

China Everbright Water Limited

Ongoing turnaround



StocksBnB.com

SINGAPORE | UTILITIES | 2Q17 RESULTS

- Revenue and net profit were in line with our expectations.
- CEWL currently operates 66 water project with another 8 more in the pipeline.
- We revised up our FY17 EPS forecast from 3.4 SG cents to 3.6 SG cents since CEWL is expected to commence more projects. We upgrade our call from ACCUMULATE to BUY with a higher TP of S\$0.61 (previous S\$0.57), based on a higher average 12-month forward PER of 17.1x (previous 16.7x), implying a potential return of 25.8% from the closing price.

Results at a glance

(HK\$ mn)	1H17	1H16	YoY (%)	Comments
Revenue	1,642.8	1,325.7	23.9	Construction of the sponge city construction project and the river-basin ecological restoration project in addition to the expansion and upgrading of several waste water treatment plants
Gross profit	554.3	464.0	19.5	Increase in construction services where margin is lower than the operation services
EBIT	499.4	383.6	30.2	FX losses in 1H16 due to borrowings pegged to USD, and the borrowings were fully paid by Jul-16
PATMI	255.0	180.6	41.2	Higher borrowing costs by lower tax expenses

Source: Company, PSR

The Positives

+ Expanding designed waste water treatment (WWT) capacity with water tariff hike: There were seven projects which commenced operation in 1H17. It increased daily designed WWT capacity to c.5.0mn m³. The increment was due mainly to upgrading and expansion of some existing projects. There were 5 projects which received tariff hike ranging from 19% to 86%. Besides, upon the completion of another four upgrading projects, the percentage of projects complying with national 1GA discharge standard will rise from current 78% to 88% moving forward. The water tariffs for 1GA standard average from Rmb1.1 to 1.6/tonne (1GB standard: Rmb0.8 to Rmb1.0/tonne).

+ Abundant funding support from various sources: In Jul-17, the Group raised Rmb1bn through the issuance of RMB-denominated corporate bonds ("Panda bonds") with 4.55% coupon and 5 years maturity, of which Rmb600mn of which was to repay existing debts, and the remaining would be funded ongoing upgrading and expansion of projects. The Group's average borrowing rose modestly from 4.04% to 4.2%. Previously, management mentioned it was setting up a water affair fund targeting to raise Rmb10bn to invest in water-related businesses. The process is still ongoing.

The Negatives

- Still facing pressures from collecting receivables: As of Jun-17, financial receivables was HK\$1bn. The 12.5% YoY growth of receivables was due to new projects as well as slow progress in collecting water tariff, especially from Dongda's projects. CEWL has 14 projects in Liaoning Province. The situation could remain challenging as Liaoning economy remained weak (1H17 GDP: -19.6% YoY). Thus, CEWL could continue to face deferred payback of receivables in the near term due to the local weak macro environment.

10 August 2017

Buy (Upgrade)

CLOSING PRICE	SGD 0.485
FORECAST DIV	SGD 0.006
TARGET PRICE	SGD 0.610
TOTAL RETURN	26.9%

COMPANY DATA

O/S SHARES (MN):	2,626
MARKET CAP (USD mn / SGD mn):	936 / 1273
52 - WK HI/LO (SGD):	0.63 / 0.41
3M Average Daily T/O (mn):	0.78

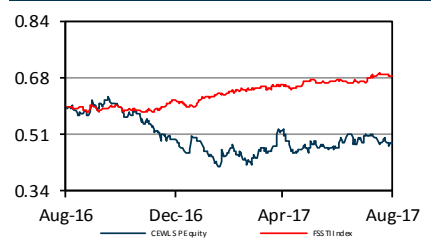
MAJOR SHAREHOLDERS (%)

CHINA EVERBRIGHT WATER HLDS LTD	74.7%
GAM HOLDING AG	0.6%
VANGAURD GROUP	0.4%
NORGES BANK	0.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(2.1)	11	(215)
STIRETURN	3.6	3.9	214

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, HK\$ mn	FY 15	FY 16	FY 17e	FY 18e
Revenue	1815	2,494	3,381	4,361
Gross profit	824	906	1,27	1,430
Net profit	406	349	517	671
P/E (x)	213	20.0	17.1	13.6
P/B (x)	12	13	12	12
EV/EBITDA	15.0	12.3	11.8	9.8
Dividend (SG Cents)	0.4	0.4	0.6	0.7
Dividend Yield, %	0.6%	0.6%	0.6%	0.6%

Source: Company Data, PSR

VALUATION METHOD

P/E Multiple (PER: 17.1x)

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Outlook

We believe CEWL to register a stable growth on the back of water tariff hikes and capacity expansion. CEWL currently operates 66 water project with another 8 more in the pipeline. There are ongoing R&D efforts on WWT new processes such as AAO-MBR (Anaerobic-Anoxic-Oxic-Membrane Bio-Reactor). It is meant to be a more cost effective solution in the future.

Investment Action

We revise up our FY17 EPS forecast from 3.4 SG cents to 3.6 SG cents since CEWL is expected to commence more projects. We upgrade our call from ACCUMULATE to BUY with a higher TP of S\$0.61 (previous S\$0.57), based on a higher average 12-month forward PER of 17.1x (previous 16.7x), implying a potential return of 25.8% from the closing price.

Peer comparison

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	P/E	FRW P/E	P/B	Net D/E (%)	ROA (%)	ROE (%)
China Everbright Water Ltd	CEWL SP	1,273.4	2,062.8	13.7	17.1	13.4	1.0	41.5	2.5	5.1
Singapore										
SIIC Environment Holdings Ltd	SIIC SP	1,225.1	3,639.6	19.9	10.8	10.9	0.8	102.2	2.7	8.2
Hong Kong										
Beijing Enterprises Water Group Ltd	371 HK	9,979.5	16,606.4	15.2	17.7	14.2	3.5	94.3	4.5	19.7
CT Environmental Group Ltd	1363 HK	1,549.1	1,925.8	10.8	14.4	10.9	2.4	55.6	8.4	17.0
China Water Affairs Group Ltd	855 HK	1,178.2	3,000.0	7.2	7.7	7.0	1.2	75.8	3.7	15.7
Average				11.1	13.2	10.7	2.3	75.2	5.5	17.5
China										
Beijing Originwater Technology Co Ltd	300070 CH	11,156.9	11,759.6	25.7	26.3	21.3	3.4	3.7	7.9	14.1
Chongqing Water Group Co Ltd	601158 CH	6,960.6	6,545.0	15.4	26.0	20.5	2.4	Net Cash	6.6	9.5
Tianjin Capital Environmental Protection Group Co Ltd	600874 CH	4,178.8	4,435.0	165.2	53.8	25.7	5.3	24.9	4.5	10.2
Guangxi Nanning Waterworks Co Ltd	601368 CH	1,410.7	1,947.6	18.6	24.0	N/A	2.5	82.5	4.0	10.8
Jiangsu Jiangnan Water Co Ltd	601199 CH	1,246.0	1,104.0	177.7	20.3	24.4	2.4	Net Cash	7.4	13.3
Wuhan Sanzhen Industry Holding Co Ltd	600168 CH	1,285.5	1,693.8	169.9	22.0	32.4	1.4	34.7	3.4	6.5
Heilongjiang Interchina Water Treatment Co Ltd	600187 CH	1,538.5	1,565.3	N/A	307.9	N/A	2.2	38.4	0.5	0.7
Average				95.4	68.6	24.9	2.8	36.8	4.9	9.3
Average (comparable companies, excluding CEWL)				77.1	63.8	17.1	1.7	61.3	4.3	10.2

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, HK\$ mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	1,051	1,815	2,494	3,381	4,361
Cost of sales	(454)	(991)	(1,588)	(2,254)	(2,931)
Gross profit	596	824	906	1,127	1,430
Other income	13	104	128	154	202
Admin & other opt exp	(87)	(214)	(298)	(237)	(312)
Operating profit	523	714	735	1,044	1,320
Finance income	2	10	8	8	9
Finance costs	(92)	(128)	(205)	(222)	(250)
Profit before tax	433	596	537	832	1,081
Income tax	(119)	(172)	(165)	(258)	(335)
Non-controlling interests	21	17	23	57	75
Net profit to shareholders	293	406	349	517	671

Per share data

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS (HK Cents)	11.8	15.8	13.4	19.7	25.6
EPS (SG Cents)	2.0	2.9	2.5	3.6	4.5
DPS (HK Cents)	N/A	1.9	2.0	3.1	4.0
DPS (SG Cents)	N/A	0.35	0.37	0.56	0.70
BVPS (HK\$)	2.5	2.7	2.6	2.8	3.0
BVPS (SG Cents)	43.4	50.2	48.4	50.1	52.8

The HKD/SGD rate is based on Bloomberg forward rate as of 12th May 2017

Cash Flow

Y/E Dec, HK\$ mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Profit before tax	433	596	537	832	1,081
Adjustments	122	166	258	322	363
WC changes	(173)	(635)	(642)	(1,426)	(1,495)
Cash generated from ops	382	128	154	(272)	(51)
Others	(65)	(95)	(134)	(258)	(335)
Cashflow from operations	317	33	20	(530)	(386)
CFI					
CAPEX, net	(3)	(24)	(13)	(10)	(5)
Acquisition of subsidiaries	431	(2,163)	0	0	0
Others	3	10	6	8	9
Cashflow from investments	430	(2,177)	(6)	(2)	4
CFF					
Share issuance, net	0	659	0	0	0
Loans, net of repayments	(149)	2,909	310	723	600
Dividends	0	0	(26)	(12)	(21)
Others	(339)	(614)	(141)	(234)	(271)
Cashflow from financing	(488)	2,954	142	476	308
Net change in cash	259	809	156	(56)	(75)
Effects of exchange rate	(6)	(20)	(85)	-	-
Ending cash	499	1,289	1,359	1,303	1,229

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, HK\$ mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
Cash and cash equivalents	681	1,769	1,847	1,863	1,848
Trade and other receivables	331	642	589	709	822
Financial receivables	667	893	792	855	960
Inventories	29	11	14	20	21
Total current assets	1,709	3,315	3,241	3,447	3,651
PP&E	174	163	148	142	128
Financial receivables	6,219	7,713	8,180	9,730	11,235
Intangible assets	951	1,440	1,259	1,173	1,077
Goodwill	1,044	1,269	1,185	1,185	1,185
Trade and other receivables	16	40	10	49	20
Total non-current assets	8,403	10,624	10,784	12,283	13,649
Total Assets	10,112	13,939	14,025	15,731	17,300
Borrowings	763	2,395	1,521	1,644	1,644
Trade and other payables	600	475	937	1,290	1,592
Other financial liabilities	23	-	-	0	0
Current tax liabilities	20	52	13	24	24
Total current liabilities	1,405	2,922	2,472	2,958	3,260
Borrowings	1,062	2,424	3,366	3,966	4,566
Other payables	264	241	-	-	-
Deferred tax liabilities	829	1,055	1,052	1,123	1,123
Total non-current liabilities	2,155	3,720	4,418	5,089	5,689
Total liabilities	3,560	6,642	6,890	8,047	8,949
Shareholders equity	6,325	7,061	6,758	7,276	7,908
Non-controlling interests	226	236	378	407	443

Valuation Ratios

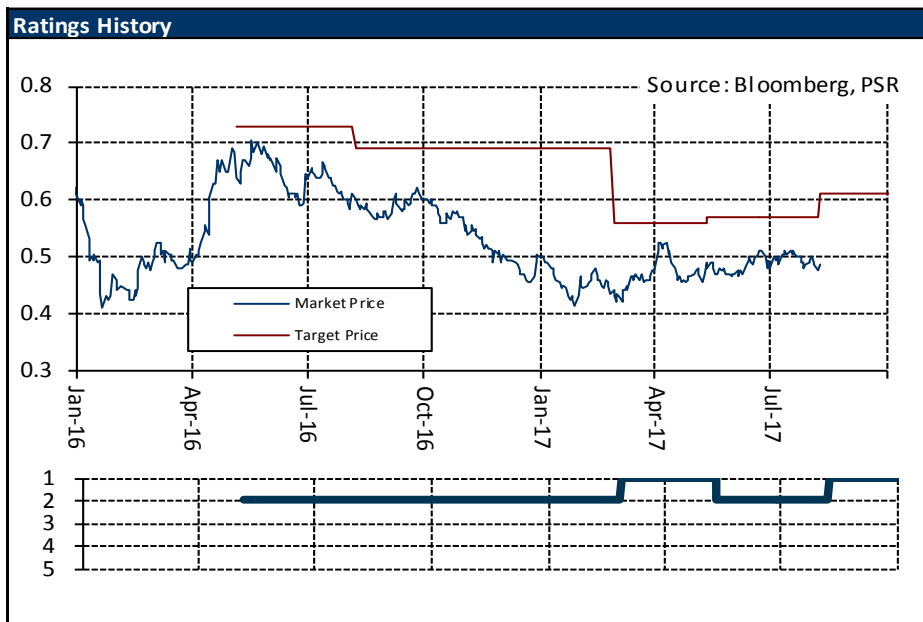
Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E(x)	49.7	21.3	20.0	17.1	13.6
P/B (x)	2.3	1.2	1.3	1.2	1.2
EV/EBITDA (x)	28.7	15.0	12.3	11.8	9.8

Growth & Margins (%)

Growth					
Revenue	-19%	73%	37%	36%	29%
Gross profit	13%	38%	10%	24%	27%
EBIT	10%	37%	3%	42%	26%
NPAT	8%	39%	-14%	48%	30%
Margins					
GPM	56.8%	45.4%	36.3%	33.3%	32.8%
OPM	49.8%	39.4%	29.5%	30.9%	30.3%
NPM	27.9%	22.4%	14.0%	15.3%	15.4%

Key Ratios

ROE (%)	4%	6%	5%	7%	8%
ROA (%)	3%	3%	2%	3%	4%
Dividend Yield (%)	N/A	0.6%	0.7%	1.1%	1.4%
Net Debt or (Net Cash)	1,143	3,049	3,041	3,747	4,362
Gearing (%)	35%	48%	49%	51%	52%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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