

Dynagreen (1330. HK)

Keeps Increasing on Its Operational Level and Its Valuation May Possibly Recover

Hong Kong | Environmental protection | Company report

26 September 2017

Summary of Investment

There is a great increase in its operational business and a slight growth in its profit quality; It will enter construction period in H2 and its construction businesses is expected to go back to rapid growth; Its IPO in A-share market is carrying forward steadily.

Investment Advice

The company is gaining in its operational level, has rich project reserves at hand and has strong certainty about its performance growth in the following years. It is launching its IPO in A-share market, which is expected to be completed at the end of the year, and the low valuation of its H-share may be improved at that time. We estimate, from 2017 to 2018, the net profit of the company will reach 465/580mn, and respectively, EPS of 0.45/0.56, equivalent to an PE of 8.1/6.5. We give a target price of HKD 6.40 and the Buy rating. (Closing price as at 22 Sep 2017)

Buy

CMP: HKD 4.32
(Closing price as at 22 Sep 2017)
TARGET: HKD 6.40 (48%)

COMPANY DATA

O/S SHARES (MN) :	1,045
MARKET CAP (HKDMN) :	4,514
52 - WK HI/LO (HKD):	4.9/ 3.2

SHARE HOLDING PATTERN , %

Beijing state owned assets management co ., LTD	47.96
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PRICE PERFORMANCE , %

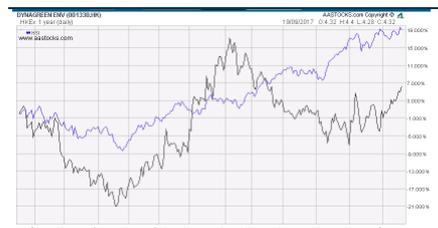
	1-Month	3-Month	1-Year
Dynagreen	6.40	5.11	8.51
HSI	4.11	8.62	19.57

Historical P/E valuation



Source:Wind, Phillip securities(HK) Research

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	1,258	1,875	2,507	3,195
Net Profit	227	356	465	580
P/E,x	16.6	10.7	8.1	6.5
EPS, RMB	0.22	0.34	0.45	0.56
P/B, x	1.6	1.4	1.2	1.1
BVPS, RMB	2.31	2.62	3.00	3.46
ROE, %	9.4	13.0	14.8	15.9

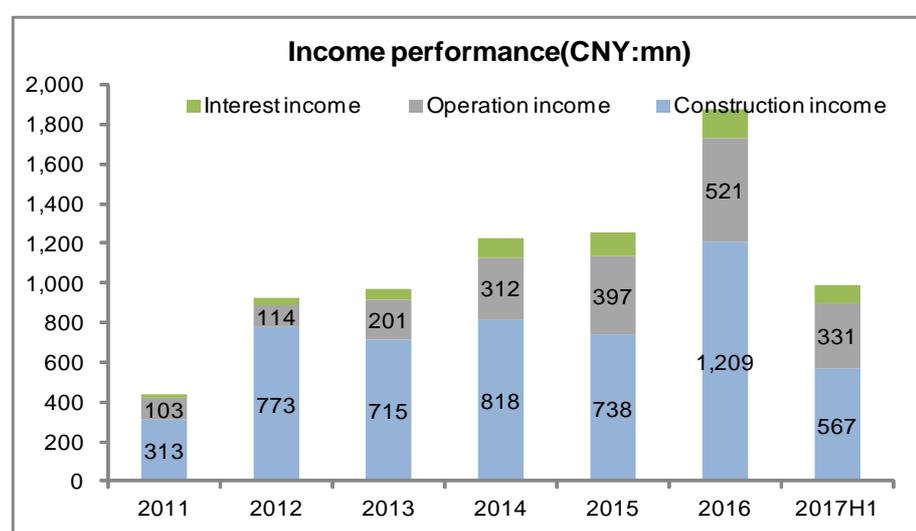
Source: Company reports, Phillip Securities Est.

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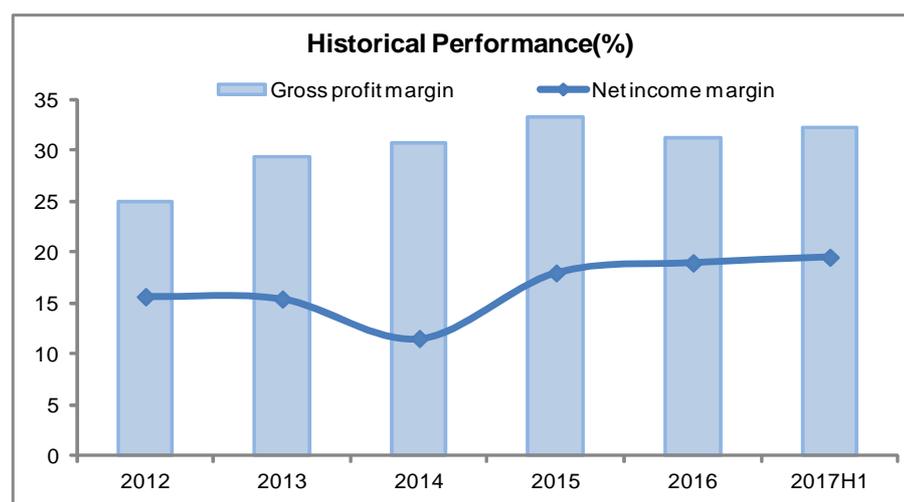
Environmental energy business contributed to main revenue increments

In H1 of 2017, Dynagreen reported, respectively, an operating revenue and a profit of, respectively, RMB985 million and RMB193 million, increasing by, respectively, 18.4% and 16.45%, equivalent to an EPS of RMB0.18 compared to an EPS of RMB0.16 in the previous year. The major increment contributed to operational business went up significantly by 57% to RMB331 million and the income from construction revenue grew slightly by 2.94% yoy to RMB567 million.

In terms of profitability, the overall gross margin increased by 0.79 pts yoy to 32.35% thanks to the increase in proportion of high gross profit operational business, but the net profit margin went down by 0.33 pts yoy to 19.57% because the period cost rate went up by 1 pts yoy to 12.65% due to the rapid growth in administration and finance expenses.



Source:Wind, Phillip securities(HK) Research



Source:Wind, Phillip securities(HK) Research

The operation index hits a new high

The operation quality of projects put into operation improves significantly and the garbage treatment volume and on-grid energy hit a new high. The company has put into operation 11 projects, mainly located in economically developed areas like Beijing-Tianjin-Hebei region, Yangtze River Delta and Pearl River Delta. The garbage

treatment volume and on-grid energy increased by 15% and 36% respectively, to 1.75 million tons and 470 million kWh. The waste incineration plants in operation is able to dispose of garbage of 8550 tons. The operation and management capacity of the company can be seen by the fact that it owns 3 out of 11 3A-level (the highest) household garbage incineration plants domestically, respectively in Huizhou, Wuhan and Taizhou, chosen by Central Environmental Protection Association. With the continuous increases in the demand of local household garbage disposal and the proportion of the household garbage disposal capacity, the operational business is anticipated to grow rapidly.

The project construction and expansion progress well

Among the projects under construction, Jurong Project(700t/d) was put into trial operation in April and Ninghe Straw Project(700t/d) has finished construction by more than 90%, Bangbu Project(1210t/d) more than 70%, Tongzhou Project more than 45% and they are expected to be put into trial operation in H2 this year and H1 next year. Besides, Miyun PPP Project(1530t/d) and Shantou Project(1500t/d) is under full construction and Bobai, Zhangqiu, Hongan and Longhui Projects are under preparation. H2 this year and next year will be an intensive construction period and the construction businesses are expected to see a huge rise.

In terms of project expansion, the company is both actively developing new projects and rebuilding or expanding existing projects. Up to now, the company has signed a new contract of Tongzhou Second-phase Project and Yongjia Reconstruction-Promotion PPP Project(including a second-phase project), respectively increase disposal capacity by 1700t/d and 750t/d. The scale of projects under construction or preparation reaches 18390t/d, equivalent to 2 times of the scale of existing operational projects. Benefiting from abundant projects reserve, there is absolutely adequate incentive for result growth in the following years.

Investment Advice

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Risk Warnings

The existing projects development falls short of expectation;

The acquisition of new projects falls short of expectation;

The progress of IPO falls short of expectation;

Capital and policy risks occur.

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
Price Earnings(P/E)	22.8	16.6	10.7	8.1	6.5
Price to Book(P/B)	1.8	1.6	1.4	1.2	1.1
Per share data(RMB)					
EPS,Adjusted	0.16	0.22	0.34	0.45	0.56
Book Value Per Share	2.08	2.31	2.62	3.00	3.46
Dividends Per Share	0.00	0.03	0.06	0.08	0.10
Growth & Margins(%)					
Growth					
Revenue	25.6%	2.6%	49.0%	33.7%	27.5%
Operating income	27.3%	8.5%	48.9%	38.3%	28.0%
Net profit	-6.0%	59.9%	56.8%	30.6%	24.7%
Margins					
Gross profit margin	30.8%	33.2%	31.4%	32.2%	32.1%
Operating profit margin	24.0%	25.4%	25.3%	26.2%	26.3%
Net income margin	11.6%	18.0%	19.0%	18.6%	18.1%
Key Ratios					
ROE(%)	6.5%	9.4%	13.0%	14.8%	15.9%
ROA(%)	3.6%	4.8%	6.2%	6.7%	7.1%
Income Statement(RMB mn)					
Revenue	1,226	1,258	1,875	2,507	3,195
- Cost of Goods Sold	849	840	1,287	1,699	2,170
Gross Income	377	418	588	807	1,026
- Operating Expenses	83	99	113	150	185
Operating Income	294	319	475	657	840
- Net Non-Operating Losses (Gain)	-100	-63	-47	-96	-142
Pretax Income	194	256	428	560	698
- Income Tax Expense	52	29	71	95	119
Net profit	142	227	356	465	580

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 22 Sep 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

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