

DONGJIANG ENV(895.HK)

Steady Connotative Growth and Well-established Leading Position

Hong Kong | Environmental Protection | Company report

18 January 2017

Accumulate

CMP: HKD 12.68
(Closing price as at 16 Jan 2017)
TARGET HKD 14.60 (15.1%)

Steady Connotative Growth and Well-established Leading Position

After years of connotative growth + denotative expansion, Dongjiang Environmental has developed from a hazardous waste leader in Guangdong Province to a hazardous waste leader across the country. At present, it has set up the whole industry chain business including industrial hazardous waste treatment, environmental services, municipal waste treatment and renewable energy use, and dismantling of waste electrical and electronic products. In the first three quarters of 2016, driven by steady growth in all businesses, the company's operating revenues reached RMB1.866 billion, representing a year-on-year increase of 6.6%. Its net profit attributable to shareholders of parent company amounted to RMB380 million, surging by 43.9% over the same period last year. The greater increase in the net profit attributable to shareholders of parent company than that in revenues is primarily attributed to the investment income derived from selling two subsidiaries -- Qingyuan Dongjiang and Hubei Dongjiang-- and from the adjustment in value-added tax. With regard to profitability, the gross profit margin rose by 1.15 percentage points to 34.86% over last year, which mainly resulted from the increase in the proportion of harmless business with a higher gross profit margin. In respect of expenses, the expense ratio during the period stood at 19.19%, up by 2.9 percentage points over the same period last year. Besides, the company's expense increase in denotative expansion was not too fast, showcasing its remarkable ability to control expenses.

COMPANY DATA

O/S SHARES (MN) :	887
MARKET CAP (HKD MN) :	11,462
52 - WK HI/LO (HKD):	19.3/8.6

SHARE HOLDING PATTERN , %

Guangdong sheng assets management co., LTD	7.84
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PRICE PERFORMANCE , %

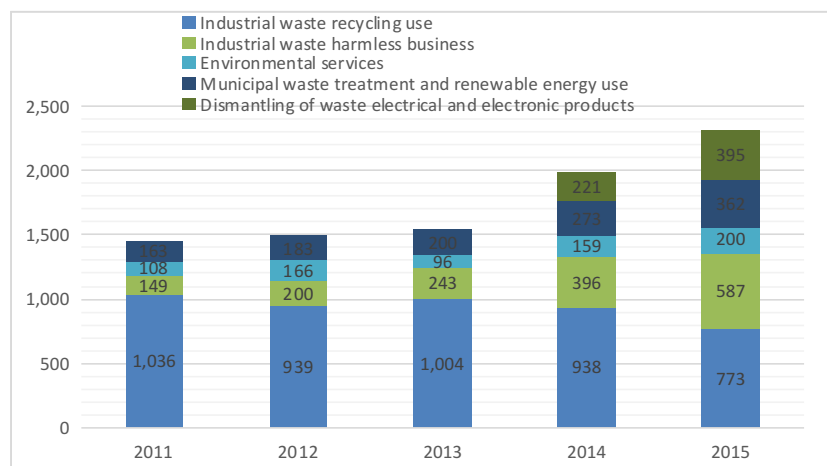
	1-Month	3-Month	1-Year
DONGJIANG ENV	3.83	2.2	12.26
HSI	1.69	3.47	-3.48

PRICE VS. HSI



Source: Phillip Securities (HK) Research

Revenue structure(RMB:mn)



Source : Wind,Phillip Secutities(HK)Research

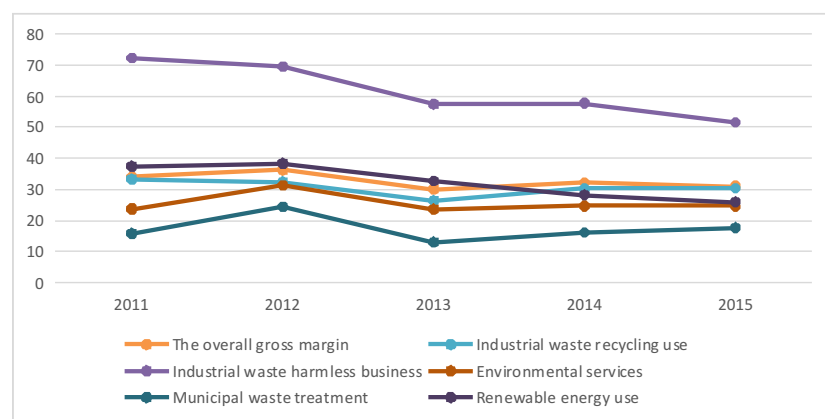
KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Revenue	2,038	2,356	2,662	3,420
Net Profit	252	333	441	578
P/E,x	38.1	28.9	22.7	17.3
EPS,RMB	0.3	0.39	0.5	0.65
P/B, x	4.1	3.6	3.2	2.8
BVPS, RMB	2.75	3.10	3.52	4.06
ROE, %	10.3	12.1	14.1	16.1

Source: Company reports, Phillip Securities Est.

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Each business gross margin


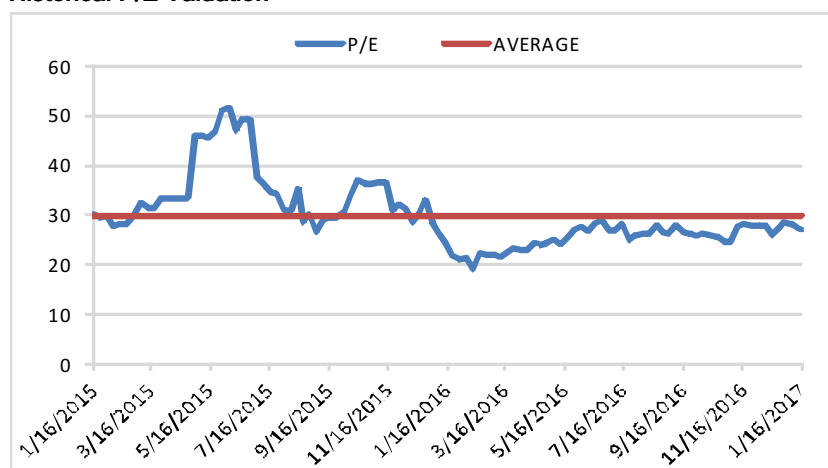
Source : Wind,Phillip Securities(HK)Research

Rapid Promotion of Projects and Continuous Focus on Harmless Business

The company has basically achieved the transformation from utilization of industrial hazardous waste resources to harmless business. The hazardous waste treatment capacity reached 1.36 million tonnes/year in 2015, wherein harmless production capacity accounted for 48% of the total capacity, and is expected to reach 1.9 million tonnes/year in 2016 and the harmless production capacity will continue to increase. Presently, the imbalance between supply and demand of the industrial hazardous waste treatment industry is serious, and the existing disposal capacity is exceedingly insufficient. In order to satisfy the rapidly growing harmless treatment market, the company vigorously promoted the development and new expansion of projects. Currently, a total of 6 industrial solid waste projects are being running or under construction, including Jiangxi Solid Waste Project, Huizhou Dongjiang Expansion Project, Yancheng Coastal Solid Waste Project and Nantong Solid Waste Project. 4 out of the six projects are estimated to be put into operation in the second half of 2016. Additionally, the environmental assessment of projects totaling 246,000 tonnes in Shandong Weifang and Hebei Hengshui made gratifying progress, and such projects are expected to be completed and put into operation in 2017. Besides, the company also won the first industrial waste disposal PPP project during the period, which was also the first domestic hazardous waste disposal PPP project. The project scale reached 94,700 tonnes/year, hence helping the company to accumulate more experience in undertaking more similar projects in the future.

Investment Rating

In order to avoid the obligation of general offer, the company has terminated the non-public issue of A shares at present. The termination of the private placement will neither affect the controlling shareholder status of Guangdong Rising Assets Management Co., Ltd., nor will it adversely affect the company's operation and business development. Furthermore, the company has sufficient capitals to guarantee its normal operation. We expect the company's revenues will reach RMB2662 million and RMB3420 million, respectively, in 2016 and 2017. Also, net profits will stand at RMB441 million and RMB578 million, respectively. EPS will reach RMB0.50 and RMB0.65, respectively, and a target price of RMB 14.6. The "Accumulate" rating is given. (Closing price as at 16 Jan 2017)

Historical P/E Valuation


Source : Bloomberg,Phillip Securities(HK)Research

Peer Comparison

	Stock code	Stock name	Price	Market value(mn)	PE(2016E)	PB(MRO)	ROE(%)
2	0895. HK	东江环保	12.68	11,267	19.37	3.11	12.8
	香港(10)	HKD					
1	0257. HK	中国光大国际	9.10	40,793	15.81	2.32	12.5
3	1253. HK	中国绿地博大绿	1.25	4,133	17.96	5.94	34.0
4	3989. HK	首创环境	0.26	3,716	20	1.49	1.5
5	1330. HK	绿色动力环保	3.49	1,411	10.13	1.22	9.9
6	0436. HK	新宇环保	0.83	2,453	31.8	3.45	6.7
7	1559. HK	均安控股	1.93	1,852	--	16.77	31.7
8	0556. HK	泛亚环保	1.70	1,428	--	0.92	5.5
9	1527. HK	天洁环境	7.10	248	6.76	1.22	22.6
	沪深(10)	RMB					
1	002310. SZ	东方园林	13.27	35,528	30.65	4.23	10.1
2	300266. SZ	兴源环境	51.67	26,277	72.85	8.82	9.4
3	002573. SZ	清新环境	18.31	19,641	26.51	5.92	19.1
4	000820. SZ	神雾节能	28.20	17,970	59.17	32.87	4.7
5	300197. SZ	铁汉生态	11.51	17,491	31.64	3.58	11.6
6	300090. SZ	盛运环保	11.37	15,007	38.91	2.85	19.2
7	603568. SH	伟明环保	21.63	14,723	39.41	7.97	21.9
8	002672. SZ	东江环保	17.40	14,207	34.41	4.95	12.8
9	300055. SZ	万邦达	15.91	13,765	57.96	2.54	10.6

Source : Wind,Phillip Securities(HK)Research

Risk Warnings

Production of projects fails to meet expectations;

Prices of non-ferrous metals prices continue to slip;

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
Price Earnings(P/E)	46.0	38.1	28.9	22.7	17.3
Price to Book(P/B)	4.5	4.1	3.6	3.2	2.8
Per share data(RMB)					
EPS,Adjusted	0.25	0.30	0.39	0.50	0.65
Book Value Per Share	2.53	2.75	3.10	3.52	4.06
Dividends Per Share	0.08	0.06	0.08	0.12	0.13
Growth & Margins(%)					
Growth					
Revenue	4.4%	29.5%	15.6%	13.0%	28.5%
Operating income	-31.5%	61.7%	11.8%	35.2%	45.2%
Net profit	-22.1%	21.2%	32.1%	32.5%	31.1%
Margins					
Gross profit margin	30.1%	32.2%	31.1%	34.4%	37.0%
Operating profit margin	13.3%	16.6%	16.0%	19.2%	21.7%
Net income margin	13.2%	12.4%	14.1%	16.6%	16.9%
Key Ratios					
ROE(%)	9.3%	10.3%	12.1%	14.1%	16.1%
ROA(%)	6.5%	6.1%	5.7%	6.5%	7.8%
Income Statement(RMB mn)					
Revenue	1,574	2,038	2,356	2,662	3,420
- Cost of Goods Sold	1,100	1,382	1,624	1,746	2,155
Gross Income	474	656	732	916	1,265
- Operating Expenses	265	317	353	405	523
Operating Income	209	338	378	511	742
Pretax Income	271	322	449	580	744
- Income Tax Expense	28	39	64	85	106
Net profit	208	252	333	441	578

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 16 Jan 2017)

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 ± 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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