

# Grandblue ENV (600323.SH)

Earned 20% more in the interim period with steady growth in results

Hong Kong | Environmental Protection | Company report

19 September 2017

## Summary of Investment

- Geo-replication of the Grandblue model again;
- Extend business to the watershed management sector, and build new points of growth.

## Investment Advices

Business of water supply, sewage treatment and gas service has embraced steady operation and growth, contributing stable cash flow to the Company, as well as supporting the Company's expansion of solid waste treatment, with its focus mainly placed on market expansion schedule of solid waste treatment and hazardous waste treatment. Based on the above analysis, we predict the Company's net profits of 2017 and 2018 will reach RMB603 billion and RMB709 million, respectively; earnings per share (EPS) will be RMB 0.79 and RMB 0.93, respectively, equivalent to 18.4/15.6 times price-earning ratio (PER) of 2017/2018; the target price is adjusted to RMB17.4, with a "Accumulate" rating. (Closing price as at 15 Sep 2017)

### Accumulate

CMP: RMB 14.83  
(Closing price as at 15 Sep 2017)  
TARGET: HKD 17.40 (17%)

### COMPANY DATA

O/S SHARES (MN) :	766
MARKET CAP (RMB MN) :	11,088
52 - WK HI/LO (RMB):	16.08/13.13

### SHARE HOLDING PATTERN , %

Foshan nanhai water supply group co., LTD 17.98

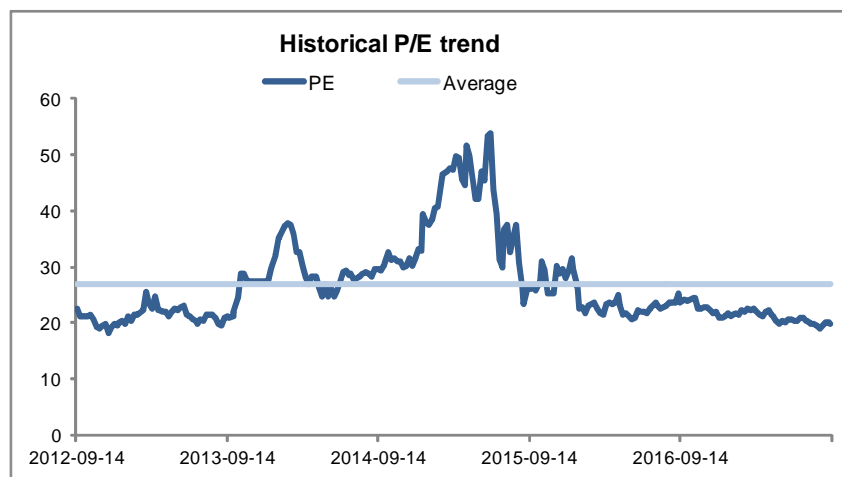
### PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Grandblue ENV	6.48	2.67	-3.22
SSE	5.33	7.16	11.77

### PRICE VS. SSE



Source: Phillip Securities (HK) Research



Source: Wind, Phillip Securities(HK)Research

### KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	3,357	3,690	4,104	4,952
Net Profit	403	509	603	709
P/E, x	27.2	21.9	18.8	16.0
EPS, RMB	0.53	0.66	0.79	0.93
P/B, x	2.5	2.3	2.2	2.0
BVPS, RMB	5.74	6.30	6.71	7.27
ROE, %	9.2	10.5	11.7	12.7

Source: Company reports, Phillip Securities Est.

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

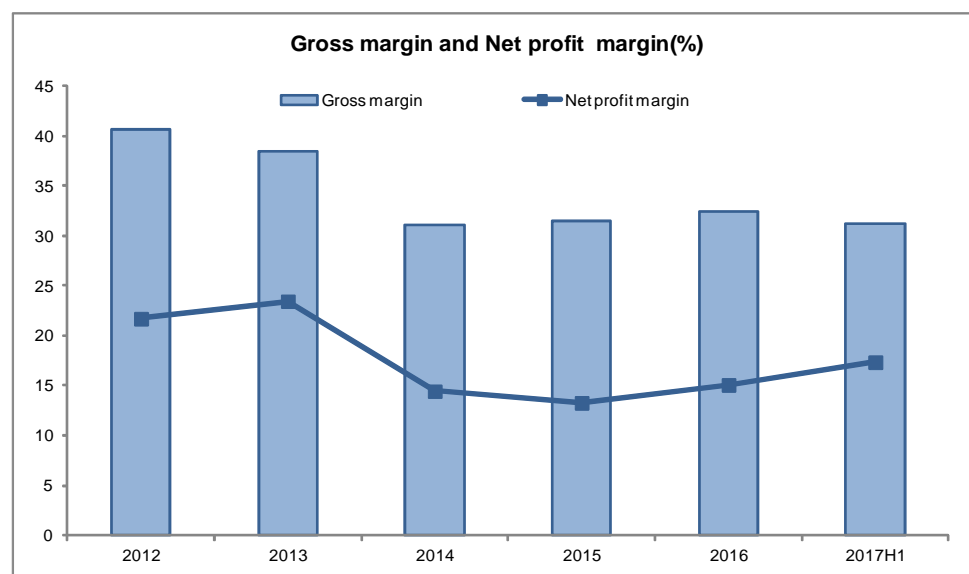
Company Name	Stock Code	Major Business	Market cap(mn)	PE-TTM	PE-2017	PB
WEIMING	603568.SH	Solid waste	15194	37.20	32.80	7.20
China Tianying	000035.SZ	Solid waste	9082	42.80	27.30	4.30
Tus-sound	000826.SZ	Solid waste+Sanitation	34998	30.80	24.80	3.70
Dongjiang ENV	002672.SZ	Hazardous waste	12395	25.00	26.00	3.90
SGC	601139.SH	Gas	19507	24.30	23.40	2.40
CQ GAS	600917.SH	Gas	14813	41.80	34.70	4.10
CQ WATER	601158.SH	Water	33648	25.20	17.40	2.60
XERC	000598.SZ	Water	16902	19.70	16.30	1.80
<b>Average</b>			<b>19567</b>	<b>30.85</b>	<b>25.34</b>	<b>3.75</b>
Grandblue ENV	600323.SH	Solid waste+Gas+Water	11087	19.80	18.00	2.20

Source: Wind, Phillip Securities(HK)Research

## Steady Growth of the Four Major Types of Business

According to the 2017 interim result report, Grandblue Environment recorded revenues of RMB1.96 billion, with an annual increase of 13.8%, having accomplished 49% of the annual growth target; net profit attributable to the parent company was RMB314 million, with an annual increase of 20%; net profit attributable to parent company excluding non-recurring items was RMB287 million, with an annual increase of 15.4%, equivalent to primary earnings per share at RMB0.41, which was RMB0.34 over the same time period of last year. Among other things, solid waste, gas service, water supply and sewage treatment contributed 34.6%, 34.1%, 20.7%, and 4.59%, respectively to revenues, and revenue growth rate was 6.44%, 15.3%, 6.99%, and 15.38%, respectively. Generally speaking, the four types of major business have steadily developed and the overall result growth is satisfactory.

With regard to profitability, the overall gross profit margin was 31.12%, dropping by 2.9% Y-o-Y, mainly due to decrease of gross profit from gas service, water supply and solid waste treatment; net profit margin was 17.34%, up by 0.73% Y-o-Y; the period cost rate saw an obvious decrease to 11.77% from 14.49% over the same time period of last year, mainly benefiting from the sharp decline of financial expense by 20.3% post the issuing of corporate bonds.



Source: Wind, Phillip Securities(HK)Research

## Solid Waste Treatment Industrial Park is Geo-Replicated Again

The Company extended its business to the solid waste treatment sector in 2005, and established the first domestic solid waste treatment industrial park in Nanhai District. The Company acquired C&G China in 2014, achieving the nationwide layout for solid waste treatment. In September 2016, the Company bought 34% equity of Shunde Holdings and participated in the construction and operation of the solid waste treatment industrial park project in Shunde District (holding 70% equity of the operational company). The project consists of household waste (3,000 tons per day),

sewage sludge treatment (700 tons per day) and kitchen waste project. This is the first geo-replicated solid waste treatment industrial park project of the Company.

In March 2017, the Company won the bid for the project: Solid Waste Integrated Treatment Center of Kaiping City in Guangdong Province, Stage 1, Phase 1, PPP Industrial Park. The project consists of the first household waste incineration power plant (Phase 1: 600 tons per day; Phase 2: 300 tons per day), percolate treatment center (200 cubic meters per day), landfill site (750,000 cubic meters) and relevant supporting projects. The Grandblue Mode is geo-replicated again, which suggests the Company's advantages in solid waste treatment have been recognized in the market, so as to further strengthen its impact and competitiveness in the field of constructing solid waste treatment industrial park in Guangdong Province and even in the whole country.

Intra-period Huangshi Phase 2 (400 tons per day) has been put into operation; Dalian Project (1,000 tons per day) is expected to be put into operation in the second half of 2017. So far, the volume of waste incineration power plant, sewage sludge treatment and kitchen waste treatment the Company is able to process is 26,750 tons per day, 1,350 tons per day and 1,350 tons per day, respectively; the capacity for hazardous waste treatment is 318,000 tons per year, among which proposed projects and projects to be built can process 10,050 tons per day. The projects to be built will contribute to results in 2018 and in later years. It's expected to record a result growth of 15% to 25% in the next three years.

### Project Schedule

Project Name	Acquisit	Building progress	Scale(ton/day)	Actual disposal	Garbage fee
晋江市垃圾焚烧发电BOT项目	2003.1	Completed	6000		72.83
晋江市垃圾焚烧发电BOT项目	2007.9	Completed	1200	1765.09	72.83
安溪县垃圾焚烧发电BOT项目一期	2009.8	Completed	600	648.36	73
安溪县垃圾焚烧发电BOT项目二期		Completed			73
惠安县垃圾焚烧项目一期	2009.1	Completed	1200	1525.79	69.79
惠安县垃圾焚烧项目二期		Completed			69.79
南平市三线一中心垃圾焚烧BOT项目	2009.8	Completed	600	552.67	60
黄石市垃圾焚烧BOT一期项目	2009.5	Completed	1200	923.47	The former 10years:49;
黄石市垃圾焚烧BOT二期项目		2017H1 operation			
福清市垃圾焚烧项目一期	2009.9	Completed	900	1016.87	61.5
福清市垃圾焚烧项目二期		Completed			61.5
廊坊市垃圾焚烧项目	2009.1	Completed	1000	908.96	58
大连市金州垃圾焚烧项目BOT一期	2015.9	2017H2 operation	1000	--	78
佛山市南海固废产业园二厂项目	2006.7	Completed	1500	1523.81	95
佛山市南海固废产业园一厂改扩建项目	2011.7	Completed	1500	1661.63	95
<b>Total</b>			<b>16700</b>		
佛山市南海固废产业园三期	2017.4	Preparation	1500	--	95
孝感市垃圾焚烧项目一期	2010.4	Not yet started	1050	--	55
孝感市垃圾焚烧项目二期					55
贵阳市垃圾焚烧BOT项目	2013.5	Not yet started	2000	--	65
漳州南部垃圾焚烧项目	2016.2	Preparation	1000	--	85
顺控环投固废产业园	2016.9	Preparation	3000	--	
开平市固废综合处理PPP项目一期	2017.4	Preparation	600	--	85
开平市固废综合处理PPP项目二期		Preparation	900	--	85
<b>Total</b>			<b>10050</b>		

Source: Company report, Phillip Securities(HK)Research

## Increase Capital to Blue Bay Company and March towards Watershed Management Sector

Business of water supply, sewage treatment and gas service of the Company are mainly centralized in Nanhai District of Foshan City, possessing a relative monopoly over Nanhai District. Water supply in Nanhai District has entered the mature period of the industrial development. There is still certain development space for sewage treatment and gas service with the development of city and boosting for environmental protection. Revenue of water supply as a result of increase of water consumption volume has reported a growth by 6.99% Y-o-Y (RMB406 million); revenue of sewage treatment due to contribution made by operation and management of the sewage collection pipe network has reported a growth by 15.4% Y-o-Y (RMB90 million); revenue of gas service facilitated by displacement of fuel gas and expansion of new customers in the aluminum profile industry has reported a growth by 15.3% Y-o-Y (RMB669 million), but its contribution to net profit has seen a sharp decline by 26.88% Y-o-Y; furthermore, the fuel gas project in Jiangxi Grandblue has a good start, the base filling station is under test run, some industrial users have been expanded, and the smooth implementation of fuel gas project outside the province helps to support the Company's sustained expansion in different areas.

In August 2017, the Company took the wholly-owned subsidiary, Grandblue Sewage Treatment Investment Company, as the main agency, increased RMB388 million to Blue Bay Company and acquired 90% equity of that company, in charge of watershed management project for the Lishui River in Nanhai District. The project investment scale is around RMB2.15 billion. The Company will march towards the watershed management sector by means of increasing capital, extending equity and investing in watershed management project of the Lishui River, which will facilitate the integration, optimization and coordination of the water service industry chain and create new points of profit growth for the Company.

### Risk Warnings

Market competition is intensified;

Gross margin goes downward;

Expansion and bringing into operation of solid waste treatment is below expectation.

## Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratios</b>					
P/E	30.27	27.98	22.47	18.84	16.03
P/B	3.41	2.59	2.35	2.21	2.04
<b>Per share data(RMB)</b>					
EPS,Adj+	0.49	0.53	0.66	0.79	0.93
BVPS	4.35	5.74	6.30	6.71	7.27
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	243.2%	37.8%	9.9%	11.2%	20.6%
Operating income	70.9%	9.6%	22.5%	24.6%	16.4%
Net profit	32.0%	30.5%	26.2%	18.6%	17.5%
<b>Margins</b>					
Gross profit margin	31.1%	31.5%	32.4%	31.2%	30.8%
Operating profit margin	18.6%	14.8%	16.5%	18.5%	17.8%
Net income margin	12.7%	12.0%	13.8%	14.7%	14.3%
<b>Key Ratios</b>					
ROE(%)	9.3%	9.2%	10.5%	11.7%	12.7%
ROA(%)	3.8%	3.5%	4.0%	4.4%	4.8%
<b>Income Statement(RMB mn)</b>					
Revenue	2,435	3,357	3,690	4,104	4,952
- Cost of Goods Sold	1,678	2,300	2,495	2,823	3,428
Gross Income	758	1,057	1,195	1,282	1,524
- Operating Expenses	287	539	543	488	591
Operating Income	454	498	609	759	883
- Net Non-Operating Losses (Gains)	(13)	(78)	(139)	(105)	(115)
Pretax Income	467	576	749	864	998
- Income Tax Expense	116	130	192	216	240
Net profit	309	403	509	603	709

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 15 Sep 2017)

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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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**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