

Grandblue ENV (600323.CH)

Aims to Create a Large Platform for Environmental Protection

China | Environmental Protection | Company Report

26 May 2015

Comprehensive Business Varieties

Grandblue is a company specializing in comprehensive environment-related business, including water supply, effluent treatment, garbage power generation, sludge treatment and so on. The Company has developed from water supply only to its current diversified business, indicating its plan to create a comprehensive platform for environmental protection. In Dec., 2014, the Company has acquired 100% equities of C&G Environmental Protection (China) in the form of a private placement. C&G China has 10 projects of garbage power generation in the mainland China, able to handle 11,350 tons of garbage. This acquisition has completed Grandblue's nationwide distribution of solid waste treatment business.

Results Improved Rapidly

The Company has reported the revenues of RMB 2.435 billion for the year of 2014, up 143% yoy; the business profit hit RMB 450 million, up 70.9% yoy; the net profit attributable to shareholders stood at RMB 350 million, up 49.7% yoy. In addition to the acquisition of C&G China in 2014, Grandblue also acquired 30% equities of Nanhai Gas, which specialized in gas supply business, both of which helped drive the Company's results. It is expected that Grandblue will continue to expand its business through more acquisitions.

Solid Waste Treatment Business is Promising

The Company has completed its integration of the whole solid waste industry chain which consists of garbage collection, garbage treatment, leachate treatment, ash and slag treatment, food residues treatment and sludge drying. It is the only company in China which is able to provide complete services for solid waste treatment. Following its acquisition of C&G China, the Company's capacity to use garbage to generate power reached 14,350 tons, equivalent to that of a large-scale garbage power generation plant. As we know, China has promulgated "10 provisions for atmospheric control" and "10 provisions for water treatment", and it is very likely that "10 provisions for land control" will be issued this year. Grandblue will benefit these favorable policies best in the future.

Valuation

Grandblue has become a platform for the environmental protection business. The solid waste treatment has been identified as the Company's key business for the next two years while "10 provisions for land control" is likely to be issued this year, which would be a great boon for the Company. We expect that the Company's results will maintain a high-speed growth, and thus set its target stock price at RMB 28 for the next 12 months, equivalent of 40 times earnings in 2015. A "buy" rating is given to the Company. (Closing price as at 22 May 2015)

Buy

CMP: CNY 20.42

(Closing price as at 22 May 2015)

TARGET: CNY 28.00

COMPANY DATA

O/S SHARES(MN) :	65
MARTKET CAP (CNY BN) :	156.47
52-WK HI/LO (CNY) :	10.55/ 21.99

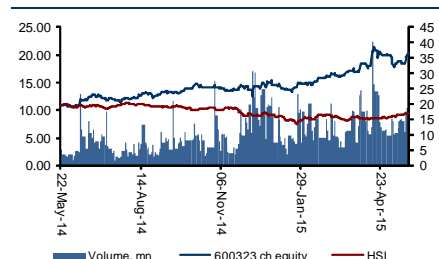
SHARE HOLDING PARTTEN , %

South Sea Water Supply	28.24
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PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
600323CH	-1.24	25.27	83.01
Shanghai Index	-6.73	-14.23	-40.67

PRICE & HSI



Source: Phillip Securities (HK) Research

Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Net Profit, adj. (RMB mn)	288	309	439	584
EPS, adj. (RMB)	0.40	0.49	0.70	0.93
P/E (X)	51.1	41.7	29.2	22.0
BVPS (RMB)	4.22	4.64	5.10	5.61
P/B (X)	4.8	4.4	4.0	3.6
DPS (RMB)	0.10	0.10	0.12	0.15
Div. Yield	0.5%	0.5%	0.6%	0.7%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

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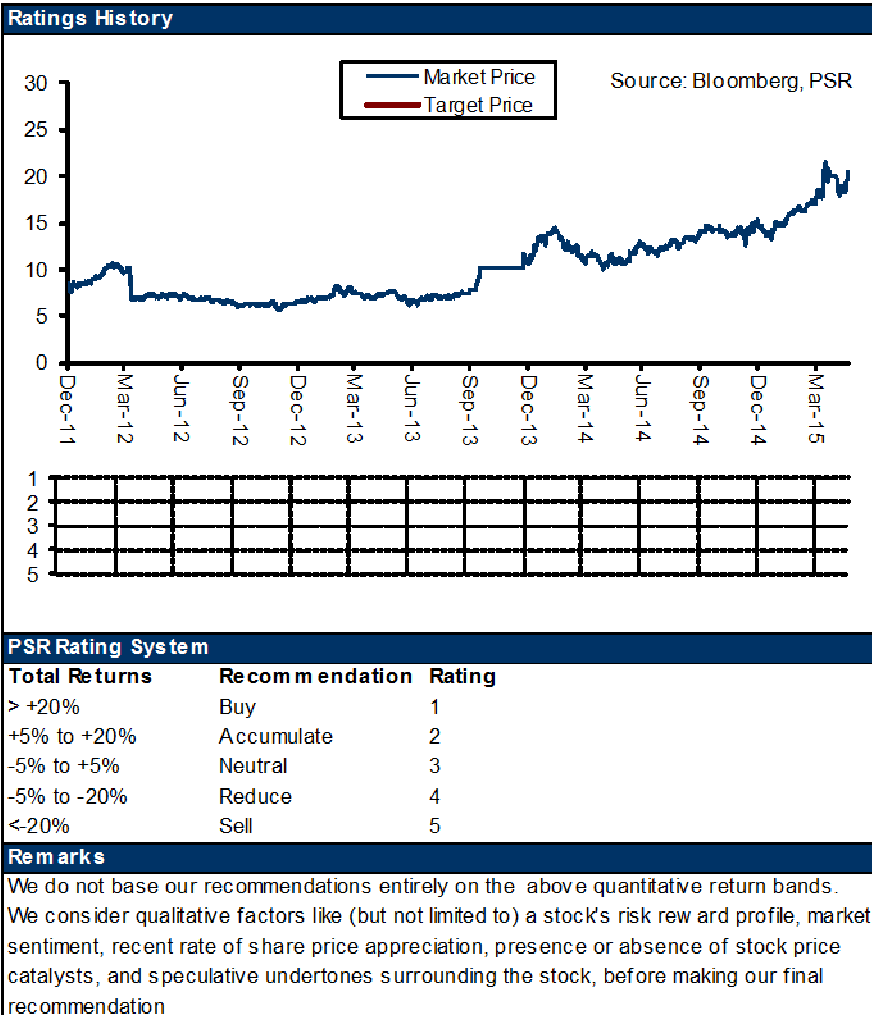
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Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14F	FY15F	FY16F
Valuation Ratios					
P/E (X)	55.2	51.1	41.7	29.2	22.0
P/B (X)	5.2	4.8	4.4	4.0	3.6
Dividend Payout ratio	27.03%	25.00%	20.41%	17.14%	16.13%
Dividend Yield	0.49%	0.49%	0.49%	0.59%	0.73%
Per share data (RMB)					
EPS, reported	0.37	0.40	0.49	0.70	0.93
EPS, adj.	0.37	0.40	0.49	0.70	0.93
DPS	0.10	0.10	0.10	0.12	0.15
BVPS	3.91	4.22	4.64	5.10	5.61
Growth					
Revenue	18.3%	143.6%	12.9%	37.0%	30.0%
Net Income, adj.	26.7%	51.6%	7.3%	42.1%	33.0%
Key Ratios					
Gross profit margin	40.65%	38.50%	31.11%	31.00%	31.00%
Return on average equity	10.64%	9.93%	13.60%	13.87%	14.25%
Liability/asset	50.34%	54.25%	66.41%	58.32%	62.17%
Income statement (RMB Mn)					
	FY12	FY13	FY14F	FY15F	FY16F
Operating revenue	885	2,156	2,435	3,336	4,336
Profit before tax	224	428	467	640	832
Net profit for the period	192	332	352	482	627
Net profit attributable to equity holders	190	288	309	439	584

(Financial figures as at 22 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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