



China Everbright Int'l (257 HK) 2016 results preview

- China Everbright Int'l should see a 20%YoY net profit growth for 2016E
- We estimate its waste-to-energy operation capacity to have expanded by 25%YoY in 2016E
- Key assets in wealthy coastal regions, as one of CEI's major competitive advantages, should also imply lower default risk
- Reiterate **BUY** with TP of HK\$13.00, which implies 19x 2017E P/E and 2.6x 2017E P/B

We expect CEI's 2016E net profit to expand by 20%YoY. Based on our estimates, China Everbright Int'l (CEI) would benefit from a 28%YoY revenue growth in waste-to-energy operation and 130%YoY revenue growth in wastewater EPC business. Hence, the Group's 2016E net profit would increase by 20% YoY.

Waste-to-energy operation remains the key focus. China is likely to continue promote incineration as a key method of urban solid waste treatment. Based on the "13th FYP for environmental protection" announced in 2016, incineration ratio of urban solid waste in China would increase from 34% by end-2015 to 50% by end-2020. Together with the population growth, incineration volume of solid waste would increase by 12% CAGR during 2015-20E. This presents a great opportunity for CEI and its waste-to-energy operation. Capacity growth in CEI's waste-to-energy operation is likely to expand by 25%YoY for 2016E.

Projects in prime locations suggest a lower 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 are relatively lower, reducing the chances of disruption in cash flow. We view these favorable project locations as one of CEI's competitive advantages

Reiterate BUY. CEI's waste-to-energy assets in coastal wealthy regions should help reduce default risk. Solid capacity growth, together with leading position in China's incineration industry, should enable the Group to benefit immensely from government's effort to popularize incineration as a key solid waste treatment method. Our TP at HK\$13.00 implies 19x 2017E P/E and 2.6x 2017E P/B, which are undemanding in our view. Reiterate **BUY**.

2016 net profit estimates:	RMB 2,501mn (+19.9% YoY)
Announcement date:	Feb 28, 2017

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)	24.64	20.13	16.78	13.75	11.62
P/B (x)	2.58	2.44	2.13	1.89	1.83
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
Yield (%)	1.18	1.98	1.79	2.18	2.58
Net gearing (%)	24.5	53.2	64.2	72.7	83.0

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 27, 2017

Rating: **BUY**

TP: HK\$ 13.00

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Share price (HK\$)	9.89
Est. share price return	31.5%
Est. dividend yield	1.7%
Est. total return	33.1%
Previous Rating & TP	BUY
Previous Report Date	Nov 1, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	11.1/7.6
Issued shares (mn)	4,484
Market cap (HK\$ mn)	44,334
3-mth avg daily turnover(HK\$ mn)	85
Major shareholder(s) (%)	
China Everbright Hld	41.4%

Source(s): Company, ABCI Securities

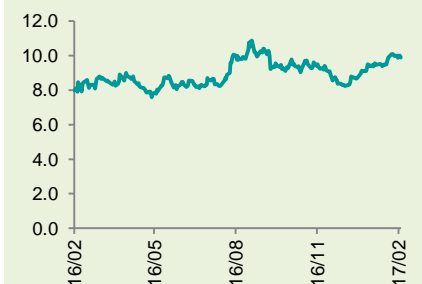
Share Performance

	Absolute	Relative*
1-mth	4.11	0.13
3-mth	7.15	1.68
6-mth	0.69	(3.92)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

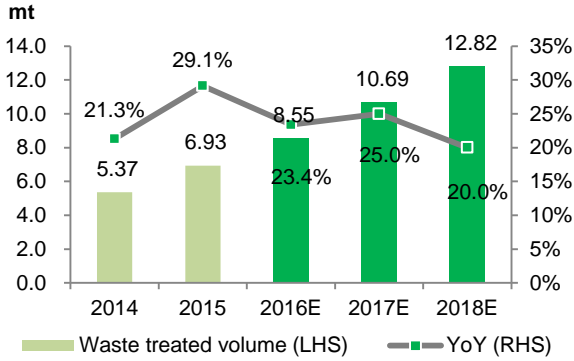
1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

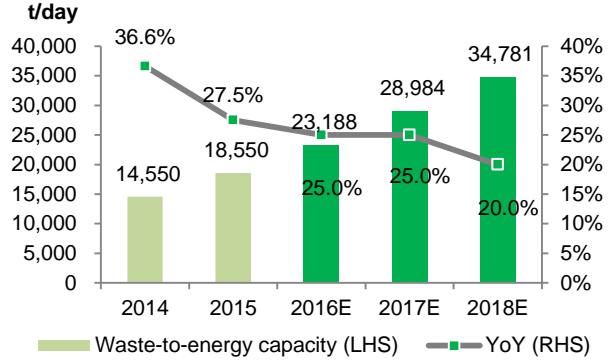
Risk factors. (1) Slower-than-expected capacity growth; (2) Default risk; (3) Surge in maintenance costs; (4) Policy risks; (5) Public resistance to incineration construction..

Exhibit 1: CEI's waste treatment volume would record robust growth in 2016E



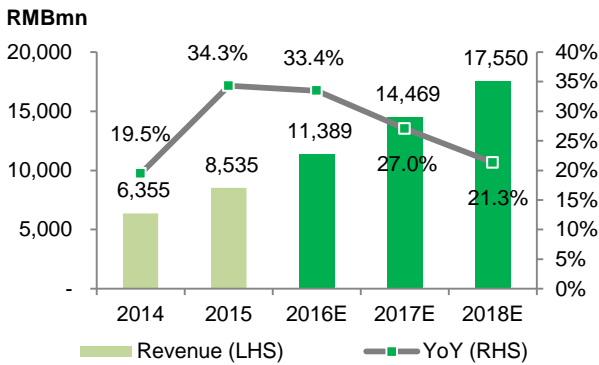
Source(s): Company, ABCI Securities estimates

Exhibit 2: Capacity growth in CEI's waste-to-energy operation would remain solid in the next few years



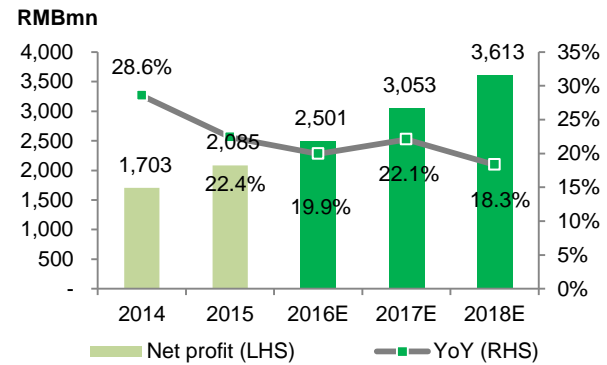
Source(s): Company, ABCI Securities estimates

Exhibit 3: CEI's revenue growth to remain robust in the upcoming years



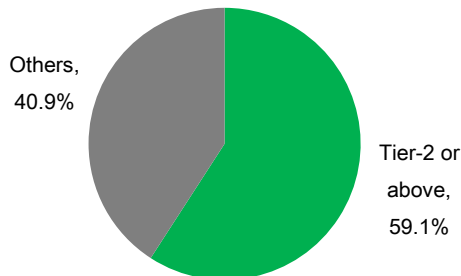
Source(s): Company, ABCI Securities estimates

Exhibit 4: CEI's net profit growth outlook



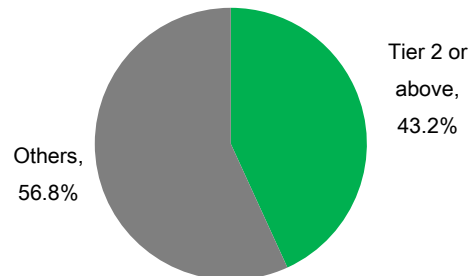
Source(s): Company, ABCI Securities estimates

Exhibit 5: About 60% of CEI's waste-to-energy capacity is located in prime location (as of 1H16)



Source(s): Company, ABCI Securities estimates

Exhibit 6: More than 40% of CEI's wastewater capacity is located in prime location (as of 1H16)



Source(s): Company, 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
Cost of sales	-3,387	-4,626	-6,710	-8,710	-10,631
Gross Profit	2,969	3,909	4,679	5,759	6,919
SG&A expenses	-540	-768	-854	-1,085	-1,316
Net financial income (cost)	-318	-400	-645	-813	-1,051
Other income/ (expenses)	188	378	444	564	684
Profit before tax	2,299	3,119	3,624	4,425	5,236
Tax	-534	-783	-906	-1,106	-1,309
Net profit	1,765	2,336	2,718	3,318	3,927
Profit attributable to:					
Minority interest	-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	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 & 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
Other receivables and deposits	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 assets	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 assets	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
Operating cash flow	-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
Investing cash flow	-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
Financing cash flow	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

Disclosures

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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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