

China Everbright Water Limited

Executed as planned



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SINGAPORE | UTILITIES | 3Q17 RESULTS

- 9M17 revenue and net profit were in line with our expectations.
- The 9M17 ramp-up of new daily designed capacity registered at 500k+ tonnes (c.10% of total capacity) and the group level water tariff hiked by 11% YTD.
- We maintain our FY17e and FY18e EPS forecast at 3.4 SG cents and 4.5 SG cents, respectively. We maintain our call BUY with a higher TP of S\$0.59 (previous SG\$0.54), based on a higher average 12-month forward PER of 17.4x (previous 15.9x) – in line with regional peers.

Results at a glance

(HK\$ mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	746.1	553.5	34.8	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 which were under construction
Gross profit	297.2	222.8	33.4	Increase in construction services where margin is lower than the operation services
EBIT	279.5	197.0	41.9	In line with the above
PATMI	122.8	91.1	34.8	Higher borrowing costs and tax expenses

Source: Company, PSR

The Positives

+ Accelerating project acquisitions and construction. In 3Q17, CEWL secured 6 new projects with total investment of Rmb1.8bn+ with a designed daily water treatment capacity of 130k tonnes. The group tapped into the southern part of China for the first time by securing Nanning Shuitang River Integrated Restoration project which is valued at Rmb1.47bn. Among the newly-secured projects, three projects commenced construction immediately within this quarter. The 9M17 ramp-up of daily designed capacity registered arrived at 500k+ tonnes. Along with 7 more projects adjusting water tariff in 3Q17, the group level tariff hiked by 11% YTD.

Outlook

Currently the prevailing public private partnership (PPP) model in utility sector bears some risks in China. Firstly, quite a few projects sealed previously have yet to be implemented. Secondly, some local governments' ability to meet their obligations is weaker due to poorer fiscal conditions.

As of Sep-17, CEWL operates three industrial WWT projects. Though the rate of return is higher than household WWT, they bear higher risks including the technical and the operational. Technically, the composition of industrial waste water is so complicated that requires complex processing techniques. Operationally, industrial waste water discharge volume is subject to sector cyclical development. Hence WWT volume is volatile.

The 19th National Congress of the Communist Party reinforced the establishment of ecological civilisation and environmental protection, which was in accord with the guidelines stated in the 13th Five Year Plan. We believe that the macro conditions in the next five year will continue to favour CEWL. The group expect to achieve the target of 10mn tonnes daily designed capacity within the period of the 13th Five Year Plan. Meanwhile, it will strengthen the technology development and tap into WWT market in rural areas in the foreseeable future.

16 November 2017

Buy (Maintained)

CLOSING PRICE	SGD 0.445
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 0.590
TOTAL RETURN	33.8%

COMPANY DATA

Bloomberg Code	CEWL SP
O/S SHARES (MN):	2,626
MARKET CAP (USD mn / SGD mn):	861 / 168
52 - WK HI/LO (SGD):	0.54 / 0.41
3M Average Daily T/O (mn):	136

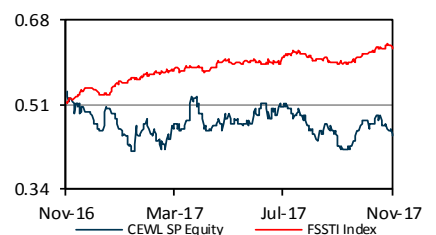
MAJOR SHAREHOLDERS (%)

CHINA EVERBRIGHT WATER HLDS LTD	74.3%
GAM HOLDING AG	0.6%
ARGENTA ASSET MANAGEMENT	0.4%
VANGAURD GROUP	0.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(5.3)	(1)	(14.4)
STIRETURN	2.5	3.1	26.1

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	3,198	4,371
Gross profit	824	906	1,135	1,504
Net profit	406	349	512	684
P/E (x)	213	20.0	17.4	13.0
P/B (x)	12	13	11	10
EV/EBITDA (x)	15.0	12.3	10.9	8.7
Dividend (SG Cents)	0.4	0.4	0.5	0.7
Dividend Yield, %	0.6%	0.6%	0.6%	0.6%

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER: 17.4x)

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Investment Analyst

Investment Action

As of Sep-17, CEWL has 93 projects, of which 77 are under operation, 10 under construction, 5 in preparatory stage, and 1 was completed to be operational soon.

We maintain our FY17e and FY18e EPS forecast at 3.4 SG cents and 4.5 SG cents, respectively. We maintain our call BUY with a higher TP of S\$0.59 (previous SG\$0.54), based on a higher average 12-month forward PER of 17.4x (previous 15.9x) - in line with regional peers, together with forecast 0.5 SG cents dividend, implying a potential return of 33.8%.

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	1,168.4	1,928.2	11.0	14.6	13.3	0.9	41.5	2.9	6.2
Singapore										
SIIC Environment Holdings Ltd	SIIC SP	1,342.4	3,758.2	14.7	11.5	12.3	0.9	102.2	2.7	7.9
Hong Kong										
Beijing Enterprises Water Group Ltd	371 HK	9,666.8	16,952.1	17.1	15.5	13.6	3.0	94.3	4.7	20.9
CT Environmental Group Ltd	1363 HK	1,483.6	1,958.6	10.0	13.6	11.7	2.1	55.6	8.2	16.8
China Water Affairs Group Ltd	855 HK	1,682.3	3,504.1	7.2	10.6	9.6	1.6	75.8	3.7	15.7
Average				11.5	13.3	11.6	2.2	75.2	5.6	17.8
China										
Beijing Originwater Technology Co Ltd	300070 CH	11,475.9	12,435.5	25.7	26.2	21.8	3.4	3.7	7.3	14.0
Chongqing Water Group Co Ltd	601158 CH	6,567.2	6,235.3	24.0	24.1	19.5	2.4	Net Cash	6.6	9.6
Tianjin Capital Environmental Protection Group Co Ltd	600874 CH	3,617.7	3,929.5	6.1	43.7	42.8	4.3	24.9	4.4	10.0
Guangxi Nanning Waterworks Co Ltd	601368 CH	1,582.4	2,143.4	15.5	22.7	N/A	2.7	82.5	4.6	12.4
Jiangsu Jiangnan Water Co Ltd	601199 CH	1,141.6	1,044.0	12.0	21.1	14.5	2.1	Net Cash	6.5	11.4
Wuhan Sanzhen Industry Holding Co Ltd	600168 CH	1,299.3	1,830.7	16.9	20.3	38.9	1.3	34.7	3.4	6.7
Average				16.7	26.3	27.5	2.7	36.4	5.5	10.7
Average (comparable companies, excluding CEWL)				12.7	16.6	17.4	1.8	70.1	4.9	11.8

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, HK\$ mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	1,051	1,815	2,494	3,198	4,371
Cost of sales	(454)	(991)	(1,588)	(2,063)	(2,868)
Gross profit	596	824	906	1,135	1,504
Other income	13	104	128	152	206
Admin & other opt exp	(87)	(214)	(298)	(220)	(310)
Operating profit	523	714	735	1,067	1,400
Finance income	2	10	8	11	12
Finance costs	(92)	(128)	(205)	(244)	(298)
Profit before tax	433	596	537	830	1,111
Income tax	(119)	(172)	(165)	(249)	(333)
Non-controlling interests	21	17	23	70	93
Net profit to shareholders	293	406	349	512	684

Per share data

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
EPS (HK Cents)	11.8	15.8	13.4	19.5	26.1
EPS (SG Cents)	2.0	2.9	2.5	3.4	4.5
DPS (HK Cents)	N/A	1.9	2.0	3.1	4.2
DPS (SG Cents)	N/A	0.35	0.37	0.54	0.73
BVPS (HK\$)	2.5	2.7	2.6	3.0	3.4
BVPS (SG Cents)	43.4	50.2	48.4	52.3	59.6

The HKD/SGD rate is based on Bloomberg forward rate as of 15th Nov 2017

Cash Flow

Y/E Dec, HK\$ mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Profit before tax	433	596	537	830	1,111
Adjustments	122	166	258	344	400
WC changes	(173)	(635)	(642)	(1,482)	(1,261)
Cash generated from ops	382	128	154	(308)	251
Others	(65)	(95)	(134)	(249)	(333)
Cashflow from operations	317	33	20	(557)	(83)
CFI					
CAPEX, net	(3)	(24)	(13)	(11)	(12)
Acquisition of subsidiaries	431	(2,163)	0	0	0
Others	3	10	6	11	12
Cashflow from investments	430	(2,177)	(6)	(0)	0
CFF					
Share issuance, net	0	659	0	0	0
Loans, net of repayments	(149)	2,909	310	1,766	800
Dividends	0	0	(26)	(12)	(21)
Others	(339)	(614)	(141)	(334)	(320)
Cashflow from financing	(488)	2,954	142	1,420	459
Net change in cash	259	809	156	863	376
Effects of exchange rate	(6)	(20)	(85)	-	-
Ending cash	499	1,289	1,359	2,222	2,599

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	2,886	3,342
Trade and other receivables	331	642	589	899	877
Financial receivables	667	893	792	1,101	1,502
Inventories	29	11	14	20	21
Total current assets	1,709	3,315	3,241	4,907	5,742
PP&E	174	163	148	143	136
Financial receivables	6,219	7,713	8,180	9,956	11,520
Intangible assets	951	1,440	1,259	1,330	1,450
Goodwill	1,044	1,269	1,185	1,245	1,307
Trade and other receivables	16	40	10	13	13
Total non-current assets	8,403	10,624	10,784	12,686	14,426
Total Assets	10,112	13,939	14,025	17,592	20,168
LIABILITIES					
Borrowings	763	2,395	1,521	1,488	1,488
Trade and other payables	600	475	937	1,234	1,584
Other financial liabilities	23	-	-	0	0
Current tax liabilities	20	52	13	24	24
Total current liabilities	1,405	2,922	2,472	2,746	3,095
Borrowings	1,062	2,424	3,366	5,166	5,966
Other payables	264	241	-	-	-
Deferred tax liabilities	829	1,055	1,052	1,209	1,451
Total non-current liabilities	2,155	3,720	4,418	6,375	7,417
Total liabilities	3,560	6,642	6,890	9,121	10,512
Shareholders equity	6,325	7,061	6,758	7,878	8,980
Non-controlling interests	226	236	378	593	676

Valuation Ratios

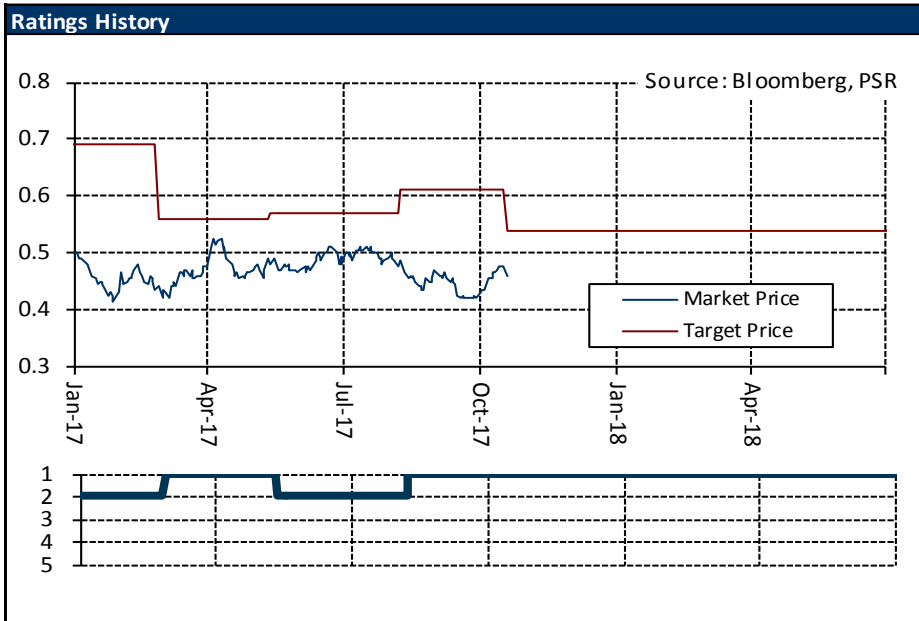
Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E(x)	49.7	21.3	20.0	17.4	13.0
P/B(x)	2.3	1.2	1.3	1.1	1.0
EV/EBITDA(x)	28.7	15.0	12.3	10.9	8.7

Growth & Margins (%)

	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	-19%	73%	37%	28%	37%
Gross profit	13%	38%	10%	25%	32%
EBIT	10%	37%	3%	45%	31%
NPAT	8%	39%	-14%	46%	34%
Margins					
GPM	56.8%	45.4%	36.3%	35.5%	34.4%
OPM	49.8%	39.4%	29.5%	33.4%	32.0%
NPM	27.9%	22.4%	14.0%	16.0%	15.7%

Key Ratios

	FY14	FY15	FY16	FY17e	FY18e
ROE (%)	4%	6%	5%	6%	7%
ROA (%)	3%	3%	2%	3%	3%
Dividend Yield (%)	N/A	0.6%	0.7%	1.1%	1.5%
Net Debt or (Net Cash)	1,143	3,049	3,041	3,768	4,112
Gearing (%)	35%	48%	49%	52%	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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