

Grandblue ENV (600323.SH)

Operates steadily and its growth rate is in line with expectations

Hong Kong | Environmental Protection | Company report

9 November 2017

Summary of Investment

- The operation is steady, and the profitability has improved;
- The valuation is lower than that of the rivals, and the margin of safety is abundant;

Investment Rating

The Company continued to operate steadily in the first three quarters. We predict the Company's net profits of 2017 and 2018 will reach RMB 616/738 mn, respectively; EPS will be RMB0.8 and RMB0.96, respectively, equivalent to 20.1/16.7 P/E ratio of 2017/2018; The target price is given at RMB18.4, with an accumulate rating. (Closing price as at 7 Nov 2017)

Accumulate

CMP: RMB 16.11
(Closing price as at 7 Nov 2017)
TARGET: RMB 18.40 (14%)

COMPANY DATA

O/S SHARES (MN) :	766
MARKET CAP (RMB MN) :	12,345
52 - WK HI/LO (RMB):	16.47/13.13

SHARE HOLDING PATTERN , %

Foshan nanhai water supply group co., LTD	17.98
---	-------

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Grandblue ENV	12.11	18.3	8.67
SSE	1.17	3.32	8.13

PRICE VS. SSE



Source: Phillip Securities (HK) Research

Historical P/E valuation



Source: Wind, Phillip Securities(HK)Research

Results in the First Three Quarters Meet Expectation. According to the 2017 Q3 result report, Grandblue Environment recorded a revenue of RMB3.06 billion, with a yoy increase of 13%. The net profit attributable to the parent company was RMB545 million, with a yoy increase of 26.13%. The net profit attributable to parent company excluding non-recurring items was RMB497 million, with a yoy increase of 18.76%, equivalent to basic EPS at RMB0.71, which was RMB0.56 over the same time period of last year. The net profit growth exceeded revenue growth, mainly because the water damage control in water supply business achieved certain results, the electric charge and other costs declined, the power generation efficiency of solid waste disposal was further enhanced, and financial costs declined year on year.

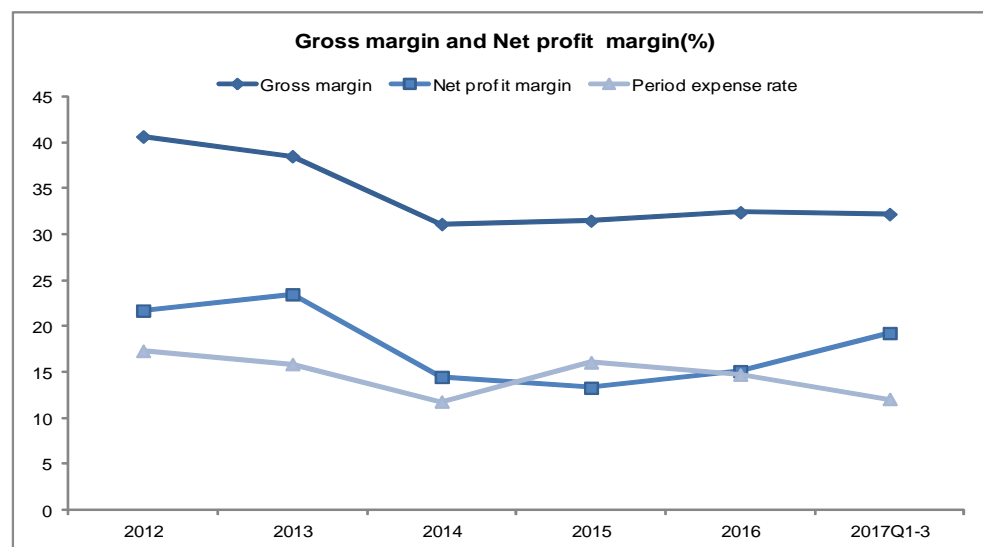
KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	3,357	3,690	4,151	4,974
Net Profit	403	509	616	738
P/E, x	30.4	24.4	20.1	16.7
EPS, RMB	0.53	0.66	0.80	0.96
P/B, x	2.8	2.6	2.4	2.2
BVPS, RMB	5.74	6.30	6.72	7.43
ROE, %	9.2	10.5	11.9	13.0

Source: Company reports, Phillip Securities Est.

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

The period cost declined, and the net profit margin increased. In respect of profitability, the overall gross margin was 32.2%, down by 1.8 ppts year-on-year. The period cost rate was 12.04%, down by 2.7 ppts year-on-year, among which the sales expense rate was 1.63% (-0.13%), the administration expense rate was 5.99% (-1.15%) and the financial expense rate was 4.43% (-1.43%). The decline of the period cost caused the net profit margin to increase by 1.74% to 19.23% year on year.



Source: Wind, Phillip Securities(HK)Research

In respect of finance, the book capital was RMB123,6 million, an increase of 5.73% over the beginning of this year, and the receivable was RMB402 million, an increase of 53.6% over the beginning of this year, mainly because some of the new projects of the waste business were not included in the subsidy directory, therefore renewable energy subsidies were not recovered, and government settlement progress was postponed. The advance payment was RMB88 million, a year-on-year increase of 295%, mainly because the advance payment for purchasing the solid waste engineering and gas increased. The net amount of the operating cash flow was RMB893 million, a year-on-year increase of 11.2%.

The business operation was sound, and the operational efficiency was improved.

In respect of solid waste business, the extension project (Huangshi phase II) (400 tons/day) was operated at full load in the first half of 2017; the new project (Dalian project) was basically completed, which is expected to be put into operation in the second half; the Company won the bid for PPP project of Kaiping solid waste industrial park (900 tons/day). At present, the projects put into operation reached 113,00 tons/day, and the projects under construction and preparation reached 9,450 tons/day, including Foshan Nanhai waste industrial park phase III project (1,500 tons/day) and Shunde solid waste industrial park project (3,000 tons/day). In the case of limited production capacity increase, the Company promoted the further improvement of operational revenue by strengthening cost management and enhancing the generating efficiency of solid waste business.

During the period of water supply, each subsidiary company carried out water loss control work and achieved remarkable results. The total water loss rate and water supply cost of the Company reduced. The new pipe network operation business of sewage collection in Nanhai District was added in the sewage disposal business, thus

the Company realized the whole industry chain operation mode with the integration of plants and networks. The Company plans to complete the reconstruction of the subordinate 16 sewage disposal projects in 2018. The water quality will be improved to the A class of national standard level after the completion of the reconstruction, and it is expected to contribute to the improvement of the water environmental control capacity and operational efficiency of the Company.

Risk Warnings

Gross margin continues to go downward;

The solid waste expansion is below expectation.

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	32.88	30.40	24.41	20.05	16.72
P/B	3.71	2.81	2.56	2.40	2.17
Per share data(RMB)					
EPS,Adj+	0.49	0.53	0.66	0.80	0.96
BVPS	4.35	5.74	6.30	6.72	7.43
Growth & Margins(%)					
Growth					
Revenue	243.2%	37.8%	9.9%	12.5%	19.8%
Operating income	70.9%	9.6%	22.5%	26.5%	22.7%
Net profit	32.0%	30.5%	26.2%	21.0%	19.9%
Margins					
Gross profit margin	31.1%	31.5%	32.4%	32.0%	31.8%
Operating profit margin	18.6%	14.8%	16.5%	18.6%	19.0%
Net income margin	12.7%	12.0%	13.8%	14.8%	14.8%
Key Ratios					
ROE(%)	9.3%	9.2%	10.5%	11.9%	13.0%
ROA(%)	3.8%	3.5%	4.0%	4.6%	5.4%
Income Statement(RMB mn)					
Revenue	2,435	3,357	3,690	4,151	4,974
- Cost of Goods Sold	1,678	2,300	2,495	2,823	3,392
Gross Income	758	1,057	1,195	1,328	1,582
- Operating Expenses	287	539	543	520	583
Operating Income	454	498	609	771	945
- Net Non-Operating Losses (Gains)	(13)	(78)	(139)	(105)	(105)
Pretax Income	467	576	749	876	1,050
- Income Tax Expense	116	130	192	210	252
Net profit	309	403	509	616	738

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 7 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