

19 December 2014

BT ENT WATER (371.HK)

The guarantee of the rapid growth in future

HONG KONG | ENVIRONMENT | COMPANY RESULTS

- The Company's revenue amounted to HK\$3.815 billion in 1H2014, up 38% y-y, the gross profit was HK\$1.596 billion, increased by 44% y-y with the gross margin of 41.8%, slightly higher than that of 1H2013, and net profit achieved to HK\$714 million, up 39% y-y, equivalent to the EPS of HK\$8.31 cents, higher than our expectation.
- In domestic projects, total design capacity achieved to 17.98 million tons/day in 1H 2014, increased by 1.334 million tons/day compared with the end of 2013. The capacity under operation was 11.53 million tons/day, up 2.104 million tons/day, increased by 22%, we believe the growth of projects under operation would maintain over 30% in the next three years. The project which were not put into operation was 6.45 million tons/day, down 0.77 million tons/day, mainly due to the large quantity of projects had already been put into operation. The Company announced to sign 10 new projects on 8th Dec, with the capacity of 1.045 million/day. The capacity of newly added projects was 3.80 million tons/day including new projects of 2.76 million tons/day before 30th Oct. We expect the capacity of new projects would achieve to 3 million/day annually in future.
- The Company's incomes in sewage treatment business was HK\$1.48 billion in 1H, up 74%, and the construction income of BOT project amounted to HK\$1.36 billion, up 240% sharply, the Company had 50 projects under construction, and would have more projects put into operation in the next two years. Construction and service incomes of comprehensive treatment projects was HK\$420 million, down 69% y-y largely, and we can see the Company focused on the construction and operation in BOT project.

Investment Action

The Company is a leader of domestic water service enterprises, and sewage treatment industry will develop rapidly in the next two years benefited from the national environmental policies, the quantity of the Company's projects under construction and new projects maintain at the high level, which would increase rapidly as expected. We increase the Company's 12-month target price to HK\$6.45, equivalent to 25xP/E in 2015E, recommend Buy rating.

Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Operating Profit (HKD 000)	1,531,481	2,177,641	3,259,409	4,343,274
Net Profit, adj. (HKD 000)	750,474	1,084,257	1,646,943	2,264,477
EPS, adj. (HKD)	0.11	0.14	0.19	0.26
P/E (X)	46.6	36.6	27.0	19.7
BVPS (HKD)	1.55	1.71	1.90	2.10
P/B (X)	3.3	3.0	2.7	2.4
DPS (HKD)	0.02	0.05	0.05	0.05
Div. Yield	0.4%	1.0%	1.0%	1.0%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Rating:

Buy

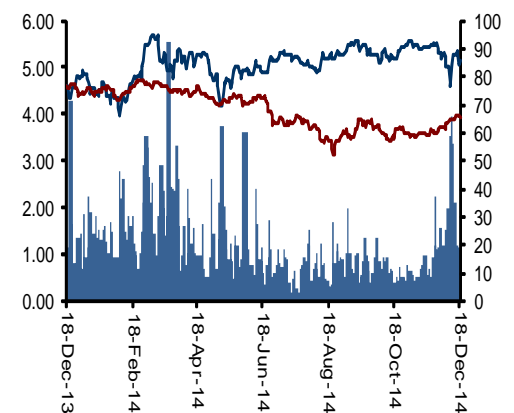
Target Price (HKD)	6.45
Forecast Dividend (HKD)	0.05
Closing Price (HKD)	5.13
Potential Upside	26.7%

Company Description

The company is a water service enterprise led by Beijing Enterprises Group Company Limited, and focuses on core businesses and environmental protection industries such as water supply, sewage treatment, water environment project construction, etc. The company currently has over 90 running water and sewage treatment plants all over the country.

Company Data

Raw Beta (Past 2yrs weekly data)	N/A
Market Cap. (HKD bn)	44,669
Enterprise Value (HKD mn)	N/A
52 week range (HKD)	5.738



Volume, mn 371 hk equity HSI

Major Shareholders

1. Beijing Enterprises Environmental Construction limited	44.18%
2. Tenson Investment Limited	7.14%

Valuation Method

PE

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Better-than-expected performance

The Company's revenue amounted to HK\$3.815 billion in 1H2014, up 38% y-y, the gross profit was HK\$1.596 billion, increased by 44% y-y with the gross margin of 41.8%, slightly higher than that of 1H2013, and net profit achieved to HK\$714 million, up 39% y-y, equivalent to the EPS of HK\$8.31 cents, higher than our expectation.

Rapid growth of the projects

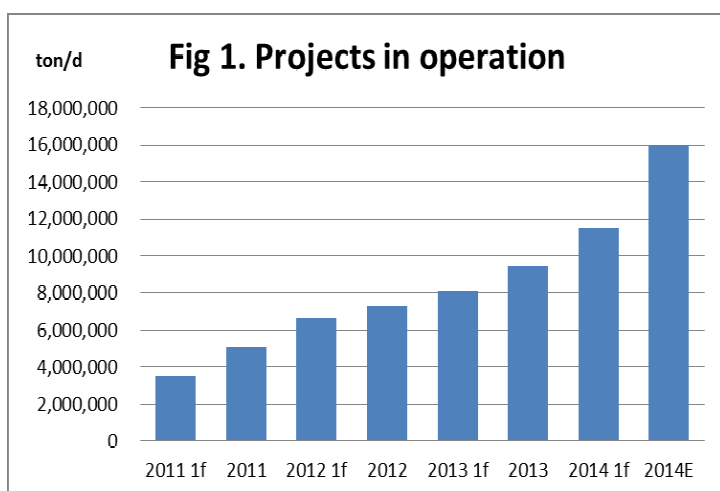
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Large profit growth of businesses

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Valuation

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Source: PSR, Company report

Chart 1. New projects disclosure in Dec

New projects	Capacity(kt/d)	Mode	Maturity (years)
Anning	60	BOT	30
Rizhao	40	BOT	30
Xuyi	200	BOT	30
Yongning	100	BOT	30
Pingshan	5	OM	5
Panjin	100	BOT	30
Yinchuan	50	BOT	30
Alpha Luck Limited	250	M&A	-
Jiyuan	150	BOT	30
Jiyuan	90	Distribution	-
Total	1045		

For Financial Summary at the end of report

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	57.0	46.6	36.6	27.0	19.7
P/B (X)	3.5	3.3	3.0	2.7	2.4
Dividend Payout ratio	33.33%	18.18%	35.71%	26.32%	19.23%
Dividend Yield	0.58%	0.39%	0.97%	0.97%	0.97%
Per share data (HKD)					
EPS, reported	0.09	0.11	0.14	0.19	0.26
EPS, adj.	0.09	0.11	0.14	0.19	0.26
DPS	0.03	0.02	0.05	0.05	0.05
BVPS	1.45	1.55	1.71	1.90	2.10
Growth					
Revenue	-58.2%	40.4%	71.9%	41.7%	30.0%
Operating income	24.1%	32.8%	42.2%	49.7%	33.3%
Net Income, adj.	17.2%	24.9%	44.5%	51.9%	37.5%
Key Ratios					
Current ratio	174.71%	147.75%	130.57%	86.35%	68.79%
Gross profit margin	34.22%	38.55%	39.11%	41.00%	42.00%
Net profit margin	22.63%	20.13%	16.92%	18.06%	17.96%
Return on average assets	2.86%	2.68%	2.87%	3.12%	3.02%
Return on average equity	11.54%	10.48%	8.14%	8.82%	8.93%
Liability/asset	60.76%	65.70%	63.96%	65.24%	67.10%
Income statement (thousand HKD)					
Operating revenue	2,654,454	3,727,379	6,406,455	9,080,060	11,804,078
Cost of good sell	(1,746,217)	(2,290,350)	(3,900,867)	(5,357,235)	(6,728,325)
Gross profit	908,237	1,437,029	2,505,588	3,722,825	5,075,753
Other net profit	529,620	661,423	634,154	628,236	628,236
Administrative expenses	(301,221)	(439,575)	(774,576)	(1,076,252)	(1,345,315)
Operating profit	1,153,038	1,531,481	2,177,641	3,259,409	4,343,274
Interest expense	(312,989)	(494,290)	(788,111)	(1,194,067)	(1,492,584)
Profit before tax	860,847	1,091,793	1,497,160	2,148,870	2,934,218
Income tax	(169,861)	(224,643)	(351,762)	(419,030)	(586,844)
Effective income tax rate	19.73%	20.58%	23.50%	19.50%	20.00%
Net profit for the period	690,986	867,150	1,145,398	1,729,840	2,347,374
Minority interest	90,250	116,676	61,141	82,897	82,897
Net profit attributable to equity holders	600,736	750,474	1,084,257	1,646,943	2,264,477
Dividend paid	207,275	151,351	425,852	433,270	433,270
Balance Sheet (thousand HKD)					
Cash or cash equivalent	1,947,768	4,290,866	5,513,035	3,307,821	2,977,039
Account receivable	3,676,549	2,385,500	2,037,987	2,139,886	2,246,881
Inventory	4,583,574	5,395,988	5,323,645	5,323,645	5,323,645
Other current assets	1,446,385	1,606,849	2,337,573	2,571,330	2,828,463
PPE	5,003,117	6,469,498	11,779,143	15,312,886	18,375,463
Intangible assets	2,413,555	2,752,803	5,061,634	5,567,797	5,289,408
Other non-current assets	5,678,794	8,388,376	12,133,653	15,773,749	20,505,874
Total Assets	24,749,742	31,289,880	44,186,670	49,997,114	57,546,773
Cash payable	2,049,236	1,919,238	2,755,396	3,857,554	5,014,821
Short term loan	1,069,609	2,810,313	2,147,521	2,147,521	2,147,521
Other current liability	3,551,931	4,528,732	6,747,911	9,447,075	12,281,198
Long term loan	7,690,538	8,987,954	12,780,476	13,336,571	15,337,057
Other non-current liability	677,547	2,312,150	3,830,924	3,830,924	3,830,924
Total Liabilities	15,038,861	20,558,387	28,262,228	32,619,645	38,611,521
Shareholders' equity	8,081,989	8,467,124	13,297,631	14,750,658	16,308,441
Minority interest	1,628,892	2,264,369	2,626,811	2,626,811	2,626,811
Total shareholders' equity	9,710,881	10,731,493	15,924,442	17,377,469	18,935,252
Total shareholders' equity and liabilities	24,749,742	31,289,880	44,186,670	49,997,114	57,546,773

Source: PSR



PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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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