

China / Hong Kong Company Guide

China Everbright Intl

Version 7 | Bloomberg: 257 HK EQUITY | Reuters: 0257.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Mar 2017

BUY

Last Traded Price (28 Feb 2017): HK\$10.06 (HSI : 23,741)
Price Target 12-mth: HK\$12.80 (27% upside) (Prev HK\$11.50)
Potential Catalyst: New project wins, spin-off of Greentech operation
Where we differ: We use adjusted PE (stripping out construction revenue) to derive TP

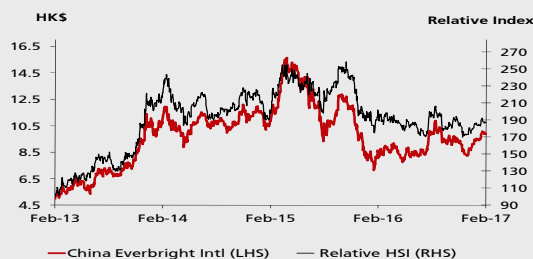
Analyst

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What's New

- **FY16 results were 8% above our and market estimates on stronger construction earnings**
- **Record high project wins, order backlog and capex in FY16**
- **Expect capex to increase in FY17 to drive growth**
- **TP raised to HK\$12.80; maintain BUY**

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2015A	2016A	2017F	2018F
Turnover	8,528	13,971	17,989	21,138
EBITDA	3,702	5,005	6,310	7,730
Pre-tax Profit	3,119	4,099	5,232	6,387
Net Profit	2,085	2,785	3,618	4,438
Net Pft (Pre Ex)	2,085	2,785	3,618	4,438
Net Profit Gth (Pre-ex) (%)	22.4	33.6	29.9	22.7
EPS (HK\$)	0.46	0.62	0.81	0.99
EPS Gth (%)	22.4	33.6	29.9	22.7
Diluted EPS (HK\$)	0.46	0.62	0.81	0.99
DPS (HK\$)	0.19	0.21	0.32	0.40
BV Per Share (HK\$)	3.84	3.88	4.43	5.07
PE (X)	21.6	16.2	12.5	10.2
P/Cash Flow (X)	nm	nm	nm	nm
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	15.4	12.6	11.3	10.5
Net Div Yield (%)	1.8	2.0	3.2	3.9
P/Book Value (X)	2.6	2.6	2.3	2.0
Net Debt/Equity (X)	0.5	0.8	1.0	1.3
ROAE (%)	12.1	16.1	19.4	20.9
Earnings Rev (%)			11	7
Consensus EPS (HK\$)			0.73	0.86
Other Broker Recs:		B: 21	S: 0	H: 3

Source of all data on this page: Company, DBSV, Thomson Reuters, HKEX

Good visibility from record high orderbook

Strong growth momentum continues. We maintain our BUY rating on China Everbright International (CEI). We are optimistic that CEI can sustain its robust earnings growth of 20-30% in FY17/18, on the back of strong project pipeline and rising capex.

FY16 results above expectations. FY16 net profit increased 34% to HK\$2.78bn, c.8% above our and market expectations. Stripping out the disposal gain in FY15, the growth was even stronger at 40%. The major variance was stronger revenue growth of 64%, underpinned by robust growth of 83% from construction revenue (compared with our estimate of only 48%). CEI also recorded strong growth in operating data, including 29%, 88%, 28% and 40% growth in volume of treated household waste, hazardous waste, waste water and amount of on-grid electricity respectively. In addition, CEI posted record high project wins (Rmb14.1bn, up 40%), order backlog (Rmb27.5bn, up 42%) and capex (Rmb7bn, up 27%) in 2016. Although net debt-equity ratio climbed to >70%, CEI has tightened collection from debtors and improved account receivables days. Final DPS of HK\$0.13 was declared with full year payout ratio lowered from 39% to 33%.

Robust order backlog to support strong growth in capex. Given the record high order backlog, we expect capex will continue to increase, leading to 33% growth in construction revenue in FY17. There are 16 waste-to-energy projects, 4 water projects and 8 greentech projects with an aggregate investment of at least Rmb10bn to be commissioned in FY17. Coupled with the full-year impact from newly completed projects in FY16, we estimate operating revenue to increase 30-40% for waste-to-energy and greentech operations in FY17. In addition, we expect profitability and project efficiency to continue to improve, as CEI is strengthening its technology-related R&D and innovation. In fact, the uptrend in ROE (from 15.5% in FY12 to 16.1% in FY16) and the rising percentage of on-grid electricity (from 84% in FY12 to 92% in FY16) are positive results of its leading technologies and integrated services. Nevertheless, we estimate these developments will push its net debt-equity ratio to as high as >100% in FY17. The ratio could be lowered if the spin-off plan of Greentech operations materialises this year.

Valuation:

We have revised up FY17/18F earnings by 7-11% to reflect the strong growth in construction revenue. Our new TP of HK\$12.80 is based on target valuation of China Everbright Water (CEWL SP, S\$0.64 TP), 23x and 18x 12-month rolling adjusted PE for waste-to-energy and greentech operations respectively, where earnings from construction revenue are excluded.

Key Risks to Our View:

Slower-than-expected construction progress, fewer-than-expected project wins and reduction in feed-in-tariff will lead to lower earnings growth.

At A Glance

Issued Capital (m shrs)	4,483
Mkt. Cap (HK\$m/US\$m)	45,096 / 5,810
Major Shareholders	
China Everbright Hldgs (%)	41.4
RRJ Capital Master Fund II, L.P. (%)	7.9
Free Float (%)	50.8
3m Avg. Daily Val. (US\$m)	10.9
ICB Industry : Industrials / Support Services	

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

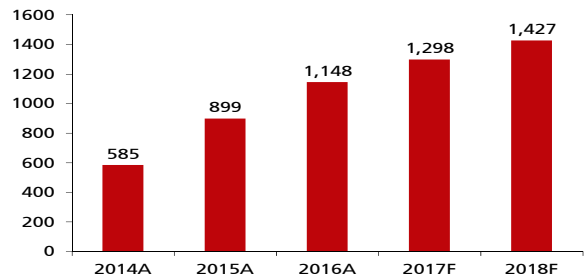
Strong deal flow. CEI secured 44 projects in FY16 with total investment of >Rmb14bn. Combined with those projects under the preparatory stage, we estimate CEI currently has an order backlog of >Rmb27bn and it can enjoy earnings visibility for at least the next 18 months. With 39 projects at total investment of >Rmb14bn, we expect CEI’s capex for FY17 will exceed FY16’s Rmb7bn.

Growing operating capacity. CEI’s operating capacity is also growing, following the subsequent completion of construction of new projects. We project volume of treated waste and amount of green electricity generated to register a CAGR of 36% and 40% respectively during FY16 to FY18. Following CEW’s successful M&A of Dalian Dongda Water, we expect volume of treated sewage to post a CAGR of 11% during the period.

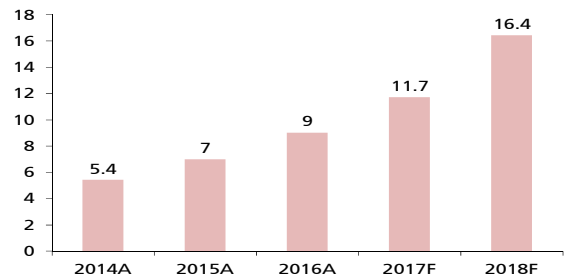
Spin-off of Greentech operation. Following the spin-off of its water business, CEI is in the process to spin-off its Greentech operation in Hong Kong. A separate listing platform will help to accelerate its development. It will focus on urban-rural integrated projects and hazardous waste treatment projects.

Set up of Envirotech. During 1HFY16, CEI made several acquisitions, including Jiangsu Design & Research Institute, Nanjing Science and Technology Building. It also established cooperation with Zhejiang University and set up the Environmental Energy Research Center. These new initiatives will lay a solid foundation for CEI’s technology platform to cover the entire WTE value chain and import new technologies and materials. Not only can CEI’s cost advantages be strengthened, it also helps CEI to explore more business opportunities in the overseas markets, including environmental services and equipment. In fact, CEI recently extended into the WTE sector in Poland and Vietnam.

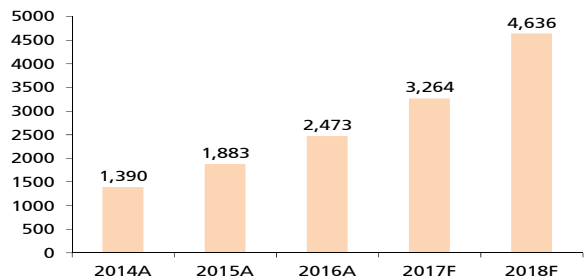
Volume of treated sewage (m tons)



Volume of waste processed ('000 tons)



Amount of uploaded electricity (m kWh)



Source: Company, DBS Vickers

Balance Sheet:

Healthy gearing ratio. Following its heavy cash outflow for construction of projects, CEI's net debt-equity ratio climbed to >70% at end FY16. With strong support from international financial institutions (such as Asian Development Bank, The World Bank and China Development Bank) and HK\$6.3bn cash on hand, there is plenty of room for expansion in FY17 and FY18. As CEI will spend >HK\$7bn for construction, we estimate net debt-equity ratio to climb to >100% which could be lowered if the spin-off of its Greentech operation materialises.

Share Price Drivers:

Strong deal flow

Stronger than expected deal flow will provide upside to earnings growth and share price.

Supportive government policy

The release of The Water Ten Plan in April 2015 triggered the environmental services sector to rally on higher than expected investments. Additional favorable government policy such as detailed targets for the 13th Five Year Plan can stimulate the share price.

Spin-off of Greentech operations

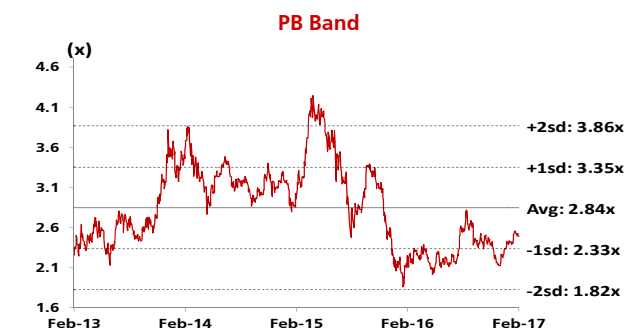
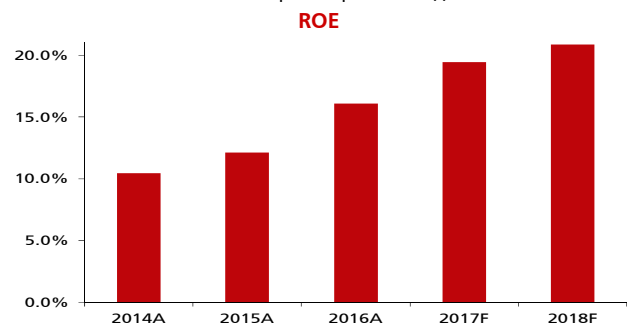
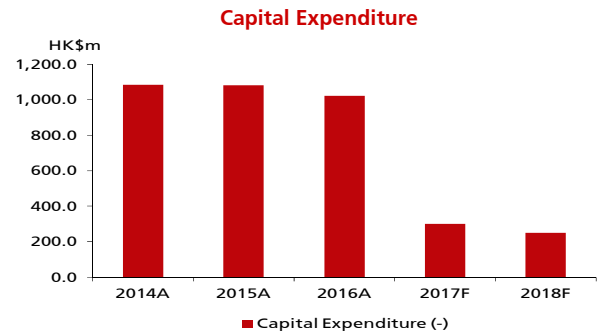
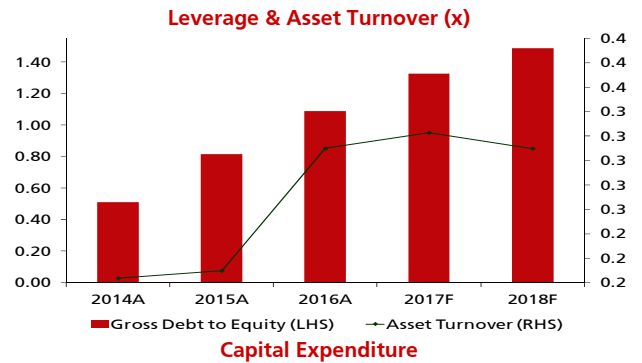
Greentech operations focuses on biomass power, hazardous waste treatment, solar and wind power operations. With a separate listing platform, the development of Greentech's operations can accelerate.

Key Risks:

Slower –than-expected progress in construction, fewer-than-expected project wins and reduction of FIT will lead to lower earnings growth.

Company Background:

China Everbright International is a comprehensive environmental service provider in China. It services include waste water treatment, waste-to-energy, photovoltaic and biomass power generation.



Source: Company, DBS Vickers

China Everbright Intl

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Volume of treated sewage (m tons)	584.8	899.2	1,148.3	1,297.6	1,427.3
Volume of waste processed ('000 tons)	5.4	7.0	9.0	11.7	16.4
Amount of uploaded electricity (m KWH)	1,389.8	1,883.2	2,473.1	3,264.5	4,635.6

Source: Company, DBS Vickers

Segmental Breakdown (HK\$ m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (HK\$ m)					
Environmental Energy	4,202	5,401	7,905	10,537	12,667
Environmental Water	1,051	1,815	2,494	2,994	3,522
Greentech	1,094	1,178	3,026	3,803	4,162
Others	8	135	546	655	786
Total	6,355	8,528	13,971	17,989	21,138
Segmental profit (HK\$ m)					
Environmental Energy	2,033	2,670	3,300	2,918	3,650
Environmental Water	571	796	844	976	1,160
Greentech	378	437	1,020	855	1,125
Others	0	N/A	N/A	0	0
Total	2,987	3,903	5,164	4,749	5,935
Segmental profit Margins (%)					
Environmental Energy	48.4	49.4	41.7	27.7	28.8
Environmental Water	54.3	43.9	33.8	32.6	32.9
Greentech	34.6	37.1	33.7	22.5	27.0
Others	0.0	0.0	0.0	0.0	0.0
Total	47.0	45.8	37.0	26.4	28.1

Source: Company, DBS Vickers

Income Statement (HK\$ m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	6,355	8,528	13,971	17,989	21,138
Cost of Goods Sold	(3,387)	(4,626)	(8,662)	(11,024)	(12,715)
Gross Profit	2,969	3,903	5,310	6,966	8,422
Other Opng (Exp)/Inc	(351)	(378)	(681)	(1,068)	(1,141)
Operating Profit	2,618	3,524	4,629	5,897	7,281
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(1)	(6)	63	75	83
Net Interest (Exp)/Inc	(318)	(400)	(593)	(740)	(978)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,299	3,119	4,099	5,232	6,387
Tax	(534)	(783)	(1,062)	(1,360)	(1,661)
Minority Interest	(62)	(251)	(252)	(254)	(288)
Preference Dividend	0	0	0	0	0
Net Profit	1,703	2,085	2,785	3,618	4,438
Net Profit before Except.	1,703	2,085	2,785	3,618	4,438
EBITDA	2,733	3,702	5,005	6,310	7,730
Growth					
Revenue Gth (%)	19.5	34.2	63.8	28.8	17.5
EBITDA Gth (%)	24.8	35.5	35.2	26.1	22.5
Opg Profit Gth (%)	24.7	34.6	31.3	27.4	23.5
Net Profit Gth (%)	28.6	22.4	33.6	29.9	22.7
Margins & Ratio					
Gross Margins (%)	46.7	45.8	38.0	38.7	39.8
Opg Profit Margin (%)	41.2	41.3	33.1	32.8	34.4
Net Profit Margin (%)	26.8	24.4	19.9	20.1	21.0
ROAE (%)	10.5	12.1	16.1	19.4	20.9
ROA (%)	5.5	5.1	6.2	6.5	6.5
ROCE (%)	7.0	7.0	8.3	8.7	8.8
Div Payout Ratio (%)	29.0	39.8	33.0	40.0	40.0
Net Interest Cover (x)	8.2	8.8	7.8	8.0	7.4

Source: Company, DBS Vickers

Interim Income Statement (HK\$ m)

FY Dec	2H2014	1H2015	2H2015	1H2016	2H2016
Revenue	3,411	3,769	4,765	5,421	8,551
Cost of Goods Sold	(1,794)	(1,972)	(2,654)	(3,168)	(5,494)
Gross Profit	1,617	1,797	2,111	2,253	3,057
Other Oper. (Exp)/Inc	(187)	(104)	(229)	(208)	(347)
Operating Profit	1,430	1,694	1,883	2,045	2,710
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(1)	0	(6)	24	39
Net Interest (Exp)/Inc	(210)	(224)	(228)	(300)	(339)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,219	1,470	1,649	1,769	2,410
Tax	(291)	(367)	(417)	(471)	(592)
Minority Interest	(27)	(103)	(148)	(89)	(163)
Net Profit	901	1,000	1,085	1,209	1,655
Net profit bef Except.	901	1,000	1,085	1,209	1,655

Growth

Revenue Gth (%)	19.6	28.0	39.7	43.8	79.4
Opg Profit Gth (%)	30.8	35.5	31.6	20.7	44.0
Net Profit Gth (%)	33.6	24.7	20.4	20.9	52.6

Margins

Gross Margins (%)	47.4	47.7	44.3	41.6	35.7
Opg Profit Margins (%)	41.9	44.9	39.5	37.7	31.7
Net Profit Margins (%)	26.4	26.5	22.8	22.3	19.4

Source: Company, DBS Vickers

Balance Sheet (HK\$ m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	1,720	2,667	3,339	3,451	3,485
Invt in Associates & JVs	282	449	573	649	732
Other LT Assets	20,712	26,019	33,313	44,981	57,600
Cash & ST Invt	4,094	5,954	6,341	6,296	5,284
Inventory	118	202	362	360	423
Debtors	3,220	4,612	4,908	5,645	6,367
Other Current Assets	1,056	720	697	540	634
Total Assets	31,200	40,623	49,532	61,921	74,525
ST Debt	2,611	3,410	4,412	4,462	4,496
Creditors	2,318	2,838	4,898	6,306	7,410
Other Current Liab	68	119	98	98	98
LT Debt	6,525	12,411	17,204	25,424	33,743
Other LT Liabilities	1,834	2,425	3,076	3,076	3,076
Shareholder's Equity	16,263	17,196	17,389	19,846	22,705
Minority Interests	1,580	2,224	2,456	2,710	2,998
Total Cap. & Liab.	31,200	40,623	49,532	61,921	74,525
Non-Cash Wkg. Capital	2,007	2,577	971	140	(83)
Net Cash/(Debt)	(5,042)	(9,867)	(15,275)	(23,590)	(32,955)
Debtors Turn (avg days)	184.9	197.4	124.4	107.1	103.7
Creditors Turn (avg days)	258.7	233.2	169.1	191.3	202.7
Inventory Turn (avg days)	13.1	16.6	12.3	12.3	11.6
Asset Turnover (x)	0.2	0.2	0.3	0.3	0.3
Current Ratio (x)	1.7	1.8	1.3	1.2	1.1
Quick Ratio (x)	1.5	1.7	1.2	1.1	1.0
Net Debt/Equity (X)	0.3	0.5	0.8	1.0	1.3
Net Debt/Equity ex MI (X)	0.3	0.6	0.9	1.2	1.5
Capex to Debt (%)	11.9	6.8	4.7	1.0	0.7
Z-Score (X)	2.9	2.2	2.0	1.8	1.6

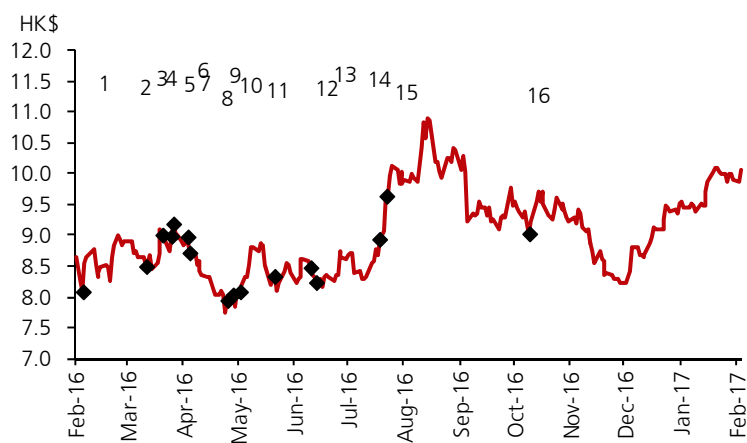
Source: Company, DBS Vickers

Cash Flow Statement (HK\$ m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	2,299	3,119	4,099	5,232	6,387
Dep. & Amort.	116	184	313	337	366
Tax Paid	(173)	(217)	(282)	(1,360)	(1,661)
Assoc. & JV Inc/(loss)	1	6	(63)	(75)	(83)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(2,676)	(4,839)	(2,886)	(10,987)	(12,545)
Other Operating CF	312	210	(2,481)	740	978
Net Operating CF	(123)	(1,538)	(1,300)	(6,113)	(6,558)
Capital Exp.(net)	(1,086)	(1,082)	(1,022)	(300)	(250)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(28)	(186)	(186)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	675	(1,408)	1	0	0
Net Investing CF	(439)	(2,676)	(1,207)	(300)	(250)
Div Paid	(448)	(560)	(874)	(1,162)	(1,578)
Chg in Gross Debt	1,187	6,793	5,795	8,271	8,353
Capital Issues	0	0	0	0	0
Other Financing CF	(456)	(29)	(1,897)	(740)	(978)
Net Financing CF	283	6,204	3,024	6,369	5,796
Currency Adjustments	(53)	(130)	(130)	0	0
Chg in Cash	(332)	1,859	387	(44)	(1,012)
Opg CFPS (HK\$)	0.57	0.74	0.35	1.09	1.34
Free CFPS (HK\$)	(0.27)	(0.58)	(0.52)	(1.43)	(1.52)

Source: Company, DBS Vickers

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-16	HK\$8.27	HK\$9.80	Buy
2:	5-Apr-16	HK\$8.64	HK\$9.80	Buy
3:	14-Apr-16	HK\$9.09	HK\$9.80	Buy
4:	19-Apr-16	HK\$8.73	HK\$10.20	Buy
5:	20-Apr-16	HK\$8.99	HK\$10.20	Buy
6:	28-Apr-16	HK\$8.88	HK\$10.20	Buy
7:	29-Apr-16	HK\$8.98	HK\$10.20	Buy
8:	20-May-16	HK\$7.76	HK\$10.20	Buy
9:	23-May-16	HK\$7.95	HK\$10.20	Buy
10:	27-May-16	HK\$7.99	HK\$10.20	Buy
11:	15-Jun-16	HK\$8.29	HK\$10.20	Buy
12:	5-Jul-16	HK\$8.59	HK\$10.20	Buy
13:	8-Jul-16	HK\$8.33	HK\$10.20	Buy
14:	12-Aug-16	HK\$8.69	HK\$10.20	Buy
15:	16-Aug-16	HK\$9.05	HK\$10.30	Buy
16:	3-Nov-16	HK\$9.18	HK\$11.50	Buy

Source: DBS Vickers

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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Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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