

SPC (002573.SZ)

Results in the First Three Quarters Meet Expectation with Continuous Growth

Hong Kong | Environmental protection | Company report

3 November 2017

Summary of Investment

- The industry of industrial smoke treatment remains booming;
- With a firm commitment to the layout of non-electrical sector, there is expected to be an outperforming growth;

Investment Rating

We believe that with an enormous boom in the industry of industrial smoke treatment, the leading companies will benefit continuously from it and we see a bright future in the company's early layout and active merger and acquisition in non-electrical sector which is expected to provide new growth impetus. We expect the 2017 to 2018 net profit attributable to the company to be 1010/1268mn, respectively, and EPS to be 0.94 and 1.18, respectively, equivalent to PE of 25.2 and 20.1, respectively. The target price is 30.00 RMB and the Buy rating is given. (Closing price as at 1 NOV 2017)

Buy

CMP: RMB 23.74
(Closing price as at 1 NOV 2017)
TARGET: RMB 30.00 (26%)

COMPANY DATA

O/S SHARES (MN) :	1,073
MARKET CAP (RMBMN) :	25,180
52 - WK HI/LO (RMB):	25.08 / 16.48

SHARE HOLDING PATTERN , %

Beijing century land and holding co. LTD	45.03
--	-------

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
SPC	4.08	31.77	27.59
SSCI	1.24	3.58	9.35

PRICE VS. SSCI



Source: Phillip Securities (HK) Research

Historical P/E Valuation



Source: Wind, Phillip securities(HK) Research

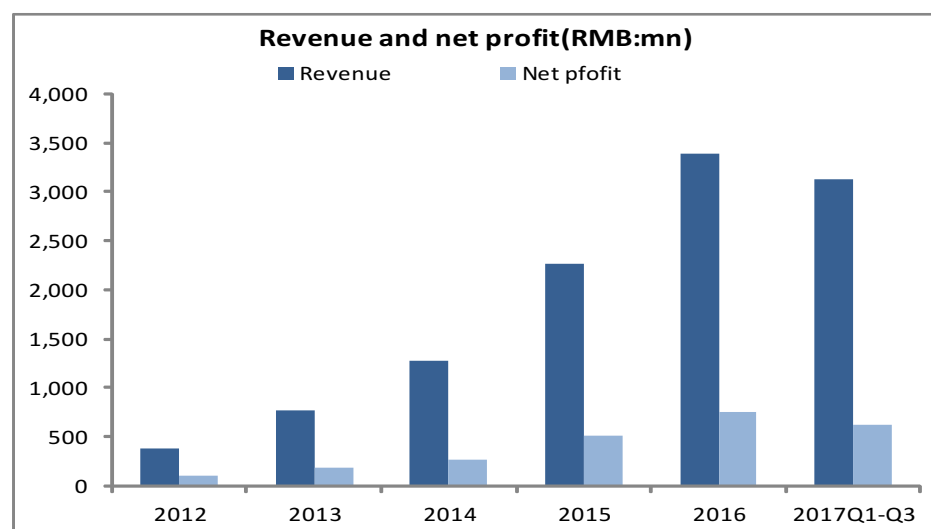
KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	2268	3394	4610	5813
Net Profit	507	744	1010	1268
P/E,x	48.4	33.2	25.2	20.1
EPS, RMB	0.48	0.70	0.94	1.18
P/B, x	8.2	6.2	5.2	4.3
BVPS, RMB	2.8	3.7	4.5	5.5
ROE, %	16.8	18.6	20.8	21.4

Source: Company reports, Phillip Securities Est.

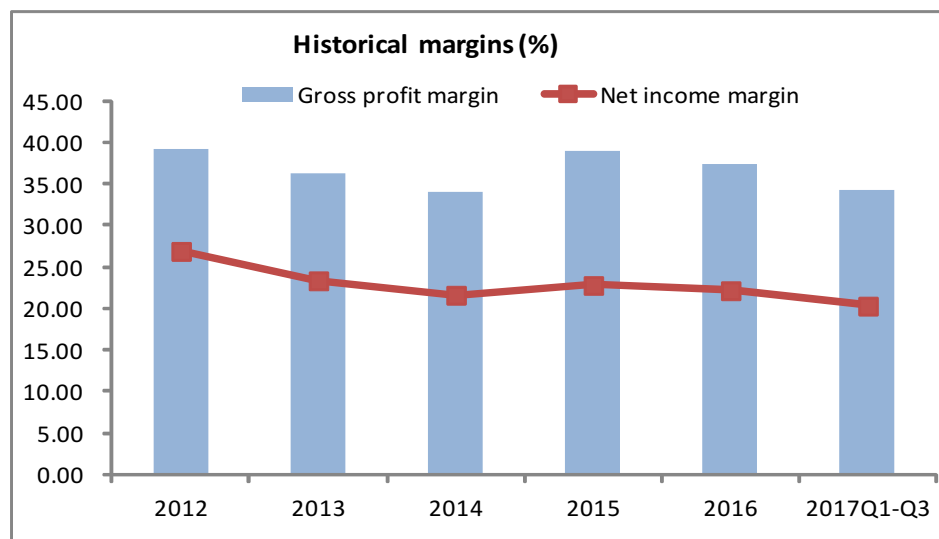
Research Analyst
Wang Yannan
(+ 86 21 51699400-107)
wangyannan@phillip.com.cn

Results in the First Three Quarters Meet Expectation. According to 2017 Q3 result report, SPC Environment recorded a revenue of RMB3.134 billion, up by 57.65% yoy, a net profit attributable to parent company of RMB618 million, up by 23.99% yoy and 24.27% yoy after deduction of non-recurring profit and loss and the corresponding EPS of RMB0.575 (+23.11%). The results meet our expectation. Q1, Q2 and Q3 reported revenues of RMB672 million, RMB877 million and RMB1.584 billion, respectively and net profits after deduction of non-recurring profit and loss of RMB91 million, RMB316 million and RMB295 million, respectively. The trend of contribution quarter after quarter is positive. The company anticipates the yearly net profit margin to be between RMB856 million and RMB1.07 billion, up by 15%-45% yoy, mainly due to the new result growth from new operational businesses and the EPC program in progress.



Source:Wind, Phillip securities(HK) Research

The Decrease in Gross Margin and Large Increase in Financial Expense Retarded the Net Profit Margin. In terms of financial profitability, the company recorded a gross margin of 34.2%, down by 4.2% compared with 38.4% in the same period of last year, mainly due to the increase in raw material cost; and a period cost rate of 12.3%, up by 3%, including ratio of expense to sales of 2.42% (+0.02%), ratio of expense to administration of 5.26% (-0.19%) and ratio of expense to finance of 4.62% (+3.23%) which hugely increased to RMB145 million by 4.25 times, mainly due to interest expense led by the increase of debt financing in H1. Retarded by the decrease in gross margin and increase in period cost rate, net profit margin went down by 5.6% to 20.33% yoy.



Source: Wind, Phillip securities(HK) Research

In terms of finance, the company recorded a net amount of operating cash flow of RMB37.93 million, down by 24.2% yoy and receivables of RMB2.823 billion, up by 25.7% from the end of year 2016, mainly due to the rapid growth in EPC business; and an asset-liability ratio of 61.49%, down by 2.8 pts from the end of year 2016 and monetary capital of RMB303 million, down by 76% from the end of year 2016, mainly due to green debt financing in use of project construction.

The Industry of Industrial Smoke Treatment Remains Booming. Tighter environmental supervision and environmental emission standards push the industrial circle to reconstruct under new standards and meet new emission standards. Meanwhile, with the in-depth practice of the idea of "Building a Beautiful New China" after the 19th National Congress of the Communist Party of China, the industrial smoke treatment industry is going to remain highly booming and the enterprises of this industry will embrace new growth. SPC Environment is a leading company in the field of thermal power smoke treatment. With the decrease of the demand of ultra-low emission, the company actively expands the new business of smoke dehydration and zero emission of desulfurization waste water of coal-fired power plants so as to ensure sustainable development of thermal power business. Meanwhile, the company is also actively devoted to the layout of non-electrical sector. The company acquired environmental desulfurization worth RMB1.7 billion from Aluminum Corporation of China Limited to lay out the smoke treatment of nonferrous industry in 2016; and the company also bought 100% of the stock rights of Bohuitong to lay out the smoke treatment of petrochemical industry in H1. Non-electrical sector involves fields like cement, petrification, metallurgy and non-ferrous metal. There is a great potential in the market of smoke treatment. Thanks to its strengths in technical reserve and R&D ability, the company is hopefully to earn greater share of the non-electrical market and contribute new growth impetus.

Risk Warnings

Macro policy risks;

The implementation of projects below expectation;

The expansion to non-electrical industry below expectation;

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	46.5	49.5	33.9	25.2	20.1
P/B	9.8	8.4	6.4	5.2	4.3
Dividend Yield	0.8%	0.4%	0.4%	0.8%	0.8%
Per share data(RMB)					
EPS,Adj+	0.51	0.48	0.70	0.94	1.18
BVPS	2.43	2.82	3.73	4.53	5.52
Dividend Per Share	0.20	0.10	0.10	0.20	0.20
Growth & Margins(%)					
Growth					
Revenue	66.9%	77.6%	49.7%	35.8%	26.1%
Operating income	54.6%	89.6%	43.5%	36.8%	25.9%
Net profit	54.6%	87.5%	46.7%	35.7%	25.6%
Margins					
Gross profit margin	34.0%	39.0%	37.4%	35.4%	35.2%
Operating profit margin	24.0%	25.6%	24.6%	24.7%	24.7%
Net income margin	21.2%	22.4%	21.9%	21.9%	21.8%
Key Ratios					
ROE(%)	10.4%	16.8%	18.6%	20.8%	21.4%
ROA(%)	5.6%	7.8%	6.6%	8.3%	9.0%
Income Statement(RMBmn)					
Revenue	1,277	2,268	3,394	4,610	5,813
- Cost of Goods Sold	843	1,384	2,125	2,978	3,767
Gross Income	434	884	1,269	1,632	2,046
- Operating Expenses	128	304	436	492	611
Operating Income	306	581	833	1,140	1,435
- Net Non-Operating Losses (Gains)	5	(6)	(58)	(30)	(35)
Pretax Income	301	587	891	1,170	1,470
- Income Tax Expense	25	69	138	150	188
Net profit	271	507	744	1,010	1,268

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 1 November 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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2017 Phillip Securities (Hong Kong) Limited

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