

Grandblue Environment (600323.SH)

Mergers and Acquisitions Fuel Rapid Growth in Revenues

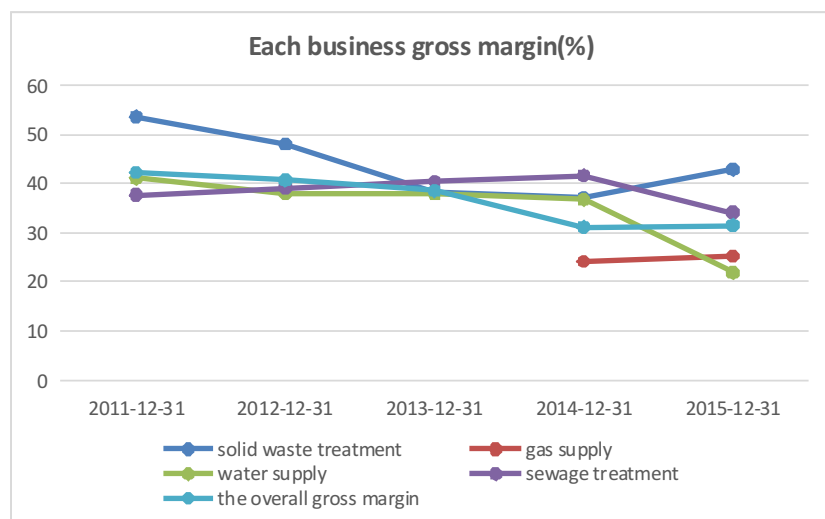
Hong Kong | Environmental Protection | Company report

27 January 2017

Rapid Growth of Revenues

Grandblue Environment has established the business structure of four major segments covering water supply, sewage treatment, solid waste treatment and gas supply by means of accelerated mergers and acquisitions and expansion over the past few years. Its current capacity of water supply reaches 1.61 million cubic meters/day, and its scale of food waste disposal amounts to 850 tonnes/per day. Besides, the company has 19 waste incineration projects with a total capacity of 15,350 tonnes/day and 21 sewage treatment projects with a total capacity of 600,000 tonnes/day. Furthermore, it also established a joint venture with the international waste disposal giant -- Germany's Remondis, and is engaged in the hazardous waste disposal market for the first time.

Presently, solid waste disposal business is the company's core source of profit. It contributed 41.78% of the company's pre-tax net profits in H12016, and its gross profit margin was as high as 44.19%, far greater than the company's overall gross profit margin of 34.02%. The company recorded a total revenue of RMB2.708 billion in the first three quarters of 2016, and completed 73.2% of RMB3.7 billion set out in the annual revenue guideline. Its attributable net profits stood at RMB433 million, representing a year-on-year increase of 35.4%, while its cost and expense ratios dropped by 3.1 pts to 80.69%, meeting the target of 85%. Therefore, its cost control was sound. Moreover, its net profit margin grew by 3.4 pts to 17.5%, marking a significant increase in profitability.



Source : Wind, Phillip Securities(HK)Research

Buy

CMP: RMB 14.56

(Closing price as at 25 Jan 2017)

TARGET: RMB 18.20 (25%)

COMPANY DATA

O/S SHARES (MN) :	766
MARKET CAP (RMBMN) :	11,080
52 - WK HI/LO (RMB):	16.25/11.01

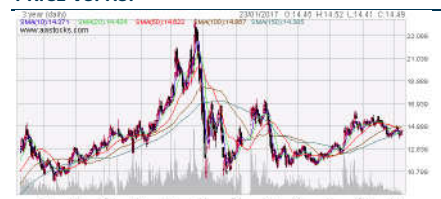
SHARE HOLDING PATTERN , %

Foshan nanhai water group co., LTD	17.98
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PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Grandblue Env	2.41	-5.38	14.16
Shanghai composite index	1.76	-6.63	9.24

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY14	FY15	FY16E	FY17E
Revenue	2,435	3,357	3,775	4,308
Net Profit	309	403	535	653
P/E,x	29.7	27.5	20.8	17.1
EPS,RMB	0.49	0.53	0.70	0.85
P/B, x	3.1	2.5	2.3	2.1
BVPS, RMB	4.64	5.73	6.34	7.05
ROE, %	9.3	9.2	11.0	12.1

Source: Company reports, Phillip Securities Est.

Research Analyst

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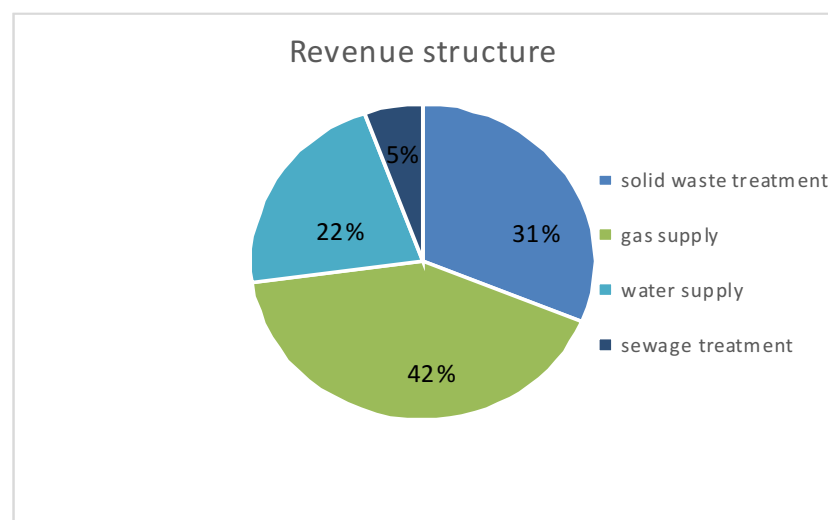
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Continued Development in Solid Waste Disposal Business

In 2014, the company completed the acquisition of 100% equities in C&G Environmental Protection (China) Co., Ltd., enabling the company to rank the top in the production capacity of waste disposal industry and to preliminarily complete national business layout. So far, the C&G Environmental Protection (China) took charge of 16 projects with a total treatment capacity of 11,350 tonnes/day. Specifically, the project of Huangshi Phase II and the Dalian project are expected to be put into operation in early 2017, and the project of Fuqing Phase II is estimated to be put into operation soon after completion of commissioning. A new capacity of 1700 tonnes/day is projected to be put into operation in 2017.

The Nanhai Industrial Park owned by Foshan Nanhai Green Power Renewable Energy Co., Ltd. has two waste incineration projects totaling 3,000 tonnes/day which are currently operating at full capacity. Additionally, the company acquired 70% equities in Zhangzhou Zhongyan Ecological Energy Investment Co., Ltd. in February, and increased its treatment capacity by 1000 tonnes/day. At the end of September, the company won the bidding of share capital increase project launched by Shunkong Environmental Investment Co., Ltd. The two companies will jointly run the project of Shunde Solid Waste Industrial Park with a waste treatment capacity of 3,000 tonnes/day. We expect that the company will continue to increase capital expenditure on by focusing on solid waste treatment, accelerate business expansion and market development and its business layout throughout the country.

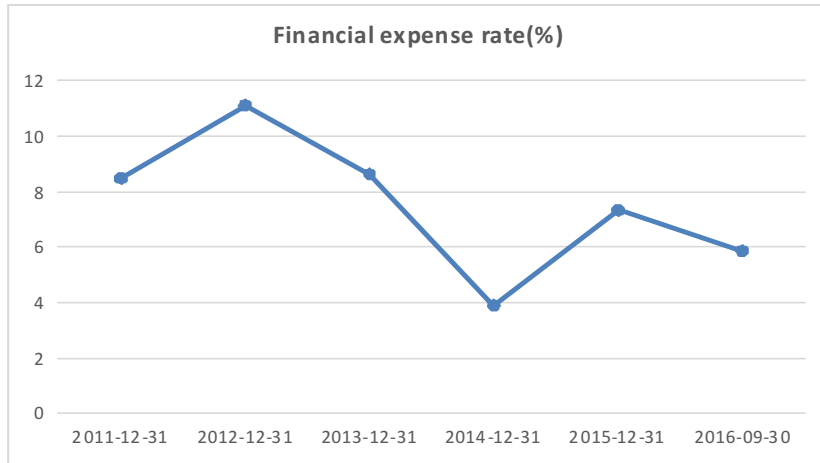


Source : Wind,Phillip Secutities(HK)Research

Financial Profile

At the end of the third quarter of 2016, the company's money funds amounted to RMB964 million, down 30% over 2015. But the net book value of its accounts receivable increased by RMB72 million over 2015, which primarily resulted from expanded scope of solid waste disposal business and delay in government settlement. Debt-equity ratio reached 57.41%, and current ratio and quick ratio were 0.56 and 0.50, respectively, reflecting the greater capital expenditure needs in rapid expansion. In October, the company issued corporate bonds worth RMB1 billion with a coupon rate of 3.05% (totalling RMB2 billion by several issues). It is expected to provide

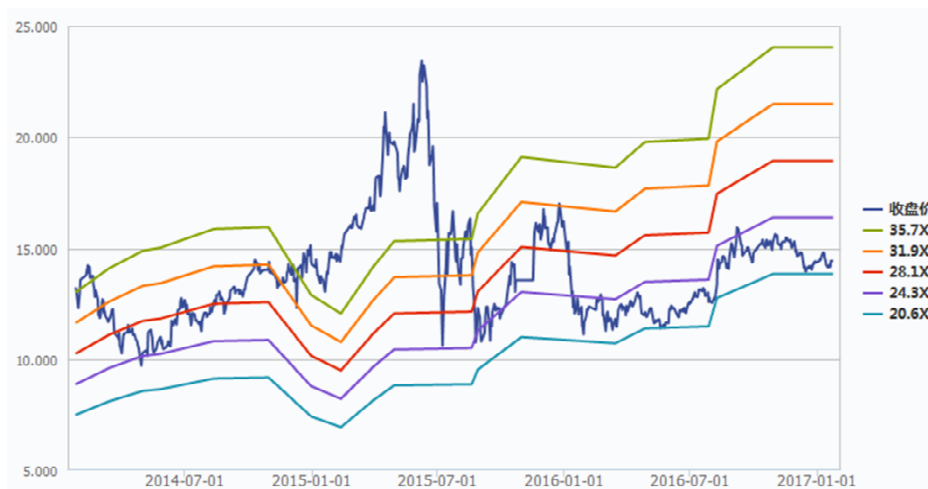
ample liquidity to the company and promote the rapid development of its business. Meanwhile, the issuance also helps to optimize debt structure, save financial expenses and enhance financial strength.



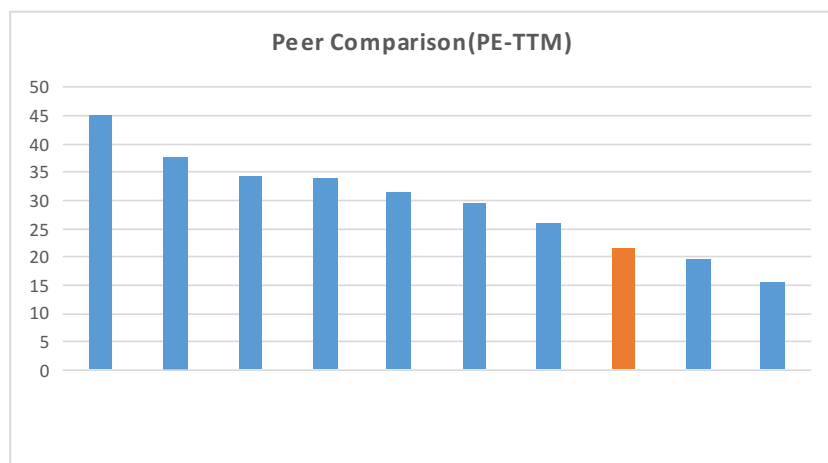
Source : Wind,Phillip Secutities(HK)Research

Valuation and Rating

Overall, the company's water, gas and solid waste business segments generate steady profits. Its ability to obtain cash flow is remarkable. Furthermore, the company has set up a complete industrial chain in the field of solid waste treatment, contributing to its competitive edge. We pay great attention to the company's expansion and mergers and acquisitions in the domain of solid waste treatment. We predict that the company's revenues in 2016-2017 will amount to will reach RMB37.75million and RMB43.08 million, respectively; net profits will be RMB5.35million and RMB6.53 million, respectively; EPS will be RMB 0.70 million and RMB 0.85 million, respectively. We give the target price of RMB18.2 and the rating is Buy.



Source : Wind,Phillip Secutities(HK)Research



Source : Wind,Phillip Secutities(HK)Research

Risk Warnings

Fierce market competition;

Project expansion falls short of expectations;

Changes in tax and industry policy;

Decrease in gas and sewage treatment prices;

Financials

FYE	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratios					
Price Earnings(P/E)	36.4	29.7	27.5	20.8	17.1
Price to Book(P/B)	3.5	3.1	2.5	2.3	2.1
Per share data(RMB)					
EPS,Adjusted	0.40	0.49	0.53	0.70	0.85
Book Value Per Share	4.22	4.64	5.73	6.34	7.05
Dividends Per Share	0.10	0.11	0.10	0.14	0.17
Growth & Margins(%)					
Growth					
Revenue	13.1%	143.2%	37.8%	12.5%	14.1%
Operating income	18.8%	70.9%	9.6%	31.8%	21.9%
Net profit	22.9%	32.0%	30.5%	32.8%	22.0%
Margins					
Gross profit margin	38.5%	31.1%	31.5%	33.2%	33.8%
Operating profit margin	26.5%	18.6%	14.8%	17.4%	18.6%
Net income margin	23.4%	12.7%	12.0%	14.2%	15.2%
Key Ratios					
ROE(%)	9.6%	9.3%	9.2%	11.0%	12.1%
ROA(%)	4.7%	4.3%	3.8%	4.4%	5.1%
Income Statement(RMB mn)					
Revenue	1,001	2,435	3,357	3,775	4,308
- Cost of Goods Sold	616	1,678	2,300	2,522	2,852
Gross Income	386	758	1,057	1,253	1,456
- Operating Expenses	159	287	539	570	625
Operating Income	266	454	498	656	800
- Net Non-Operating Losses ((61)	(16)	(83)	(100)	(110)
Pretax Income	277	467	576	756	910
- Income Tax Expense	42	116	130	178	214
Net profit	234	309	403	535	653

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 25 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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