

Beijing Enterprise Water (371.HK)

Faster Than Expected Growth

Hong Kong | Environmental Protection | Update Report

14 May 2015

Business result is better than expected

The Company recorded revenues of HK\$8.926 billion for the year of 2014, up by 39% yoy; registered gross profit of HK\$3.496 billion with gross margin at 39.1%, roughly maintaining the same level as in 2013. In 2014, the profit attributable to its shareholders was HK\$1.794 billion, having a significant year-on-year growth of 65%. It recorded earning per share of HK\$0.2, with dividend per share being HK\$4.8 cent. Overall, the Company's results were better than expected in the past year.

New projects grew rapidly

New projects in relation to water processing business in 2014 reached 4.65 million tons, most of which were implemented in the models of BOT and PPP. In the past year, the total scale of water projects increased up to 20.15 million tons, 21% more than at the end of 2013, including 11.71 million tons for effluent treatment projects, 928.5 thousand tons for recycled water projects and 7.46 million tons for water supply projects. It is expected that the total scale will hit 40 million tons by 2018, with new projects being 5 million tons on average year by year. For 2015, the Company set a target of 3 million tons for new projects and this figure is likely to be exceeded. So far, 54% of the projects undertaken by the Company have been up to standard of Grade One Level A, with the rest being Grade One Level B or Grade Two, which will likely be improved. In this year, a total of 5 projects involving 230 thousand tons will improve water standard, with the likelihood of water price rising in the future.

Valuation

Seeing the rapid growth of new projects, the Company's result is expected to witness a growth of over 30% every year in the coming five year. As more projects will be put into operation, the Company's gross margin will go above 40%. The declining interest has also kept bringing down the financing cost. Besides, it plans to develop business in terms of industrial effluent treatment and town/village effluent treatment, and the operation of the photovoltaic power plant is likely to drive growth. To sum up, we expect that our price per share goes up to HK\$7.98, equivalent of 25 times earnings in 2015. We maintain a "Buy" rating. (Closing price as at 12 May 2015)

Buy (Maintain)

CMP: HKD 6.59

(Closing price as at 12 May 2015)

TARGET : HKD 7.98

COMPANY DATA

O/S SHARES(MN) :	8713
MARTKET CAP (HKD BN) :	574
52-WK HI/LO (HKD) :	4.16/ 7.37

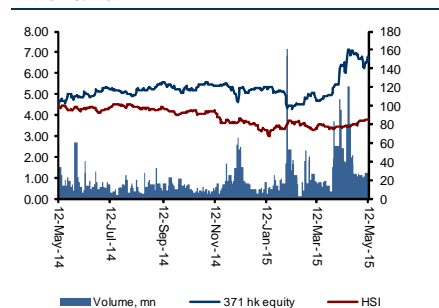
SHARE HOLDING PARTTEN %

Beijing Enterprises Environmental Construction Limited	43.94
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PRICE PERFORMANCE • %

	1MTH	3MTH	1YR
371HK	0.76	47.76	39.03
HSI	2.94	36.72	16.42

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Operating Profit (HKD 000)	2,177,641	3,259,409	4,343,274	5,427,139
Net Profit, adj. (HKD 000)	1,084,257	1,646,943	2,264,477	2,882,011
EPS, adj. (HKD)	0.14	0.20	0.27	0.34
P/E (X)	47.1	33.0	24.4	19.4
BVPS (HKD)	1.71	1.79	2.00	2.32
P/B (X)	3.9	3.7	3.3	2.8
DPS (HKD)	0.05	0.05	0.05	0.05
Div. Yield	0.8%	0.8%	0.8%	0.8%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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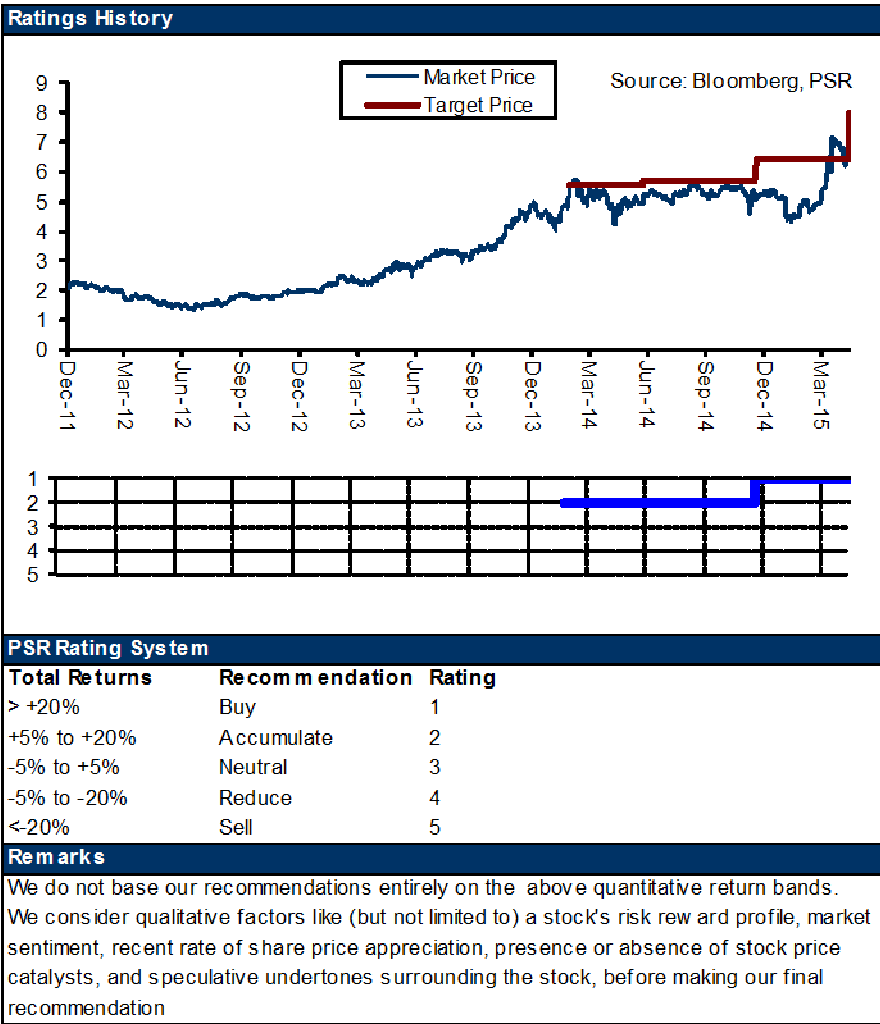
Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
Valuation Ratios					
P/E (X)	59.9	47.1	33.0	24.4	19.4
P/B (X)	4.3	3.9	3.7	3.3	2.8
Dividend Payout ratio	18.18%	35.71%	25.00%	18.52%	14.71%
Dividend Yield	0.30%	0.76%	0.76%	0.76%	0.76%
Per share data (HKD)					
EPS, reported	0.11	0.14	0.20	0.27	0.34
EPS, adj.	0.11	0.14	0.20	0.27	0.34
DPS	0.02	0.05	0.05	0.05	0.05
BVPS	1.55	1.71	1.79	2.00	2.32
Growth					
Revenue	40.4%	71.9%	41.7%	30.0%	23.1%
Operating income	32.8%	42.2%	49.7%	33.3%	25.0%
Net Income, adj.	24.9%	44.5%	51.9%	37.5%	27.3%
Key Ratios					
Current ratio	147.75%	130.57%	132.05%	117.62%	112.31%
Gross profit margin	38.55%	39.11%	39.17%	40.00%	42.00%
Net profit margin	20.13%	16.92%	20.10%	21.48%	23.16%
Return on average assets	2.68%	2.87%	3.37%	4.09%	5.57%
Return on average equity	10.48%	8.14%	12.34%	14.05%	15.94%
Liability/asset	65.70%	63.96%	63.04%	61.83%	60.37%
Income statement (thousand HKD)					
	FY12	FY13	FY14	FY15F	FY16F
Operating revenue	3,727,379	6,406,455	9,080,060	11,804,078	14,528,096
Cost of good sell	(2,290,350)	(3,900,867)	(5,357,235)	(6,728,325)	(8,099,415)
Gross profit	1,437,029	2,505,588	3,722,825	5,075,753	6,428,681
Other net profit	661,423	634,154	628,236	628,236	628,236
Administrative expenses	(439,575)	(774,576)	(1,076,252)	(1,345,315)	(1,614,378)
Operating profit	1,531,481	2,177,641	3,259,409	4,343,274	5,427,139
Interest expense	(494,290)	(788,111)	(1,194,067)	(1,492,584)	(1,791,101)
Profit before tax	1,091,793	1,497,160	2,148,870	2,934,218	3,719,566
Income tax	(224,643)	(351,762)	(419,030)	(586,844)	(754,658)
Effective income tax rate	20.58%	23.50%	19.50%	20.00%	20.50%
Net profit for the period	867,150	1,145,398	1,729,840	2,347,374	2,964,908
Minority interest	116,676	61,141	82,897	82,897	82,897
Net profit attributable to equity holders	750,474	1,084,257	1,646,943	2,264,477	2,882,011
Balance Sheet (thousand HKD)					
	FY12	FY13	FY14	FY15F	FY16F
Cash or cash equivalent	4,290,866	5,513,035	6,090,883	4,263,618	3,410,894
Account receivable	2,385,500	2,037,987	2,595,017	2,984,270	3,431,910
Inventory	5,395,988	5,323,645	4,309,629	4,309,629	4,309,629
Other current assets	1,606,849	2,337,573	2,082,530	2,082,530	2,082,530
PPE	6,469,498	11,779,143	15,639,617	17,985,560	20,683,394
Intangible assets	2,752,803	5,061,634	4,838,656	4,838,656	4,838,656
Other non-current assets	8,388,376	12,133,653	16,084,506	18,497,182	21,271,759
Total Assets	31,289,880	44,186,670	51,640,838	54,961,445	60,028,772
Cash payable	1,919,238	2,755,396	3,563,928	3,742,124	3,929,231
Short term loan	2,810,313	2,147,521	3,944,656	3,944,656	3,944,656
Other current liability	4,528,732	6,747,911	3,910,242	3,910,242	3,910,242
Long term loan	8,987,954	12,780,476	12,529,842	13,782,826	15,850,250
Other non-current liability	2,312,150	3,830,924	8,603,432	8,603,432	8,603,432
Total Liabilities	20,558,387	28,262,228	32,552,100	33,983,280	36,237,811
Shareholders' equity	8,467,124	13,297,631	15,784,448	17,673,875	20,486,671
Minority interest	2,264,369	2,626,811	3,304,290	3,304,290	3,304,290
Total shareholders' equity	10,731,493	15,924,442	19,088,738	20,978,165	23,790,961
Total shareholders' equity and liabilities	31,289,880	44,186,670	51,640,838	54,961,445	60,028,772

Source: PSR

(Financial figures as at 12 May 2015)



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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