

# CNTY (000035.SZ)

## A Rapidly Expanded Comprehensive Environmental Service Provider

### Hong Kong | Environmental Protection | Company report

11 January 2017

### Steady Growth in Revenue, Capacity to Be Released

After the completion of a major asset restructuring in 2014, the company changed its name to China Tianying and has had a large number of high-quality assets injected, contributing to the recovery of its operation capacity, with revenue 1.2 times over the same period of previous year reaching RMB551 million. In 2015 the revenue increased by around 50% YoY to RMB825 million, of which 55.88% comes from waste incineration and electricity sales and the rest from the environmental protection projects. In the first three quarters of 2016, the company's overall results grew steadily, with the revenue rising by 22.8% YoY to RMB565 million and the net profit attributable to the parent company increasing by 11.8% YoY to RMB135 million. Due to the establishment of new divisions and subsidiaries, as well as market development, capacity climbing and other reasons, the growth rate of net profit during the period was less than that of revenue. As the new projects operate stably, however, we believe the profitability will rebound to some extent.

#### Buy

CMP: RMB 7.68  
(Closing price as at 9 Jan 2017)  
TARGET: RMB 9.32 (21.30%)

#### COMPANY DATA

O/S SHARES (MN) :	1,239
MARKET CAP (RMBMN) :	9,512
52 - WK HI/LO (RMB):	8.88/5.25

#### SHARE HOLDING PATTERN , %

Nantong dry and investment co., LTD	21.29
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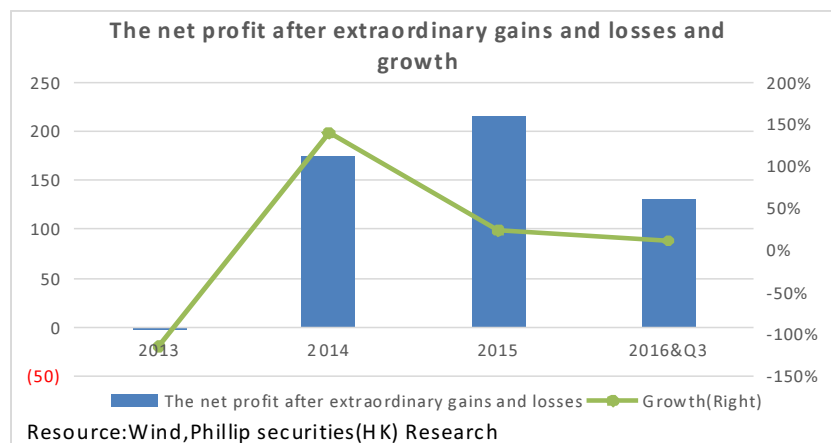
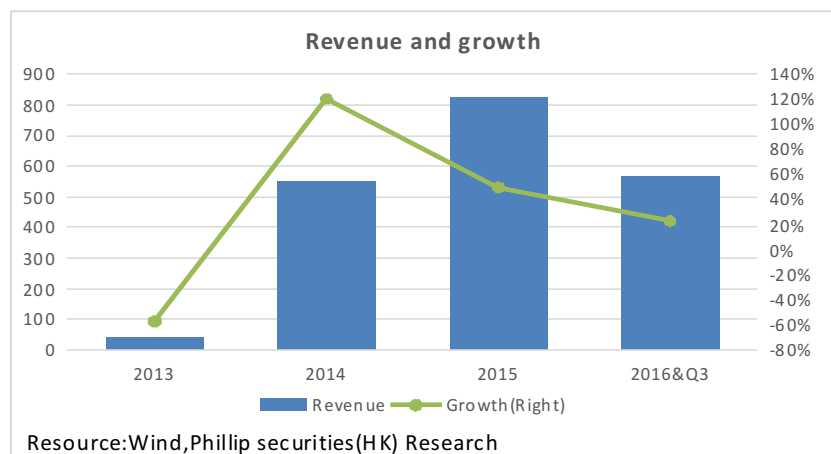
#### PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
CNTY	-2.32	-0.92	-50.68
Shanghai composite index	-0.91	-5.90	-44.51

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research



#### KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Revenue	551	825	1,029	1,310
Net Profit	175	228	288	378
P/E,x	43.9	41.7	33.4	24.8
EPS,RMB	0.18	0.18	0.23	0.31
P/B, x	5.9	5.1	4.4	3.8
BVPS, RMB	1.31	1.49	1.73	2.03
ROE, %	10.8	12.3	13.5	15.0

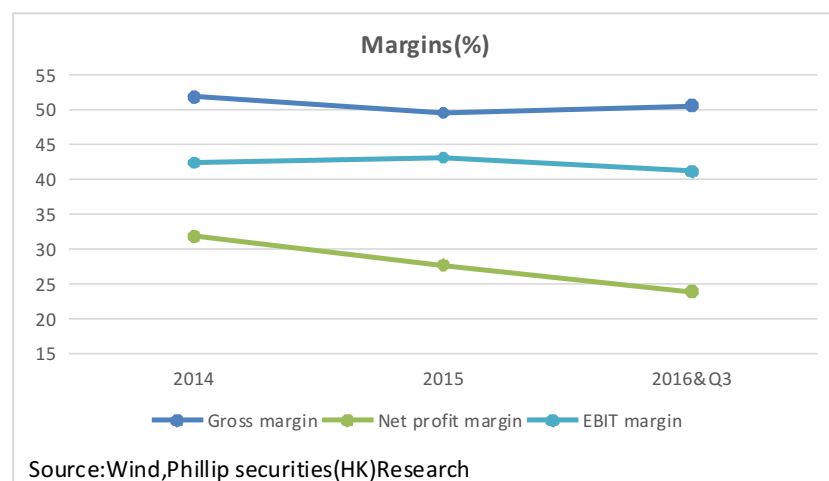
Source: Company reports, Phillip Securities Est.

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## Expansion in Diversified Solid Waste Disposal

The company mainly focuses on projects of incineration power generation by municipal solid waste and manufacturing of environmental protection equipment. It obtained the first waste incineration power generation project in 2006, and now has a total of seven such projects in operation in Rudong county, Qidong county-level city and Hai'an county of Jiangsu province, Lianjiang county of Fujian province, Binzhou city of Shandong province, Shenzhen of Guangdong province and Liaoyuan city of Jilin province. Also, the company has six projects under construction, some of which will be completed and put into operation in 2017. In addition, the company is also involved in the field of kitchen waste and landfill gas power generation, in which it has obtained a number of projects. We believe the adequate projects will guarantee the sustained rapid growth in the company's results, and the expansion in diversified waste disposal will lay a solid foundation for the whole industry chain of solid waste.

Also worth mentioning is that in early December the company signed a venous industrial project with an RMB1.22 billion investment made, and its implementation will greatly enhance the company's capability to provide the whole industrial chain service of solid waste and accelerate the expansion and integration in solid waste.



## Successful Entry into Sanitation Market by Moving Upstream

In November 2016, the company won the bid for the marketization project of sanitation work of Dancheng county, marking its official advance towards the field of sanitation and substantial progress upstream towards classification, collection, transfer and comprehensive sanitation, from waste disposal, the end of the chain. It is expected that the implementation of the project will further optimize the business layout and enhance the overall profitability of the company. At present, the sanitation industry has low market penetration with competitors striving for their share of market, and faster cash flow and more stable yields than other environmental sub-industries. The broad sanitation market is expected to create more room for the company's long-term, sustainable development.

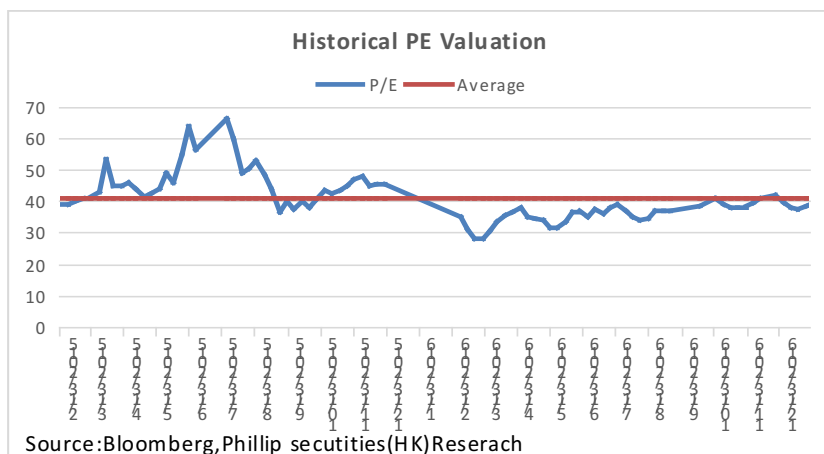
## Accelerated Expansion in Light of Overseas and Domestic M&A

In 2015 the company’s four major business divisions were established, including landfill gas division, overseas division, classification, collection and transport division and water treatment division. In light of the active expansion of international market by the overseas division, the company is establishing the Iranian subsidiary, and six business projects have been basically determined. The implementation of the projects is expected to contribute considerable profits and to pave the way for obtaining more overseas high-quality projects in the future.

Moreover, the M&A fund whose establishment the company was involved in recently acquired the 100% stake in the Spanish company Urbaser, which has businesses across more than 10 countries in Europe and America and which mainly engages in urban waste collection activities and municipal solid waste and industrial waste disposal services. Not only will the company’s existing businesses be heightened by the synergistic effect of Urbaser’s businesses, but its overseas expansion will also be accelerated by Urbaser’s advanced technological advantage and experience.

### Valuation and Rating

In general, the company’s prospects are worth the wait, with the principle business - waste incineration power generation - having developed steadily, other businesses in kitchen waste, landfill gas power generation, sanitation and other fields to contribute new growth points, and overseas expansion continuing. Therefore, we expect the EPS in 2016 and 2017 to be 0.23 and 0.31, respectively 33/25x P/E for 2016/2017 ,with a target price of RMB9.32. The "Buy" rating is given for the first time. (Closing price as at 9 Jan 2017)



### Peer comparison

	Stock code	Stock name	Stock name	Price	Market value(m)	PE	PB	ROE(2015)	Gross margin(2015)	Net profit margin(2015)
11	000035.SZ	中国天楹	CNTY	7.68	9,512	39.24	4.79	13.14	49.00	27.91
A share	The median value			18.02	15,866	37.92	4.79	13.14	31.06	16.35
1	300070.SZ	碧水源	BOV	17.59	54,941	35.49	3.83	13.86	40.27	28.39
2	000826.SZ	启世泰德	Tus-sound	33.95	29,003	28.16	3.91	16.46	29.76	14.91
3	300156.SZ	神雾环保	SWEI	25.97	26,230	51.63	11.57	11.34	28.71	14.48
4	002573.SZ	清新环境	SFC	18.85	20,087	30.9	6.09	19.1	38.53	23
5	603568.SH	伟明环保	WMING	24.07	16,384	50.68	8.87	21.92	65.57	43.78
6	300090.SZ	盛通环保	SHE	12.02	15,866	21.35	3.01	19.23	29.15	45.85
7	002672.SZ	东江环保	DONGJANG	18.02	14,772	35.64	5.13	12.8	31.06	16.35
8	300055.SZ	万邦达	WBD	16.69	14,440	57.86	2.66	10.55	27.89	14.79
9	300203.SZ	聚光科技	FP	28.79	13,041	37.92	5.08	11.16	47.4	14.87
10	002479.SZ	富春环保	ZFET Co., Lt	14.93	11,890	55.68	4.26	7.38	15.72	8.12

## Risk Warnings

Project development below expectations;

Overseas expansion below expectations.

## Financials

FYE	FY14	FY15	FY16E	FY17E
<b>Valuation Ratios</b>				
Price Earnings(P/E)	43.9	41.7	33.4	24.8
Price to Book(P/B)	5.9	5.1	4.4	3.8
<b>Per share data(RMB)</b>				
EPS,Adjusted	0.18	0.18	0.23	0.31
Book Value Per Share	1.31	1.49	1.73	2.03
Dividends Per Share	0.00	0.00	0.00	0.00
<b>Growth &amp; Margins(%)</b>				
<b>Growth</b>				
Revenue	120.5%	49.8%	24.7%	27.3%
Operating income	143.7%	29.4%	13.0%	34.5%
Net profit	114.3%	30.4%	26.3%	31.3%
<b>Margins</b>				
Gross profit margin	51.8%	49.5%	50.5%	51.0%
Operating profit margin	33.9%	29.2%	26.5%	28.0%
Net income margin	31.8%	27.6%	28.0%	28.9%
<b>Key Ratios</b>				
ROE(%)	10.8%	12.3%	13.5%	15.0%
ROA(%)	10.7%	5.9%	5.8%	6.4%
<b>Income Statement(RMB mn)</b>				
<b>Revenue</b>	551	825	1,029	1,310
- Cost of Goods Sold	266	417	509	642
<b>Gross Income</b>	285	408	520	668
- Operating Expenses	90	170	237	288
<b>Operating Income</b>	187	241	273	367
<b>Pretax Income</b>	194	270	333	437
- Income Tax Expense	19	42	45	59
<b>Net profit</b>	175	228	288	378

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 9 Jan 2016)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

<b>Total Return</b>	<b>Recommendation</b>	<b>Rating</b>	<b>Remarks</b>
<b>&gt;+20%</b>	<b>Buy</b>	<b>1</b>	<b>&gt;20% upside from the current price</b>
<b>+5% to +20%</b>	<b>Accumulate</b>	<b>2</b>	<b>+5% to +20% upside from the current price</b>
<b>-5% to +5%</b>	<b>Neutral</b>	<b>3</b>	<b>Trade within ± 5% from the current price</b>
<b>-5% to -20%</b>	<b>Reduce</b>	<b>4</b>	<b>-5% to -20% downside from the current price</b>
<b>&lt;-20%</b>	<b>Sell</b>	<b>5</b>	<b>&gt;20% downside from the current price</b>

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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