

Tus-sound (000826.SZ)

Accelerates to Take PPP Projects With A Significant Growth of the Sanitation Business

Hong Kong | Environmental Protection | Company report

25 October 2017

Summary of Investment

-The capital strength is significantly enhanced after the accomplishment of private placement.

-Sanitation business has expanded across the country, developing fast and having strong drivers of performance.

-The company accelerates to take PPP projects, increasing the order backlogs to support the future performance.

Investment Rating

As the industry leader, the company has completed the vertical industry chain layout from upstream environmental protection equipments to midstream sanitation services and then to downstream solid waste disposals. As a result, we are optimistic about the endogenous growth under the whole industry layout. Meanwhile, after the accomplishment of private placement, it is hopeful to see the acceleration of the extensional extension and the trend of continuous growth of the performance. We expect the company's 2017-2018 net profit to reach RMB1364/1703million respectively; EPS to be RMB1.33/RMB1.67, respectively; the corresponding target price to be RMB41.2, rated "Accumulate". (Closing price as at 23 Oct 2017)

Accumulate

CMP: RMB 37.10
(Closing price as at 23 Oct 2017)
TARGET: RMB 41.20 (11%)

COMPANY DATA

O/S SHARES (MN) :	1022
MARKET CAP (RMB MN) :	37,910
52 - WK HI/LO (RMB):	39.75/30.71

SHARE HOLDING PATTERN , %

Enlightenment technology service co., LTD 16.56

PRICE PERFORMANCE , %

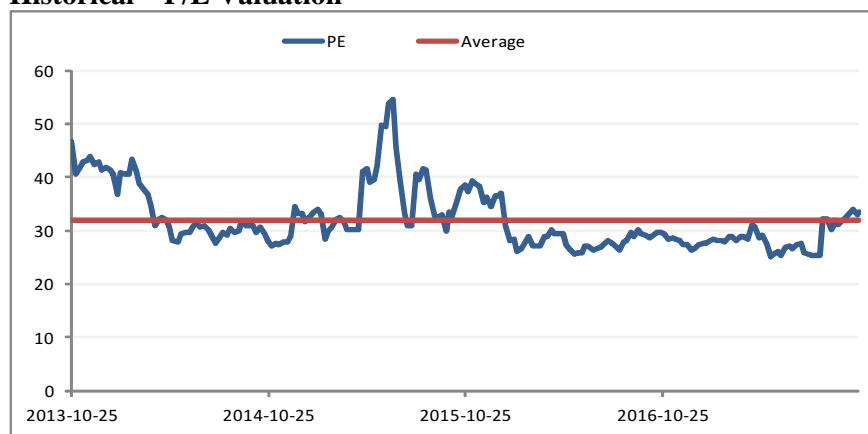
	1-Month	3-Month	1-Year
Tus-sound	5.52	13.11	8.25
SSE	0.78	4.34	9.31

PRICE VS. SSE



Source: Phillip Securities (HK) Research

Historical P/E Valuation



Source: Wind, Phillip Securities(HK)Research

KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	6,341	6,917	9,582	11,986
Net Profit	931	1,081	1,364	1,703
P/E,x	33.7	29.7	27.8	22.3
EPS, RMB	1.0	1.25	1.33	1.67
P/B, x	4.9	4.2	2.7	2.5
BVPS, RMB	7.2	8.56	13.6	15.0
ROE, %	15.2	13.1	9.7	11.0

Source: Company reports, Phillip Securities Est.

Peer comparison

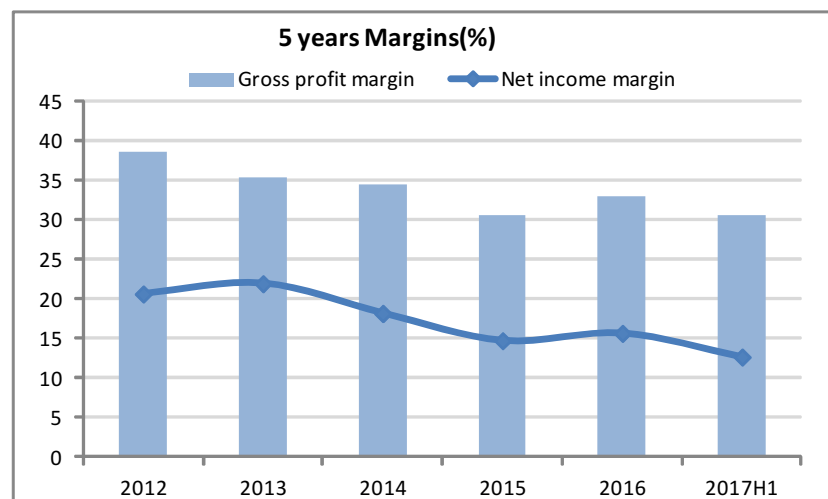
Code	Mkt Cap(BN)	PE			PB	ROE(%)
		TTM	17E	18E		
600323.SH	11.3	20.06	18.42	14.98	2.26	11.03
000826.SZ	37.5	33.08	26.57	20.97	3.94	15.06
002672.SZ	13.8	27.49	29.04	22.8	4.22	17.67
000035.SZ	9.1	42.87	28.66	21.19	4.25	10.82
603568.SH	15.8	38.66	33.52	28.23	7.47	18.26

Source: Wind, Phillip Securities(HK)Research

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

The interim result was steady: the operating revenues of Tus-Sound accounted to RMB3912 million, representing a year-on-year increase of 14.63%. The net profit attributable to parent company stood at RMB493 million, representing a year-on-year increase of 12.3%, and the corresponding EPS was RMB0.52. Specifically, the growth of environment protection equipment and sanitation service significantly accelerated, and contributed to the primary income increment, while amounted to RMB904 million and RMB715 million, respectively, representing a year-on-year increase of 23.5% and 139%. To some extent, the business of municipal construction and renewable resources decreased, with their revenues of RMB1163 million(-10.65%) and RMB822 million(-0.66%), respectively. The business of water services and solid waste disposal grew steadily, reaching incomes of RMB207 million(+14.4%) and RMB83 million(+32.3%).

Gross margin and net profit margin remain stable. the overall gross margin and net profit margin were 30.49%(+0.57%) and 12.66%(-0.21%), respectively, almost maintaining steady. The gross margin of environment protection equipment was the highest among all, decreased by 3 pts year-on-year to 50.84%. The gross margin of solid waste disposal business decreased greatly because of amortization amount and loan interest, down by 20.47% year-on-year to 18.25%. The gross margin of renewable resources business increased by 13.88% year-on-year to 18.25% because the overall purchase price of waste household appliance declined.



Source: Wind, Phillip Securities(HK)Research

Period cost rate rose by 2 pts year-on-year to 15.3%, among which administration expenses rate was 8.86%(+1.34%); selling expenses rate was 1.33%(+0.17%); and financial costs rate was 5.11%(+0.53%). Operational cash flow was RMB-574 million, which was worsened comparing with RMB-367 million in the same period of last year, and among the cash flow, the cost of staff salary increased greatly.

The company accelerates to take PPP projects: the company speeded up to take PPP projects in recent years. According to the statistics, since 2017, the company has signed almost 20 new PPP projects and invested almost RMB20 billion in PPP projects (including Cooperation Framework Agreement). Big orders of PPP projects that the company have includes Xingping(RMB1.246 billion), Wuhai(RMB1.15 billion), Huanggang(RMB5 billion), Xianning(RMB1.583 billion), Liaocheng(RMB2 billion), Pingxiang(RMB2.25 billion) and Heilongjiang(RMB2 billion), etc. With the constant exploitation of PPP business and the gradually realization of PPP orders, we expect to form a solid foundation for the long-term growth of the company's performance.

The Bid of Xiong`an New Area Project: in September, the company won the bid of urban and rural sanitation integration project in Anxin county, Xiong`an New Area, which includes sweeping, cleaning and trash pickup of main roads and the two sides in 9 towns and 2 countries in Anxin county. The service period is three years and the annual contract amount is RMB32 million. The company has already taken up sanitation projects in Anxin county as early as 2013, 2014 and 2016. The winning project will help the company to form its regional competitive advantages of the integration urban and rural sanitation, and to consolidate achievements of projects in Xiong`an New Area. The demonstration effect of this project is remarkable.

The share price goes into a healthy growth channel after accomplishment of private placement: private placement was accomplished in August, 2017. 167 million shares were added, whose issuing price was RMB27.39 per share. It raises RMB4589 million and is expected to market and circulate in August, 2020. The factors that suppress the company`s stocks will be removed after the accomplished of private replacement. The added funds will also help to reduce the financial costs and relieve the debt-to-assets ratio rising year by year, and will provide financial support for projects exploitation and expansion.

Risk Alert

Projects exploitation is lower than expected;

Projects at hand undergo slowly;

Market competition becomes more fierce;

Downside risk of gross margin.

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
Price Earnings(P/E)	38.8	33.7	29.7	27.8	22.3
Price to Book(P/B)	6.0	5.1	4.4	2.7	2.5
Per share data(RMB)					
EPS,Adjusted	0.96	1.10	1.25	1.33	1.67
Book Value Per Share	6.14	7.24	8.46	13.62	15.04
Dividends Per Share	0.10	0.15	0.20	0.25	0.30
Growth & Margins(%)					
Growth					
Revenue	63.0%	45.0%	9.1%	38.5%	25.1%
Operating income	38.1%	13.4%	14.6%	25.4%	25.1%
Net profit	37.3%	15.8%	16.2%	26.1%	24.9%
Margins					
Gross profit margin	34.5%	30.5%	32.9%	30.0%	29.8%
Operating profit margin	21.2%	16.5%	17.4%	15.7%	15.7%
Net income margin	18.4%	14.7%	15.6%	14.2%	14.2%
Key Ratios					
ROE(%)	15.5%	15.2%	13.1%	9.7%	11.0%
ROA(%)	9.5%	7.3%	5.6%	5.1%	5.4%
Income Statement(RMB)					
Revenue	4,374	6,341	6,917	9,582	11,986
- Cost of Goods Sold	2,865	4,404	4,642	6,707	8,414
Gross Income	1,509	1,936	2,274	2,875	3,572
- Operating Expenses	583	887	1,072	1,368	1,687
Operating Income	926	1,049	1,202	1,507	1,885
- Net Non-Operating Loss	17	60	97	128	158
Pretax Income	943	1,109	1,299	1,635	2,043
- Income Tax Expense	148	175	216	268	335
Net profit	804	931	1,081	1,364	1,703

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 23 October 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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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

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

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

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

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

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: 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

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

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

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 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