

# Kangda Env (6136.HK)

## More new projects are expected

Hong Kong | Environmental protection | Update Report

19 October 2015

### Business results kept stable

The Company recorded an income of RMB 785 million in 2015H1, down 9.18% yoy; gross profit amounted to RMB 371 million, up 19.31%yoy; while gross profit margin recorded 47%, which increased 11 ppts compared to the same period last year. The drop of income and the increase of gross profit margin was mainly due to the yoy decline of income from construction business in H1. The net profit attributable to shareholders amounted to RMB 137 million, up 11.08% yoy. Basic earning per share is RMB 7 cents. The Company's business basically kept stable.

### More new projects expected in H2

The Company's capacity from new projects was merely 50,000 tons and the management pointed out that the total capacity of new projects which would certainly be launched at the moment amounted to approximately 350,000 tons; while new projects which would definitely be launched marked 400,000 – 500,000 tons; and new projects which were not too certain for launching marked about 500,000 tons. Yearly target for new projects is 800,000 tons. New projects have more pressure for orders in H2 and the new capacity brought by new projects is drawing attention from market.

### Expand towards business areas with higher profitability

The Company currently is expanding business in new areas including wastewater treatment in urban regions, sludge treatment as well as watershed management. Among these, business development of wastewater treatment in urban regions would focus on certain areas in order to assure yield return, and the Company expected the yield return of this new business should be higher than the other business segments. Market potentials for sludge treatment is huge and the yield return is also higher. The Company can enhance the overall yield return on business through expansion towards new business areas.

### Valuation

The H1 business result of the Company was steady, which was lower than our expectation. We have to keep an eye on the development of new projects, and also the negotiations and bargaining between the Company and the authority after the change of refunding policy of value-added tax. We maintain the target price of HKD 4.05, and maintain the rating of "Buy". (Closing price as at 15 Oct 2015)

## BUY (Maintain)

CMP: HKD 2.63

(Closing price as at 15 Oct 2015)

TARGET: HKD 4.05

### COMPANY DATA

O/S SHARES(MN) :	2068
MARTKET CAP (HKD BN) :	69.68
52-WK HI/LO (HKD) :	2.47/ 5.11

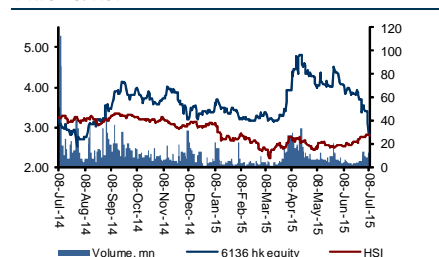
### SHARE HOLDING PARTTEN , %

Kangda Holdings Company Limited::	52.96
Baring Private Equity Asia V Holding Limited	19.59
:	

### PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
6136HK	-23.4	-20.66	-7.16
HSI	-15.97	-20.51	-14.37

### PRICE & HSI



Source: Phillip Securities (HK) Research

### Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Operating Profit (HKD 000)	282	382	505	614
Net Profit, adj. (HKD 000)	232	295	390	473
EPS, adj. (HKD)	0.15	0.17	0.22	0.27
P/E (X)	15.0	13.3	10.3	8.4
BV/PS (HKD)	0.89	1.60	1.82	2.09
P/B (X)	2.5	1.4	1.2	1.1
DPS (HKD)	0.00	0.00	0.02	0.03
Div. Yield	0.0%	0.0%	0.9%	1.3%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

### Research Analyst

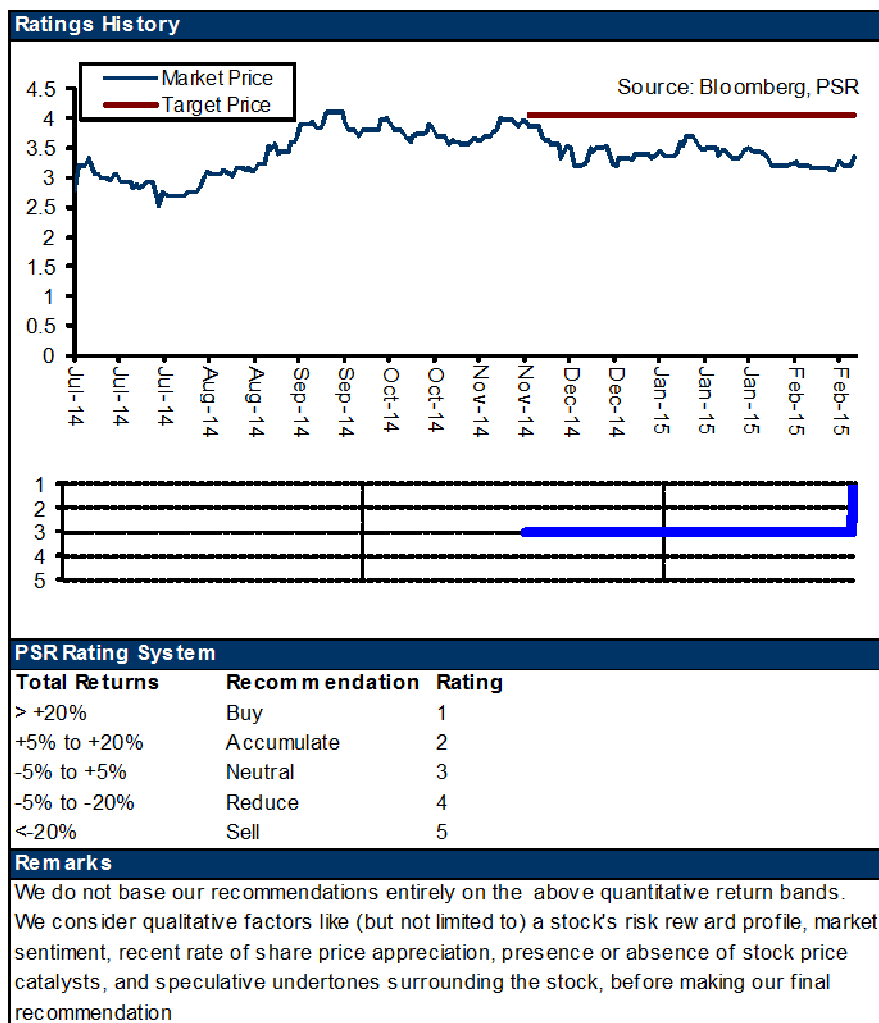
Zhang Kun  
(+ 86 21 51699400-104)  
research@phillip.com.cn

## Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>					
P/E (X)	17.4	15.0	13.3	10.3	8.4
P/B (X)	3.1	2.5	1.4	1.2	1.1
Dividend Payout ratio	0.00%	0.00%	0.00%	9.09%	11.11%
Dividend Yield	0.00%	0.00%	0.00%	0.89%	1.33%
<b>Per share data (HKD)</b>					
EPS, reported	0.13	0.15	0.17	0.22	0.27
EPS, adj.	0.13	0.15	0.17	0.22	0.27
DPS	0.00	0.00	0.00	0.02	0.03
BVPS	0.74	0.89	1.60	1.82	2.09
<b>Growth</b>					
Revenue	36.0%	34.1%	35.3%	28.9%	21.5%
Net Income, adj.	25.3%	17.8%	27.4%	32.2%	21.3%
<b>Key Ratios</b>					
Gross profit margin	44.21%	38.32%	40.00%	40.99%	41.00%
Net profit margin	19.67%	17.28%	16.26%	16.69%	16.66%
<b>Income statement (HKD mn)</b>					
<b>Total revenue</b>	<b>999</b>	<b>1,340</b>	<b>1,813</b>	<b>2,337</b>	<b>2,839</b>
<b>Profit before tax</b>	<b>233</b>	<b>282</b>	<b>382</b>	<b>505</b>	<b>614</b>
<b>Net profit attributable to equity holders</b>	<b>197</b>	<b>232</b>	<b>295</b>	<b>390</b>	<b>473</b>

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 15 Oct 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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**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

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