

# China Everbright Water Limited

Long-term beneficiary of PPP reform



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## SINGAPORE | UTILITIES | 1Q18 RESULTS

11 May 2018

- Both revenue and PATMI are in line with expectations.
- As at Mar-18, CEWL has a portfolio of 95 projects, 77 are operating, 12 under construction and 6 in preparatory stage.
- Ongoing organic growth through tariff hikes and better receivable collections. However, Zhenjiang Sponge City project facing some delays.
- The clean-up of the PPP project initiated by the government had limited impact on CEWL.
- We maintain FY18e EPS at 4.8 SG cents and our BUY recommendation. We have lowered our target price to S\$0.55 (previously SG\$0.60), due to lower peers' valuations of 11.4x (previously 12.5x).

### Results at a glance

(HK\$ mn)	1Q18	1Q17	YoY (%)	Comments
Revenue	1,041	774	34.5	Increase in construction revenue from several water environment management projects; Hikes for several projects and one-off income of HK\$55.06mn arising from retrospective tariff adjustment in relation to a waste water treatment project
Gross profit	362	260	39.2	Smaller portion of construction revenue recognition where margin is lower than the operation services
EBIT	338	242	39.8	In line with the above
PATMI	178	114	55.6	In line with the above

Source: Company, PSR

### The Positives

**+ Organic growth and better cash collection.** In 1Q18, there were two projects where each secured tariff hikes of 13%. Meanwhile, the Qingdao WWT project received a one-off HK\$55.1mn retrospective tariff adjustment for the past 7 years. This was after local government finances improved. It is expected the full year GPM will be maintained at 1Q18's level which is 35%.

### The Negatives

**- Zhenjiang Sponge City project behind schedule.** The project was scheduled to complete by the end of 2017, but it is postponed for one more year. This is their maiden project with integrated infrastructure such as pipeline networks, river restoration and reparation, and rainwater reusable systems. The learning curve was steeper than expected. Currently, the group is rectifying the issues. Meanwhile, the process of inspection and approval from the authorities will take some time.

### Outlook

In Nov-17, the Ministry of Finance (MOF) issued the "Notice Concerning Standardisation of Public-Private Partnership Integrated Information Platform Project Library Management" which mandated a "clean-up" of the PPP project library by local governments by the end of March 2018. As of Mar-18, MOF's PPP Center indicated that the Integrated Information Platform showed removal of 1,160 projects from the library, for a reduction in the total investment of RMB1.2tn.

## BUY (Maintained)

CLOSING PRICE	SGD 0.430
FORECAST DIV	SGD 0.007
TARGET PRICE	SGD 0.550
TOTAL RETURN	29.5%

### COMPANY DATA

Bloomberg Code	CEWL SP
O/S SHARES (MN)	2,626
MARKET CAP (USD mn / SGD mn)	846 / 129
52 - WK HI/LO (SGD)	0.52 / 0.39
3M Average Daily T/O (mn)	0.40

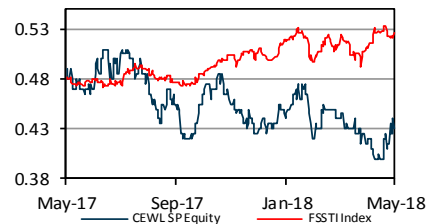
### MAJOR SHAREHOLDERS (%)

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	7.3	6.0	(5.3)
STI RETURN	3.1	6.1	12.6

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, HK\$ mn	FY 16	FY 17	FY 18e	FY 19e
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)	20.0	13.1	9.3	6.5
P/B (x)	10	0.9	0.7	0.6
EV/EBITDA (x)	12.6	9.5	7.3	5.9
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: 11.4x)

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The clean-up move had limited impact on CEWL's project companies. Management guided that some projects are required to rectify their terms following incomplete documentation and filling. None of the projects were suspended. In fact, the clean-up mandate is expected to benefit the industry and CEWL in the long run. Because the quality projects will survive and thrive while the unsustainable projects (overleverage, low return, and falsified reporting) will be eliminated from the market. CEWL has been maintaining good quality control in project acquisitions and operations.

### Maintain BUY with a lower TP of S\$0.55

We maintain FY18e EPS at 4.8 SG cents and our BUY recommendation. We have lowered our target price to S\$0.55 (previously SG\$0.60), due to lower peers' valuations of 11.4x (previously 12.5x).

### 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	1,129.0	1,901.8	9.6	11.5	10.3	0.8	44.9	3.2	7.0
<b>Singapore</b>										
SIIC Environment Holdings Ltd	SIIC SP	1,055.7	3,553.6	14.3	8.9	8.6	0.7	92.1	2.2	7.9
<b>Hong Kong</b>										
Beijing Enterprises Water Group Ltd	371 HK	7,359.9	15,276.1	17.2	11.2	9.1	1.9	102.9	4.4	19.9
CT Environmental Group Ltd	1363 HK	1,224.1	1,712.4	9.5	9.5	8.7	1.6	63.8	8.7	18.0
China Water Affairs Group Ltd	855 HK	2,138.7	4,158.7	7.9	12.4	12.4	2.0	75.8	3.9	16.5
<b>Average</b>				<b>11.5</b>	<b>11.0</b>	<b>10.0</b>	<b>1.8</b>	<b>80.8</b>	<b>5.7</b>	<b>18.1</b>
<b>China</b>										
Beijing Originwater Technology Co Ltd	300070 CH	11,983.5	14,176.6	19.6	23.2	17.9	3.1	38.2	6.0	14.2
Chongqing Water Group Co Ltd	601158 CH	6,451.4	5,980.3	10.3	16.6	19.5	2.1	Net Cash	9.4	12.8
Tianjin Capital Environmental Protection Group Co Ltd	600874 CH	3,024.5	3,295.0	5.9	34.5	29.9	3.4	18.8	4.4	10.3
Guangxi Nanning Waterworks Co Ltd	601368 CH	1,240.1	1,856.3	19.0	16.6	15.9	1.9	89.3	4.5	11.8
Jiangsu Jiangnan Water Co Ltd	601199 CH	975.2	809.6	13.2	19.6	11.0	1.7	Net Cash	5.0	8.8
Wuhan Sanzhen Industry Holding Co Ltd	600168 CH	1,133.1	1,898.3	12.8	15.6	11.7	1.1	57.4	3.4	7.3
<b>Average</b>				<b>13.5</b>	<b>21.0</b>	<b>17.6</b>	<b>2.2</b>	<b>50.9</b>	<b>5.5</b>	<b>10.9</b>
<b>Average (comparable companies, excluding CEWL)</b>				<b>12.8</b>	<b>13.8</b>	<b>11.4</b>	<b>1.5</b>	<b>75.7</b>	<b>4.6</b>	<b>11.7</b>

Source: Bloomberg, PSR

## 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	7.0
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	3.9	4.8
BVPS (SG Cents)	50.2	48.7	50.9	65.7	81.0

The HKD/SGD rate is based on Bloomberg forward rate as of 11th May 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)	(1,825)	(2,355)
Cash generated from ops	128	154	(190)	(204)	(126)
Others	(95)	(134)	(74)	(362)	(522)
<b>Cashflow from operations</b>	<b>33</b>	<b>20</b>	<b>(264)</b>	<b>(566)</b>	<b>(648)</b>
<b>CFI</b>					
CAPEX, net	(24)	(13)	(231)	(412)	(314)
Acquisition of subsidiaries	(2,163)	-	-	-	-
Others	10	6	(160)	139	15
<b>Cashflow from investments</b>	<b>(2,177)</b>	<b>(6)</b>	<b>(391)</b>	<b>(273)</b>	<b>(299)</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>309</b>	<b>315</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>2,384</b>	<b>2,699</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

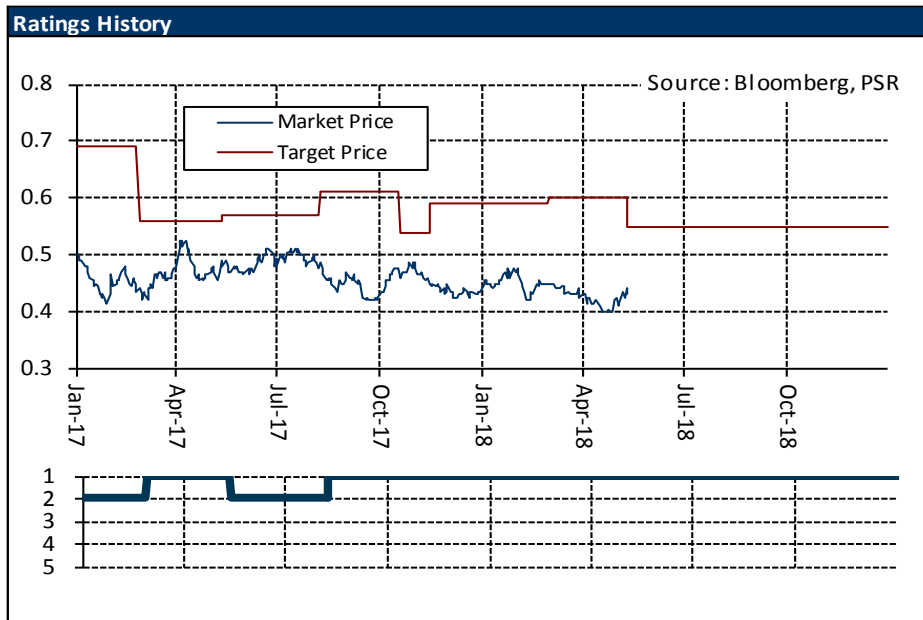
Y/E Dec, HK\$ mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Cash and cash equivalents	1,769	1,903	2,717	3,194	3,679
Trade and other receivables	642	589	806	1,199	1,269
Financial receivables	893	792	1,201	1,546	2,036
Inventories	11	14	14	18	22
<b>Total current assets</b>	<b>3,315</b>	<b>3,297</b>	<b>4,821</b>	<b>5,957</b>	<b>7,007</b>
PP&E	163	148	152	149	147
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>16,350</b>	<b>20,164</b>
<b>Total Assets</b>	<b>13,939</b>	<b>14,081</b>	<b>18,048</b>	<b>22,306</b>	<b>27,171</b>
<b>LIABILITIES</b>					
Borrowings	2,395	1,521	1,904	2,504	3,304
Trade and other payables	475	937	1,554	1,841	2,336
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>4,394</b>	<b>5,690</b>
Borrowings	2,424	3,366	4,728	5,628	6,528
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>7,026</b>	<b>8,066</b>
<b>Total liabilities</b>	<b>6,642</b>	<b>6,890</b>	<b>9,506</b>	<b>11,420</b>	<b>13,755</b>
<b>Shareholders equity</b>	<b>7,061</b>	<b>6,798</b>	<b>7,857</b>	<b>10,124</b>	<b>12,476</b>
Non-controlling interests	236	394	685	762	939

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E(x)	21.0	20.0	13.1	8.9	6.2
P/B (x)	1.2	1.0	0.9	0.7	0.5
EV/EBITDA (x)	16.0	12.6	9.5	7.3	5.8

### 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%	8%
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	4,937	6,153
Gearing (%)	48%	49%	53%	51%	51%



### 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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