

Kangda Env (6136.HK)

Continuing to Expand in Purchase Mode

Hong Kong | Environmental protection | Update Report

3 March 2015

Accelerate to Purchase New Projects

In H2 of 2014, the company continued to expand its project scale in the purchase mode. It finished the purchase of 70% stock rights of Zhengzhou Shinnakasu in December with the processing capacity of 60 thousand tons. It purchased 80% stock rights of Pingdingshan Sewage Treatment Factory Stage 2 with the processing capacity of 130 thousand tons, as well as Laiyang Sewage Treatment Factory with the processing capacity of 20 thousand tons. By the end of January 2015, the sewage treatment scale of the company had reached 2.47 million tons, increasing by 42.5% yoy. Among that 2.08 million tons had been put into operation, increasing by 44.9% yoy. The management of the company reveals that the company plans to complete the purchase target of about 1.5 million tons before the end of 2015. We think the purchase mode can make the company enlarge the project scale rapidly, but the accompanying capital pressure may be increased. We will mainly pay attention to the financing method and cost changes of the company in the future.

Emphasize Technological Research and Development

The company has established Environmental Nano-engineering Technology Institute together with Shenzhen Institute of Tsinghua University, and the main research directions are the membrane technology sewage treatment and digitized waterworks system. Both the two technologies are the development trend of the future sewage treatment industry. The management of the company also reveals that the business in the future will be expanded to industrial sewage and sludge treatment and other fields. We think although it won't affect the operation situation of the company in a short period, a more diversified business mode is beneficial to the development of the company as well as the promotion of the valuation of the company at the same time from a long-term perspective.

Valuation

As a privately owned enterprise of sewage treatment, which is in the leading ranks in the industry, the company has always kept being undervalued at relatively low levels. The company has kept expanding all the time by means of acquisition followed by the subsequent new operation of the acquired business. The speed of expansion has been relatively fast but the mode of expansion has been relatively simple and unitary. The company will also move gradually to the other areas of sewage treatment in the future. From the long-term viewpoint, we expect that the company will perform well. We shall maintain the target price for the company at HK\$4.05, and upgrade the company to "buy" rating.

Accumulate (Upgrade)

CMP HKD 3.37

TARGET HKD 4.05

COMPANY DATA

O/S SHARES(MN) :	2068
MARTKET CAP (HKD BN) :	69.68
52-WK HI/LO (HKD) :	2.47/ 4.32

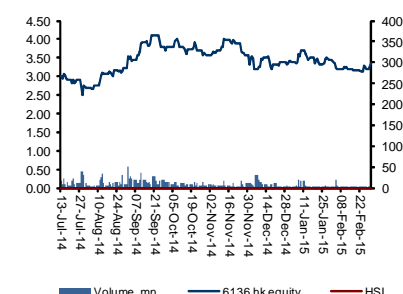
SHARE HOLDING PARTTEN , %

Kangda Holdings Company Limited::	52.96
Baring Private Equity Asia V Holding Limited	19.59

PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
6136HK	-8.29	-10.34	-
HSI	-8.13	-13.82	-

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Operating Profit (HKD 000)	366,969	445,372	462,308	566,641
Net Profit, adj. (HKD 000)	196,540	231,563	254,751	323,948
EPS, adj. (HKD)	0.13	0.15	0.13	0.16
P/E (X)	23.6	20.4	23.6	19.2
BVPS (HKD)	0.74	0.89	1.28	1.42
P/B (X)	4.1	3.4	2.4	2.2
DPS (HKD)	0.00	0.00	0.02	0.03
Div. Yield	0.0%	0.0%	0.7%	1.1%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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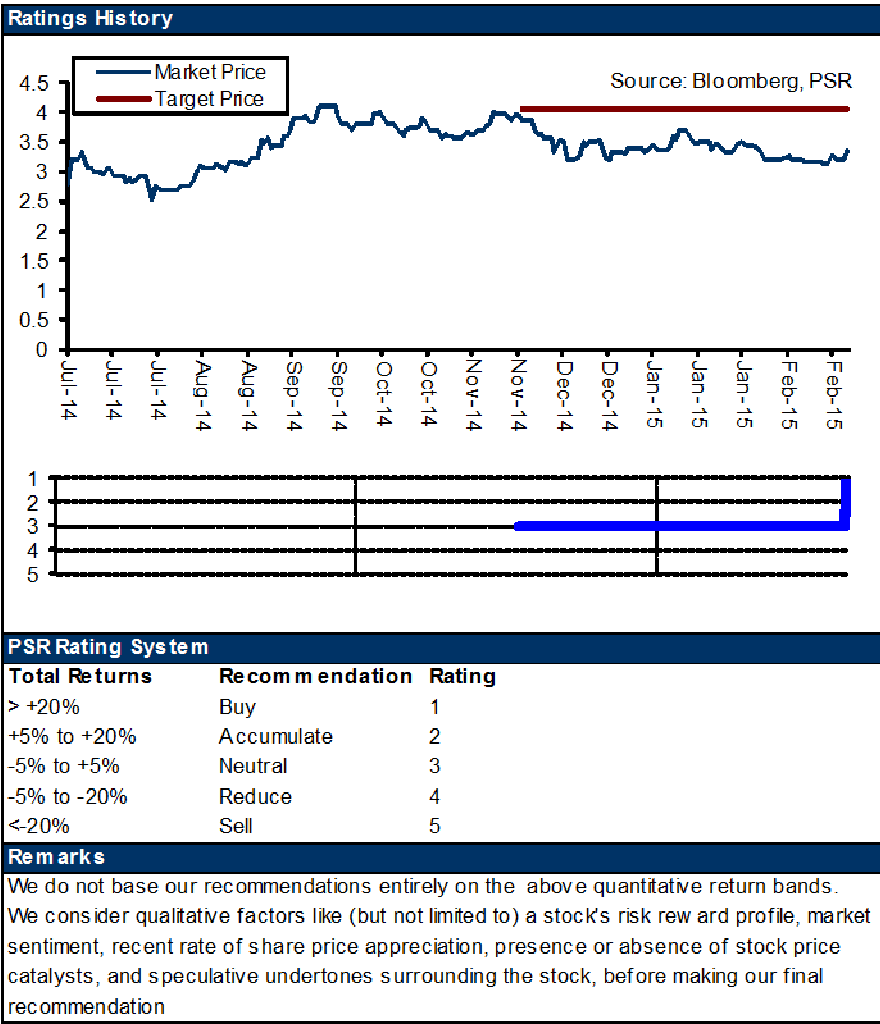
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Financials

For Financial Summary at the end of report

FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X)	30.6	23.6	20.4	23.6	19.2
P/B (X)	6.7	4.1	3.4	2.4	2.2
Dividend Payout ratio	0.00%	0.00%	0.00%	15.38%	18.75%
Dividend Yield	0.00%	0.00%	0.00%	0.65%	0.98%
Per share data (RMB)					
EPS, reported	0.10	0.13	0.15	0.13	0.16
EPS, adj.	0.10	0.13	0.15	0.13	0.16
DPS	0.00	0.00	0.00	0.02	0.03
BVPS	0.46	0.74	0.89	1.28	1.42
Growth					
Revenue	-	36.0%	34.1%	12.3%	12.0%
Operating income	-	28.8%	21.4%	3.8%	22.6%
Net Income, adj.	-	25.3%	17.8%	10.0%	27.2%
Key Ratios					
Current ratio	121.39%	155.51%	144.31%	147.00%	113.70%
Gross profit margin	46.00%	44.21%	38.32%	40.59%	42.24%
Net profit margin	21.35%	19.67%	17.28%	16.93%	19.22%
Return on average assets	-	5.83%	5.39%	4.62%	4.81%
Return on average equity	-	21.90%	18.91%	13.09%	12.02%
Liability/asset	76.00%	71.21%	71.30%	59.55%	60.30%
Income statement (thousand RMB)					
	FY11	FY12	FY13	FY14F	FY15F
Operating revenue	734,886	999,315	1,339,679	1,504,900	1,685,260
Cost of good sell	(396,821)	(557,537)	(826,258)	(894,128)	(973,480)
Gross profit	338,065	441,778	513,421	610,772	711,780
Other net profit	22,219	10,129	48,455	19,630	19,630
Administrative expenses	(68,283)	(73,631)	(103,906)	(158,648)	(154,378)
Operating profit	284,923	366,969	445,372	462,308	566,641
Interest expense	(99,402)	(133,900)	(167,698)	(144,564)	(159,020)
Profit before tax	185,521	233,069	281,679	321,449	411,326
Income tax	(28,631)	(35,696)	(49,050)	(65,698)	(86,378)
Effective income tax rate	15.43%	15.32%	17.41%	20.44%	21.00%
Net profit for the period	156,890	197,373	232,629	255,751	324,948
Minority interest	0	833	1,066	1,000	1,000
Net profit attributable to equity holders	156,890	196,540	231,563	254,751	323,948
Dividend paid	0	0	0	40,000	60,000
Balance Sheet (thousand RMB)					
	FY11	FY12	FY13	FY14F	FY15F
Cash or cash equivalent	245,774	543,754	275,562	546,417	300,529
Account receivable	428,155	541,868	714,398	836,786	920,465
Inventory	5,214	5,313	3,108	4,002	4,002
Receivables under service concession arra	1,486,887	1,828,396	2,571,274	3,612,020	4,614,424
PPE	68,210	73,016	80,303	80,506	80,506
Other non-current assets	8,212	75,106	69,053	83,872	83,872
Total Assets	2,869,617	3,876,800	4,713,807	6,311,515	7,151,710
Cash payable	377,077	407,695	537,452	694,128	763,541
Short term loan	662,412	768,171	785,341	976,679	1,269,683
Other current liability	36,605	46,088	58,371	53,723	53,723
Long term loan	1,006,827	1,415,632	1,802,048	1,820,503	2,011,528
Other non-current liability	98,109	123,113	177,865	213,742	213,742
Total Liabilities	2,181,030	2,760,699	3,361,077	3,758,775	4,312,217
Shareholders' equity	686,137	1,108,818	1,340,381	2,552,740	2,839,493
Minority interest	2,450	7,283	12,349	13,278	13,278
Total shareholders' equity	688,587	1,116,101	1,352,730	2,552,740	2,839,493
Total shareholders' equity and liabilities	2,869,617	3,876,800	4,713,807	6,311,515	7,151,710

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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