

# CT Environmental Group (1363.HK)

## Maintains on high profits level

Hong Kong | Environmental protection | Update Report

5 February 2015

### Marching into the hazardous waste industry

The Company purchased the Qingyuan Lvyou Co., Ltd at a price of RMB 630 million. Being a hazardous waste disposal company, the latter is mainly engaged in industrial and daily waste recycling with a capacity of around 260 thousand tons every year, and has exploited new business of solid waste disposal with its original business of sludge disposal remaining. As licenses for the hazardous waste disposal industry are on limited release, the industry has a rather high gross margin. According to the Purchase Agreement, this asset's net profit after taxation of 2015 and 2016 should be no less than RMB 100 million and RMB 110 million, and the annual yield rate should be around 15%, thus this purchase can be considered as a lucrative gaining. As the Company's BOO sewage disposal, sludge disposal, as well as hazardous waste disposal are all businesses that have rather high profitability, it is expected that the Company will seek businesses of high profits in the environmental protection industry in the future to aggrandize its operation.

### Placing new shares

The Company placed 87 million new shares on Singapore Government Investment Corp. (GIC) at a price of HKD 7.12 per share, covering about 5.7% of the present overall capital stock, and raised HKD 610 million in total in this placement. Having a distinct effect on the ownership dilution, but combined with the Company's project positioning of high profit margin, this fund-raising is supposed to give birth to a substantial enhancement of its result in the future.

### Disposal charges on an up trend

"Notice on Related Items about Formulating and Adjusting Charging Standards of Sewage Disposal" co-issued by National Development and Reform Commission, Ministry of Housing and Urban-Rural Development and Ministry of Finance stipulates that by the end of 2016, the civil sewage disposal charging standard should be adjusted to no less than RMB 0.95 yuan per ton for residents in principle and no less than RMB 1.4 yuan for non-residents. And as for counties and key designated towns, the sewage disposal charging standard should be adjusted to no less than RMB 0.85 yuan per ton for residents in principle and no less than RMB 1.2 yuan for non-residents. Although the influence of charging standards on the Company's present value is not significant, it can be seen to a certain extent that the sewage disposal charge is showing an uptrend under the influence of national policies.

### Evaluation

Being the sole listed company that has BOO operation model of sewage disposal, coupled with the fact that more rigorous supervision and punishment measures stipulated by the New Environmental Protection Law that has gone into effect from this year will bring more sewage and waste emitting enterprises into choosing professional environmental protection enterprises to carry out disposals, and having technical advantages and experiences in dealing with sewage disposal in heavily polluting industries like textile industry etc., the Company may acquire more projects in the future. Additionally, marching into sludge disposal and hazardous waste disposal businesses, the Company has booming revenue in sludge disposal business for almost a year, thus we raise the target price of the Company up to HKD 9.73 per share and categorize it into "Buy" rating.

### Buy (Maintain)

CMP 8.02 HKD

TARGET 9.73 HKD

#### COMPANY DATA

|                        |            |
|------------------------|------------|
| O/S SHARES(MN) :       | 1442       |
| MARTKET CAP (HKD BN) : | 11.5       |
| 52-WK HI/LO (HKD) :    | 4.04/ 8.63 |

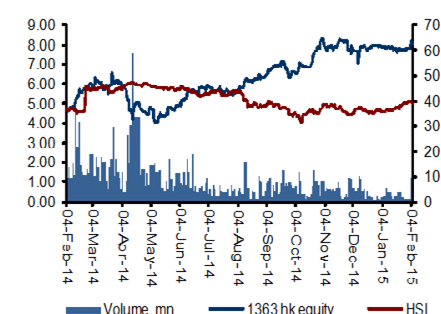
#### SHARE HOLDING PARTTEN , %

|                               |       |
|-------------------------------|-------|
| Keen Vast Holdings Limited. : | 61.00 |
| :                             |       |
| :                             |       |

#### PRICE PERFORMANCE , %

|        | 1MTH | 3MTH | 1YR   |
|--------|------|------|-------|
| 1363HK | 4.17 | 5.78 | 74.21 |
| HSI    | 1.25 | 2.8  | 59.45 |

#### PRICE & HSI



Source: Phillip Securities (HK) Research

#### Key Financial Summary

| FYE                        | 12/12   | 12/13   | 12/14F  | 12/15F  |
|----------------------------|---------|---------|---------|---------|
| Operating Profit (HKD 000) | 227,308 | 283,541 | 468,343 | 685,052 |
| Net Profit, adj. (HKD 000) | 177,229 | 224,422 | 374,782 | 537,743 |
| EPS, adj. (HKD)            | 0.13    | 0.20    | 0.27    | 0.39    |
| P/E (X)                    | 61.7    | 40.1    | 29.7    | 20.6    |
| BVPS (HKD)                 | 0.38    | 1.01    | 1.13    | 1.44    |
| P/B (X)                    | 21.1    | 7.9     | 7.1     | 5.6     |
| DPS (HKD)                  | 0.00    | 0.03    | 0.03    | 0.05    |
| Div. Yield                 | 0.0%    | 0.5%    | 0.5%    | 0.8%    |

Source: Bloomberg, PSR est.

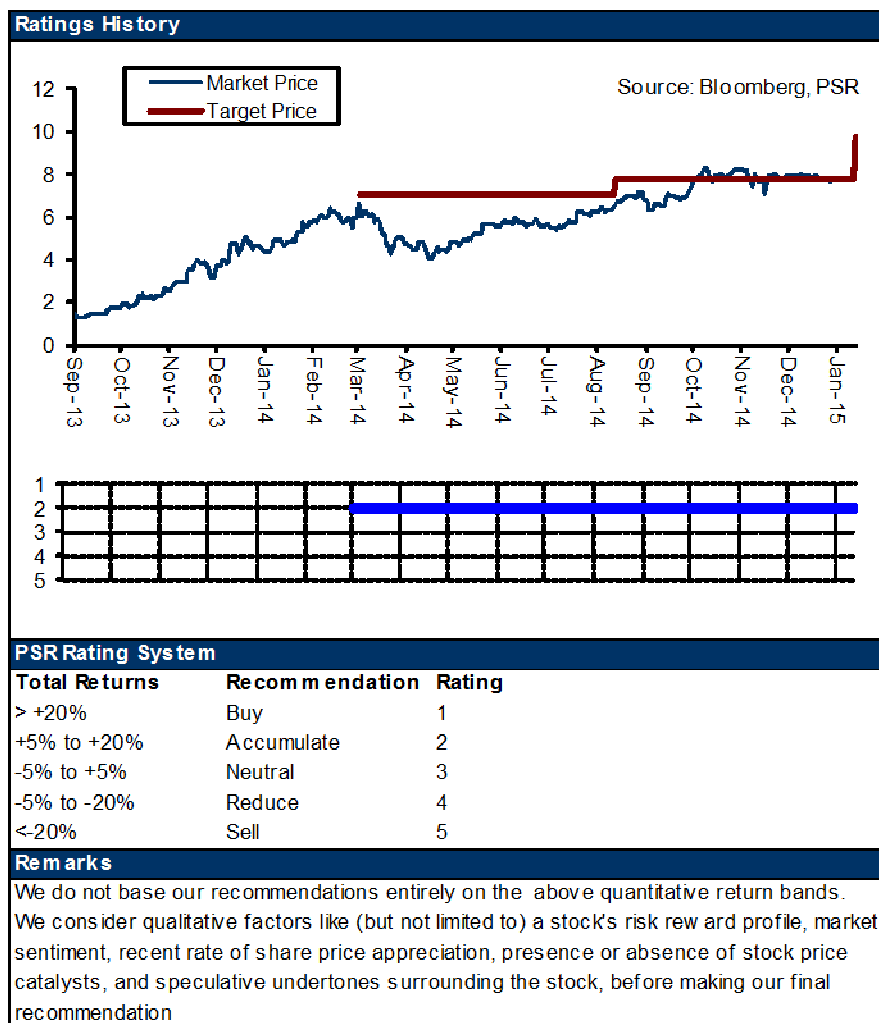
\*All multiples & yields based on current market price

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## Financials

| FYE  | FY11           | FY12             | FY13F            | FY14F            |                  |
|--|----------------|------------------|------------------|------------------|------------------|
| <b>Valuation Ratios</b>                          |                |                  |                  |                  |                  |
| P/E (X)  | 66.8           | 61.7             | 40.1             | 29.7             | 20.6             |
| P/B (X)  | 38.2           | 21.1             | 7.9              | 7.1              | 5.6              |
| Dividend Payout ratio                            | 0.00%          | 0.00%            | 15.00%           | 11.11%           | 12.82%           |
| Dividend Yield                                   | 0.00%          | 0.00%            | 0.37%            | 0.37%            | 0.62%            |
| <b>Per share data (HKD)</b>                      |                |                  |                  |                  |                  |
| EPS, reported                                    | 0.12           | 0.13             | 0.20             | 0.27             | 0.39             |
| EPS, adj.  | 0.12           | 0.13             | 0.20             | 0.27             | 0.39             |
| DPS  | 0.00           | 0.00             | 0.03             | 0.03             | 0.05             |
| BVPS   | 0.21           | 0.38             | 1.01             | 1.13             | 1.44             |
| <b>Growth</b>                                    |                |                  |                  |                  |                  |
| Revenue  | 27.9%          | -17.0%           | 26.3%            | 71.9%            | 48.8%            |
| Operating income                                 | 36.2%          | -1.2%            | 24.7%            | 65.2%            | 46.3%            |
| Net Income, adj.                                 | 36.1%          | 7.7%             | 26.6%            | 67.0%            | 43.5%            |
| <b>Key Ratios</b>                                |                |                  |                  |                  |                  |
| Current ratio                                    | 104.85%        | 151.29%          | 360.98%          | 67.52%           | 63.82%           |
| Gross profit margin                              | 57.75%         | 65.76%           | 63.14%           | 62.50%           | 62.00%           |
| Net profit margin                                | 35.59%         | 46.18%           | 46.29%           | 44.97%           | 43.36%           |
| Return on average assets                         | 20.57%         | 17.50%           | 14.80%           | 14.46%           | 15.00%           |
| Return on average equity                         | 71.21%         | 58.60%           | 29.61%           | 27.61%           | 30.33%           |
| Liability/asset                                  | 74.67%         | 65.67%           | 40.35%           | 51.80%           | 48.07%           |
| <b>Income statement (thousand HKD)</b>           |                |                  |                  |                  |                  |
|  | FY11           | FY12             | FY13F            | FY14F            | FY15F            |
| <b>Operating revenue</b>                         | <b>462,260</b> | <b>383,806</b>   | <b>484,849</b>   | <b>833,471</b>   | <b>1,240,207</b> |
| Cost of good sell                                | (195,311)      | (131,411)        | (178,728)        | (312,552)        | (471,279)        |
| <b>Gross profit</b>                              | <b>266,949</b> | <b>252,395</b>   | <b>306,121</b>   | <b>520,919</b>   | <b>768,928</b>   |
| Other net profit                                 | 4,133          | 410              | 19,704           | 23,515           | 23,515           |
| Administrative expenses                          | (40,374)       | (22,233)         | (41,575)         | (75,028)         | (106,328)        |
| <b>Operating profit</b>                          | <b>230,050</b> | <b>227,308</b>   | <b>283,541</b>   | <b>468,343</b>   | <b>685,052</b>   |
| Interest expense                                 | (26,388)       | (36,984)         | (32,198)         | (48,560)         | (58,272)         |
| <b>Profit before tax</b>                         | <b>203,662</b> | <b>213,490</b>   | <b>273,907</b>   | <b>442,347</b>   | <b>649,344</b>   |
| Income tax                                       | (38,392)       | (36,140)         | (49,115)         | (66,352)         | (110,388)        |
| Effective income tax rate                        | 18.85%         | 16.93%           | 17.93%           | 15.00%           | 17.00%           |
| <b>Net profit for the period</b>                 | <b>165,270</b> | <b>177,350</b>   | <b>224,792</b>   | <b>375,995</b>   | <b>538,956</b>   |
| Minority interest                                | 756            | 121              | 370              | 1,213            | 1,213            |
| <b>Net profit attributable to equity holders</b> | <b>164,514</b> | <b>177,229</b>   | <b>224,422</b>   | <b>374,782</b>   | <b>537,743</b>   |
| Dividend paid                                    | 0              | 0                | 41,462           | 51,353           | 85,588           |
| <b>Balance Sheet (thousand HKD)</b>              |                |                  |                  |                  |                  |
|  | FY11           | FY12             | FY13F            | FY14F            | FY15F            |
| Cash or cash equivalent                          | 51,967         | 10,463           | 394,723          | 172,203          | 159,827          |
| Account receivable                               | 148,284        | 263,934          | 280,694          | 355,090          | 390,599          |
| Inventory  | 758            | 627              | 1,320            | 9,825            | 9,825            |
| Other current assets                             | 20,996         | 21,445           | 72,952           | 72,258           | 72,258           |
| PPE  | 223,042        | 265,408          | 511,571          | 1,645,765        | 2,209,495        |
| Intangible assets                                | 247,957        | 244,085          | 246,350          | 241,275          | 241,275          |
| Other non-current assets                         | 191,174        | 335,468          | 383,942          | 795,055          | 795,055          |
| <b>Total Assets</b>                              | <b>884,178</b> | <b>1,141,430</b> | <b>1,891,552</b> | <b>3,291,471</b> | <b>3,878,334</b> |
| Cash payable                                     | 133,969        | 101,216          | 137,685          | 582,583          | 640,841          |
| Short term loan                                  | 67,762         | 82,039           | 51,665           | 302,683          | 332,951          |
| Other current liability                          | 10,005         | 12,712           | 18,333           | 17,238           | 17,238           |
| Long term loan                                   | 416,701        | 517,360          | 500,533          | 705,962          | 776,558          |
| Other non-current liability                      | 31,748         | 36,201           | 55,030           | 96,628           | 96,628           |
| <b>Total Liabilities</b>                         | <b>660,185</b> | <b>749,528</b>   | <b>763,246</b>   | <b>1,705,094</b> | <b>1,864,216</b> |
| Shareholders' equity                             | 223,993        | 391,902          | 1,128,306        | 1,559,387        | 1,987,128        |
| Minority interest                                | 9,435          | 1,564            | 2,801            | 26,990           | 26,990           |
| <b>Total shareholders' equity</b>                | <b>214,558</b> | <b>390,338</b>   | <b>1,125,505</b> | <b>1,586,377</b> | <b>2,014,118</b> |
| Total shareholders' equity and liabilities       | 884,178        | 1,141,430        | 1,891,552        | 3,291,471        | 3,878,334        |

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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