

# Longking ENV (600388.CH)

## the Leading Company in Dust Removal Industry

China | Environmental Protection | Company Report

30 Jun 2015

### Company Profile

Longking, as a leading company in China's dust removal industry, is the first of its kind to go public. Since getting listed in Shanghai Stock Exchange in Dec., 2000, the Company has developed into an innovative environmental protection engineering company and its main business has extended from simply electrostatic precipitation and electric control devices to the dust removal, desulfurization, denitrification, material handling, desulfurization operation and power plant EPC.

### Stable Growth of Revenue

In 2014, the Company recorded revenue of RMB 6.027 billion, up by 8% yoy; the net profit recorded the shareholders stood at RMB 463 million, up by 1% yoy, with EPS RMB1.08. Over the past five years, the Company's revenue recorded CAGR of 9.9%, with net profit growth rate being 9.8%. Overall, Longking's operation remains relatively stable.

### Gross Profit Margin Went up

The main business of the Company involves dust removal equipment, desulfurization and denitrification engineering projects. The dust removal equipment, the conventional business of the Company recorded revenue of RMB 3.054 billion in 2014, up by 15% yoy and accounting for 50.7% of it. Its gross margin in the year rose to 25.45%, up by 4 pts yoy. As the other pillar of the Company, desulfurization and denitrification engineering recorded revenue of RMB 2.142 billion, up by 7% yoy and accounting for 35.5% of it. Its gross margin in the year rose to 21.4%, up by 3 pts yoy. The gross margin growth indicated that the Company's cost control was effective.

### Era of Super-low Emission is Coming

In Sept., 2014, National Reform and Development Commission (NRDC) issued Action Plan for Upgrading and Renovation of Energy Saving and Emission Reduction in Coal-fired Power Industry, which stated that by 2020, air pollutants emission concentration in new power plants in 11 provinces in East China will basically meet the emission limit of a gas turbine unit. According to this criterion, which is even stricter than the previous one adopted in 2011, the concentration limit of flue, SO<sub>2</sub> and NO<sub>x</sub> will diminish by 67%, 65% and 50% respectively. It is believed that an era of super-low emission is coming and Longking will benefit from it.

### Valuation

In 2014, the amount of contracts that Longking landed on electrostatic precipitation, electrostatic bag precipitation, desulfurization and denitrification grew up by 18.4% yoy and it is expected that its business results will grow by around 15% in the next three years, with the net profit reaching RMB 7 billion and RMB 8 billion respectively in 2015 and 2016. Considering the active A Share market, we set Longking's 12-month target price at RMB 22.5 per share, equivalent to 15 times forecast PE to be recorded in 2016. We give it a "Accumulate" rating. (Closing price as at 26 June 2015)

### Accumulate

CMP: CNY 19.12

(Closing price as at 26 June 2015)

TARGET: CNY 22.50

### COMPANY DATA

O/S SHARES(MN) :	65
MARTKET CAP (CNY BN) :	204.4
52-WK HI/LO (CNY) :	73/ 18.54

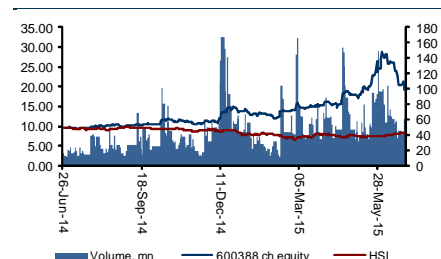
### SHARE HOLDING PARTTEN , %

Dongzheng Investment Co.Ltd	17.2
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### PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
600388CH	-63.37	-45.27	-11.98
Shanghai Index	-57.43	-68.96	-135.52

### PRICE & HSI



Source: Phillip Securities (HK) Research

### Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Net Profit, adj. (RMB mn)	457	463	551	634
EPS, adj. (RMB)	1.07	1.08	1.29	1.48
PE (X)	17.9	17.7	14.8	12.9
BVPS (RMB)	6.51	7.36	8.65	10.13
P/B (X)	2.9	2.6	2.2	1.9
DPS (RMB)	0.33	0.33	0.38	0.44
Div. Yield	1.7%	1.7%	2.0%	2.3%

Source: Bloomberg, PSR est.

\*All multiples &amp; yields based on current market price

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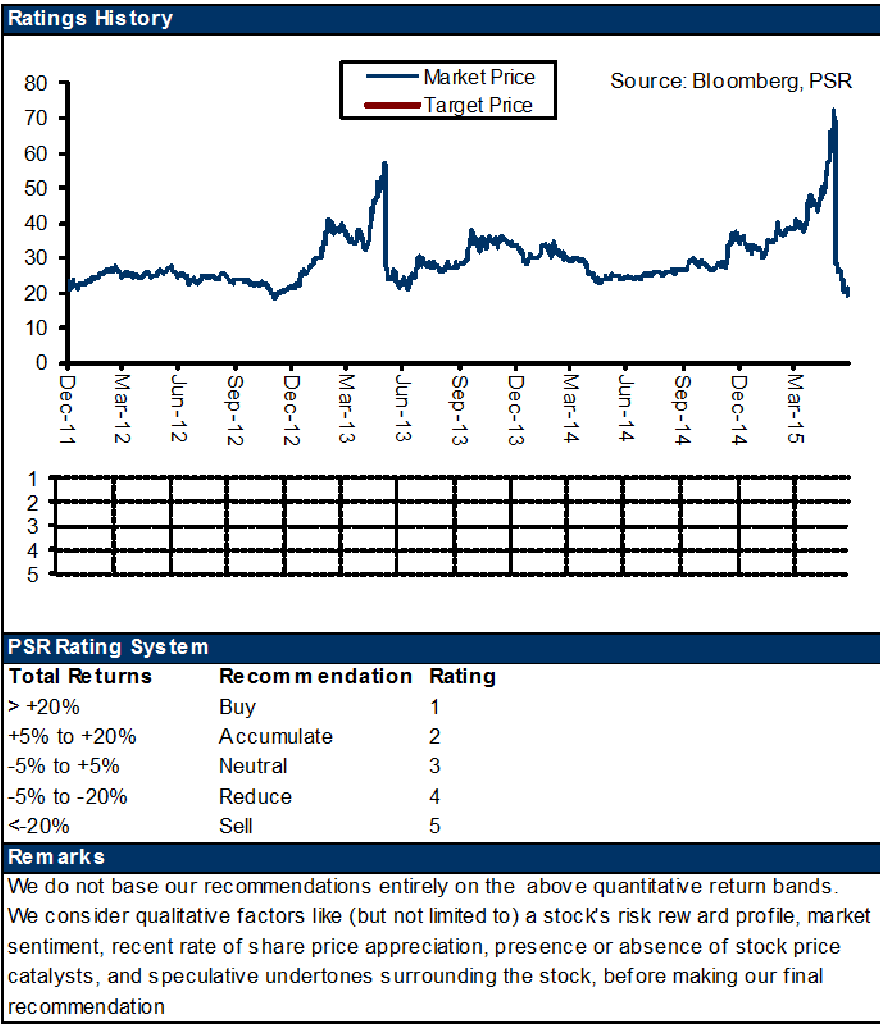
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## Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>					
P/E (X)	14.1	17.9	17.7	14.8	12.9
P/B (X)	1.6	2.9	2.6	2.2	1.9
Dividend Payout ratio	29.41%	30.84%	30.56%	29.46%	29.73%
Dividend Yield	2.09%	1.73%	1.73%	1.99%	2.30%
<b>Per share data (RMB)</b>					
EPS, reported	1.36	1.07	1.08	1.29	1.48
EPS, adj.	1.36	1.07	1.08	1.29	1.48
DPS	0.40	0.33	0.33	0.38	0.44
BVPS	11.94	6.51	7.36	8.65	10.13
<b>Growth</b>					
Revenue	20.6%	31.3%	8.2%	16.7%	14.6%
Net Income, adj.	15.5%	57.0%	1.3%	19.0%	15.1%
<b>Key Ratios</b>					
Gross profit margin	22.57%	21.20%	23.32%	23.00%	23.00%
Return on average equity	19.97%	25.48%	24.22%	24.78%	25.91%
Liability/asset	65.10%	66.48%	71.65%	73.05%	75.27%
<b>Income statement (RMB Mn)</b>					
	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>
Operating revenue	4,240	5,568	6,027	7,035	8,064
Profit before tax	316	506	509	606	697
Net profit attributable to equity holders	291	457	463	551	634

(Financial figures as at 26 June 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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