

BGE(603588.SH)

Quarter 1 of 2017 turned losses into gains

Hong Kong | Environmental Protection | Company report

29 May 2017

Quarter 1 of 2017 turned losses into gains

In 2016, Beijing GeoEnviron Engineering & Technology recorded a revenue of RMB1.565 billion, representing a YoY increase of 53.6%. Net profit attributable to shareholders stood at RMB156 million, with a YoY increase of 47.1%. Profits are in line with expectation. Specifically, from the perspective of business type, the revenue from environment modification, industry environment, and urban environment increased by 43.4%, 87.5% and 28.9%, respectively, and with revenue share of 31.8%, 41.2%, and 27%, respectively. Among them, the gross margin of environment modification and urban environment were 27.4% (-7.6%) and 22.9% (-5%), with some degree of decrease. And the total gross margin slipped by 1.9 percent point to 27.43%. From the perspective of business scale, engineering contract generated the dominant revenue, with the proportion of 94.4%, owing to the significant increase of new orders, with a YoY increase of 49.05%. Meanwhile, the gross margin declined by 2.6 percent point because of the fierce competition.

In the first quarter of 2017, the company recorded a revenue of RMB280 million, up140% YoY; the net profit attributable to parent company after deduction of non-recurring profit or loss was RMB3,554,800, turning from loss in the same period of the previous year to profits, a YoY increase of 128.7%. Usually the first quarter is supposed to be slack season with small proportion of annual income. However, this year it is a good start with strong growth. It is predicted that the annual performance would obtain an impressive growth.

Buy

CMP: RMB 15.79
(Closing price as at 25 May 2017)
TARGET: RMB 19.40 (22.8%)

COMPANY DATA

O/S SHARES (MN) :	662
MARKET CAP (RMB MN) :	10,451
52 - WK HI/LO (RMB):	19.47/13.07

SHARE HOLDING PATTERN , %

Li Weiguo	22.03
-----------	-------

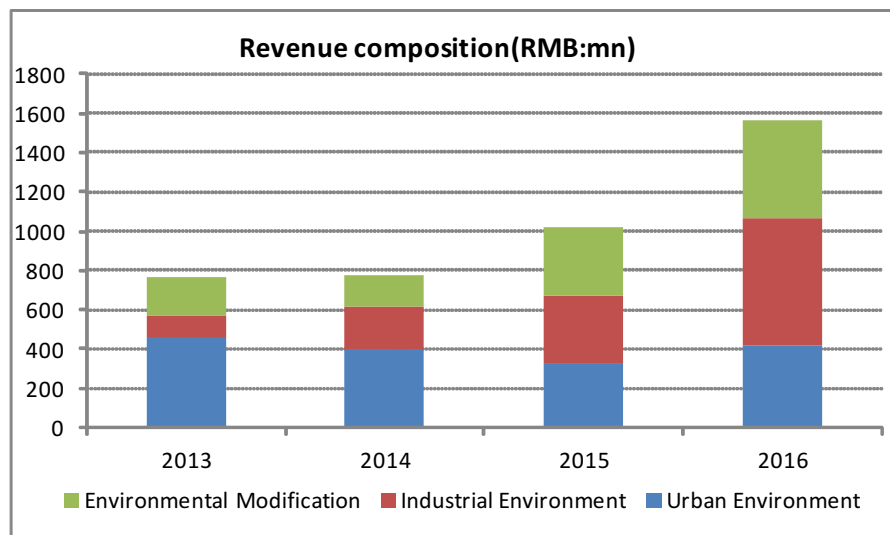
PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
BGE	-5.12	9.52	14.8
SSE	-2.25	-5.82	8.84

PRICE VS. SSE



Source: Phillip Securities (HK) Research



Source: Wind, Phillip Securities(HK)Research

KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	1,018	1,565	3,006	4,398
Net Profit	106	156	351	529
P/E, x	24	32.6	29.8	19.8
EPS, RMB	0.66	0.48	0.53	0.80
P/B, x	1.4	2.7	4.6	3.7
BVPS, RMB	11.23	5.95	3.48	4.22
ROE, %	5.9	7.9	15.2	18.9

Source: Company reports, Phillip Securities Est.

研究分析員

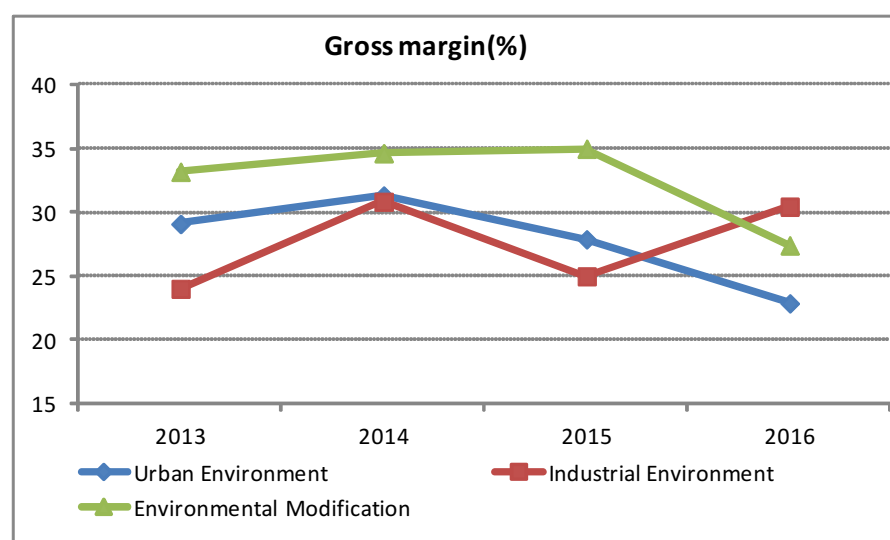
Wang Yannan
(+ 86 21 51699400-107)
wangyannan@phillip.com.cn

Modification and waste business contribute to main growth momentum

Modification and waste business are the core business that the company focuses on. The increase was 2.2 times for modification business orders of 2016, with total amount of RMB1.3 billion. Most of them will contribute to revenue and probably reach the income goal of RMB 1 billion this year. In the following years, the market of soil remediation will be large and hyper-competitive. The company boasts prominent technology and experience and as a result is expected to maintain a stronger contracting ability than others. We predict that the modification orders will improve significantly to RMB2.1-3.0 billion in 2017.

In 2016, the company recorded a revenue of RMB595 million, up 77.5% year-on-year; actual revenue was RMB640 million, a YoY increase of 87.5%. To be specific, several waste projects including Ningdong Nanhu Water Plant are already in the implementation stage. The expansion of waste projects is speeding up, too, covering Xinde Environmental Protection Project, Ningbo Land Project, Keling Environment Protection Project, Jingyuan Hongda Project, Yangxin Pengfu Project and so on. We have obtained the license of dealing with 400,000 tons of waste till the first quarter. With the help of extended acquisition, the growth of waste business in the future is expected to accelerate.

The amount of orders in Quarter 1 of 2017 is RMB533 million, including RMB202 million of environment modification, RMB322 million of industry environment and RMB9 million of urban environment. At present, the amount of order in hand is RMB8.768 billion, of which RMB1.305 billion has been executed and RMB7.463 billion have not. The sufficient contracts are sure to drive business growth of the company.



Source: Wind, Phillip Securities(HK)Research

Heavy financial stress in short term

Low market concentration in the company's business scope, fierce industry competition and downside risks of gross interest rate in short term. At the same time, orders in hand have come to the intensive construction stage and have strong

demand of capital. Meanwhile the extension degree is about to increase so the short-term financial stress is big. For specific performance, the asset-liability ratio in recent five years was on the upward trend and rose to 52.3% in 2016. The current ratio and quick ratio declined year by year to 1.04 and 0.39 in 2016, respectively. Although the debt paying stress is increasing, the risk indicators are still under control. Besides, with the gradual accomplishment and operation of projects, the company will receive stable earnings and cash flow. The expected cash flow would take a favourable turn and the financial stress would ease as well.

Valuation and rating

We think that in short time, the enough orders waiting execution and accomplishments of projects would safeguard a high growth of performance. In long term, projects entering into stable operation would drive the continuous development of performance and improvement of cash flow. Based on the estimate, from 2017 to 2018, the company's net profit attributable to the parent company will reach RMB351/529 million, respectively, equivalent to an EPS of 0.53/0.8, respectively, and a PE of 29.8/19.8, respectively. We give a target price of RMB19.4 and the Buy rating. (Closing price as at 25 May 2017)

Historical P/E



Source: Wind, Phillip Securities(HK)Research

NO.	Stock code	Stock name	Market value (million)	PE(TTM)	PE(17E)	PE(18E)	PB	ROE(2016)
1	002002.SZ	鸿达兴业	18,058	17.8	14.2	11.4	4.38	21.39
2	603588.SZ	高能环境	10,450	60.9	29.4	20.0	5.29	7.94
3	300557.SZ	理工环科	9,732	51.4	32.8	25.8	3.22	5.11
4	300422.SZ	博世科	5,945	79.6	46.8	30.3	5.86	6.29
5	300187.SZ	永清环保	7,218	48.0	34.9	26.9	4.82	9.56
6	000005.SZ	世纪星源	5,589	53.1	40.8	32.7	4.39	8.47

Source: Wind, Phillip Securities(HK)Research

Risk warnings

Increasing industry competition;

Risk of fund shortage;

Project progress below expectations;

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
Price Earnings(P/E)	16.6	24.0	32.6	29.8	19.8
Price to Book(P/B)	1.5	1.4	2.7	4.5	3.7
Per share data(RMB)					
EPS,Adjusted	0.95	0.66	0.48	0.53	0.80
Book Value Per Share	10.67	11.23	5.95	3.48	4.23
Dividends Per Share	0.10	0.10	0.05	0.05	0.08
Growth & Margins(%)					
Growth					
Revenue	-0.7%	31.2%	53.6%	92.1%	46.3%
Operating income	-19.3%	-1.2%	55.7%	123.6%	49.0%
Net profit	-17.3%	-7.9%	47.1%	124.5%	50.5%
Margins					
Gross profit margin	31.9%	29.4%	27.4%	27.7%	27.5%
Operating profit margin	15.4%	11.6%	11.8%	13.7%	14.0%
Net income margin	14.9%	10.4%	10.0%	11.7%	12.0%
Key Ratios					
ROE(%)	6.7%	5.9%	7.9%	15.2%	18.9%
ROA(%)	5.0%	3.4%	4.1%	7.1%	8.2%
Income Statement(RMB mn)					
Revenue	777	1,018	1,565	3,006	4,398
- Cost of Goods Sold	529	720	1,135	2,173	3,188
Gross Income	248	299	429	833	1,209
- Operating Expenses	128	181	245	421	596
Operating Income	120	118	184	412	614
- Net Non-Operating Losses (Gains)	5	4	0	1	1
Pretax Income	125	122	184	413	615
- Income Tax Expense	10	15	21	50	74
Net profit	116	106	156	351	529

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 25 May 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 $\pm 5\%$ 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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2017 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: 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) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

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 (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

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