INSTITUTIONAL EQUITY RESEARCH

PhillipCapital

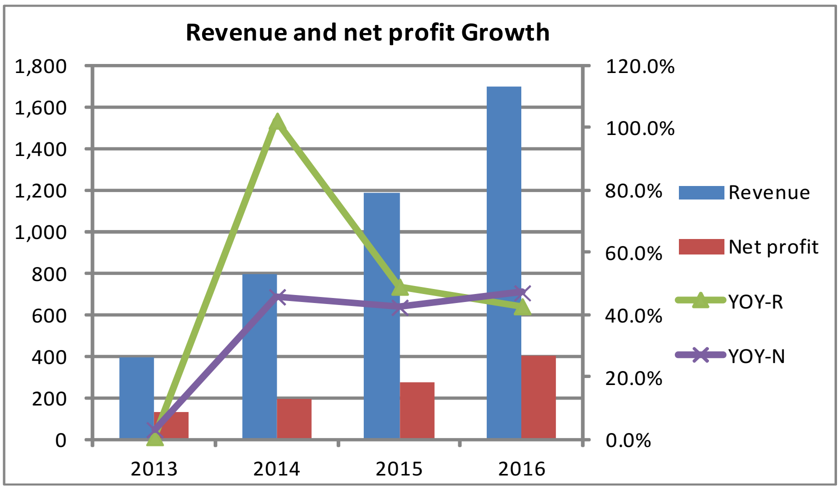
CANVEST ENV (1381.HK)

Focus on waste-to-energy(WTE), enjoying a promising prospect

Hong Kong | Environmental protection | Company report

20 July 2017

Focus on WTE with promising prospect: Canvest Environmental Protection, as the largest non-State-owned WTE provider in Guangdong Province, has expanded its business rapidly since going public. Now the Company holds 13 WTE projects which are mainly distributed in Guangdong, Guangxi and Guizhou, and its capacity in operation and total design capacity have reached 8,600 tons/day and 19,240 tons/day, respectively. At present, the Company has enjoyed a 30% market share in Guangdong Province and the percentage is expected to rise to 69% in 2020. In accordance with the Plan for the Construction of Urban Household Waste Harmless Treatment Facilities in the 13th Five-Year Plan Period, the daily MSW treatment capability in Guangdong Province will be improved from 18,400 tons in 2015 to 73,000 tons in 2020, which is one of the WTE markets with highest growth potentials. Meanwhile, the urban household WTE ratio across the country will be increased from 31% in 2015 to 54%. It is predictable that there is vast room for capacity growth of the Company in the future.



Source: Company website, Phillip Securities (HK) Research

Moderate operation and outstanding profitability: From 2012 to 2016, the revenue rate and compound growth rate of net profit attributable to the parent company were 44.3% and 33.2%, respectively. In 2016, the revenue of the Company was HKD1,654 million (+39.6%), mainly benefiting from the increased income from electricity selling and waste treatment charges since the project was put into operation. The net profit attributable to the parent company reached RMB400 million (+47.1%) and the EPS was HKD0.198 (+45.5%). Specifically, the revenue from electricity selling and waste treatment charges accounted for 46.9%, with a 53.4% gross margin; the revenue from BOT construction services accounted for 51%, with a 16.7% gross margin. In terms of profitability, due to the increase of temporal costs and the change of income structure, the gross margin fell by 1.5% to 35.6%, and it is expected that in 2017 it will steadily pick up. Period expense kept stable and the net profit margin slightly declined by 0.7% to 23.6%.

Buy

CMP: HKD 4.16

(Closing price as at 18 July2017)

TARGET: HKD 5.00 (20%)

COMPANY DATA

O/S SHARES (MN) :	2,455
MARKET CAP (HKDMN) :	10,190
52 - WK HI/LO (HKD):	4.88 / 3.37

SHARE HOLDING PATTERN , %

Zhenda development co., LTD	53.43

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
CANVEST ENV	1.86	-8.61	22.13
HSI	3.29	10.64	21.41

PRICE VS. HSI

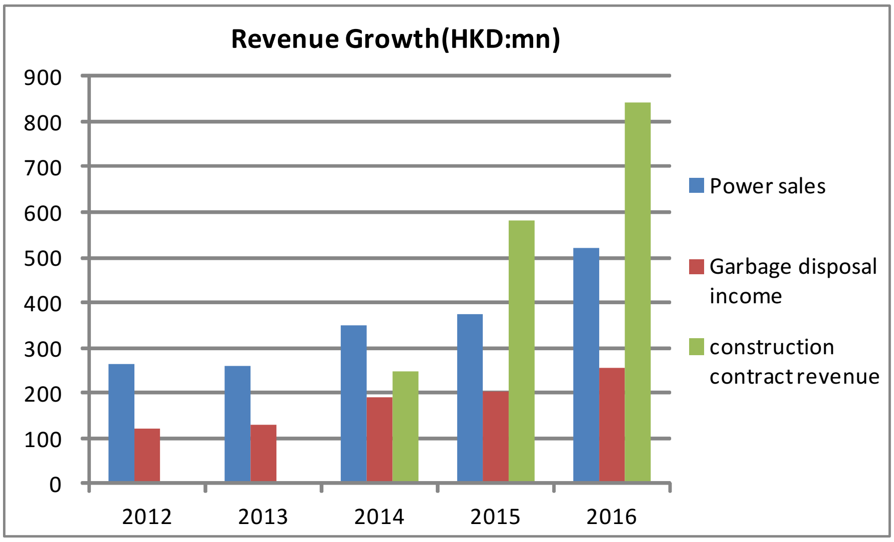
Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKDmn	FY15	FY16	FY17E	FY18E
Revenue	1,188	1,696	2,273	2,938
Net Profit	272	400	540	718
P/E,x	29.7	20.8	18.9	14.22
EPS, HKD	0.14	0.20	0.22	0.29
P/B, x	3.56	3.10	3.19	2.68
BVPS, HKD	1.17	1.34	1.30	1.55
ROE, %	11.7	14.7	16.9	18.8

Source: Company reports, Phillip Securities Est.

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



Source: Wind, Phillip Securities (HK) Research

Smooth project acquisition and operation: In 2016, the Company`s newly increased capacity was 5,940 ton/day through acquisition and bidding and planned to keep the newly increased capacity at the level of above 6,000 ton/day in 2017. In terms of project operation, the second phase of the Kewei and Zhongshan have been put into operation since April 2017; the technical reform of the first phase of Laibin China Sciences has been completed and the project is expected to put into operation in H2 of this year; at present the second phase of Xingyi has come to the stage of incinerator debugging; the second phase of Dongguan Canvest will be completed by the end of this year. It is expected that the capacity in operation of the Company will reach 11,140 ton/day by the end of this year. In terms of projects under construction, Project Qingyuan has been deferred due to the problem of site selection and planning and will be replaced by Project Lufeng, whose construction will be started in the H2 of this year and is expected to be completed by the end of the next year. In the future, the Company will continue to keep stable project acquisition and commencement, in hope of achieving the 30% compound growth target in the 13th Five-Year Plan period.

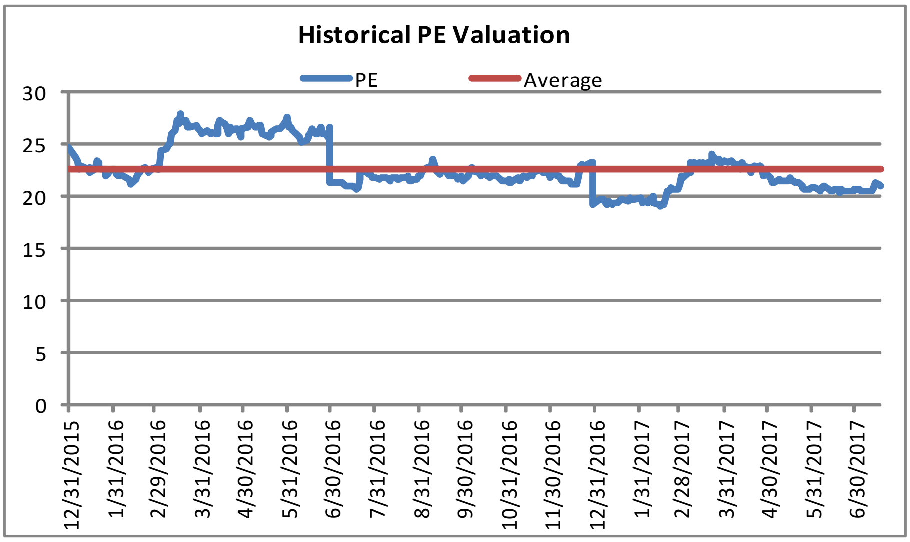
Canvest Env`s Projects

	Project	Daily capacity/t	Notes
Operating capacity	Kewei'	1800	Operating in 2011
	Dongguan YF phase1	1800	Operating in2013
	Kewei phase1	1800	Operating in2015
	Zhanjiang YF	1500	Operating in2016
	Xingyi phase1	700	Operating in2015
2017	Kewei phase2	1500	Operating in2017
	Zhongshan	1040	Operating in2017
	Laibin phase1	1000	2016.3 Technological upgrading，Operating in2017
	Xingyi phase2	500	2017.6 Incineration installation debugging
	Dongguan YF phase2	1200	Completed by late 2017
2018	Beiliu phase1	700	Completed by early 2018
	Lufeng phase1	1200	Completed by late 2018
2019+	Qingyuan phase1	1500	Operating in2019
	Xinyi phase1	500	Operating in2019
	Qingyuan phase2	1000	Planning
	Laibin phase2	500	Planning
	Lufeng phase2	400	Planning
	Beiliu phase2	350	Planning
	Xinyi phase2	250	Planning
Total		19240	

Source: Wind, Phillip Securities (HK) Research

Influential shareholders: At the beginning of 2017, the Company has achieved strategic cooperation with BOC & UTRUST Private Equity Fund Management (Guangdong) Co., Ltd. and Utrust International (Utrust Holdings is a financial holdings group directly subordinated to the Department of Finance of Guangdong Province), and it is expected that the cooperation with Utrust Holdings will bring abundant project resources to the Company, and as a result enhance the competitive advantages in Guangdong Province. In February 2017, the Company has introduced Shanghai Industrial Holdings Limited as the strategic investor. The dominant shareholder of Shanghai Industrial Holdings Limited is the biggest overseas comprehensive enterprise in Shanghai, and Canvest Environmental Protection, as a private enterprise, is also known for its quick response capability and risk control capability, so the cooperation of the two enterprises is perfectly possible to facilitate the business expansion of the new projects across the country.

Investment ratings: Canvest Environmental Protection, dedicating to its major industry of WTE, is outstanding in project acquisition capability as well as outstanding operation efficiency. Benefiting from favorable government policies and the expansion of WTE market in Guangdong Province as well as across the country, the Company, with great certainty, enjoys a relatively stable momentum for performance growth in the next three years. We predict that from 2017 to 2018, the Company`s revenues will reach HKD2.27 billion and HKD 2.94billion, respectively; net profit HKD 0.54 billion and HKD 0.72 billion, respectively; EPS 0.22 and 0.29, respectively and we set HKD5.0 as its target price, rated as "Buy". (Closing price as at 18 July2017)



Source: Wind, Phillip Securities (HK) Research

Risk Warnings

The newly increased projects are below expectation;

Project construction and operation progress are below expectation;

Tthe progress of its cooperation with Utrust/Shanghai Industrial Holdings Limited is below expectation.

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	32.00	29.71	20.80	18.90	14.22
P/B	3.59	3.56	3.10	3.19	2.68
Dividend Yield	-	-	0.7%	1.1%	1.4%
Per share data(HKD)					
EPS,Adj+	0.13	0.14	0.20	0.22	0.29
BVPS	1.16	1.17	1.34	1.30	1.55
Dividend Per Share	-	-	0.03	0.04	0.06
Growth & Margins(%)					
Growth					
Revenue	102.3%	49.1%	42.8%	34.0%	29.3%
Operating income	50.9%	32.9%	53.8%	33.7%	34.4%
Net profit	45.8%	42.4%	47.1%	35.1%	33.0%
Margins					
Gross profit margin	43.1%	37.1%	35.6%	36.0%	36.4%
Operating profit margin	31.2%	27.9%	30.0%	29.9%	31.1%
Net profit margin	24.0%	22.9%	23.6%	23.8%	24.5%
Key Ratios					
ROE(%)	8.3%	11.7%	14.7%	16.9%	18.8%
ROA(%)	7.6%	6.6%	7.6%	8.4%	9.9%
Income Statement(HKD mn)					
Revenue	797	1,188	1,696	2,273	2,938
- Cost of Goods Sold	452	745	1,064	1,455	1,869
Gross Income	345	443	632	818	1,069
- Operating Expenses	97	112	123	138	155
Operating Income	249	331	509	680	914
- Net Non-Operating Losses (Gains)	13	1	46	55	83
Pretax Income	236	330	463	625	831
- Income Tax Expense	27	41	63	85	113
Net profit	191	272	400	540	718

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 18 July 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 ± 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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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

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

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

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

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

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

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
Websitewww.phillip.co.th

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 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

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

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