

## LK (600388.SH)

Purchased by Sunshine Group at a premium, ushering in a new stage of development

Hong Kong | Environmental Protection | Company report

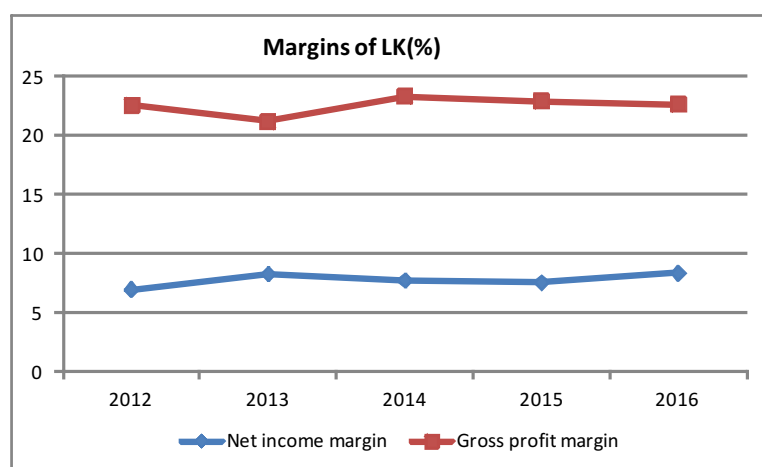
28 June 2017

**The cost was controlled well, and the gross profit was basically stable.**

In 2016, the company's revenue jumped by 8.56% yoy to RMB8.024 billion; the net profit excluding non-recurring items attributable to the parent company increased by 18.52% yoy to RMB0.663 billion. Basic EPS was RMB0.62, increasing by 19.23% yoy. The profits were basically in line with its expectations. The results increased quarter by quarter. In Q4, results reached RMB3.09 billion, and the net profit attributable to the parent company was RMB0.234 billion. In 2017 Q1, the company's result positively increased. The revenues increased by 0.25% yoy to RMB1.143 billion; the net profit excluding non-recurring items attributable to the parent company grew by 3.58% yoy to RMB75 million.

Specifically, by expanding development space, the vacuum cleaner project, desulfurization and denitration project kept steady growth, which were the main sources of the result growth. The revenues were RMB4.266 billion (+6.2%) and RMB3.33 billion (+14.57%), respectively. The gross profit margins were 25.1% and 21.4%, respectively. The share acquisition of desulfurization catalyst business from joint venture parties was completed. And the revenue soared by 54.88% to RMB73 million.

In respect of cost, the increase was 8.94%, slightly higher than the increase of revenue. The gross profit margin decreased slightly by 0.27%, which was mainly affected by the decline of that of real estate and overseas EPC project. During the period, the expense was RMB1.031 billion; the expense ratio was 12.85%, slightly up by 0.38 percentage point over last year. The net profit reached 8.37%, mainly affected by the one-off non-operating revenue of RMB137 million.



Source: Wind, Phillip Securities(HK)Research

### Buy

CMP: RMB 15.04

(Closing price as at 26 June 2017)

TARGET: HKD 18.40 (22.3%)

### COMPANY DATA

|                       |             |
|-----------------------|-------------|
| O/S SHARES (MN) :     | 1069        |
| MARKET CAP (RMB MN) : | 16057       |
| 52 - WK HI/LO (RMB):  | 15.96/11.81 |

### SHARE HOLDING PATTERN , %

|                                     |       |
|-------------------------------------|-------|
| Fujian dongzheng investment co. LTD | 17.17 |
|-------------------------------------|-------|

### PRICE PERFORMANCE , %

|     | 1-Month | 3-Month | 1-Year |
|-----|---------|---------|--------|
| LK  | 3.02    | -1.3    | 74.46  |
| SSE | 1.54    | -3.43   | 10.64  |

### PRICE VS. SSE



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

| RMBmn      | FY15 | FY16 | FY17E | FY18E |
|------------|------|------|-------|-------|
| Revenue    | 7391 | 8024 | 8698  | 9446  |
| Net Profit | 560  | 664  | 722   | 812   |
| P/E,x      | 28.9 | 24.3 | 22.3  | 19.8  |
| EPS, RMB   | 0.52 | 0.62 | 0.68  | 0.76  |
| P/B, x     | 4.5  | 4.0  | 3.6   | 3.1   |
| BVPS, RMB  | 3.3  | 3.7  | 4.2   | 4.8   |
| ROE, %     | 15.7 | 16.6 | 16.0  | 15.9  |

Source: Company reports, Phillip Securities Est.

Research Analyst

**Wang Yannan**

(+ 86 21 51699400-107)

wangyannan@phillip.com.cn

## **The contracts in hand were abundant; the foundation of sustainable development was solid.**

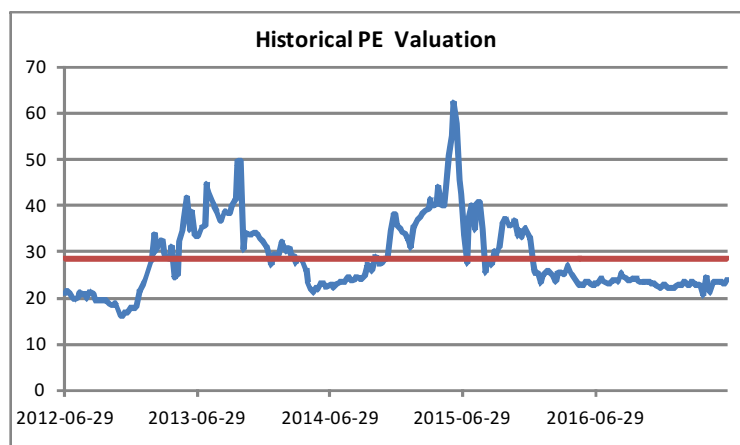
The amount of orders in 2016 was RMB10.2billion, including RMB5.5 billion of vacuum cleaning, RMB3.2 billion of desulfurization and denitration. As the end of the period, the amount of the orders in hand was RMB16.1 billion. The overall bid rate of the project was 44.9%. In 2017 Q1, the amount of orders was RMB2.7 billion. At the end of the period, the amount of orders in hand was RMB17.5 billion. Facing the situations of excess capacity of flue and gas treatment in power industry and fierce competitions among peer companies, the future business is confronted with many difficulties. However, the company's excellent technology and brand image, the abundant contracts in hand, the strong executive force and the active layout in non-electric projects lay solid foundations for the sustainable development in the future.

## **Sunshine Group purchased Longking at a premium, showing its great value.**

In June 1, the company announced that Sunshine Group and its persons acting on concert purchased Eastright Investment at a price of RMB3.67 billion and indirectly held 17.17% of the company's stocks. Each share was nearly RMB20, nearly 60% higher than RMB12.77 before suspension. The premium mainly reflects the company's current business level, brand and technological research and development capabilities, profitability and the ability of valuation. Longking Co., Ltd has long been committed to the field of controlling air pollution. The purchase of Sunshine Group aims to working in environment protection industry and creates a comprehensive empire of environment protection. We believe that the purchase by Sunshine Group at a premium reflects its exploration and recognition of the company's value. With the experience of the Group's capital operation, the company will usher in a new development. Furthermore, Sunshine Group will increase its holdings of RMB0.5 billion to RMB1 billion of the company's stocks in the next year, showing its confidence to the long-term development of the company.

## **Valuation and Rating**

At present, the project of flue and gas treatment in electricity industry is in the peak of implementation. On the contrary, there is still a broad market space in non-electricity industry. Based on technology, brand image and first layout, the company is expected to further increase the market share. We predict that the company's revenue in 2017-2018 will reach RMB8.7 billion and RMB9.4 billion, respectively. The net profit will be RMB0.72 billion and RMB0.81 billion, respectively. The EPS will be RMB0.68 billion and RMB0.76 billion, respectively. We will give the target price of RMB18.4 and the rating is Buy. (Closing price as at 26 June 2017)



Source: Wind, Phillip Securities(HK)Research

### Peer comparison

| Stock code       | Stock name  | PE-TTM       | PE-17E       | PB          |
|------------------|-------------|--------------|--------------|-------------|
| 600526.SH        | 菲达环保        | -            | -            | 2.22        |
| 002499.SZ        | 科林环保        | 261.85       | 55.21        | 7.73        |
| 600292.SH        | 远达环保        | 76.04        | 52.33        | 1.76        |
| 300056.SZ        | 三维丝         | 66.58        | 26.07        | 3.50        |
| 000939.SZ        | 凯迪生态        | 57.53        | 29.79        | 1.65        |
| 300187.SZ        | 永清环保        | 49.57        | 36.78        | 4.98        |
| 600499.sh        | 科达洁能        | 31.59        | 19.14        | 2.58        |
| 002573.SZ        | 清新环境        | 26.29        | 19.46        | 5.32        |
| <b>600388.SH</b> | <b>龙净环保</b> | <b>23.94</b> | <b>21.61</b> | <b>3.93</b> |

Source: Wind, Phillip Securities(HK)Research

### Risk Warnings

Upward price of raw materials;

Risk of refunding;

Risk of macro-policy;

Fierce competition in the industry;

## Financials

| FYE                                | FY14  | FY15  | FY16  | FY17E | FY18E |
|------------------------------------|-------|-------|-------|-------|-------|
| <b>Valuation Ratios</b>            |       |       |       |       |       |
| P/E                                | 13.93 | 28.92 | 24.26 | 22.26 | 19.80 |
| P/B                                | 2.04  | 4.51  | 4.02  | 3.56  | 3.14  |
| <b>Per share data(RMB)</b>         |       |       |       |       |       |
| EPS,Adj+                           | 1.08  | 0.52  | 0.62  | 0.68  | 0.76  |
| BVPS                               | 7.36  | 3.33  | 3.74  | 4.23  | 4.79  |
| <b>Growth &amp; Margins(%)</b>     |       |       |       |       |       |
| <b>Growth</b>                      |       |       |       |       |       |
| Revenue                            | 8.2%  | 22.6% | 8.6%  | 8.4%  | 8.6%  |
| Operating income                   | 0.6%  | 22.6% | 3.7%  | 24.3% | 10.8% |
| Net profit                         | 1.5%  | 20.9% | 18.5% | 8.8%  | 12.4% |
| <b>Margins</b>                     |       |       |       |       |       |
| Gross profit margin                | 23.3% | 22.9% | 22.6% | 23.0% | 23.2% |
| Operating profit margin            | 8.4%  | 8.4%  | 8.1%  | 9.3%  | 9.4%  |
| Net income margin                  | 7.7%  | 7.6%  | 8.3%  | 8.3%  | 8.6%  |
| <b>Key Ratios</b>                  |       |       |       |       |       |
| ROE(%)                             | 14.7% | 15.7% | 16.6% | 16.0% | 15.9% |
| ROA(%)                             | 4.6%  | 4.5%  | 4.7%  | 4.5%  | 4.5%  |
| <b>Income Statement(RMB mn)</b>    |       |       |       |       |       |
| Revenue                            | 6,027 | 7,391 | 8,024 | 8,698 | 9,446 |
| - Cost of Goods Sold               | 4,621 | 5,697 | 6,207 | 6,697 | 7,254 |
| Gross Income                       | 1,405 | 1,694 | 1,817 | 2,000 | 2,191 |
| - Operating Expenses               | 823   | 922   | 1,031 | 1,131 | 1,228 |
| Operating Income                   | 509   | 624   | 647   | 805   | 891   |
| - Net Non-Operating Losses (Gains) | (40)  | (41)  | (170) | (45)  | (64)  |
| Pretax Income                      | 549   | 665   | 817   | 850   | 955   |
| - Income Tax Expense               | 82    | 104   | 145   | 127   | 143   |
| Net profit                         | 463   | 560   | 664   | 722   | 812   |

Source: Company, Phillip Securities (HK) Research Estimates  
 (Financial figures as at 26 June 2017)

**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

**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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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