

China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Mar 2018

China Everbright Water (CEWL SP) : BUY

Mkt. Cap: US\$892m | **3m Avg. Daily Val:** US\$0.18m

Last Traded Price (28 Feb 2018): S\$0.450

Price Target 12-mth: S\$0.65 (44% upside)

Analyst

Patricia YEUNG +852 28638908; patricia_yeung@db.com

Strong balance sheet to support growth

- **FY17 results ahead of our expectation due to strong construction revenue**
- **Construction works of three sizeable water environmental projects to support FY18 growth**
- **Solid balance sheet allows more project wins in the PPP market**
- **Maintain BUY with TP of S\$0.65**

Forecasts and Valuation

FY Dec (HK\$ m)	2016A	2017A	2018F	2019F
Turnover	2,494	3,592	4,401	5,091
EBITDA	836	1,169	1,324	1,522
Pre-tax Profit	537	845	904	994
Net Profit	349	513	568	628
Net Pft (Pre Ex) (core profit)	349	513	568	628
Net Profit Gth (Pre-ex) (%)	(14.0)	47.0	10.6	10.6
EPS (HK\$)	0.14	0.20	0.22	0.24
EPS (\$)	0.02	0.03	0.04	0.04
EPS Gth (%)	(16.8)	44.3	11.0	10.6
Diluted EPS (\$)	0.02	0.03	0.04	0.04
DPS (\$)	0.00	0.00	0.00	0.00
BV Per Share (\$)	0.44	0.51	0.54	0.58
PE (X)	19.6	13.6	12.2	11.1
P/Cash Flow (X)	338.5	nm	nm	nm
P/Free CF (X)	683.8	nm	nm	nm
EV/EBITDA (X)	12.2	9.8	10.9	10.9
Net Div Yield (%)	0.1	0.2	0.2	0.2
P/Book Value (X)	1.0	0.9	0.8	0.8
Net Debt/Equity (X)	0.4	0.4	0.7	0.9
ROAE (%)	5.1	7.0	7.0	7.2

Earnings Rev (%): 5 7
 Consensus EPS (HK\$) 0.24 0.25
 Other Broker Recs: B: 5 S: 0 H: 0

Source: Company, DBS Vickers, Thomson Reuters

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

China Everbright Water (CEW) reported 47% growth in FY17 earnings to HK\$513m which is 7% and 2% above our and consensus estimates respectively. The major discrepancy is the higher-than-expected construction revenue which jumped 87% (vs our projected 71%). Net debt-to-equity ratio only climbed 4ppts to 45%, lower than expected. Although trade receivables increased >37%, it was mainly due to VAT refund. Collection of water tariff was progressing well. In some cases, collection was >100%, implying collection of overdue amounts. Final DPS of 0.49 Scts was declared, translating into a stable payout ratio of c.15%.

Three major water environmental projects with total investment of Rmb5.5bn have already commenced construction. Coupled with various upgrading works with total investment of Rmb541m, these will drive construction revenue to grow >30% in FY18.

Although treatment volume climbed only 3% in FY17, we expect stronger growth of 5% in FY18 following the completion of upgrade/expansion of 14 projects in FY17. Coupled with tariff hike, we estimate operating revenue to climb 8% in FY18.

Management has a target of achieving 10m tons of daily treatment capacity by 2020, up from 5m tons currently. We reckon this is a tough target to achieve. However, we believe CEW has a good chance of extending its market presence in the large scale water environmental projects. Despite the recent new policies in tightening regulatory environment in the financial industry, CEW has made

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improvement in financing channels and issued corporate bonds. In addition, it has a very solid balance sheet for further expansion, compared with its peers which usually have very high net debt-equity ratio of >70%. Management also reckoned that the government's latest policies on the PPP market should allow capable operators, including CEW, to win more projects. In fact, CEW has also enhanced its competitive edges by improving its technical capability and

partnering with an environmental protection company in Germany.

We have fine-tuned our earnings estimates. TP remains unchanged at S\$0.65. Maintain BUY.

Income Statement (HK\$ m)

FY Dec	2016A	2017A	% chg	yoy
Revenue	2,494	3,592		44.0
Cost of Goods Sold	(1,588)	(2,361)		48.6
Gross Profit	906	1,231		35.9
Other Opng (Exp)/Inc	(171)	(157)		(7.9)
Operating Profit	735	1,073		46.0
Other Non Opg (Exp)/Inc	0	0		nm
Associates & JV Inc	0	0		nm
Net Interest (Exp)/Inc	(198)	(229)		(15.8)
Exceptional Gain/(Loss)	0	0		nm
Pre-tax Profit	537	845		57.2
Tax	(165)	(264)		60.0
Minority Interest	(23)	(67)		(190.5)
Net Profit	349	513		47.0
Net Profit before Except.	349	513		47.0
EBITDA	836	1,169		39.7
Margins & Ratio				
Gross Margins (%)	36.3	34.3		
Opg Profit Margin (%)	29.5	29.9		
Net Profit Margin (%)	14.0	14.3		

Source: Company, DBS Vickers

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Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Mar 17	0.47	0.64	BUY
2:	03 Apr 17	0.51	0.64	BUY
3:	12 May 17	0.48	0.64	BUY
4:	08 Aug 17	0.49	0.65	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBSVHK

Analyst: Patricia YEUNG

DBSVHK recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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DBS Vickers (Hong Kong) Limited18th Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2820-4888, Fax: (852) 2868-1523

Company Regn. No. 31758

DBS Regional Research Offices

HONG KONG**DBS Vickers (Hong Kong) Ltd****Contact: Carol Wu**

18th Floor Man Yee Building

68 Des Voeux Road Central

Central, Hong Kong

Tel: 852 2820 4888

Fax: 852 2863 1523

e-mail: dbsvhk@db.com

Participant of the Stock Exchange of Hong Kong Ltd

MALAYSIA**AllianceDBS Research Sdn Bhd****Contact: Wong Ming Tek (128540 U)**

19th Floor, Menara Multi-Purpose,

Capital Square,

8 Jalan Munshi Abdullah 50100

Kuala Lumpur, Malaysia.

Tel.: 603 2604 3333

Fax: 603 2604 3921

e-mail: general@alliancedbs.com

SINGAPORE**DBS Bank Ltd****Contact: Janice Chua**

12 Marina Boulevard,

Marina Bay Financial Centre Tower 3

Singapore 018982

Tel: 65 6878 8888

Fax: 65 65353 418

e-mail: equityresearch@db.com

Company Regn. No. 196800306E

INDONESIA**PT DBS Vickers Sekuritas (Indonesia)****Contact: Maynard Priajaya Arif**

DBS Bank Tower

Ciputra World 1, 32/F

Jl. Prof. Dr. Satrio Kav. 3-5

Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: research@id.db.vickers.com

THAILAND**DBS Vickers Securities (Thailand) Co Ltd****Contact: Chanpen Sirithanarattanukul**

989 Siam Piwat Tower Building,

9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.db.com

Company Regn. No 0105539127012

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