

# Beijing Enterprises Water Group Limited (BEWG) (371.HK)

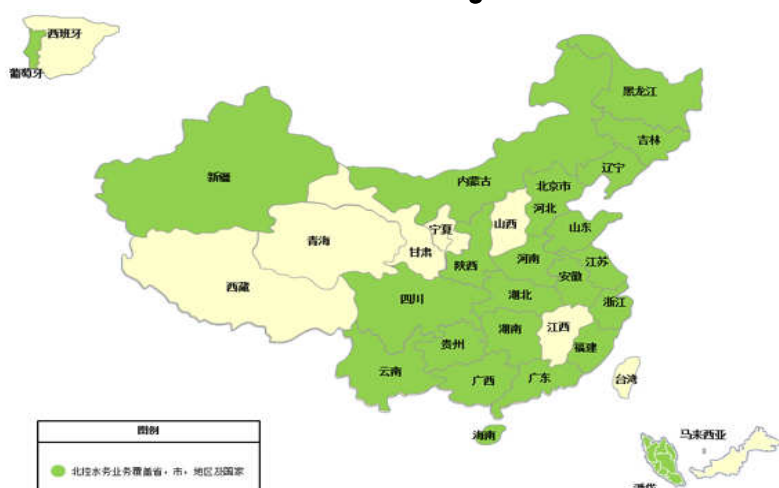
PPP+ industry fund facilitates the transformation of light assets

Hong Kong | Environmental protection | Company report

13 July 2017

**Leading water treatment scale in China:** Beijing Enterprises Water Group affiliates to the state-owned enterprise Beijing Enterprises Group Company Limited. The Company's main business included water treatment services (sewage treatment + water supply), water environment governance and construction (comprehensive governance + BOT water services) and technical services. As at the end of 2016, the Company had 452 water plants, covering 25 provinces/autonomous regions/ municipalities directly under the Central Government in China and parts of overseas regions. Its total design capacity reaches 27,168,000 tons/day and the water handling capacity reaches 16.48 million tons/day. The scale ranks the top in China stably.

**BEWG Coverage area**



Source: Company website, Phillip Securities (HK) Research

**Continuous rapid growth in performance:** The performance of 2016 was impressive. The revenue increased by 29% yoy and stood at HKD17,355 million, with the main benefits from the substantial increase in revenue from comprehensive governance projects, water supply services and BOT water service projects. Profits attributable to shareholders rose 31% yoy to HKD3,227 million, and diluted earnings per share grew by 31.9% yoy to HKD36.27 cents, indicating a dividend payout of 37%. In terms of profitability, gross margin continued to decline, and decreased by 3.5 percentage points to 33.33%, of which the adjustment of value-added tax policy and an increase in the proportion of the lower gross margin construction revenue are main reasons; net profit margin remained relatively stable, increased slightly by 0.4 percentage points to 18.6%. Thanks to a variety of bonds issued, the Company's cash holdings at the end of the term increased by 71.55% yoy and stood at HKD10,921 million.

**Buy**

CMP: HKD 6.07  
(Closing price as at 11 July 2017)  
TARGET: HKD 7.68 (26%)

**COMPANY DATA**

O/S SHARES (MN) :	8,757
MARKET CAP (HKDMN) :	53,157
52 - WK HI/LO (HKD):	6.44/4.33

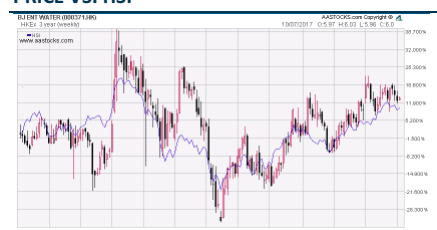
**SHARE HOLDING PATTERN , %**

BeiKong environment construction co., LTD	43.77
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**PRICE PERFORMANCE , %**

	1-Month	3-Month	1-Year
BJ ENT WATER	0.17	-3.38	43.86
HSI	-2.65	4.45	23.23

**PRICE VS. HSI**



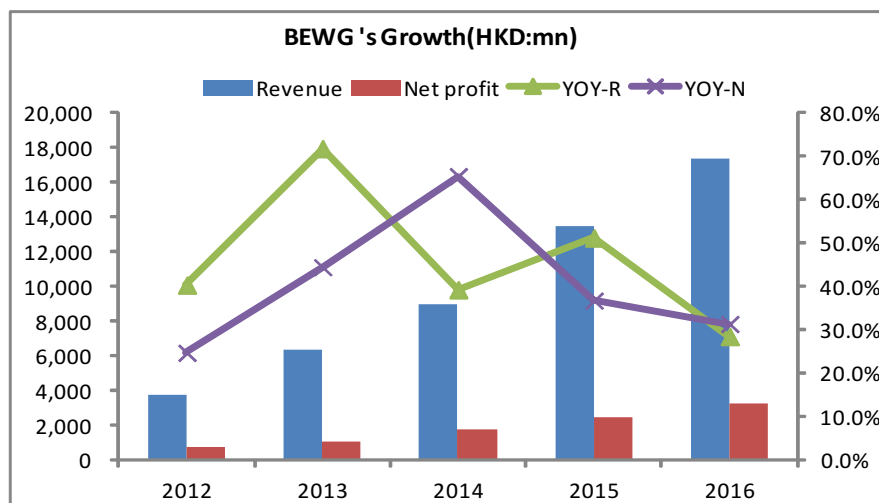
Source: Phillip Securities (HK) Research

**KEY FINANCIALS**

HKDmn	FY15	FY16	FY17E	FY18E
Revenue	13,645	17,851	24,545	31,909
Net Profit	2,455	3,227	4,165	5,264
P/E,x	21.4	16.6	12.6	10.0
EPS, HKD	0.28	0.36	0.48	0.60
P/B, x	3.22	3.17	2.67	2.21
BVPS, HKD	1.86	1.89	2.25	2.71
ROE, %	15.2	19.6	21.2	22.2

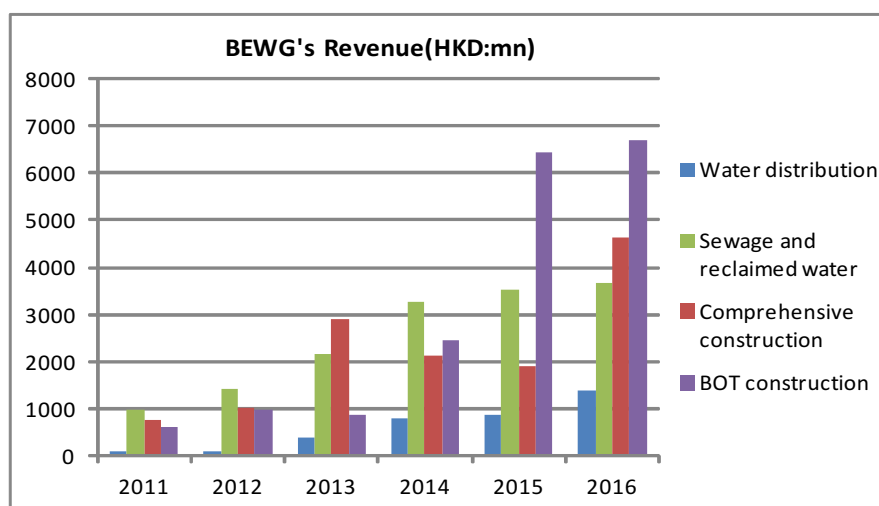
Source: Company reports, Phillip Securities Est.

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Source: Wind, Phillip Securities (HK) Research

**Increased performance contribution rate of construction service:** In the Company's business structure, the revenue of water treatment services accounts for approximately 30%, profit accounts for approximately 50%, and the rest comes from the water environment governance and construction services. Specifically, the revenue of water treatment services is RMB5,025 million, increased by 14.3% yoy; net profit stands at RMB2,275 million, increased by 12.3% yoy with steady growth. With the gradual improvement of the performance contribution rate of construction service, especially comprehensive governance projects, there were 13 comprehensive governance projects under construction in 2015, and the number grew to 20 in 2016, which led to the construction revenue increased by 35.7% overall to HKD11,308 million; net profit increased by 47.2% yoy to HKD1,291 million, and the performance contribution rate grew to 43%, which became an important source of profit growth for the Company.



Source: Wind, Phillip Securities (HK) Research

**PPP+ industry fund beneficial to transformation of light assets:** The Company strengthened the acquisition efforts of projects for the continuous growth in its processing capacity. In 2016, the Company added water treatment design capacity of 4.55 million tons/day, of which approximately 2/3 of the projects came from PPP projects; net increase in design capacity was 3.756 million tons/day. According to the Company's order receiving schedule, it is expected that the newly added capacity will remain at over 3 million tons in 2017. The Company has signed a USD30 billion PPP project order in the first quarter of 2017, exceeding the full year's

target. It is expected to add RMB100 billion of PPP projects in 2017. With new projects implemented one after another, the future performance will be supported constantly. In addition, the Company's first PPP project industry fund - Chifeng water environment comprehensive governance project was formally established and the total scale was RMB1 billion. Beijing Tongzhou project also plans to adopt the fund model. The innovation of financing channels such as PPP industry funds can help the Company improve its cash flow, reduce the debt burden, and speed up the acquisition and implementation of PPP projects.

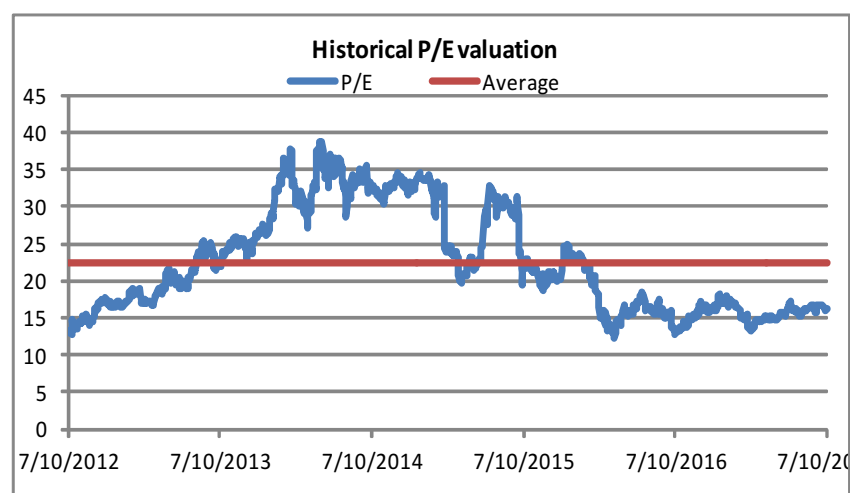
## Valuation and Rating

The Company will maintain rapid development with the benefit from the release of PPP performance and the promotion of industry concentration. Furthermore, the widespread use of the light asset model of the PPP+ industry fund is expected to be a catalyst for boosting the Company's share price. We estimate that, from 2017 to 2018, the revenues of the Company will reach RMB24,545 million and RMB31,909 million, respectively; the net profits RMB 4,165 million and RMB 5,264 million, respectively; EPS RMB 0.48 and RMB 0.60, respectively. We give a target price of HKD7.68 and the rating "Buy". (Closing price as at 11 July 2017)

### Peer comparison

Stock code	Stock name	Market value(mn)	PE-TTM	PE-17E	PB
270.HK	粤海投资	59,614	16.27	14.83	2.13
<b>371.HK</b>	<b>北控水务</b>	<b>45,260</b>	<b>16.12</b>	<b>13.12</b>	<b>3.15</b>
1363.HK	中滔环保	7,420	14.69	10.59	2.37
855.HK	中国水务	5,957	8.02	7.70	1.20
6839.HK	云南水务	3,665	9.71	6.69	0.89
6136.HK	康达环保	2,752	8.46	6.22	0.80

Source: Wind, Phillip Securities (HK) Research



Source: Wind, Phillip Securities (HK) Research

## Risk Warnings

Market competition has increase;

The acquisition and implementation of projects are below expectations;

The implementation of industry fund is below expectations.

## Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratios</b>					
P/E	30.05	21.46	16.69	12.64	10.00
P/B	3.32	3.23	3.18	2.67	2.22
Dividend Yield	1.0%	1.3%	1.8%	2.4%	3.0%
<b>Per share data(HKD)</b>					
EPS,Adj+	0.20	0.28	0.36	0.48	0.60
BVPS	1.81	1.86	1.89	2.25	2.71
Dividend Per Share	0.06	0.08	0.11	0.14	0.18
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	39.6%	51.0%	30.8%	37.5%	30.0%
Operating income	57.2%	43.8%	22.0%	39.0%	29.5%
Net profit	65.5%	36.8%	31.4%	29.1%	26.4%
<b>Margins</b>					
Gross profit margin	39.9%	37.4%	35.2%	33.7%	33.7%
Operating profit margin	28.0%	26.6%	24.8%	25.1%	25.0%
Net profit margin	19.9%	18.0%	18.1%	17.0%	16.5%
<b>Key Ratios</b>					
ROE(%)	11.4%	15.2%	19.6%	21.2%	22.2%
ROA(%)	3.7%	4.2%	4.4%	5.1%	5.9%
<b>Income Statement(HKD mn)</b>					
Revenue	9,034	13,645	17,851	24,545	31,909
- Cost of Goods Sold	5,430	8,536	11,570	16,273	21,155
Gross Income	3,604	5,109	6,281	8,272	10,753
- Operating Expenses	1,076	1,474	1,849	2,111	2,776
Operating Income	2,527	3,635	4,433	6,161	7,977
- Net Non-Operating Losses (Gain)	(140)	89	(211)	200	500
Pretax Income	2,667	3,546	4,644	5,961	7,477
- Income Tax Expense	594	778	971	1,246	1,563
Net profit	1,794	2,455	3,227	4,165	5,264

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 11 July 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

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