

# CT Environmental Group (2919.HK)

## Research Summary

Hong Kong | Environmental protection | Update Report

29 JUL 2015

We have recently paid a research visit to Chongto's project of Yonghe Haitao Treatment Facility located in Guangzhou city, and have exchanged views with the management on the latest development of the Company.

### Strict requirement by the Guangdong Province

The Phase III of the project of Yonghe Haitao Treatment Facility involves construction of pipelines to collect industrial wastewater from textile factories in the vicinity of 12 km from the project site, and the provision of industrial wastewater treatment services to them. Those textile factories previously used their own self-equipped wastewater treatment facilities; however, due to the strict requirement by the authority of Guangdong Province, the factories have to shift to employ professional enterprises for wastewater treatment. Currently there are only 15% of enterprises in the Province choosing professional third party to perform the wastewater treatment job, while 85% of enterprises still using their own self-equipped wastewater treatment facilities, representing a huge market in this area.

### Extending wastewater treatment business to industry of mechanical and electrical appliances

On 6 July 2015, Chongto entered into the investment agreement with the authority of Yinghong town of Yingde city in Guangdong, in relation to an industrial wastewater treatment plant and an industrial water supply plant in the town under the operation mode of BOO (Build-Own-Operate). This project includes industrial wastewater treatment capacity of 80,000 tons per day and industrial water supplies capacity of 200,000 tons per day, with a total investment amounted to RMB420 million. One of a phase under this project involves wastewater treatment capacity of 20,000 tons per day and water supplies capacity of 50,000 tons per day. The enterprises producing wastewater in the local area are mainly in the industries of mechanical chemistry, electrical and electronic production etc, leading the Company to enter a new aspect of industrial wastewater treatment. This project is expected to kick start in 2015Q4, and to commence operation in 2016Q3. The IRR of the project is expected to be 20%.

### Launching large-scaled hazardous waste project

The Company announced on 23 April that a project in Nansha region in Guangzhou will be constructed to treat 500,000 tons hazardous waste and to produce 150,000 tons of bio-diesel annually. Total investment of this project amounted to RMB320 million. This hazardous waste project mainly handles cabin-cleaning wastewater at ports, oil leaked from vessels, and also diesel from oil refineries. There are some treatment equipment in the area, and thus this project would focus on technical upgrade and expansion, and construction of associated equipment. This project is currently under operation. With its large scale, it is expected to be completed by the end of 2016.

### Accumulate (Maintain)

CMP: HKD 2.65

(Closing price as at 27 July 2015)

TARGET: HKD 3.00

#### COMPANY DATA

O/S SHARES(MN) :	6117
MARTKET CAP (HKD BN) :	162.09
52-WK HI/LO (HKD) :	1.341/2.995

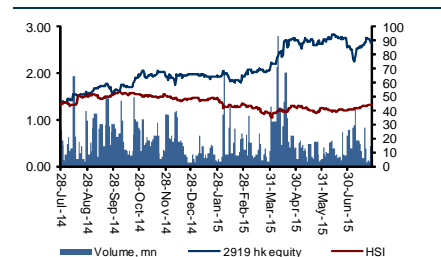
#### SHARE HOLDING PARTTEN , %

Keen Vast Holdings Limited. :	57.58
:	
:	

#### PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
1363HK	-0.36	0.33	101.32
HSI	7.07	10.78	97.55

#### PRICE & HSI



Source: Phillip Securities (HK) Research

#### Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Gross Profit (HKD mn)	485	1,033	1,676	2,611
Net Profit, adj. (HKD mn)	224	425	673	1,010
EPS, adj. (HKD)	0.05	0.08	0.11	0.17
P/E (X)	53.0	33.1	24.1	15.6
BV/PS (HKD)	0.25	0.31	0.42	0.58
P/B (X)	10.6	8.6	6.3	4.5
DPS (HKD)	0.01	0.01	0.01	0.02
Div. Yield	0.4%	0.4%	0.4%	0.8%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

Research Analyst

**Zhang Kun**

(+ 86 21 51699400-104)

research@phillip.com.cn

**Hazardous waste and sewage generate synergy effect**

The Company recently has been devoted to develop business of hazardous waste treatment, which generates synergy effect with the existing business of industrial wastewater treatment. For example, some waste acid will be released during the process of hazardous waste treatment, which can be used for neutralizing the strength of alkalinity of industrial wastewater; Moreover, copper powder will be extracted from wastewater with copper during the process of hazardous waste treatment and ferric chloride will be produced at the same time. Ferric chloride is an excellent flocculant, which can be used to eliminate the suspended particles in wastewater. Such synergy effect has been currently adopted in the operation of the Company.

**Valuation**

The three core business segments of Chongto, namely industrial wastewater treatment, sludge treatment, and hazardous waste treatment, all carry the features of strong profitability and great market potentials. The comprehensive treatment capacity of the Company gives her ability to offer overall integrated solutions to enterprises producing wastewater in industrial park. Diversification of businesses also helps to lower the possible business risk of concentrating on a type of business. Recently, the Company has implemented stock splitting. We raised the target price to HK\$3, which is equivalent to 18x of the 2016 eP/E, keeping the rating of "Accumulate". (Closing price as at 27 July 2015)

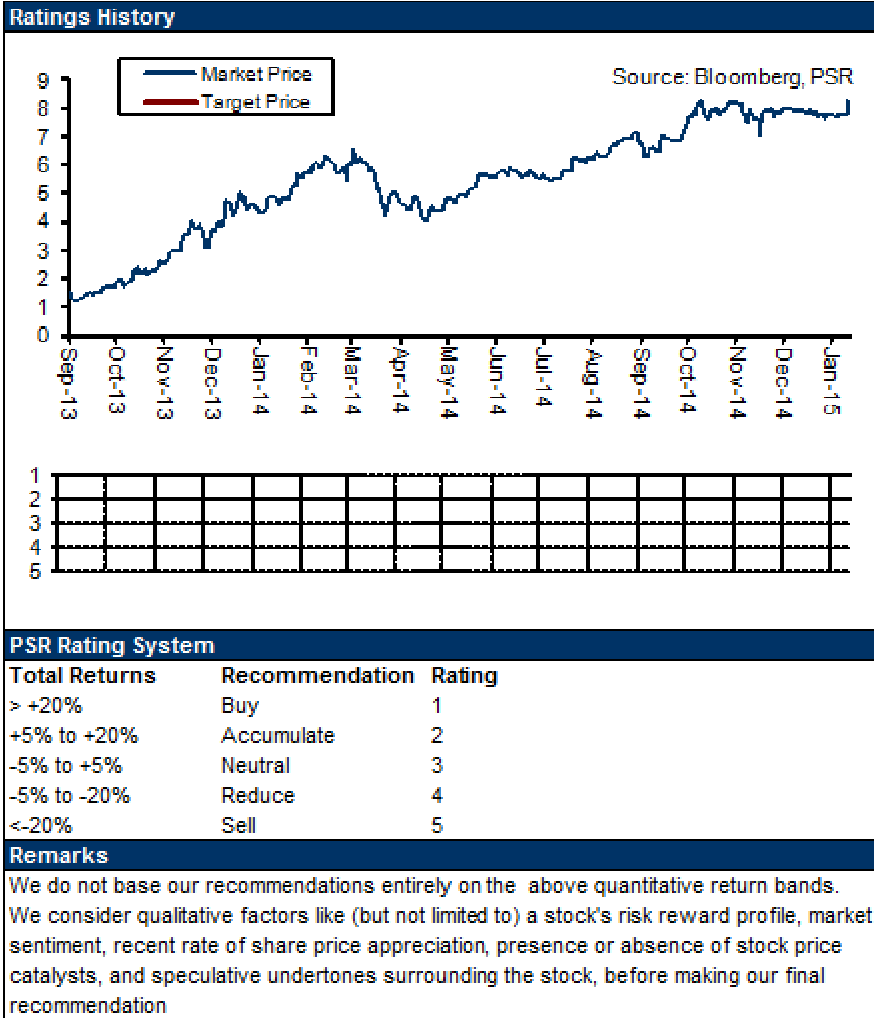
## Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>					
P/E (X)	88.3	53.0	33.1	24.1	15.6
P/B (X)	29.4	10.6	8.6	6.3	4.5
Dividend Payout ratio	0.00%	20.00%	12.50%	9.09%	11.76%
Dividend Yield	0.00%	0.38%	0.38%	0.38%	0.75%
<b>Per share data (HKD)</b>					
EPS, reported	0.03	0.05	0.08	0.11	0.17
EPS, adj.	0.03	0.05	0.08	0.11	0.17
DPS	0.00	0.01	0.01	0.01	0.02
BVPS	0.09	0.25	0.31	0.42	0.58
<b>Growth</b>					
Revenue	-17.0%	26.3%	113.1%	62.2%	55.8%
Gross profit	-5.5%	21.3%	90.1%	58.4%	50.1%
Net Income, adj.	7.7%	26.6%	89.4%	58.4%	50.1%
<b>Key Ratios</b>					
Gross profit margin	65.76%	63.14%	56.34%	55.01%	53.01%
Net profit margin	46.18%	46.29%	41.14%	40.16%	38.68%
Return on average equity	58.60%	29.61%	28.14%	30.16%	32.87%
Liability/asset	65.67%	40.35%	47.58%	55.75%	60.21%
<b>Income statement (HKD mn)</b>					
<b>Operating revenue</b>	<b>384</b>	<b>485</b>	<b>1,033</b>	<b>1,676</b>	<b>2,611</b>
<b>Gross profit</b>	<b>252</b>	<b>306</b>	<b>582</b>	<b>922</b>	<b>1,384</b>
<b>Net profit attributable to equity holders</b>	<b>177</b>	<b>224</b>	<b>425</b>	<b>673</b>	<b>1,010</b>

Source: PSR

(Financial figures as at 27 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

**GENERAL DISCLAIMER**

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

**Disclosure of Interest**

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

**Availability**

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2015 Phillip Securities (Hong Kong) Limited

**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**
**Phillip Securities (Thailand) Public Co. Ltd.**

15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**
**Phillip Futures Inc.**

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building

Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA**
**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

Level 12, 15 William Street,

Melbourne, Victoria 3000, Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)