

China Everbright Water Limited

On-track expansion



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SINGAPORE | UTILITIES | 1Q19 RESULTS

- Both 1Q19 revenue and PATMI met our expectations.
- Two projects secured, 14 projects under construction and one project commenced operation during 1Q19. Seven WWT projects hiked tariff in 1Q19
- 10% price difference between HK and SG market post-dual-listing
- We raise our target price to S\$0.50 (previously SG\$0.48) based on FY19e EPS of 5.5 SG cents and the slightly higher peers' PER of 9.0x (previously 8.9x), and we maintain our BUY recommendation.

Results at a glance

(HK\$ mn)	1Q19	1Q18	YoY (%)	Comments
Revenue	1,313	1,041	26.2	Increase in construction revenue due to construction of several water environment treatment projects and the water supply projects in addition to the expansion and upgrading of several waste water treatment plants which were under construction during the period; Increase in operation revenue due to result of commencement of operation of new projects and tariff hikes for several projects; Increase in finance income due to increase in contract assets
Gross profit	426	362	17.9	Increase in the portion of construction revenue recognition where margin is lower than the operation services
EBIT	377	338	11.6	Increase in legal and professional fees incurred in connection with the proposed dual primary listing; Increase in staff costs, business development expenses and other operating expenses
PATMI	206	178	15.9	Lower income tax due to the decrease in deferred tax

Source: Company, PSR

The Positives

+ Ongoing project expansion and tariff hike. In 1Q19, CEWL secured two more projects, including an operation and management project and a sludge treatment project. During the period, 14 projects were under construction, and one project commenced operation. Meanwhile, seven waste water treatment (WWT) projects had tariff hikes ranging from 21% to 56%. There is still room for the group to hike the tariff with the upgrading of domestic waste water discharge standard. Currently, the average G1A tariff ranges between RMB1.1-1.3/tonne, and more than 90% of the operating WWT projects have reached the standard.

+ Successful dual primary listing on the main board of stock exchange of Hong Kong. On 8-May, CEWL allotted and issued 103.97mn share with an offer price of HK\$2.99 (equivalent to S\$0.52). The total number of shares increased from 2,676mn to 2,780mn. As of 16-May, the Singapore and Hong Kong closed price was S\$0.37 and HK\$2.37 respectively, and the price difference after conversion was S\$0.04 or 10.8%.

17 May 2019

BUY (Maintained)

CLOSING PRICE	SGD 0.385
FORECAST DIV	SGD 0.011
TARGET PRICE	SGD 0.500
TOTAL RETURN	32.7%

COMPANY DATA

Bloomberg Code	CEWL SP
O/S SHARES (MN)	2,780
MARKET CAP (USD mn / SGD mn)	778 / 1070
52 - WK HI/LO (SGD)	0.51 / 0.3
3M Average Daily T/O (mn)	4.43

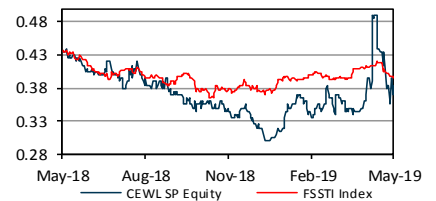
MAJOR SHAREHOLDERS (%)

CHINA EVERBRIGHT WATER HLDS LTD	74.3%
GAM HOLDING AG	0.5%
ARGENTA ASSET MANAGEMENT SA	0.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.8	12.0	(13.6)
STI RETURN	(1.6)	1.4	(4.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, HK\$ mn	FY17	FY18	FY19e	FY20e
Revenue	3,592	4,768	5,645	6,618
Gross profit	1,231	1,624	2,008	2,443
PATMI	513	676	841	1,051
P/E (x)	13.0	6.7	5.4	5.6
P/B (x)	0.8	0.6	0.5	0.6
EV/EBITDA (x)	9.6	7.5	6.7	6.2
Dividend (SG Cents)	0.5	1.0	1.1	1.4
Dividend Yield	1.1%	3.3%	2.9%	3.6%

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER: 9.0x)

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Outlook

CEWL has been solidifying its footprint in Jiangsu and Shandong provinces. In the foreseeable future, we look forward to the new business expansion to other densely populated regions such as Pearl River Delta and Great Bay Area. Recently, Ministry of Housing and Urban-Rural Development, Ministry of Ecology and Environment, and National Development and Reform Commission jointly published the upgrade of urban waste water treatment quality action plan 2019- 2021, specifying areas demanding WWT and reinforcing the fiscal and social financing support. Accordingly, we believe CEWL will continue to be benefit from the benign business environment. Meanwhile, the 3ppt lower in value-added tax (from 16% to 13%) that kicked in in Apr-19 is expected to provide some relief to the group's tax burden by RMB40mn in FY19. In a nutshell, we remain upbeat on the outlook.

Maintain BUY with a higher TP of S\$0.50

We raise our target price to S\$0.50 (previously SG\$0.48) based on FY19e EPS of 5.5 SG cents and the slightly higher peers' PER of 9.0x (previously 8.9x), and we maintain the BUY recommendation.

Figure 1: Hong Kong peers are valued higher on P/B basis but in part due to their higher ROEs

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	1,056.4	2,214.8	8.5	8.2	7.7	0.7	61.5	3.5	8.3
Singapore										
SIIC Environment Holdings Ltd	SIIC SP	782.0	3756.4	10.6	6.7	6.4	0.5	97.8	2.1	7.5
Hong Kong										
China Everbright Water Ltd	1857 HK	1,129.8	2,288.3	7.6	9.1	8.2	0.8	61.5	3.6	8.5
Beijing Enterprises Water Group Ltd	371 HK	7155.8	16798.8	11.5	8.5	7.6	1.5	114.0	4.2	19.3
CT Environmental Group Ltd	1363 HK	376.3	875.1	8.3	3.2	3.1	0.5	63.8	7.9	16.1
China Water Affairs Group Ltd	855 HK	2221.1	4422.8	8.3	10.1	9.4	1.8	71.5	4.2	18.5
Average				9.4	7.3	6.7	1.2	83.1	5.4	18.0
China										
Beijing Originwater Technology Co Ltd	300070 CH	4,825.5	8,299.6	15.9	20.7	13.1	1.3	49.1	2.2	6.3
Chongqing Water Group Co Ltd	601158 CH	5,490.1	4,906.7	10.5	19.4	15.5	1.8	Net Cash	7.3	9.8
Tianjin Capital Environmental Protection Group Co Ltd	600874 CH	1,883.9	2,590.0	5.9	22.1	N/A	2.0	41.8	4.0	9.6
Guangxi Nanning Waterworks Co Ltd	601368 CH	932.4	1,631.5	19.0	15.7	15.9	1.4	96.3	3.3	9.2
Jiangsu Jiangnan Water Co Ltd	601199 CH	710.6	570.2	13.2	18.8	N/A	1.3	Net Cash	4.2	7.1
Wuhan Sanzhen Industry Holding Co Ltd	600168 CH	952.7	1,899.4	11.3	16.7	10.1	0.9	74.3	2.3	5.8
Average				12.6	18.9	13.7	1.5	65.4	3.9	8.0
Average (comparable companies, excluding CEWL)				11.8	11.9	9.0	1.1	80.7	4.0	10.7

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, HK\$ mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	2,494	3,592	4,768	5,645	6,618
Cost of sales	(1,588)	(2,361)	(3,145)	(3,637)	(4,176)
Gross profit	906	1,231	1,624	2,008	2,443
Other income	128	130	141	148	174
Admin & other opt exp	(298)	(287)	(440)	(531)	(625)
Operating profit	735	1,073	1,325	1,625	1,991
Finance income	8	12	18	24	30
Finance costs	(205)	(241)	(291)	(343)	(389)
Profit before tax	537	845	1,052	1,306	1,632
Income tax	(165)	(264)	(315)	(392)	(490)
Non-controlling interests	23	67	60	73	91
Net profit to shareholders	349	513	676	841	1,051

Per share data

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS (HK Cents)	13.4	19.6	25.7	31.4	39.3
EPS (SG Cents)	2.5	3.4	4.4	5.5	6.9
DPS (HK Cents)	2.0	2.8	5.8	6.3	7.9
DPS (SG Cents)	0.4	0.5	1.0	1.1	1.4
BVPS (HK\$)	2.6	3.0	3.0	3.4	3.8
BVPS (SG Cents)	48.7	52.6	52.1	59.3	66.2

The HKD/SGD rate is based on Bloomberg forward rate as of 17nd May 2019

Cash Flow

Y/E Dec, HK\$ mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	537	845	1,052	1,306	1,632
Adjustments	258	341	422	427	481
WC changes	(642)	(1,376)	(2,341)	(1,286)	(2,423)
Cash generated from ops	154	(190)	(867)	448	(310)
Others	(134)	(74)	(148)	(392)	(490)
Cashflow from operations	20	(264)	(1,016)	56	(800)
CFI					
CAPEX, net	(13)	(231)	(192)	(161)	(161)
Acquisition of subsidiaries	-	-	(51)	-	-
Others	6	(160)	190	24	30
Cashflow from investments	(6)	(391)	(54)	(137)	(131)
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	310	1,512	1,133	1,000	1,200
Dividends	(26)	(12)	(60)	(76)	(91)
Others	(141)	(218)	(291)	(419)	(481)
Cashflow from financing	142	1,281	782	506	628
Net change in cash	156	626	(287)	424	(303)
Effects of exchange rate	(85)	89	(80)	-	-
Ending cash	1,359	2,074	1,707	2,131	1,828

Source: Company, PSR

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

Balance Sheet

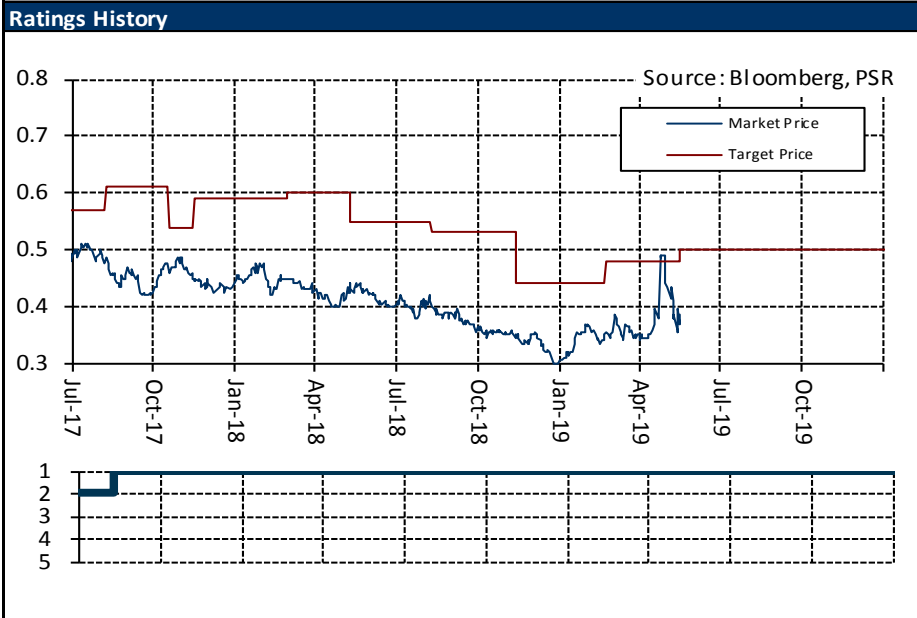
Y/E Dec, HK\$ mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Cash and cash equivalents	1,903	2,717	1,729	2,988	2,805
Trade and other receivables	589	806	1,025	903	1,416
Financial receivables	792	1,201	1,424	1,621	1,902
Inventories	14	14	40	27	33
Total current assets	3,297	4,821	4,765	5,539	6,156
PP&E	148	152	150	149	143
Financial receivables	792	1,201	1,424	1,621	1,902
Intangible assets	1,259	1,490	1,536	1,593	1,643
Goodwill	1,185	1,260	1,243	1,324	1,357
Interest in an associate	1	1	3	3	3
Trade and other receivables	589	806	1,025	903	1,416
Total non-current assets	10,784	13,227	14,819	16,463	18,511
Total Assets	14,081	18,048	19,584	22,002	24,667
LIABILITIES & EQUITY					
Borrowings	1,521	1,904	2,160	1,656	2,006
Trade and other payables	937	1,554	1,895	2,178	2,526
Other financial liabilities	-	-	-	-	-
Current tax liabilities	13	50	45	45	45
Total current liabilities	2,472	3,507	4,101	3,879	4,577
Borrowings	3,366	4,728	5,440	6,945	7,795
Other payables	-	-	-	-	-
Deferred tax liabilities	1,052	1,271	1,380	1,380	1,380
Total non-current liabilities	4,418	5,999	6,820	8,324	9,174
Total liabilities	6,890	9,506	10,921	12,204	13,751
Shareholders equity	6,798	7,857	7,983	9,060	10,104
Non-controlling interests	394	685	681	739	812

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E(x)	15.4	11.2	8.7	7.0	5.6
P/B (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	13.3	9.6	7.5	6.8	6.2

Growth & Margins (%)

Growth					
Revenue	37%	44%	33%	18%	17%
Gross profit	10%	36%	32%	24%	22%
EBIT	3%	46%	23%	23%	23%
PATMI	-14%	47%	32%	24%	25%
Margins					
GPM	36.3%	34.3%	34.1%	35.6%	36.9%
OPM	29.5%	29.9%	27.8%	28.8%	30.1%
NPM	14.0%	14.3%	14.2%	14.9%	15.9%
Key Ratios					
ROE (%)	5%	7%	8%	9%	10%
ROA (%)	2%	3%	3%	4%	4%
Dividend Yield (%)	0.7%	1.1%	3.3%	2.9%	3.6%
Net Debt or (Net Cash)	2,985	3,915	5,872	5,612	6,995
Gearing (%)	49%	53%	56%	55%	56%



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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