

# Dongjiang Env (895.HK)

## Sufficient capital with high growth rate expected

Hong Kong | Environmental protection | Company Report

16 Jul 2015

### Steady growth in business

Dongjiang recorded an income of RMB2.048 billion in 2014, up 29.35% yoy. Profit attributable to shareholders amounted to RMB0.252 billion, up 20.8% yoy. Gross profit of the Company showed an increase of 2 pts yoy, recorded 32.49%. In 20151Q, the Company recorded an income of RMB0.51 billion, up 35.42% yoy; profit attributable to shareholders amounted to RMB72,540,000, up 28.69% yoy. Dongjiang expected the net profit in 2015H1 would range between RMB0.17 billion and RMB0.197 billion, representing a yoy growth ranged from 25% to 45%. It is expected that the Company would keep steady growth in business this year.

### Speedy growth of the business of electrical appliance dismantling

The Company's industrial solid waste treatment business recorded an income of RMB1.333 billion, up 10.53% yoy; in which the product of resource recovery and re-utilization recorded an income of RMB0.938 billion, down 2.6% yoy, while the business of dismantling scrap electrical appliances recorded RMB0.221 billion, surged 437.5% yoy and achieved as the second largest business segment of the Company with a contribution of 10.8% to the Company's total income. Municipal solid waste treatment business also demonstrated a speedy growth, which recorded an income of RMB0.209 billion in 2014, up 54.67% yoy.

### Sufficient capital for Company's projects

On 4 April, the Company announced the action of financing through issuing non-public offering of A-share, with a share price of RMB39.8. The total issuance amounted to 5,786 shares, which is equivalent to 16.64% of the total equity of the Company. This non-public offering of new share is targeted to the Chairman of the Board, Zhang Weiyang, and nine investment companies including Ping An Asset Management and China Min Sheng Investment etc. It aims at raising approximately RMB2.3 billion. Among this amount, except RMB1.382 billion being spent on injecting liquidity to the Company and repaying bank loans, the rest would be used on developing three projects: industrial solid waste treatment project in Jiangxi Province, manhole processing expansion project, and technical advancement project in Huizhou. As at the end of 2015Q1, the Company's cash balance on book amounted to RMB0.99 billion, representing sufficient capital for future projects. It is possible for the Company to develop more new projects.

### Valuation

Dongjiang's projects in north Guangdong, Jiangmen and Deda commenced operation in the first half of this year. With sufficient capital on hand currently, the Company has room for starting more new projects in the second half of the year. We grant Dongjiang a target price of HKD16.8, which is equivalent to 23x of the e P/E in 2016, and a rating of "Accumulate". (Closing price as at 14 July 2015)

### Accumulate (downgrade)

CMP: HKD 14.84

(Closing price as at 14 July 2015)

TARGET: HKD 16.80

#### COMPANY DATA

O/S SHARES(MN) :	200
MARTKET CAP (HKD BN) :	29.3
52-WK HI/LO (HKD) :	9.284/ 19.3

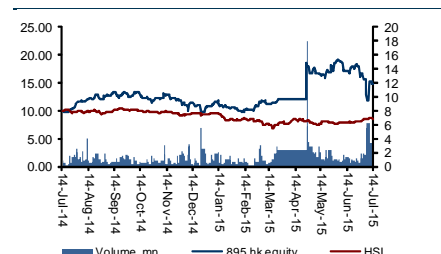
#### SHARE HOLDING PARTTEN , %

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

#### PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
895HK	-12.68	23.3	49.24
HSI	-5.14	31.78	41.2

#### PRICE & HSI



Source: Phillip Securities (HK) Research

#### Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Operating Profit (RMB mn)	239	303	436	608
Net Profit, adj. (RMB mn)	208	252	362	506
EPS, adj. (RMB)	0.92	0.74	0.42	0.58
P/E (X)	12.9	16.0	28.3	20.5
BV/PS (RMB)	9.93	7.05	3.24	3.82
P/B (X)	1.2	1.7	3.7	3.1
DPS (RMB)	0.30	0.15	0.20	0.20
Div. Yield	2.5%	1.3%	1.7%	1.7%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

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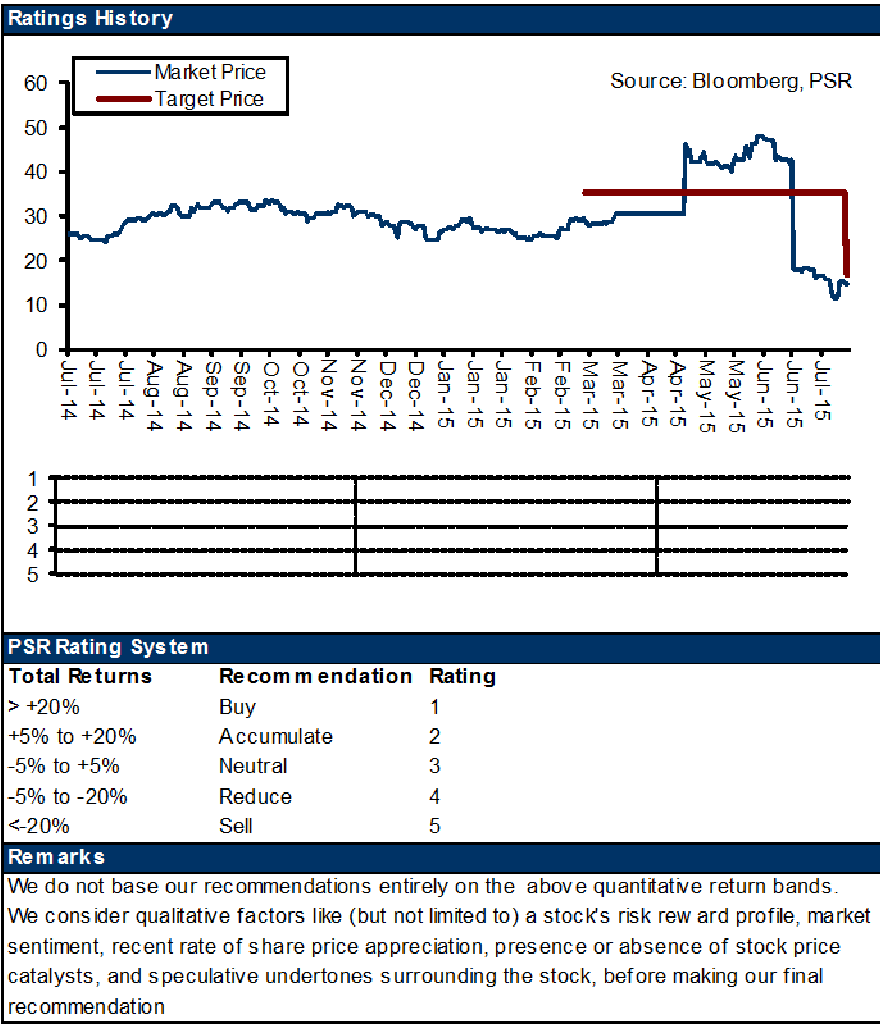
## Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>					
P/E (X)	9.7	12.9	16.0	28.3	20.5
P/B (X)	1.2	1.2	1.7	3.7	3.1
Dividend Payout ratio	73.17%	32.61%	20.27%	47.62%	34.48%
Dividend Yield	7.58%	2.53%	1.26%	1.68%	1.68%
<b>Per share data (RMB)</b>					
EPS, reported	1.23	0.92	0.74	0.42	0.58
EPS, adj.	1.23	0.92	0.74	0.42	0.58
DPS	0.90	0.30	0.15	0.20	0.20
BV/PS	9.63	9.93	7.05	3.24	3.82
<b>Growth</b>					
Revenue	1.4%	4.0%	29.4%	43.7%	39.7%
Operating income	34.1%	-24.4%	26.9%	43.6%	39.8%
Net Income, adj.	30.9%	-21.9%	21.0%	43.7%	39.8%
<b>Key Ratios</b>					
Net profit margin	17.53%	13.16%	12.30%	12.30%	12.31%
Return on average equity	17.54%	9.61%	10.76%	13.80%	16.55%
Liability/asset	26.91%	25.02%	51.01%	52.37%	49.25%
<b>Income statement (RMB mn)</b>					
	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>
<b>Operating revenue</b>	<b>1,522</b>	<b>1,583</b>	<b>2,048</b>	<b>2,943</b>	<b>4,111</b>
<b>Operating profit</b>	<b>316</b>	<b>239</b>	<b>303</b>	<b>435</b>	<b>608</b>
<b>Net profit attributable to equity holders</b>	<b>267</b>	<b>208</b>	<b>252</b>	<b>362</b>	<b>506</b>

Source: PSR

(Financial figures as at 14 July 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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