

Dongjiang Env (895.HK)

Getting more Attention in the Future

Hong Kong | Environmental protection | Company Report

10 March 2015

Stable Growth of Results in 2014

In H1 of 2014, revenue of the Company was RMB 849 million, an increase of 19.92% compared with the same period of 2013. Net profits of Company shareholders were 174 million, an increase of 19.57% yoy. As shown in the positive profit forecast of the results in 2014, the revenue of the whole 2014 were 2.048 billion, an increase of 29.35% yoy compared with 2013 and the net profits of company shareholders grew by 20.8% yoy, which indicated the stable growth of company operations.

Development of all Businesses Hand in Hand

In H1 of 2014, revenue of industrial waste disposal business was RMB 647 million, an increase of 17.62% yoy, among which, the revenue of resource sales business was 492 million, an increase of 12.35% yoy. Because copper prices continuously remained low and the Company implemented hedging, we expect that the decline of copper prices would have a limited influence on the resource sales business. The revenue of industrial waste disposal was 155 million with sharp growth of 38.23% yoy. The revenue of municipal waste disposal business was 122 million, an increase of 31.27% yoy.

Rapid Growth in 2015

In H2 of 2014, Northern Guangdong Project, Hade Project and Jiangmen Project were put into operation successively, with the scales of 500 thousand tons, 60 thousand tons and 198.5 tons respectively. The disposal ability of the Company reached 1188.5 thousand tons, which was great growth in scale compared with the scale of 430 thousand tons at the end of 2013. It is expected that in 2015 and the following two or three years, the Company will embrace the high-speed growth period of results.

Waste gains more attention

In this year's National People's congress and the Chinese Political Consultative Conference, the national association of industry and commerce submitted Proposal of Dismantling Subsidy of Waste Household Appliance, suggesting to offer household appliances dismantling enterprises subsidies, rise up the industry doorsill, weed out small enterprises and non-technical companies in this industry and improve industrial concentration ratio, so that as a leader of the waste industry, the Company will benefit. Although it is only a proposal, we believe that in the future the waste industry will be reformed and gain more attention.

Valuation

As a leader of this waste industry, the Company possesses tremendous development potential. Operation in the waste industry requires business certificate, which is issued in limited amount in all places, so the industry doorsill is proved to be high. However, the Company owns 46 of the 49 business certificates for waste. The Company's performance and appraisal show a rising trend according to policy's release of good news and the Company's new projects' commissioning in succession. We give the target price 35.31 HKD of 12 months on the company, equivalent to 25/17 times prospective PE ratio of that in 2015/2016, which is considered as "Buy" rating.

Buy

CMP 29.60 HKD

TARGET 35.31 HKD

COMPANY DATA

O/S SHARES(MN) :	347
MARTKET CAP (HKD BN) :	23.7
52-WK HI/LO (HKD) :	17.05/ 34.00

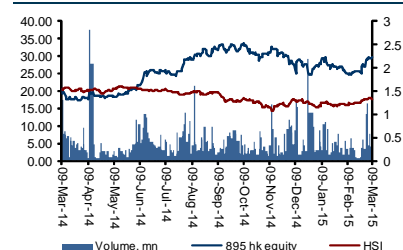
SHARE HOLDING PARTTEN , %

Zhang Wei Yang::	28.68
Shanghai New Margin Venture Capital Co., Ltd	8.18
:	

PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
895HK	17.00	5.22	41.89
HSI	19.09	4.54	35.25

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary

FYE	12/13	12/14F	12/15F	12/16F
Operating Profit (HKD 000)	238,851	316,968	470,902	680,925
Net Profit, adj. (HKD 000)	208,282	250,596	392,137	581,157
EPS, adj. (HKD)	0.92	0.72	1.13	1.68
P/E (X)	26.0	33.2	21.1	14.2
BVPS (HKD)	9.93	7.70	8.69	10.46
P/B (X)	2.4	3.1	2.7	2.3
DPS (HKD)	0.30	0.20	0.30	0.50
Div. Yield	1.3%	0.8%	1.3%	2.1%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14E	FY15F	FY16F
Valuation Ratios					
P/E (X)	19.4	26.0	33.2	21.1	14.2
P/B (X)	2.5	2.4	3.1	2.7	2.3
Dividend Payout ratio	73.17%	32.61%	27.78%	26.55%	29.76%
Dividend Yield	3.77%	1.26%	0.84%	1.26%	2.09%
Per share data (RMB)					
EPS, reported	1.23	0.92	0.72	1.13	1.68
EPS, adj.	1.23	0.92	0.72	1.13	1.68
DPS	0.90	0.30	0.20	0.30	0.50
BV/PS	9.63	9.93	7.70	8.69	10.46
Growth					
Revenue	1.4%	4.0%	29.4%	49.0%	40.0%
Operating income	34.1%	-24.4%	32.7%	48.6%	44.6%
Net Income, adj.	30.9%	-21.9%	20.3%	56.5%	48.2%
Key Ratios					
Current ratio	283.38%	268.55%	276.90%	278.37%	302.47%
Gross profit margin	36.92%	30.48%	30.00%	30.00%	30.50%
Net profit margin	17.53%	13.16%	12.24%	12.85%	13.60%
Return on average assets	10.47%	6.53%	6.86%	9.09%	11.91%
Return on average equity	17.54%	9.61%	10.21%	13.81%	17.52%
Liability/asset	26.91%	25.02%	28.31%	29.38%	25.50%
Income statement (thousand RMB)					
Operating revenue	1,521,518	1,582,936	2,048,000	3,051,520	4,272,128
Cost of good sell	(959,814)	(1,100,399)	(1,433,600)	(2,136,064)	(2,969,129)
Gross profit	561,704	482,537	614,400	915,456	1,302,999
Administrative expenses	(34,012)	(38,288)	(32,529)	(42,288)	(54,974)
Selling expenses	(207,693)	(221,406)	(294,517)	(441,776)	(618,486)
Other cost	(15,891)	(19,868)	(19,868)	(19,868)	(19,868)
Investment income	11,672	35,876	49,482	59,378	71,254
Operating profit	315,780	238,851	316,968	470,902	680,925
Non-operating expenses	16,948	32,626	4,090	4,090	4,090
Profit before tax	332,728	271,477	321,058	474,992	685,015
Income tax	(38,711)	(27,839)	(35,106)	(47,499)	(68,502)
Effective income tax rate	11.63%	10.25%	10.93%	10.00%	10.00%
Net profit for the period	294,017	243,638	285,952	427,493	616,513
Minority interest	27,311	35,356	35,356	35,356	35,356
Net profit attributable to equity holders	266,706	208,282	250,596	392,137	581,157
Balance Sheet (thousand RMB)					
Cash or cash equivalent	1,027,815	946,887	763,348	658,009	703,809
Account receivable	207,393	179,584	350,664	420,797	504,956
Inventory	258,489	244,452	368,138	478,580	598,225
Other current assets	531,411	255,759	337,702	337,702	337,702
Fixed assets	572,194	587,882	902,625	1,373,412	1,708,095
Intangible assets	298,560	439,040	477,934	477,934	477,934
Other non-current assets	472,233	613,854	842,634	842,634	842,634
Total Assets	3,109,606	3,267,458	4,043,045	4,589,068	5,173,355
Cash payable	209,740	157,927	200,357	200,357	200,357
Short term loan	38,109	265,724	117,812	141,374	169,649
Other current liability	375,568	182,069	339,043	339,043	339,043
Long term loan	110,996	124,713	395,355	575,587	518,028
Other non-current liability	102,247	87,061	92,001	92,001	92,001
Total Liabilities	836,660	817,494	1,144,568	1,348,362	1,319,078
Shareholders' equity	2,272,946	2,449,964	2,898,477	3,240,706	3,854,277
Minority interest	178,923	208,196	230,750	230,750	230,750
Total shareholders' equity	2,094,023	2,241,768	2,667,727	3,009,956	3,623,527
Total shareholders' equity and liabilities	3,109,606	3,267,458	4,043,045	4,589,068	5,173,355

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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