste with a capacity of 14,550 tons/day. The company has 16 plants with a total capacity of 12,200 ton/day under construction.
- ◆ **Wastewater treatment:** CEI was operating 23 wastewater treatment plants with a capacity of 2.56mn sqm/day as of end-2014. The company has 14 plants with a total capacity of 1.03mn sqm/year under construction.
- ◆ **Alternative energy:** By end-2014, CEI was operating 8 photovoltaic projects and 2 biomass power generation projects. Total electricity generation was 325 GWh in 2014.

**Exhibit 23: Waste-to-energy business**

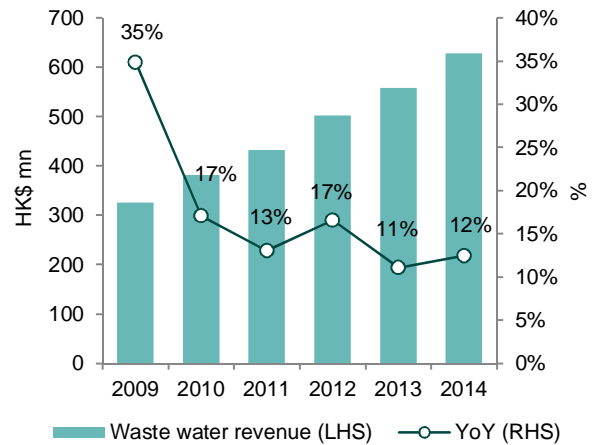

Source(s): the Company

**Exhibit 24: Wastewater business**


Source(s): the Company

**Exhibit 25: Waste-to-energy business**


Source(s): The Company, ABCI Securities

**Exhibit 26: Wastewater business**


Source(s): The Company, ABCI Securities

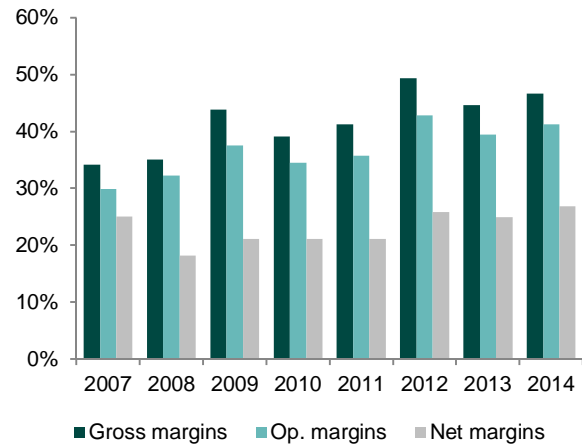
### Revenue breakdown

CEI reported a 2014 revenue of HK\$ 6.4bn, up 20% YoY, mainly driven by 26% YoY growth in the waste-to-energy construction segment (accounting for 50% of overall revenue). The waste-to-energy operation segment grew 33% YoY (accounting for 13% of overall revenue). Unlike the construction segment, the waste-to-energy operation segment maintained a stable growth with revenue rising by 31%/40%/33% YoY in 2012/13/14. We believe waste-to-energy operation segment will continue to be CEI's revenue engine.

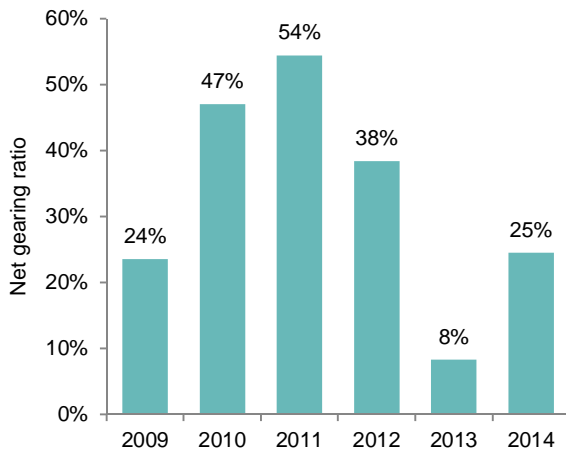
2014 gross margin improved 2 ppt from 45% in 2013 to 47% mainly due to the increased segment revenue of waste-to-energy operation that entailed a higher margin.

**Exhibit 27: Historical revenue breakdown**

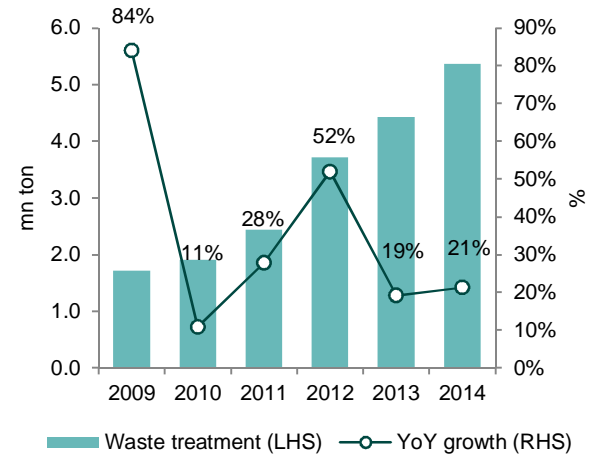

Source(s): The Company, ABCI Securities

**Exhibit 28: CEI's historical margins**


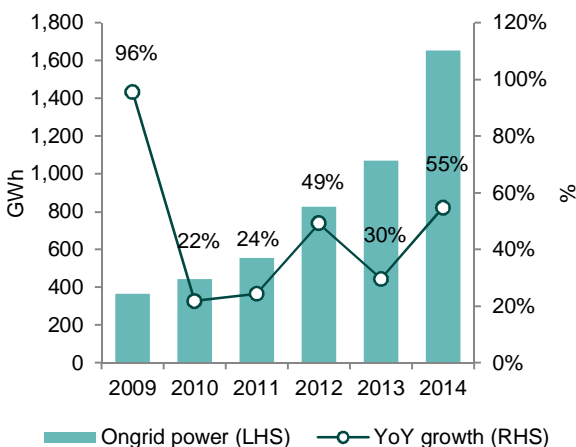
Source(s): The Company, ABCI Securities

**Exhibit 29: CEI's net gearing ratio trend**


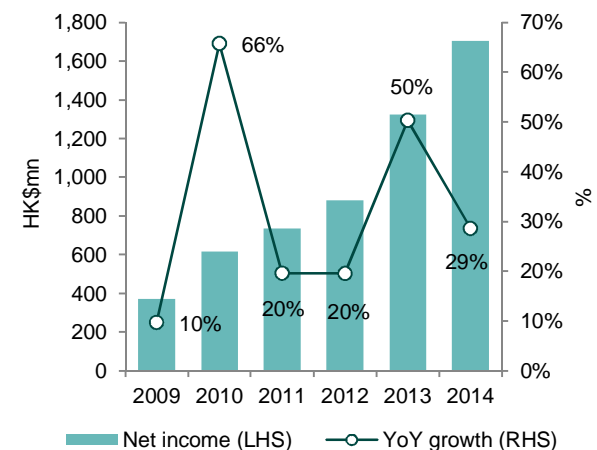
Source(s): The Company, ABCI Securities

**Exhibit 30: CEI's residential waste treatment volume (waste-to-energy)**


Source(s): The Company, ABCI Securities

**Exhibit 31: CEI's on-grid power (waste-to-energy)**


Source(s): The Company, ABCI Securities

**Exhibit 32: CEI's net income growth**


Source(s): The Company, ABCI Securities



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (HK\$ mn)	2013A	2014A	2015E	2016E	2017E
<b>Revenue</b>	<b>5,320</b>	<b>6,355</b>	<b>8,577</b>	<b>11,363</b>	<b>14,785</b>
Operation income	1,454	1,765	2,738	3,652	4,759
EPC	3,118	3,627	4,751	6,200	8,042
Other	749	963	1,089	1,510	1,985
COGS	-2,944	-3,387	-4,587	-6,265	-8,322
<b>Gross profit</b>	<b>2,375</b>	<b>2,969</b>	<b>3,990</b>	<b>5,098</b>	<b>6,463</b>
SG&A	-392	-540	-600	-795	-1,045
Net financial income (cost)	-288	-318	-405	-501	-644
Other income and gains	117	188	172	227	296
<b>Pre-tax profit</b>	<b>1,812</b>	<b>2,299</b>	<b>3,156</b>	<b>4,029</b>	<b>5,070</b>
Income tax	-447	-534	-789	-1,007	-1,267
<b>Net profit</b>	<b>1,364</b>	<b>1,765</b>	<b>2,367</b>	<b>3,022</b>	<b>3,802</b>
Profit attributable to:					
Minority interests	-40	-62	-71	-91	-114
<b>Equity shareholders of the Company</b>	<b>1,325</b>	<b>1,703</b>	<b>2,296</b>	<b>2,931</b>	<b>3,688</b>
<b>Basic EPS (HK\$)</b>	<b>0.326</b>	<b>0.380</b>	<b>0.512</b>	<b>0.654</b>	<b>0.823</b>
DPS (HK\$)	0.090	0.110	0.128	0.163	0.206

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2013A-2017E)

As of Dec 31 (HK\$ mn)	2013A	2014A	2015E	2016E	2017E
<b>Current assets</b>	<b>8,244</b>	<b>8,487</b>	<b>10,939</b>	<b>14,796</b>	<b>19,588</b>
Cash and equivalent	4,426	4,094	6,936	10,111	13,487
Pledged and restricted bank deposits	1,389	1,056	0	0	0
Trade and bill receivables	1,377	1,974	2,350	2,957	3,848
Other receivables and prepayments	941	1,211	1,527	1,557	2,025
Inventories	76	117	126	172	228
Other current assets	36	35	0	0	0
<b>Non-current assets</b>	<b>15,227</b>	<b>22,713</b>	<b>25,012</b>	<b>28,497</b>	<b>32,816</b>
Property, plant and equipment	1,374	1,511	1,779	2,136	2,607
Lease prepayment	36	36	0	0	0
Intangible assets	1,117	3,406	4,502	6,980	10,158
Investment in JV and associates	254	282	0	0	0
Other receivables and deposits	3,024	4,377	4,700	6,226	8,101
Other non-current assets	9,422	13,102	14,032	13,155	11,950
<b>Total assets</b>	<b>23,471</b>	<b>31,200</b>	<b>35,951</b>	<b>43,293</b>	<b>52,404</b>
<b>Current liabilities</b>	<b>3,572</b>	<b>4,981</b>	<b>5,993</b>	<b>8,018</b>	<b>10,557</b>
Trade and bill payables	1,734	2,302	3,142	4,291	5,700
Other payables	58	68	0	0	0
Short term borrowings	1,780	2,611	2,851	3,727	4,857
Other current liabilities	0	0	0	0	0
<b>Non-current liabilities</b>	<b>6,120</b>	<b>8,375</b>	<b>10,386</b>	<b>13,014</b>	<b>16,405</b>
Deferred tax liabilities	979	1,834	1,834	1,834	1,834
Long-term borrowings	5,141	6,525	8,552	11,180	14,571
Other non-current liabilities	0	16	0	0	0
<b>Total liabilities</b>	<b>9,692</b>	<b>13,357</b>	<b>16,379</b>	<b>21,032</b>	<b>26,962</b>
<b>Minority interests</b>	<b>-405</b>	<b>-1,580</b>	<b>-1,651</b>	<b>-1,741</b>	<b>-1,855</b>
<b>Shareholders' equities</b>	<b>13,374</b>	<b>16,263</b>	<b>17,922</b>	<b>20,520</b>	<b>23,586</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2013A-2017E)**

<b>FY ended Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Profit before tax</b>	<b>1,812</b>	<b>2,299</b>	<b>3,156</b>	<b>4,029</b>	<b>5,070</b>
Change in depreciation and amortization	91	115	240	342	475
Change in working capital	-2,424	-2,676	1,146	466	-7
Net financial cost (income)	288	318	-52	-69	-101
Income tax paid	-156	-173	-534	-789	-1,007
Net interest received	27	62	52	69	101
Others	-2	-68	-43	-57	-74
<b>CF Operating</b>	<b>-364</b>	<b>-123</b>	<b>3,965</b>	<b>3,992</b>	<b>4,457</b>
Capex	-56	-216	-366	-477	-619
Increase in intangible assets	-246	-870	-2,073	-2,701	-3,505
Others	-648	647	0	0	0
<b>CF Investing</b>	<b>-950</b>	<b>-439</b>	<b>-2,439</b>	<b>-3,177</b>	<b>-4,124</b>
Net Capital raise	3,628	0	0	0	0
Net debt financing	807	1,187	2,266	3,504	4,522
Dividend payout	-263	-448	-493	-574	-733
Interest paid	-316	-381	-457	-570	-745
Others	38	-75	0	0	0
<b>CF Financing</b>	<b>3,894</b>	<b>283</b>	<b>1,316</b>	<b>2,360</b>	<b>3,043</b>
<b>Net change in cash</b>	<b>2,579</b>	<b>-279</b>	<b>2,842</b>	<b>3,175</b>	<b>3,376</b>
Cash at the beginning	1,807	4,426	4,094	6,936	10,111
Adjustment (Time deposit & FX effect)	40	-53	0	0	0
<b>Cash at the end</b>	<b>4,426</b>	<b>4,094</b>	<b>6,936</b>	<b>10,111</b>	<b>13,487</b>

Source(s): Company, ABCI Securities estimates

**Key Ratio (2013A-2017E)**

<b>FY ended Dec 31 (HK\$ mn)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
<b>Sales mixed (%)</b>					
Operation income	27.33	27.77	31.92	32.14	32.18
EPC	58.60	57.08	55.39	54.57	54.39
Other	14.07	15.15	12.69	13.29	13.43
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	44.65	46.71	46.52	44.87	43.71
Operating profit margin	39.47	41.20	41.02	39.37	38.15
Pre-tax margin	34.05	36.18	36.79	35.46	34.29
Net profit margin	25.64	27.77	27.59	26.59	25.72
Selling & administrative expenses/revenue	7.37	8.49	7.00	7.00	7.07
Effective tax rate	24.70	23.23	25.00	25.00	25.00
<b>Growth (%)</b>					
Revenue	56.01	19.46	34.97	32.47	30.12
Gross profit	41.08	24.97	34.41	27.76	26.78
Operating profit	43.94	24.67	34.39	27.13	26.09
Net profit	50.91	29.38	34.10	27.67	25.83
<b>Balance sheet ratios</b>					
Current ratio (x)	2.31	1.70	1.83	1.85	1.86
Quick ratio (x)	2.01	1.43	1.55	1.63	1.64
Cash ratio (x)	1.63	1.03	1.16	1.26	1.28
Trade and bill receivables days	94.46	113.35	100.00	95.00	95.00
Trade and bill payables turnover days	214.92	248.15	250.00	250.00	250.00
Inventory turnover days	9.36	12.66	10.00	10.00	10.00
Total debt / equity ratio (%)	51.75	56.18	63.62	72.64	82.37
Net debt / equity ratio (%)	8.27	24.51	24.92	23.37	25.19
<b>Returns (%)</b>					
ROAA	6.6	6.2	6.8	7.4	7.7
ROAE	12.2	11.5	13.4	15.2	16.7
Payout ratio	27.63	28.96	25.00	25.00	25.00

Source(s): Company, ABCI Securities estimates





## Disclosures

### Analyst Certification

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

### Disclosures of Interests

ABC Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

### Definition of equity rating

Rating	Definition
Buy	Stock return > Market return rate
Hold	Market return . 6% mStock 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 from 2010-2014

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	2.6 m180 day volatility/180 day benchmark index volatility
High	1.5 m180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 m180 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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company





Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2015 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183**