



## Beijing Enterprises Water (371 HK) 2016 results preview

- Beijing Enterprises Water should see a robust adj. net profit growth at 31%YoY for 2016E
- Water distribution operation capacity should see a 40% YoY growth for 2016E; wastewater operation capacity should record an 9%YoY growth for the period
- EPC business is likely to record a 59%YoY revenue growth for 2016E
- Maintain **BUY** with TP of HK\$7.00, implying 17x 2017E P/E and 2.9x 2017E P/B.

**BEW's adj. net profit should see a 31%YoY growth for 2016E.** Benefiting from EPC business revenue that grew by 59%YoY, we expect BEW's adj. net profit growth to increase by 31% YoY for 2016E.

### Water distribution operation capacity to expand by 40%/20%YoY for 2016E/17E.

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

### Wastewater operation capacity to grow by 8%/11%YoY for 2016E/17E.

In 2010-12, BEW recorded a robust capacity growth in its wastewater operation, partially attributable to the low base and limited 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 to see a low-teen capacity growth in the wastewater operation going forward.

### EPC business would undergo strong growth but GPM may fall.

Revenue from the Group's EPC business jumped 58%YoY in 1H16. To raise net profit, we believe BEW would participate in more EPC projects. Segmental revenue would record 59%/43%YoY revenue growth for 2016E/17E. Despite EPC business has a lower GPM than that of operation (23% vs. 50%), the increase in EPC revenue would increase net profit growth.

**Reiterate BUY.** We believe net profit growth in BEW would remain robust over the next few years based on swift expansion in its EPC and water distribution operation segments. Our TP implies 17x 2017E P/E and 2.9x 2017E P/B. Maintain **BUY**.

<b>2016 net profit estimates:</b>	<b>RMB 2,885mn (+31.0%YoY)</b>
<b>Est. announcement date:</b>	<b>March 30, 2017</b>

### 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
Adj. 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)	26.35	21.66	16.53	13.42	11.13
P/B (x)	3.00	2.95	2.60	2.25	1.98
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
Yield (%)	1.44	1.74	1.82	2.24	2.69
<b>Net gearing (%)</b>	<b>92.3</b>	<b>131.0</b>	<b>170.7</b>	<b>180.6</b>	<b>207.3</b>

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Feb 27, 2017

Rating: **BUY**

TP: **HK\$ 7.00**

Analyst : **Kelvin Ng**

Tel: **(852) 2147 8869**

kelvinng@abci.com.hk

Share price (HK\$)	5.68
Est. share price return	23.2%
Est. dividend yield	1.8%
Est. total return	25.0%
Previous Rating & TP	BUY
Previous Report Date	Nov 1, 2016

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	6.1/4.0
Issued shares (mn)	8,723
Market cap (HK\$ mn)	49,642
3-mth avg daily turnover(HK\$ mn)	97
Major shareholder(s)	
Beijing Enterprises	43.9%

Source(s): Company, ABCI Securities

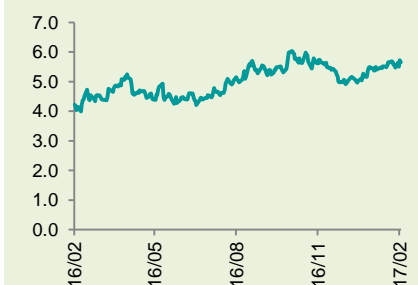
### Share Performance

	Absolute	Relative*
1-mth	5.58	1.60
3-mth	0.35	(5.11)
6-mth	13.69	9.08

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

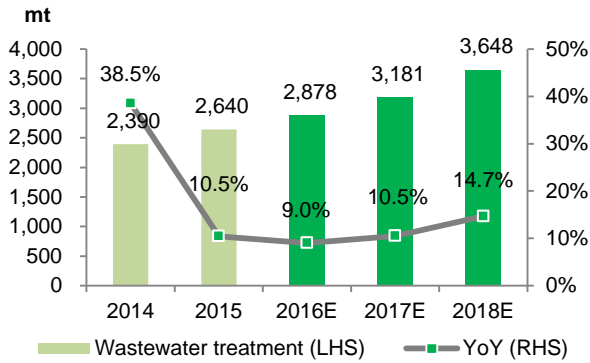
### 1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

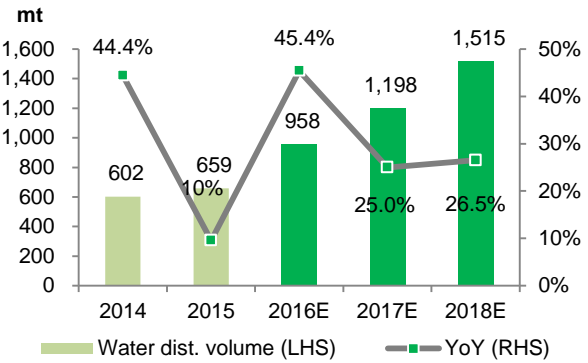
**Risk factors.** (1) Slower-than-expected capacity growth; (2) Default risk; (3) Policy risks; (4) High net gearing ratio; (5) Negative operating cashflow; (6) Margin decline..

**Exhibit 1: BEW would record a solid wastewater treated volume growth for 2016E**



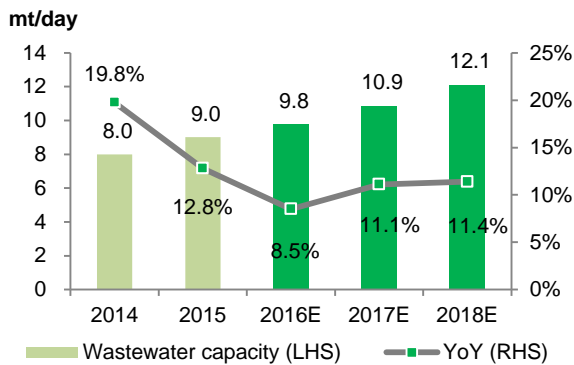
Source(s): Company, ABCI Securities estimates

**Exhibit 2: BEW's water distribution volume would grow significantly starting from 2016**



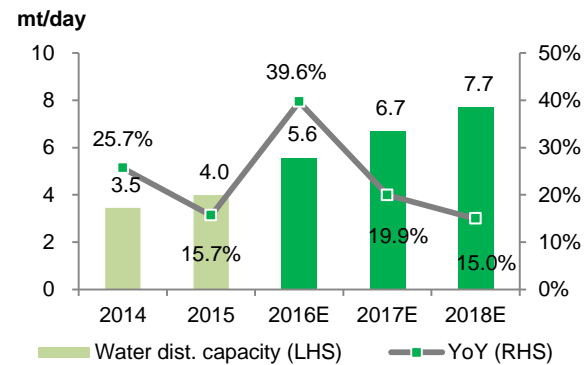
Source(s): Company, ABCI Securities estimates

**Exhibit 3: Capacity growth in BEW's wastewater operation would remain solid in the next few years**



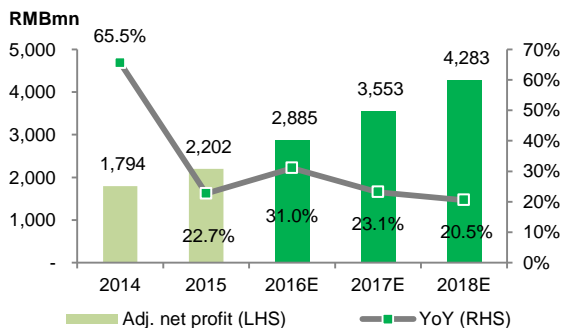
Source(s): Company, ABCI Securities estimates

**Exhibit 4: Strong capacity growth in BEW's water distribution operation**



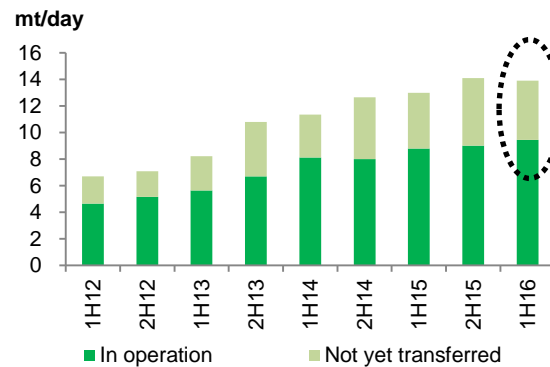
Source(s): Company, ABCI Securities estimates

**Exhibit 5: BEW's adj. net profit would rise at an impressive rate**



Source(s): Company, ABCI Securities estimates

**Exhibit 6: BEW's wastewater capacity still has much room to grow due to numerous projects in the pipeline**



Source(s): Company, ABCI Securities estimates



**Consolidated income statement (2014A-2018E)**

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

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (2014A-2018E)**

<b>As of Dec 31 (HK\$ mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Current assets</b>	<b>15,078</b>	<b>18,153</b>	<b>19,689</b>	<b>26,998</b>	<b>30,688</b>
Cash	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
<b>Non-current assets</b>	<b>36,563</b>	<b>46,339</b>	<b>58,532</b>	<b>71,220</b>	<b>88,062</b>
Property, plant & 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
Other receivables and deposits	20,293	23,253	28,106	37,721	47,880
Other non-current assets	9,364	14,235	19,422	20,458	25,052
<b>Total Assets</b>	<b>51,641</b>	<b>64,492</b>	<b>78,220</b>	<b>98,219</b>	<b>118,750</b>
<b>Current Liabilities</b>	<b>11,419</b>	<b>17,773</b>	<b>25,863</b>	<b>34,743</b>	<b>43,278</b>
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 assets	0	63	0	0	0
<b>Non-current liabilities</b>	<b>21,133</b>	<b>26,428</b>	<b>29,594</b>	<b>37,431</b>	<b>46,054</b>
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 assets	3,182	3,881	0	0	0
<b>Total Liabilities</b>	<b>32,552</b>	<b>44,201</b>	<b>55,457</b>	<b>72,174</b>	<b>89,331</b>
Minority interests	3,304	4,107	4,427	4,822	5,298
<b>Shareholders' equities</b>	<b>15,784</b>	<b>16,184</b>	<b>18,336</b>	<b>21,223</b>	<b>24,121</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2014A-2018E)**

FY ended Dec 31 (HK\$ mn)	2014A	2015A	2016E	2017E	2018E
<b>Profit before tax</b>	<b>2,667</b>	<b>3,546</b>	<b>4,110</b>	<b>5,061</b>	<b>6,101</b>
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
<b>Operating cash flow</b>	<b>264</b>	<b>-2,627</b>	<b>-4,910</b>	<b>-1,944</b>	<b>-5,749</b>
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
<b>Investing cash flow</b>	<b>-1,734</b>	<b>-3,755</b>	<b>-2,602</b>	<b>-2,437</b>	<b>-2,483</b>
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
<b>Financing cash flow</b>	<b>2,196</b>	<b>7,073</b>	<b>11,145</b>	<b>9,869</b>	<b>9,189</b>
<b>Net change in cash</b>	<b>726</b>	<b>691</b>	<b>3,633</b>	<b>5,488</b>	<b>956</b>
Cash at the beginning	5,366	6,091	6,374	9,691	14,863
Adjustment (Time deposit & FX effect)	-1	-408	-316	-316	-316
<b>Cash at the end</b>	<b>6,091</b>	<b>6,374</b>	<b>9,691</b>	<b>14,863</b>	<b>15,504</b>

Source(s): Company, ABCI Securities estimates

**Key ratio (2014A-2018E)**

FY ended Dec 31 (HK\$ mn)	2014A	2015A	2016E	2017E	2018E
<b>Sales mixed (%)</b>					
EPC	51.34	61.70	71.45	75.51	76.75
Operation income	45.51	32.56	23.74	20.39	19.65
Other	3.15	5.75	4.81	4.10	3.60
<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	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
<b>Growth (%)</b>					
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
<b>Balance sheet ratios</b>					
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
<b>Returns (%)</b>					
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



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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**