



China Everbright Int'l (257 HK)

Strong net profit growth to continue, reiterate BUY

- China Everbright Int'l (CEI) announced FY16 results on Feb 28, 2017. Net profit surged 34%YoY to HK\$ 2.8bn, 7%/11% higher than Bloomberg consensus and our estimates.
- Spin-off of biomass business should provide HK\$3 bn of new capital, reducing CEI's 2017E net gearing ratio from 87% to 71% in 2017E.
- Net profit would rise 19%/17%YoY in 2017E/18E, accompanied by 23%/22%YoY expansion in waste-to-energy capacity for the same period
- Maintain **BUY** with TP of HK\$ 13.30, which implies 18x 2017E P/E and 3.0x 2017E P/B

FY16 earnings beat expectations. CEI announced its FY16 results on Feb 28. Net profit was reported at RMB2,785mn (+34%YoY), 7%/11% higher than Bloomberg consensus and our estimates.

Spin-off of biomass business would reduce net gearing ratio. CEI is about to spin off its biomass and renewable energy business and list on HKEx on 8 May 2017 (China Everbright Greentech, 1257 HK). We estimate the spin-off would bring in ~HK\$ 3bn of new capital for CEI, which should help reduce its net gearing ratio from 87% to 72% in 2017E.

Robust growth of 23%/22% YoY in waste-to-energy capacity in 2017E/2018E. CEI has 27,150t/day of capacity under construction or preparation, equivalent to its existing operating capacity (2016: 28,167t/day). Management guided that total capex for 2017 (waste-to-energy and wastewater) will not be less than RMB 7.0bn. Capex is likely to remain high given the current unit investment cost for waste-to-energy at ~RMB0.5mn/t/day. We believe such capacity is likely to expand by 23%/22% YoY in 2017E/18E, and this would support a net profit growth of 19%/17%YoY.

Wastewater capacity growth may slow to 5%/5%YoY in 2017E/18E. CEI has 0.89mn m³/day of capacity under construction or preparation, which accounts for ~23% of CEI's existing capacity (2016: 3.9 mn m³/day). CEI's wastewater treatment business capacity would only see 5%/5% YoY growth in 2017E /18E, assuming no new acquisitions will take place.

TP at HK\$ 13.30; maintain BUY. We continue to favor CEI for its strong waste-to-energy capacity growth and the Company will stand to benefit strongly from China's increased adoption of incineration for urban waste treatment. CEI is likely to deliver an 19% EPS CAGR during 2016-19E. Our TP at HK\$ 13.30 implies 18x 2017E P/E and 3.0x 2017E P/B. Maintain **BUY**.

Risks: (1) Customer default risk; (2) Air pollution concern may delay incinerator construction; (3) Construction risk; (4) Tariff risk; (5) Policy risk; (6) Fundraising activities to finance M&A. (7) Dilution of earnings shared from Greentech.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (HK\$ mn)	8,528	13,971	18,301	21,932	25,942
Chg (% YoY)	34.2	63.8	31.0	19.8	18.3
Net profit (HK\$ mn)	2,085	2,785	3,322	3,871	4,499
Chg (% YoY)	22.4	33.6	19.3	16.5	16.2
EPS (HK\$)	0.47	0.62	0.74	0.86	1.00
Chg (% YoY)	22.4	33.6	19.3	16.5	16.2
BVPS (HK\$)	3.84	3.88	4.40	4.92	5.57
Chg (% YoY)	5.7	1.1	13.4	11.8	13.4
P/E (x)	22.41	16.77	14.06	12.07	10.38
P/B (x)	2.72	2.69	2.37	2.12	1.87
ROE (%)	12.12	16.01	16.85	17.56	18.00
ROA (%)	5.13	5.62	5.68	5.75	5.83
DPS (HK\$)	0.19	0.20	0.22	0.26	0.30
Yield (%)	1.78	1.97	2.13	2.49	2.89
Net gearing (%)	53.2	83.8	71.7	75.4	77.0

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 24, 2017

Rating: **BUY**
TP: **HK\$ 13.30**

Analyst : Kelvin Ng

Tel: (852) 2147 8869

kelvinn@abci.com.hk

Share price (HK\$)	10.42
Est. share price return	27.6%
Est. dividend yield	2.2%
Est. total return	29.8%
Previous Rating & TP	BUY
Previous Report Date	Feb 27, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	11.1/7.6
Issued shares (mn)	4,483
Market cap (HK\$ mn)	46,713
3-mth avg daily turnover(HK\$ mn)	90
Major shareholder(s) (%)	
China Everbright Hld.	41.4%

Source(s): Company, ABCI Securities

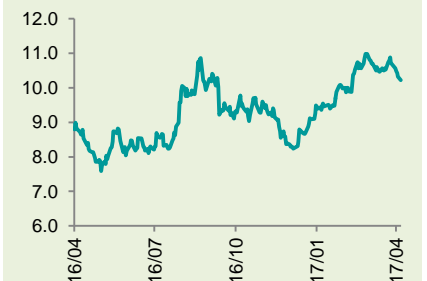
Share Performance (%)

	Absolute	Relative*
1-mth	(4.13)	(0.43)
3-mth	9.19	5.80
6-mth	4.61	2.20

*Relative to HSCEI

Source(s): Bloomberg, ABCI Securities

1-Year share price performance(HK\$)



Source(s): Bloomberg, ABCI Securities



2016 results highlight

FY16 earnings beat expectations.

China Everbright Int'l (CEI) announced its FY16 results on Feb 28, 2017. Net profit recorded RMB 2,785mn (+34%YoY), exceeding Bloomberg consensus by 7% and our estimate by 11%. Volume of residential waste treated surged 29% YoY and that of wastewater treated rose 28%YoY, suggesting urban demand for waste treatment services has remained robust.

Strong growth in EPC segment boosts earnings but drag margins.

Revenue from EPC segment surged 83% YoY, driven by 92%YoY revenue growth in wastewater EPC. However, gross margins of the segment is rather thin (~15-20%), dragging down overall GPM from 46% in 2015 to 38% in 2016.

Operation segment is a long-term positive.

Operation segment (waste-to-energy, wastewater, and alternative energy) recorded a 31%YoY growth in revenue, driven by 27%/67%YoY revenue growth in waste-to-energy/alternative energy operation. Given the stable cash flow and higher GPM (~50%) of the operation segment, the business will remain a long-term positive to CEI.

Increasing net gearing is key concern.

Account Receivable Turnover Days (A/R T/O) improved from 131 days in 2015 to 87 days in 2016 but Account Payable Turnover Days (A/P T/O) shortened from 221 days to 202 days in 2016. As positive impact of the former was offset by the latter, net gearing ratio rose from 53% in 2015 to 84% in 2016, the highest level since 2006.

Results summary		2015	2016	YoY
Income Statement				
Revenue	HK\$m	8,528	13,971	64%
Operation income	HK\$m	2,185	2,854	31%
EPC	HK\$m	4,916	8,987	83%
Others	HK\$m	1,428	2,130	49%
Op. profit	HK\$m	3,524	4,629	31%
Net profit	HK\$m	2,085	2,785	34%
Basic EPS	HK\$	0.47	0.62	34%
Ratios				
Op. margin	%	41.3%	33.1%	-8ppt
Net margin	%	24.4%	19.9%	-5ppt
ROE	%	12.1%	16.0%	4ppt
ROA	%	5.1%	5.6%	0.5ppt
Net gearing/(Net cash)	%	53%	84%	31ppt
Waste-to-energy				
Installed capacity	t/day	18,550	22,900	23%
On-grid power	GWh	1,883	2,473	31%
Waste treated	mt	6.93	8.93	29%
Wastewater				
Installed capacity	mn m ³ /day	3.59	3.90	2%
Wastewater treated	mn m ³	899	1,148	28%

Source(s): Company data



2017 outlook

EPC business revenue would continue to grow by 32%/19%YoY in 2017E/18E

Supported by the government's increased environmental effort and rising urbanization in China, CEI's EPC business will enjoy a solid growth on rising demand for waste-to-energy and wastewater facilities. Revenue from EPC business surged 83%YoY in 2016. We expect the segment to maintain a robust momentum over the next few years, with revenue expanding by 32%YoY and 19%YoY in 2017E and 2018E.

Waste-to-energy capacity to expand by 23%/22% YoY in 2017E/2018E

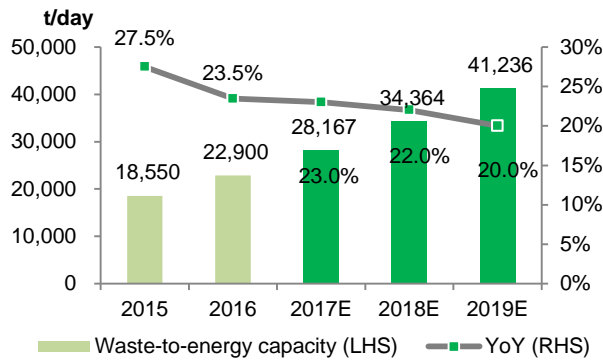
CEI has 27,150t/day of capacity under construction or preparation stage, equivalent to its existing operating capacity (2016: 28,167t/day). Management guided that total capex for 2017 (waste-to-energy and wastewater) will not be less than RMB 7.0bn. Capex is likely to remain high given the current unit investment cost for waste-to-energy at ~RMB0.5mn/t/day. We believe such capacity is likely to expand by 23%/22% YoY in 2017E/18E.

Wastewater capacity growth may slow to 5%/5%YoY in 2017E/2018E.

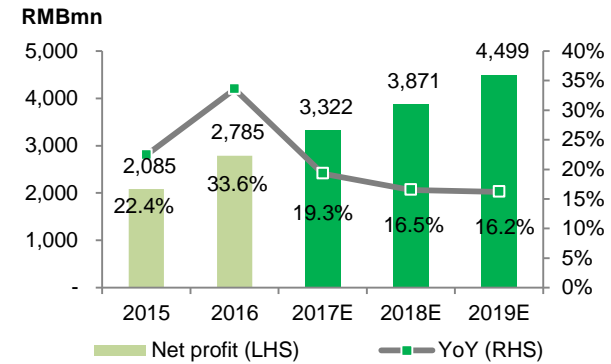
CEI has 0.89mn m³/day of capacity under construction or preparation, which accounts for ~23% of CEI's existing capacity (2016: 3.9 mn m³/day). CEI's wastewater treatment business capacity would only see 5%/5% YoY growth in 2017E /18E, assuming no new acquisitions will take place.

Spin off of biomass business should reduce net gearing

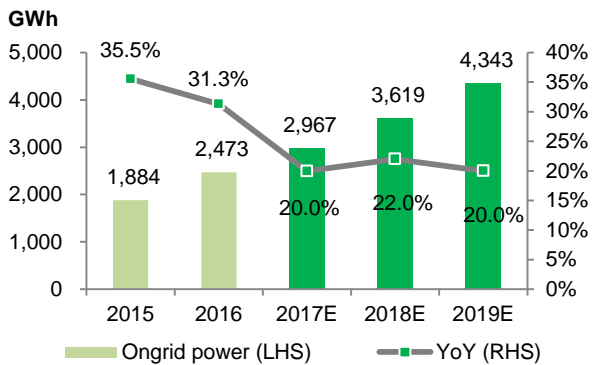
CEI is about to spin off its biomass and renewable energy business and list on HKEx on 8 May 2017 (China Everbright Greentech, 1257 HK. CEI sold 28% of shares to public shareholders and now holds a 72% stake). This spin-off should bring in ~HK\$3bn of new capital to CEI. Based on our estimates, CEI's net gearing ratio would fall from 87% to 72% in 2017E, easing the need of equity fundraising.

Exhibit 1: CEI's waste-to-energy capacity growth would remain robust in coming years


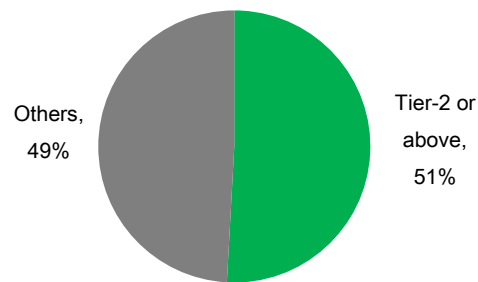
Source(s): Company, ABCI Securities estimates

Exhibit 2: CEI's net profit would show impressive growth in 2017 and 2018


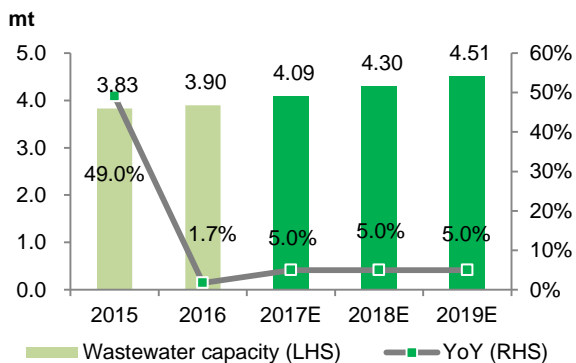
Source(s): Company, ABCI Securities estimates

Exhibit 3: CEI's power output outlook


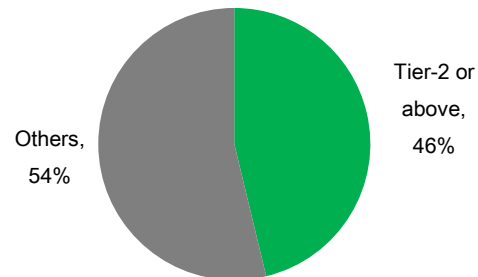
Source(s): Company, ABCI Securities estimates

Exhibit 4: CEI's waste-to-energy capacity located in wealthier regions (2016)


Source(s): Company, ABCI Securities estimates

Exhibit 5: CEI's wastewater capacity would grow moderately over the next few years


Source(s): Company, ABCI Securities estimates

Exhibit 6: CEI's wastewater capacity located in wealthier regions (2016)


Source(s): Company, ABCI Securities estimates

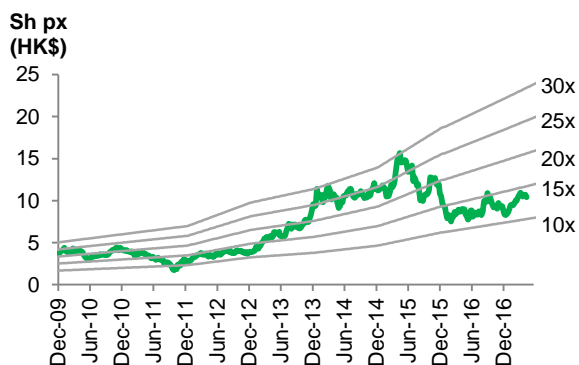
Valuation

TP at HK\$13.30; maintain BUY

CEI's 2016 results are better than expected. The spin-off of biomass business would help reduce net gearing and provide capital for future growth. Since waste-to-energy capacity growth will remain solid and revenue growth in the EPC segment is expected to stay strong, we revise our assumptions for the two segments accordingly. Based on our calculation, CEI's net profit will expand by 19%/17%YoY for 2017E/18E

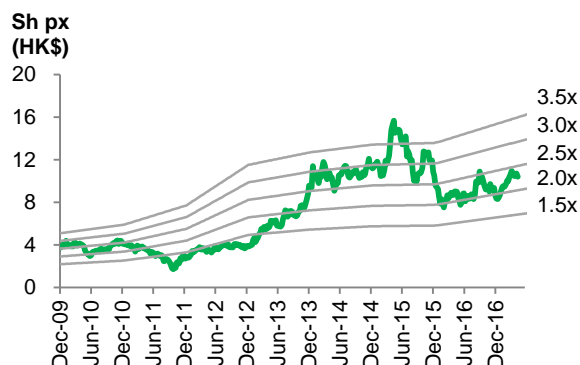
Our DCF-derived TP at HK\$13.30 (HK\$12.20 previously), equivalent to 18x 2017E P/E and 3.0x 2017E P/B. We believe China's increased environmental effort and rising urbanization would continue to stimulate demand for urban incineration and wastewater treatment facilities. We expect CEI to deliver a 19% EPS CAGR during 2016-19E. Our TP implies 0.9 PEG. Reiterate **BUY**.

Exhibit 7: CEI's fwd P/E chart



Source(s): Company, ABCI Securities estimates

Exhibit 8: CEI's fwd P/B chart



Source(s): Company, ABCI Securities estimates



Consolidated income statement

FY Ended Dec 31 (HK\$ mn)	2015A	2016A	2017E	2018E	2019E
Revenue	8,528	13,971	18,301	21,932	25,942
Operation income	2,185	2,854	3,387	3,958	4,556
EPC	4,916	8,987	11,891	14,197	16,962
Other	1,428	2,130	3,024	3,776	4,424
Cost of sales	-4,626	-8,662	-11,670	-14,167	-16,885
Gross Profit	3,903	5,310	6,631	7,766	9,057
SG&A expenses	-768	-1,059	-1,373	-1,645	-1,946
Net financial income (cost)	-400	-593	-794	-935	-1,098
Other income/ (expenses)	384	442	512	614	726
Profit before tax	3,119	4,099	4,977	5,800	6,740
Tax	-783	-1,062	-1,244	-1,450	-1,685
Net profit	2,336	3,037	3,733	4,350	5,055
Profit attributable to:					
Minority interest	251	252	411	478	556
Equity shareholders of the Company	2,085	2,785	3,322	3,871	4,499
Basic EPS	0.465	0.621	0.741	0.863	1.003
DPS	0.185	0.205	0.222	0.259	0.301

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet

As of Dec 31 (HK\$ mn)	2015A	2016A	2017E	2018E	2019E
Current assets	11,488	12,307	19,562	23,130	26,977
Cash	5,953	6,341	12,314	14,436	16,688
Pledged and restricted bank deposits	720	697	0	0	0
Trade and bill receivables	3,060	3,337	4,262	5,107	6,041
Other receivables and prepayments	1,547	1,569	2,507	3,004	3,554
Inventories	202	362	480	582	694
Other current assets	5	2	0	0	0
Non-current assets	29,135	37,225	38,941	44,149	50,166
Property, plant & equipment	2,350	3,029	3,732	4,575	5,496
Investment properties	151	152	152	152	152
Intangible assets	4,419	7,250	10,595	14,657	19,133
Investment in JV and associates	448	573	573	573	573
Deferred tax assets	5,697	6,494	8,524	10,215	12,083
Other non-current assets	16,069	19,726	15,365	13,977	12,728
Total Assets	40,623	49,532	58,503	67,279	77,142
Current Liabilities	6,323	9,314	13,007	15,526	18,233
Trade and bill payables	2,794	4,804	6,394	7,762	9,252
Other payables	119	97	0	0	0
Short term borrowings	3,410	4,412	6,613	7,764	8,981
Other current assets	0	0	0	0	0
Non-current liabilities	14,879	20,373	22,914	26,367	30,018
Deferred tax liabilities	2,425	3,076	3,076	3,076	3,076
Long-term borrowings	12,411	17,203	19,838	23,291	26,942
Other non-current assets	43	94	0	0	0
Total Liabilities	21,203	29,687	35,921	41,893	48,251
Minority interests	2,224	2,456	2,867	3,345	3,901
Shareholders' equities	17,196	17,389	19,715	22,041	24,991

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement

FY ended Dec 31 (HK\$ mn)	2015A	2016A	2017E	2018E	2019E
Profit before tax	3,119	4,099	4,977	5,800	6,740
Change in depreciation and amortization	184	313	513	703	918
Change in Working Capital	-4,839	-4,330	117	-77	-105
Net financial cost (income)	400	593	-70	-123	-144
Income tax paid	-217	-335	-1,062	-1,244	-1,450
Net interest received	52	46	70	123	144
Others	-236	-166	0	0	0
Operating cash flow	-1,538	221	4,545	5,182	6,103
Capex	-661	-520	-925	-1,122	-1,263
Increase in intangible assets	-421	-2,637	-3,699	-4,486	-5,053
Others	-1,594	-1,079	0	0	0
Investing cash flow	-2,676	-4,236	-4,624	-5,608	-6,316
Net Capital raise	660	-8	3,000	0	0
Net debt financing	6,793	6,220	4,836	4,603	4,868
Dividend payout	-565	-906	-919	-997	-1,161
Interest paid	-458	-646	-865	-1,058	-1,242
Others	-226	53	0	0	0
Financing cash flow	6,204	4,713	6,052	2,549	2,465
Net change in cash	1,989	698	5,973	2,122	2,252
Cash at the beginning	4,094	5,953	6,341	12,314	14,436
Adjustment (Time deposit & FX effect)	-130	-311	0	0	0
Cash at the end	5,953	6,341	12,314	14,436	16,688

Source(s): Company, ABCI Securities estimates

Key ratio

FY ended Dec 31 (HK\$ mn)	2015A	2016A	2017E	2018E	2019E
Sales mixed (%)					
Operation income	25.62	20.43	18.51	18.05	17.56
EPC	57.64	64.33	64.97	64.73	65.38
Other	16.74	15.24	16.52	17.22	17.05
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	45.76	38.00	36.23	35.41	34.91
Operating profit margin	41.33	33.13	31.53	30.71	30.21
Pre-tax margin	36.57	29.34	27.19	26.44	25.98
Net profit margin	27.39	21.73	20.40	19.83	19.49
Selling & administrative expenses/revenue	9.01	7.58	7.50	7.50	7.50
Effective tax rate	25.11	25.91	25.00	25.00	25.00
Growth (%)					
Revenue	34.20	63.82	30.99	19.84	18.28
Gross profit	31.47	36.05	24.89	17.10	16.63
Operating profit	34.62	31.34	24.68	16.70	16.38
Net profit	32.32	30.02	22.93	16.54	16.21
Balance sheet ratios					
Current ratio (x)	1.82	1.32	1.50	1.49	1.48
Quick ratio (x)	1.54	1.11	1.27	1.26	1.25
Cash ratio (x)	1.06	0.76	0.95	0.93	0.92
Trade and bill receivables days	130.98	87.19	85.00	85.00	85.00
Trade and bill payables turnover days	220.50	202.45	200.00	200.00	200.00
Inventory turnover days	15.96	15.24	15.00	15.00	15.00
Total debt / equity ratio (%)	92.00	124.30	134.17	140.89	143.75
Net debt / equity ratio (%)	53.19	83.83	71.71	75.40	76.97
Returns (%)					
ROAA	5.8	6.2	6.2	6.2	6.2
ROAE	12.5	16.1	17.9	18.5	19.1
Payout ratio	39.79	33.00	30.00	30.00	30.00

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

ABCI 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 \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.

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 2017 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