

## DONGJIANG ENV (895.HK)

Focuses on its Main Business of Hazardous Waste Treatment and Shows a Steady Improvement in Profitability  
**Hong Kong | Environmental protection | Company report**

15 May 2017

### Buy

CMP: HKD 12.16

(Closing price as at 11 May 2017)

TARGET: HKD 14.80 (21.7%)

### Focusing on the main business of hazardous waste treatment and showing a steady improvement in profitability

In 2016, Dongjiang Environmental Co., Ltd. recorded an operating revenue of RMB2.62 billion, representing a modest increase of 8.9% YoY which was mainly due to the influence of active adjustment of business structures. At the same time, Dongjiang achieved net profits attributable to shareholders of RMB534 million, up by 60.53% YoY, and net profits attributable to the parent company after deduction of non-recurring profit and loss of RMB379 million, up by 27.4% YoY.

In terms of profitability, thanks to the steady growth of business, the strict control of cost, and the income from investment, the company's gross profit margin was 36.12%, up by 3.7% YoY. Its net profit margin was 22.05%, up by 6.0% YoY. The strategy of focusing on main business and expansion started to pay off. The company predicted that in H1 of 2017, the growth of profits would be between 20% and 40%.

In terms of business structure, its business of harmless treatment of industrial waste, with the highest gross margin, was the main income source of the company. This business recorded a revenue of RMB843 million, up by 43.65% YoY, accounting for 32.3% in the total revenue of the company. The gross margin of this business was 49.98%, down by 1.59% YoY. The business of recycling treatment to industrial waste recorded a revenue of RMB791 million, up by 2.34% YoY, accounting for 30.23% in the total revenue of the company. The gross margin of this business was 32.92%, up by 2.49% YoY. The revenue from the business of environmental engineering and service and from the business of municipal waste treatment increased by 22.7% YoY and 12.2% YoY, respectively. In order to better focus on the main business of industrial waste treatment, the company has sold out part of its household appliances dismantling assets, which dragged down the revenue from the business of dismantling electronic waste to RMB221 million, down by 44% YoY. However, we hold that selling out part of the business of dismantling electronic waste, which showed a low gross margin, would help the company gather strength to accelerate expansion of the business of hazardous waste treatment and improve the competitiveness and profitability of the business.

#### COMPANY DATA

O/S SHARES (MN) :	887
MARKET CAP (HKDMN) :	10,770
52 - WK HI/LO (HKD):	14.36 / 10.79

#### SHARE HOLDING PATTERN , %

Hong Kong central clearing (agent) co., LTD	22.56
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#### PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
DONGJIANG	-8.98	-8.98	11.39
HSI	3.85	6.11	24.73

#### PRICE VS. HSI



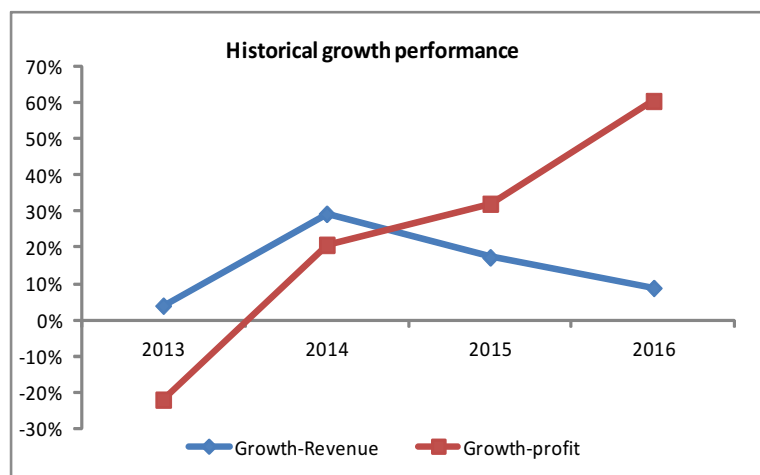
Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

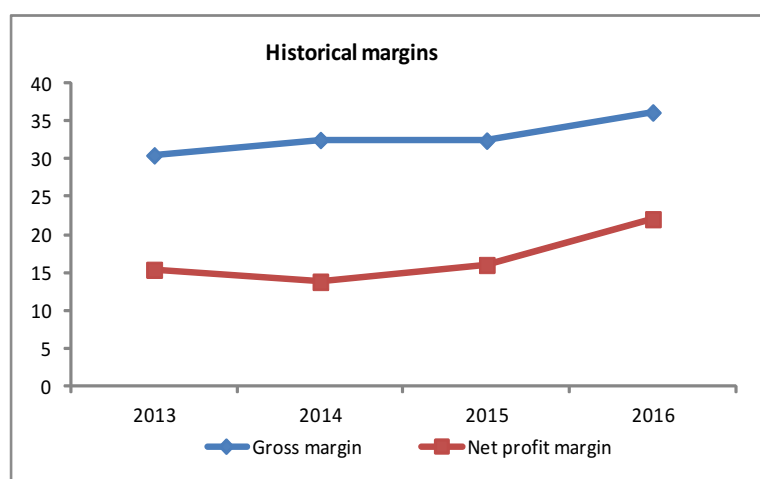
RMBmn	FY15	FY16	FY17E	FY18E
Revenue	2403	2617	3279	4176
Net Profit	333	534	524	663
P/E, x	31.2	19.6	20.6	16.4
EPS, RMB	0.39	0.62	0.59	0.74
P/B, x	3.8	3.3	2.9	2.5
BVPS, RMB	3.17	3.71	4.18	4.81
ROE, %	12.1	16.2	14.1	15.5

Source: Company reports, Phillip Securities Est.

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Source:Wind, Phillip securities(HK) Research



Source:Wind, Phillip securities(HK) Research

## Leading in the capacity of treating hazardous waste, improving the national layout of the company

In the period, capacity release of the company has achieved remarkable results. A total number of 66,900 ton of projects have been put into operation and 135,000 tons of projects into the trial operation. The PPP project in Quanzhou city is expected to be completed by the end of 2017. Meanwhile, nearly 200,000 ton of projects of Dongjiang in Weifang city have gained the EIA approval. The company's ability to undertake environmental protection projects has improved greatly. In the period, the number of new projects of the company is up to 14, with a total investment of RMB220 million. In terms of business layout, the company consolidated the business in the Guangdong-based Pearl River Delta region, at the same time, strived to develop the business in the Jiangsu and Zhejiang-based East China region and marched into the market of Shangdong and Hehei to build up the Bohai layout.

By 2016, the company has the capacity of treating 1.5 million ton of hazardous waste, with a 50% ratio of harmless treatment capacity, owns the treatment qualification of 44 types of hazardous waste in 46 types of hazardous waste in national catalogue and retaining its leading position in hazardous waste treatment industry. By 2020, the total capacity of the company is expected to exceed 3.5 million ton and the capacity

of harmless treatment will account for more than 60% and up to 2.1 million ton. At present, there exists a serious mismatch between the production of hazardous waste and its treatment capacity in our country. In 2015, the national production of hazardous waste was 42.2 million ton while the treatment capacity was 35.7 million ton. Treatment capacity gap in the market is huge. The degree of industry concentration is low. At the same time, enterprises with a full qualification of hazardous waste treatment are also extremely rare. In addition, it is estimated that during the Thirteenth Five-Year plan period, the compound growth rate of the demand of hazardous waste treatment will be more than 15%. Comparing to 2015, the room for market growth of hazardous waste treatment business will double. Therefore, in the following five years, the industry of hazardous waste treatment will continue to maintain a high degree of prosperity. Meanwhile, the company has significant advantages in qualification. Thanks to the background of state-owned enterprise, the company's leading position in waste treatment industry will continue to gain momentum. In the future, the company will be benefit greatly from strict environmental regulation, enhancement of industry concentration and expansion of market so that the revenue of the company will continue a rapid increase.

### **Benefits from the investment of Guangsheng have shown and the increase of new projects will accelerate.**

Thanks to the support of Guangsheng, the company successfully issued green corporate bonds in 2016, with the initial size of RMB600 million and an interest of 4.9%. The company became the first listed company who issued green bonds in Shenzhen Stock Exchange. At the same time, in March 2017, the company issued successfully PPP asset-backed securities with a size of RMB320 million. PPP assets securitization landing will optimize the financial structure of the company and reduce the overall cost of financing. In addition, because the company is the focus of Guangsheng on the development of environmentally friendly platform, its financial strength will be enhanced greatly. The company will undertake more and more environmental PPP projects to consolidate and enhance its overall competitiveness further.

### **Valuation and rating**

We estimate, from 2017 to 2018 the revenue will reach 3279/4176, the net profit will reach 524/663 respectively, with EPS of RMB0.59 and RMB0.74, respectively. We give a target price of HK\$14.8 and the "Buy" rating is maintained. (Closing price as at 11 May 2017)

**Peer comparison**

Stock code	Stock name	PE(TTM)	PE(2017E)	PB	ROE(%)
0257.HK	中国光大国际	16.2	13.4	2.59	16.10
<b>895.HK</b>	<b>东江环保</b>	<b>17.3</b>	<b>18.4</b>	<b>2.82</b>	<b>17.67</b>
1257.HK	中国光大绿色环保	16.9	-	2.54	17.74
1253.HK	中国绿地博大绿泽	30.5	-	7.12	25.19
1330.HK	绿色动力环保	11.7	9.2	1.52	13.84
3989.HK	首创环境	69.4	-	0.98	1.54
0436.HK	新宇环保	32.8	22.9	2.96	9.00
1559.HK	均安控股	84.9	-	16.25	-
1527.HK	天洁环境	8.3	-	1.29	16.92
0556.HK	泛亚环保	8.9	-	0.48	5.62

Source: Wind, Phillip securities(HK) Research

**Risk warnings**

The number of projects which has put into operation is less than expected;

Non - ferrous metal prices continue to fall.

## Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratios</b>					
Price Earnings(P/E)	16.4	31.2	19.6	20.6	16.4
Price to Book(P/B)	1.7	3.8	3.3	2.9	2.5
<b>Per share data(RMB)</b>					
EPS,Adjusted	0.74	0.39	0.62	0.59	0.74
Book Value Per Share	7.02	3.17	3.71	4.18	4.81
Dividends Per Share	0.15	0.08	0.12	0.12	0.15
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	29.3%	17.4%	8.9%	25.3%	27.4%
Operating income	27.0%	19.4%	61.4%	-2.6%	28.6%
Net profit	20.8%	32.2%	60.5%	-1.9%	26.6%
<b>Margins</b>					
Gross profit margin	32.5%	32.4%	36.1%	37.0%	37.0%
Operating profit margin	14.8%	15.1%	22.3%	17.4%	17.5%
Net income margin	12.3%	13.8%	20.4%	16.0%	15.9%
<b>Key Ratios</b>					
ROE(%)	10.3%	12.1%	16.2%	14.1%	15.5%
ROA(%)	6.1%	5.7%	7.2%	6.8%	8.7%
<b>Income Statement(RM)</b>					
<b>Revenue</b>	2,048	2,403	2,617	3,279	4,176
- Cost of Goods Sold	1,382	1,624	1,672	2,066	2,631
<b>Gross Income</b>	665	779	945	1,213	1,545
- Operating Expenses	362	417	361	644	813
<b>Operating Income</b>	303	362	584	569	732
- Net Non-Operating Loss	-18	-87	-89	-90	-90
<b>Pretax Income</b>	322	449	674	659	822
- Income Tax Expenses	39	64	97	96	119
<b>Net profit</b>	252	333	534	524	663

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 11 May 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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