

# Yunnan Water (6839.HK)

## Rapid growth to be expected

Hong Kong | Environmental protection | Update Report

8 January 2016

### Revenue growth was relatively higher

The company's reported revenue in 2015H1 was RMB475 million, strongly up by 106% yoy. Reported net profit increased by 34.4% yoy to RMB54 million. The revenue growth was significantly higher than the net profit growth, as the revenue growth mainly came from the lower-margin construction services business.

### The rapid development of construction business

Revenue of construction services business in 2015H1 grew by RMB151 million, representing a sharp increase of 142.5% yoy. Revenue from water supply grew by 53.3% yoy to RMB40.7 million. Revenue from sewage treatment business rose by 24.4% yoy to RMB32 million. Construction services business delivered the strongest revenue growth, mainly due to the three additional BT projects in 2015H1.

### Smooth progress of operation business

As of 2015H1, the company had 47 sewage projects that were under construction and in operation, with a total handling capacity of 866,500 tons. Compared with the same period of last year, it added 5 projects with an additional handling capacity of 189,000 tons. The utilization rate of sewage treatment plants was 63.8% and the average unit price per ton was RMB1.04. As of 2015H1, the company had 17 water supply projects, with a handling capacity of 546,000 ton. Compared with the same period of last year, the company added 14 projects, with an additional handling capacity of 365,000 tons.

### Valuation

The IPO of the company was completed this year. The abundant cash on hand will be used for construction of new projects and acquisitions in future. Currently, the average lending rate of the company is 6.79%, which was relatively stable comparing with that of last year. It may increase its borrowings in future as the company may launch more new projects in the coming two years. We cut our target price to HKD5.82 and recommend a "buy" rating. (Closing price as at 6 Jan 2016)

## Buy (Maintain)

CMP: HKD 4.79

(Closing price as at 6 Jan 2016)

TARGET: HKD 5.82

### COMPANY DATA

O/S SHARES(MN) :	364
MARTKET CAP (HKD BN) :	17.42
52-WK HI/LO (HKD) :	3.66/ 7.72

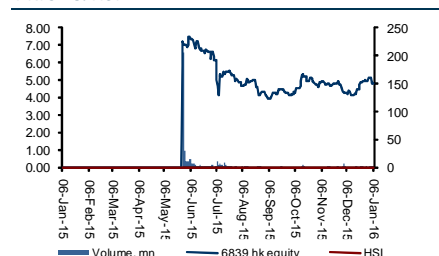
### SHARE HOLDING PARTTEN , %

Yunnan Province Water Industry Investment Co., Ltd:	31.81
Beijing OriginWater Technology Co., Ltd :	24.92

### PRICE PERFORMANCE , %

	1MTH	3MTH	1YR
6839HK	14.12	12.79	-
HSI	18.83	15.74	-

### PRICE & HSI



Source: Phillip Securities (HK) Research

### Key Financial Summary

FYE	12/13	12/14	12/15F	12/16F
Gross Profit (HKD mn)	689	1,101	1,682	2,334
Net Profit, adj. (HKD mn)	194	166	241	338
EPS, adj. (HKD)	0.27	0.21	0.21	0.29
P/E (X)	15.1	19.7	19.3	14.0
BVPS (HKD)	2.88	2.96	2.32	2.66
P/B (X)	1.4	1.4	1.8	1.5
DPS (HKD)	0.00	0.00	0.02	0.03
Div. Yield	0.0%	0.0%	0.5%	0.7%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

Research Analyst

**Zhang Kun**

(+ 86 21 51699400-104)

research@phillip.com.cn

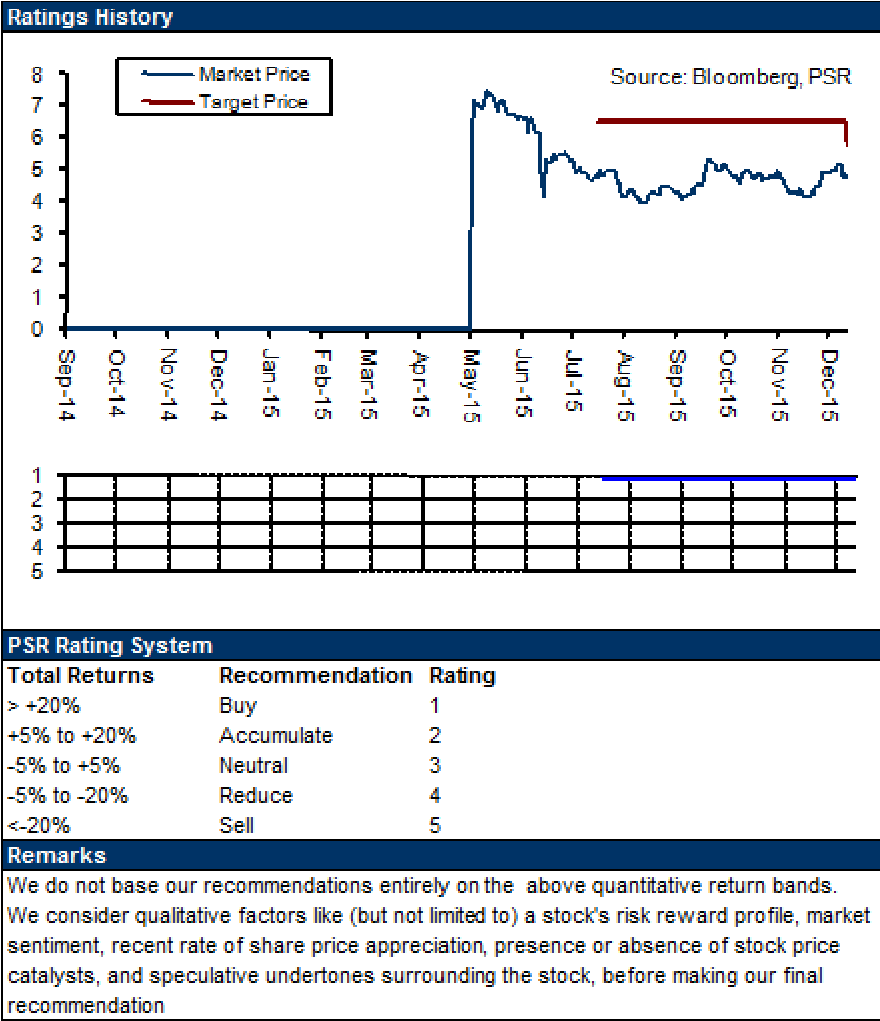
## Financials

For Financial Summary at the end of report

FYE	FY12	FY13	FY14	FY15F	FY16F
<b>Valuation Ratios</b>					
P/E (X)	20.6	15.1	19.7	19.3	14.0
P/B (X)	1.7	1.4	1.4	1.8	1.5
Dividend Payout ratio	0.00%	0.00%	0.00%	9.52%	10.34%
Dividend Yield	0.00%	0.00%	0.00%	0.49%	0.74%
<b>Per share data (HKD)</b>					
EPS, reported	0.20	0.27	0.21	0.21	0.29
EPS, adj.	0.20	0.27	0.21	0.21	0.29
DPS	0.00	0.00	0.00	0.02	0.03
BVPS	2.35	2.88	2.96	2.32	2.66
<b>Growth</b>					
Revenue		72.7%	59.8%	52.8%	38.8%
Gross profit		86.4%	28.0%	49.1%	40.6%
Net Income, adj.		61.7%	-14.4%	45.2%	40.2%
<b>Key Ratios</b>					
Gross profit margin	35.09%	37.88%	30.34%	34.84%	35.26%
Net profit margin	30.08%	28.16%	15.08%	16.83%	17.01%
Return on average equity	0.00%	11.09%	7.46%	11.21%	13.86%
Liability/asset	42.75%	36.01%	45.80%	36.89%	46.38%
<b>Income statement (HKD mn)</b>					
<b>Operating revenue</b>	<b>399</b>	<b>689</b>	<b>1,101</b>	<b>1,682</b>	<b>2,334</b>
<b>Gross profit</b>	<b>140</b>	<b>261</b>	<b>334</b>	<b>498</b>	<b>700</b>
<b>Net profit attributable to equity holders</b>	<b>120</b>	<b>194</b>	<b>166</b>	<b>241</b>	<b>338</b>

Source: PSR

(Financial figures as at 6 Jan 2016)



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