

# China Everbright Water Limited

Improving operation and strategy



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## SINGAPORE | UTILITIES | 4Q17 RESULTS

- FY17 revenue exceeded our forecast by 12% while PATMI is in line with the estimation, due to lower gross margin from some projects booked in 4Q17.
- As of Dec-17, CEWL managed 94 projects, out of which 77 were under operation, 11 were under construction, 5 were in the preparatory stage, and 1 was completed.
- The FY17 daily designed capacity registered arrived at 5.34mn m<sup>3</sup> (+35.5% YoY) and the average group level water tariff was RMB1.36/tonne (+10% YoY).
- We revise upward our FY18e EPS forecast to 4.8 SG cents (previous 4.5 SG cents) due to the expectation of improvement of profitability and speedy ramp-up of new capacity. We maintain our call BUY with a higher TP of S\$0.6 (previous S\$0.59), based on a lower average 12-month forward PER of 12.5x (previous 17.4x).

### Results at a glance

| (HK\$ mn)    | 4Q17  | 4Q16 | YoY (%) | FY17  | FY16  | YoY (%) | Comments   |
|--------------|-------|------|---------|-------|-------|---------|--|
| Revenue      | 1,203 | 615  | 95.6    | 3,592 | 2,494 | 44.0    | 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 | 379   | 219  | 73.2    | 1,231 | 906   | 35.9    | Increase in construction services where margin is lower than the operation services  |
| EBIT         | 294   | 155  | 90.6    | 1,073 | 735   | 46.0    | In line with the above   |
| PATMI        | 136   | 78   | 74.7    | 513   | 349   | 46.9    | In line with the above   |

Source: Company, PSR

### Positives

**+ Improvement in operation and synergy:** As of Dec-17, there were 11 projects under construction and 14 projects completed construction. CEWL had managed 94 projects in total with daily designed waste water treatment capacity amounted to 5.34mn m<sup>3</sup>. 8 projects hiked water tariff ranging from 8% to 86%. This resulted in the group average water tariff to grow to RMB1.36/tonne (+10% YoY). Though it took a longer time to create synergies between Dongda, projects under Dongda have now seen their receivables collection rate exceeded 100% in FY17, implying the group managed to collect old receivables in arrears. Meanwhile, the group also collected all deferred repayment of projects under HanKore.

**+ Taking action on the new strategy (management + technology):** In FY17, CEWL was granted 21 patents in FY17, exceeding the total sum applications filed in preciously years. With these, the group achieved some technological breakthroughs and accomplishments in areas such as biological deodorisation, low-temporary sludge drying and biological aerated filter, etc. In Jan-18, CEWL formed a JV with a Germany-based environmental protection company, aiming to apply advanced water treatment technologies into China market. CEWL is transforming from a pure project operator to an integrated water treatment solution provider and manager.

### Negatives

**- The attempt to establish an industrial water fund encountered headwinds:** In Nov-17, China's central bank published sweeping guidelines to tighten regulations on asset management business, aiming to deleverage the industry. Previously, CEWL attempted to establish a water affair-related fund by issuing asset-based securities. This has been put on hold. However, the group will still actively seeks other channels to strengthen the funding position.

2 March 2018

### BUY (Maintained)

|               |           |
|---------------|-----------|
| CLOSING PRICE | SGD 0.450 |
| FORECAST DIV  | SGD 0.007 |
| TARGET PRICE  | SGD 0.600 |
| TOTAL RETURN  | 34.9%     |

### COMPANY DATA

|                                |             |
|--------------------------------|-------------|
| Bloomberg Code                 | CEWL SP     |
| O/S SHARES (MN) :              | 2,626       |
| MARKET CAP (USD mn / SGD mn) : | 901/ 195    |
| 52 - WK HI/LO (SGD) :          | 0.54 / 0.41 |
| 3M Average Daily T/O (mn) :    | 0.56        |

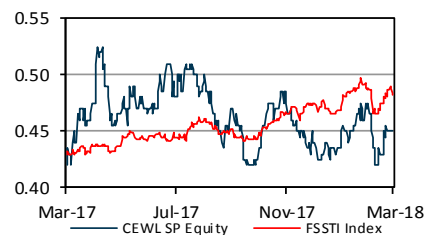
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

|           | 1M TH | 3M TH | 1YR  |
|-----------|-------|-------|------|
| COMPANY   | (4.3) | 0.0   | 5.5  |
| STIRETURN | (0.4) | 2.8   | 17.2 |

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

| Y/E Dec, HK\$ mn    | FY 16 | FY 17 | FY 18 e | FY 19 e |
|---------------------|-------|-------|---------|---------|
| Revenue             | 2,494 | 3,592 | 4,748   | 6,430   |
| Gross profit        | 906   | 1,231 | 1,623   | 2,254   |
| Net profit          | 349   | 513   | 744     | 1,072   |
| P/E (x)             | 24.6  | 15.0  | 12.3    | 8.5     |
| P/B (x)             | 13    | 13    | 0.9     | 0.8     |
| EV/EBITDA (x)       | 14.6  | 9.5   | 9.1     | 7.3     |
| Dividend (SG Cents) | 0.1   | 0.1   | 0.1     | 0.1     |
| Dividend Yield, %   | 0.2%  | 0.2%  | 0.2%    | 0.2%    |

Source: Company, PSR

### VALUATION METHOD

P/E Multiple (PER: 12.5x)

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## Outlook

The target to ramp up daily designed capacity to 10mn m<sup>3</sup> by 2020 is still on track. Management is confident to achieve it in 3 years throughout both new projects and acquisitions. As of Dec-17, 22% of total capacity below G1A standard will be upgraded and will receive tariff hikes in the future. In 2018, we still see favourable support for PPP model from central government and the shift from quantity-oriented to quality-oriented in the market. Thus, market conditions will favour CEWL moving forward.

## Maintain BUY with a slight higher TP of S\$0.6

We revise upward our FY18e EPS forecast to 4.8 SG cents (previous 4.5 SG cents) due to the expectation of improvement of profitability and speedy ramp-up of capacity. We maintain our call BUY with a higher TP of S\$0.6 (previous SG\$0.59), based on a lower average 12-month forward PER of 12.5x (previous 17.4x).

## 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          | 1,181.5          | 1,941.3     | 11.0          | 13.5        | 11.1        | 0.9        | 41.5        | 2.9        | 6.2         |
| <b>Singapore</b>                                      |                  |                  |             |               |             |             |            |             |            |             |
| SIIC Environment Holdings Ltd                         | SIIC SP          | 1,316.3          | 3,732.1     | 14.7          | 11.2        | 10.6        | 0.9        | 102.2       | 2.7        | 7.9         |
| <b>Hong Kong</b>                                      |                  |                  |             |               |             |             |            |             |            |             |
| Beijing Enterprises Water Group Ltd                   | 371 HK           | 7,982.3          | 15,267.6    | 17.1          | 12.5        | 11.0        | 2.4        | 94.3        | 4.7        | 20.9        |
| CT Environmental Group Ltd                            | 1363 HK          | 1,486.5          | 1,961.5     | 10.0          | 13.4        | 13.1        | 2.0        | 55.6        | 8.2        | 16.8        |
| China Water Affairs Group Ltd                         | 855 HK           | 1,893.0          | 3,913.0     | 7.9           | 11.0        | 10.8        | 1.8        | 75.8        | 3.9        | 16.5        |
| <b>Average</b>  |                  |                  |             | <b>11.7</b>   | <b>12.3</b> | <b>11.7</b> | <b>2.1</b> | <b>75.2</b> | <b>5.6</b> | <b>18.1</b> |
| <b>China</b>  |                  |                  |             |               |             |             |            |             |            |             |
| Beijing Originwater Technology Co Ltd                 | 300070 CH        | 10,852.2         | 11,810.1    | 23.2          | 24.3        | 20.5        | 3.2        | 3.7         | 7.3        | 14.0        |
| Chongqing Water Group Co Ltd                          | 601158 CH        | 6,460.5          | 6,127.6     | 24.2          | 23.2        | 18.2        | 2.3        | Net Cash    | 6.6        | 9.6         |
| Tianjin Capital Environmental Protection Group Co Ltd | 600874 CH        | 2,956.8          | 3,268.0     | 30.5          | 34.6        | 33.9        | 3.4        | 24.9        | 4.4        | 10.0        |
| Guangxi Nanning Waterworks Co Ltd                     | 601368 CH        | 1,244.1          | 1,804.9     | 16.0          | 16.2        | 15.9        | 2.0        | 82.5        | 4.7        | 12.8        |
| Jiangsu Jiangnan Water Co Ltd                         | 601199 CH        | 994.9            | 897.1       | 14.2          | 18.0        | 12.6        | 1.8        | Net Cash    | 6.5        | 11.4        |
| Wuhan Sanzhen Industry Holding Co Ltd                 | 600168 CH        | 1,156.7          | 1,792.3     | 28.1          | 16.8        | 12.0        | 1.2        | 57.4        | 3.4        | 7.0         |
| <b>Average</b>  |                  |                  |             | <b>22.7</b>   | <b>22.2</b> | <b>18.9</b> | <b>2.3</b> | <b>42.1</b> | <b>5.5</b> | <b>10.8</b> |
| <b>Average (comparable companies, excluding CEWL)</b> |                  |                  |             | <b>15.1</b>   | <b>14.4</b> | <b>12.5</b> | <b>1.6</b> | <b>74.7</b> | <b>4.9</b> | <b>12.1</b> |

Source: Bloomberg, FSR

## Financials

### Income Statement

| Y/E Dec, HK\$ mn                  | FY15         | FY16         | FY17         | FY18e        | FY19e        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>                    | <b>1,815</b> | <b>2,494</b> | <b>3,592</b> | <b>4,748</b> | <b>6,430</b> |
| Cost of sales                     | (991)        | (1,588)      | (2,361)      | (3,125)      | (4,177)      |
| <b>Gross profit</b>               | <b>824</b>   | <b>906</b>   | <b>1,231</b> | <b>1,623</b> | <b>2,254</b> |
| Other income                      | 104          | 128          | 130          | 221          | 314          |
| Admin & other opt exp             | (214)        | (298)        | (287)        | (338)        | (462)        |
| <b>Operating profit</b>           | <b>714</b>   | <b>735</b>   | <b>1,073</b> | <b>1,507</b> | <b>2,105</b> |
| Finance income                    | 10           | 8            | 12           | 13           | 15           |
| Finance costs                     | (128)        | (205)        | (241)        | (312)        | (380)        |
| <b>Profit before tax</b>          | <b>596</b>   | <b>537</b>   | <b>845</b>   | <b>1,207</b> | <b>1,740</b> |
| Income tax                        | (172)        | (165)        | (264)        | (362)        | (522)        |
| Non-controlling interests         | 17           | 23           | 67           | 101          | 146          |
| <b>Net profit to shareholders</b> | <b>406</b>   | <b>349</b>   | <b>513</b>   | <b>744</b>   | <b>1,072</b> |

### Per share data

| Y/E Dec         | FY15 | FY16 | FY17 | FY18e | FY19e |
|-----------------|------|------|------|-------|-------|
| EPS (HK Cents)  | 15.8 | 13.4 | 19.6 | 28.4  | 40.9  |
| EPS (SG Cents)  | 2.9  | 2.5  | 3.3  | 4.8   | 6.9   |
| DPS (HK Cents)  | 1.9  | 2.0  | 2.9  | 4.2   | 5.3   |
| DPS (SG Cents)  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1   |
| BVPS (HK\$)     | 2.7  | 2.6  | 3.0  | 3.7   | 4.5   |
| BVPS (SG Cents) | 50.2 | 48.7 | 50.9 | 62.4  | 75.8  |

The HKD/SGD rate is based on Bloomberg forward rate as of 1st Mar 2018

### Cash Flow

| Y/E Dec, HK\$ mn                 | FY15           | FY16         | FY17         | FY18e        | FY19e        |
|----------------------------------|----------------|--------------|--------------|--------------|--------------|
| <b>CFO</b>                       |                |              |              |              |              |
| Profit before tax                | 596            | 537          | 845          | 1,207        | 1,740        |
| Adjustments                      | 166            | 258          | 341          | 414          | 489          |
| WC changes                       | (635)          | (642)        | (1,376)      | (1,818)      | (2,443)      |
| Cash generated from ops          | 128            | 154          | (190)        | (197)        | (214)        |
| Others                           | (95)           | (134)        | (74)         | (362)        | (522)        |
| <b>Cashflow from operations</b>  | <b>33</b>      | <b>20</b>    | <b>(264)</b> | <b>(560)</b> | <b>(736)</b> |
| <b>CFI</b>                       |                |              |              |              |              |
| CAPEX, net                       | (24)           | (13)         | (231)        | (411)        | (313)        |
| Acquisition of subsidiaries      | (2,163)        | -            | -            | -            | -            |
| Others                           | 10             | 6            | (160)        | (387)        | (285)        |
| <b>Cashflow from investments</b> | <b>(2,177)</b> | <b>(6)</b>   | <b>(391)</b> | <b>(798)</b> | <b>(598)</b> |
| <b>CFF</b>                       |                |              |              |              |              |
| Share issuance, net              | 659            | -            | -            | -            | -            |
| Loans, net of repayments         | 2,909          | 310          | 1,512        | 1,500        | 1,700        |
| Dividends                        | -              | (26)         | (12)         | (20)         | (29)         |
| Others                           | (614)          | (141)        | (218)        | (332)        | (409)        |
| <b>Cashflow from financing</b>   | <b>2,954</b>   | <b>142</b>   | <b>1,281</b> | <b>1,148</b> | <b>1,263</b> |
| <b>Net change in cash</b>        | <b>809</b>     | <b>156</b>   | <b>626</b>   | <b>(210)</b> | <b>(72)</b>  |
| Effects of exchange rate         | (20)           | (85)         | 89           | -            | -            |
| <b>Ending cash</b>               | <b>1,289</b>   | <b>1,359</b> | <b>2,074</b> | <b>1,865</b> | <b>1,793</b> |

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

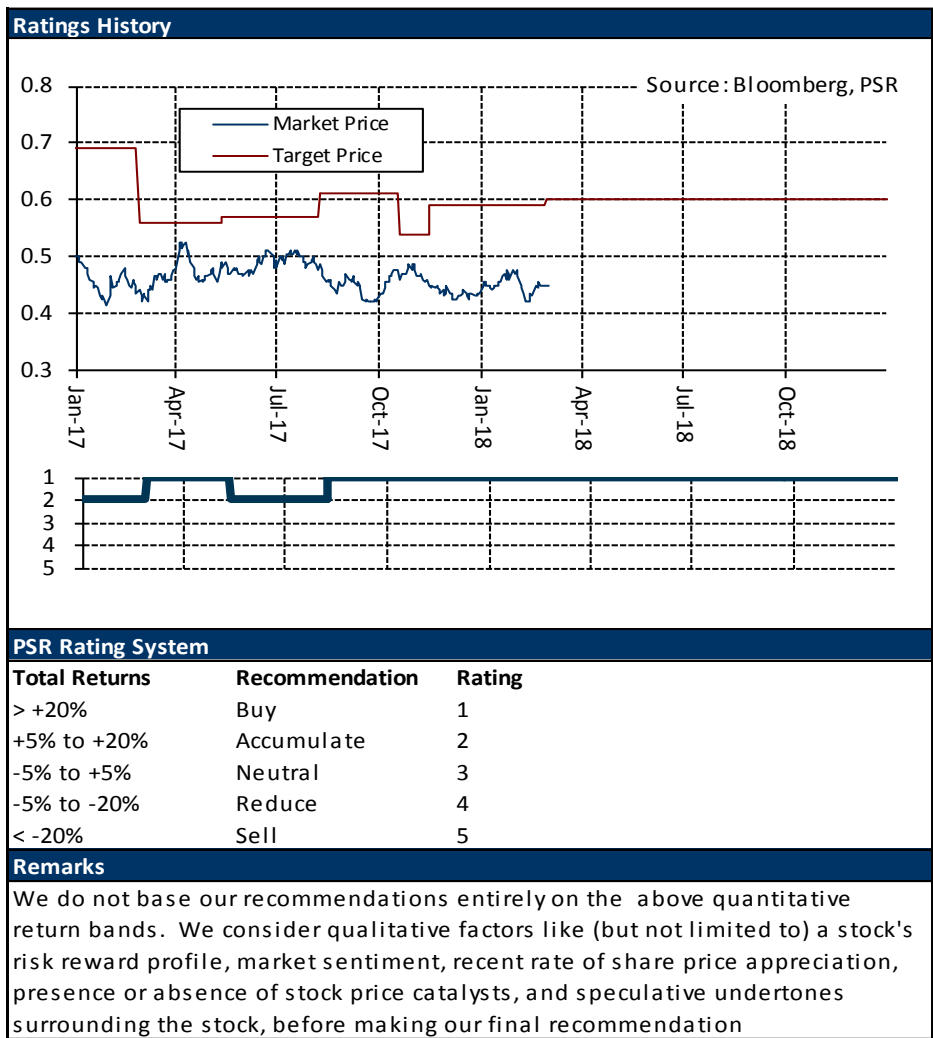
| Y/E Dec, HK\$ mn                     | FY15          | FY16          | FY17          | FY18e         | FY19e         |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>ASSETS</b>                        |               |               |               |               |               |
| Cash and cash equivalents            | 1,769         | 1,903         | 2,717         | 2,676         | 2,773         |
| Trade and other receivables          | 642           | 589           | 806           | 1,199         | 1,269         |
| Financial receivables                | 893           | 792           | 1,201         | 1,546         | 2,036         |
| Inventories                          | 11            | 14            | 14            | 18            | 22            |
| <b>Total current assets</b>          | <b>3,315</b>  | <b>3,297</b>  | <b>4,821</b>  | <b>5,438</b>  | <b>6,101</b>  |
| PP&E                                 | 163           | 148           | 152           | 148           | 145           |
| Financial receivables                | 893           | 792           | 1,201         | 1,546         | 2,036         |
| Intangible assets                    | 1,440         | 1,259         | 1,260         | 1,574         | 1,781         |
| Goodwill                             | 1,269         | 1,185         | 1,490         | 1,788         | 2,235         |
| Interest in an associate             | -             | 1             | 1             | 2             | 2             |
| Trade and other receivables          | 642           | 589           | 806           | 1,199         | 1,269         |
| <b>Total non-current assets</b>      | <b>10,624</b> | <b>10,784</b> | <b>13,227</b> | <b>16,349</b> | <b>20,162</b> |
| <b>Total Assets</b>                  | <b>13,939</b> | <b>14,081</b> | <b>18,048</b> | <b>21,787</b> | <b>26,263</b> |
| <b>LIABILITIES</b>                   |               |               |               |               |               |
| Borrowings                           | 2,395         | 1,521         | 1,904         | 1,904         | 1,904         |
| Trade and other payables             | 475           | 937           | 1,554         | 1,848         | 2,255         |
| Other financial liabilities          | -             | -             | -             | -             | -             |
| Current tax liabilities              | 52            | 13            | 50            | 50            | 50            |
| <b>Total current liabilities</b>     | <b>2,922</b>  | <b>2,472</b>  | <b>3,507</b>  | <b>3,801</b>  | <b>4,209</b>  |
| Borrowings                           | 2,424         | 3,366         | 4,728         | 6,228         | 7,928         |
| Other payables                       | 241           | -             | -             | -             | -             |
| Deferred tax liabilities             | 1,055         | 1,052         | 1,271         | 1,398         | 1,538         |
| <b>Total non-current liabilities</b> | <b>3,720</b>  | <b>4,418</b>  | <b>5,999</b>  | <b>7,626</b>  | <b>9,466</b>  |
| <b>Total liabilities</b>             | <b>6,642</b>  | <b>6,890</b>  | <b>9,506</b>  | <b>11,427</b> | <b>13,674</b> |
| <b>Shareholders equity</b>           | <b>7,061</b>  | <b>6,798</b>  | <b>7,857</b>  | <b>9,634</b>  | <b>11,707</b> |
| Non-controlling interests            | 236           | 394           | 685           | 725           | 881           |

### Valuation Ratios

| Y/E Dec       | FY15 | FY16 | FY17 | FY18e | FY19e |
|---------------|------|------|------|-------|-------|
| P/E(x)        | 21.0 | 20.0 | 13.1 | 9.3   | 6.5   |
| P/B (x)       | 1.2  | 1.0  | 0.9  | 0.7   | 0.6   |
| EV/EBITDA (x) | 16.0 | 12.6 | 9.5  | 7.6   | 6.4   |

### Growth & Margins (%)

| <b>Growth</b>          |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|
| Revenue                | -19%  | 37%   | 44%   | 32%   | 35%   |
| Gross profit           | 13%   | 10%   | 36%   | 32%   | 39%   |
| EBIT                   | 10%   | 3%    | 46%   | 40%   | 40%   |
| NPAT                   | 8%    | -14%  | 47%   | 45%   | 44%   |
| <b>Margins</b>         |       |       |       |       |       |
| GPM                    | 45.4% | 36.3% | 34.3% | 34.2% | 35.0% |
| OPM                    | 39.4% | 29.5% | 29.9% | 31.7% | 32.7% |
| NPM                    | 22.4% | 14.0% | 14.3% | 15.7% | 16.7% |
| <b>Key Ratios</b>      |       |       |       |       |       |
| ROE (%)                | 6%    | 5%    | 6%    | 7%    | 9%    |
| ROA (%)                | 3%    | 2%    | 3%    | 3%    | 4%    |
| Dividend Yield (%)     | N/A   | 0.2%  | 0.3%  | 0.3%  | 0.3%  |
| Net Debt or (Net Cash) | 3,049 | 2,985 | 3,915 | 5,456 | 7,058 |
| Gearing (%)            | 48%   | 49%   | 53%   | 52%   | 52%   |



|  |  |  |
|--|--|--|
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