

Grandblue ENV (600323.CH)

Post-acquisition results significantly enhanced

China | Environmental Protection | Company Report

13 October 2015

Results being enhanced significantly

In 2015H1, Grandblue recorded operating income of RMB1.665 billion, up 47.22% yoy; and business profit of RMB262 million, up 12.41 yoy. Net profit attributable to shareholders of parent company hit RMB189 million, up 15.15% yoy; while weighted average rate of return on net asset recorded 4.43%, dropped 2.37 pts yoy. Earning per share is RMB0.25. The enhanced business results is mainly contributed by the pretty profit and loss sheet of C&G Environmental Protection (China). In the upcoming two years, C&G would enhance the net profit of Grandblue by RMB100 million and 160 million respectively.

Rapid development in various business segments

The Company's income from solid waste treatment in 2015H1 amounted to RMB512 million, significantly surged 184.59%. Various projects are undergoing normal operation in the Environmental Protection Industry Park for Solid Waste Treatment in Nanhai. Both projects of expansion of Nanhai Waste Incineration Plant I and Nanhai Food Waste Treatment were smoothly completed in June 2015. By signing the contract of acquiring the sanitary landfill for domestic waste in Bainikeng of Sanshui district, the Company would include waste landfill project in its business and further enhance the supply chain of solid waste treatment business. Income from water supply amounted to RMB311 million in 2015H1, up 32.43% yoy. However, due to a number of reasons which include the loss incurred by the subsidiary of water supply, the newly recorded depreciation after the commencement of operation of the new Guicheng Water Treatment Plant, additional cost from Guicheng boosting pump station, and the increase in financial costs etc, the profit of the water supply segment significantly dropped 85.34%. The Company has completed the project of collaboration of water supply of two towns of Dali and Xiqiao. Up till now, the Company has successfully accomplished all collaboration projects on water supply for all streets and towns in Nanhai district, taking the basic control of the end-user market of water supply in Nanhai district. Currently, water price adjustment has been started in Nanhai district. Once the water price adjustment is implemented smoothly, the Company's drop in profit could possibly be reduced.

Valuation

Due to the acquisition of C&G Environmental Protection (China), the Company's business results in 2015H1 has demonstrated significant growth and the future development of business is more consolidated. We adjust the target price downward to RMB17.5 and keep the rating of "Buy". (Closing price as at 9 Oct 2015)

Buy

CMP: CNY 12.89

(Closing price as at 9 Oct 2015)

TARGET: CNY 17.50

COMPANY DATA

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

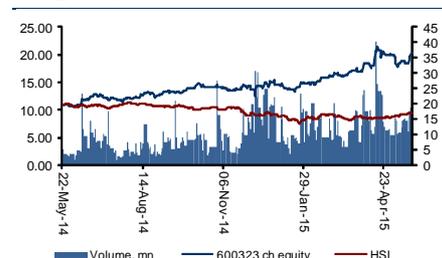
SHARE HOLDING PARTTEN , %

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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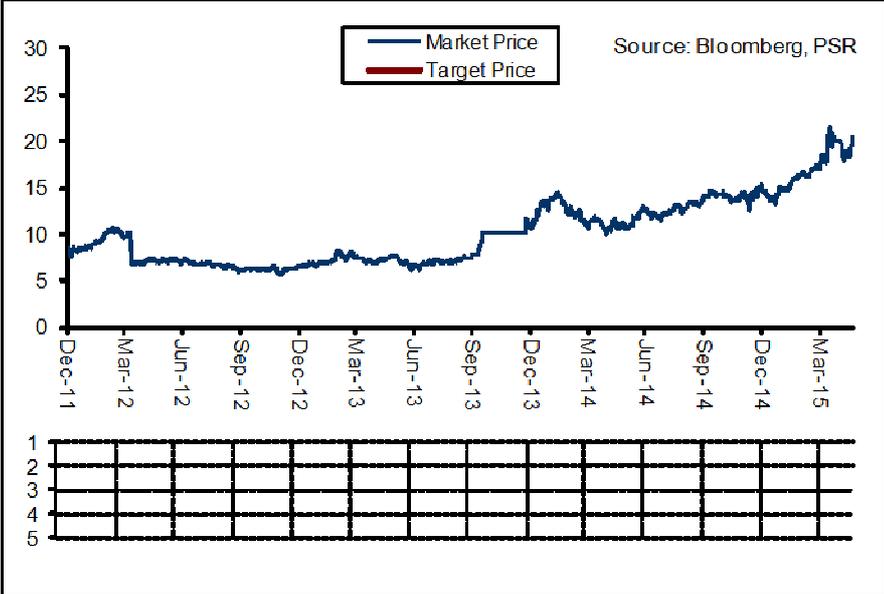
Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	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 9 Oct 2015)

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

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

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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