

Longma Environmental(603686.SH)

The sanitation service orders accumulate at a faster pace, and new breakthroughs are achieved in the industrial chain expansion

Hong Kong | Environmental Protection | Company report

22 November 2017

Summary of Investment

The first three quarters have seen rapid revenue growth and excellent cost control; Non-public offering will be over, and the expected fixed-increase projects are confirmed;

Historical P/E valuation



Source: Wind, Phillip Securities(HK)Research

Investment Rating

We're optimistic about the company's integrated competitive advantage in the field of equipment + services and the breakthrough in the downstream sanitation industry chain. In 2017-2018, the company is expected to achieve a net profit of returns attributable to parent company of RMB 268 and RMB 355mn, and an EPS of 0.98, and RMB 1.3, which are equivalent to the PE of 28 and 21 times. The rating of "Buy" is given. (Closing price as at 20 Nov 2017)

The first three quarters have seen significant revenue growth.

In the first three quarters of 2017, the revenue of Longma Environmental Sanitation reached RMB2.268 billion, up by 44.54% yoy, and the net profit of returns attributable to parent company was RMB191 million, up by 26.03% yoy and up by 26.41% after non-post deduction, equivalent to a basic EPS of RMB0.72 (+28.57%). The increase in revenue was mainly from the increase in equipment sales and environmental sanitation services. Specifically, Q1/Q2/Q3 contributed revenues of 6.66/7.98/8.04 and net profits of 0.644/0.63/0.64, respectively. The contribution of each quarter was stable.

Buy

CMP: RMB 27.59

(Closing price as at 20 Nov 2017)

TARGET: RMB 37.70 (37%)

COMPANY DATA

O/S SHARES (MN) :	272
MARKET CAP (RMB MN) :	7,514
52 - WK HI/LO (RMB):	37/26.2

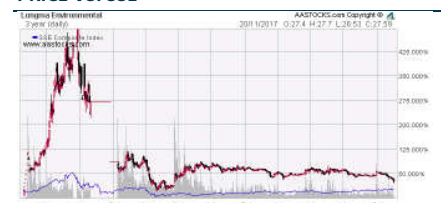
SHARE HOLDING PATTERN , %

Zhang Guifeng	22.04
---------------	-------

PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Longma	-12.63	-10.57	-20.13
SSE	0.13	3.49	5.95

PRICE VS. SSE



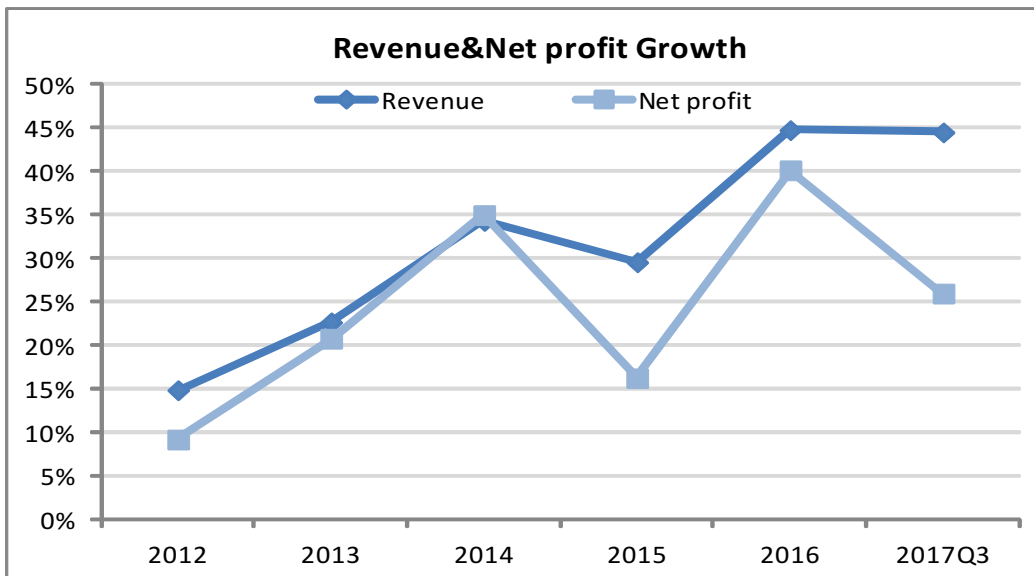
Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	1532	2218	3106	4286
Net Profit	151	211	268	355
P/E,x	46	35	28	21
EPS, RMB	0.6	0.8	1.0	1.3
P/B, x	7.1	6.3	5.4	4.5
BVPS, RMB	3.9	4.4	5.2	6.2
ROE, %	14.5	17.7	19.1	21.2

Source: Company reports, Phillip Securities Est.

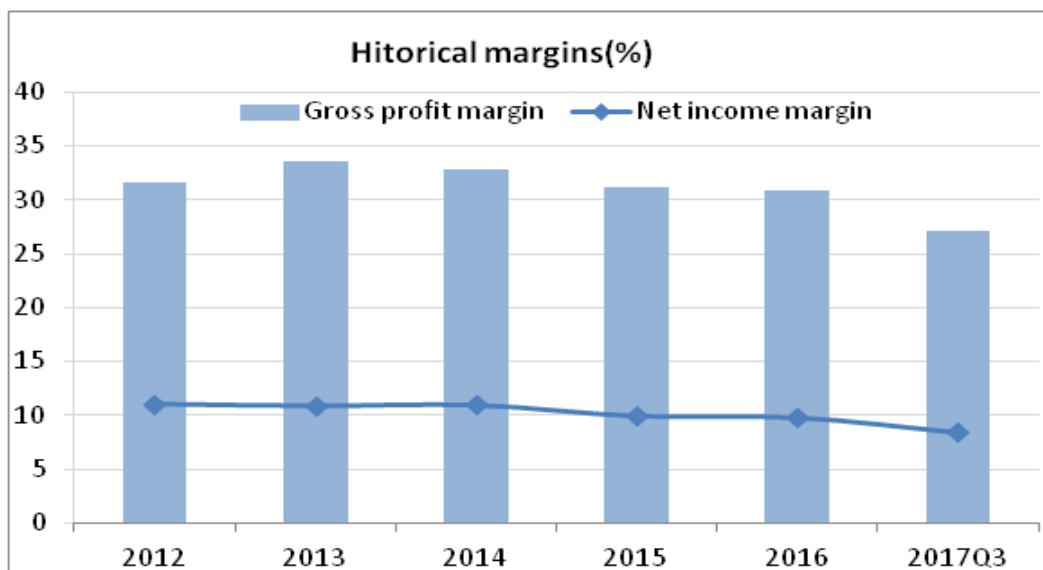
Research Analyst
Wang Yannan
 (+ 86 21 51699400-107)
 wangyannan@phillip.com.cn



Source: Wind, Phillip Securities(HK)Research

Gross margin and net profit margin declined to certain degrees.

In terms of profitability, the overall gross margin was 27.1%, down by 4.77% yoy. The period cost rate was 14.4%, down by 2.75% yoy and the net profit margin was 8.44%, down by 1.24% yoy. In terms of finance, accounts receivable in the first three quarters increased by 97% to RMB135 million as compared with the beginning of the year, and receipts in advance decreased by 75.35% to RMB32 million as compared with the beginning of the year. Net cash flow from operations amounted to RMB-308 million mainly due to the schedule of customer appropriation, including sanitation departments and sanitation service companies. According to the historical operations of the company, the fourth quarter is the peak period of the payment and the expected annual operating cash flow will return to normal growth.



Source: Wind, Phillip Securities(HK)Research

In Q3, the environmental sanitation service orders accumulated at a faster pace.

Since 2017, the annual contract value of environmental sanitation service projects won by the company has been RMB298 million with the total contract value of RMB4.378 billion, showing a substantial increase from the total contract value of RMB407 million in mid-2017. As of October, the annual service contract amount of on-hand environmental sanitation services in the company has been RMB828 million with the total contract value of RMB9.964 billion. Among them, the company has taken over the operations of Xiagang Area Project in Xiamen, Haimen Area Project in Jiangsu Province and Longhua District Area Project in Haikou. Under the strategic guidance of the environmental protection equipment + environmental sanitation services, the company accelerates the access to environmental sanitation orders by virtue of equipment, technology and other advantages, and the continued growth of results in the future is guaranteed.

Non-public offering will be over, and the expected projects are confirmed.

In September 2017, the company's non-public offering of shares was approved. The raised fund was RMB730 million for the comprehensive sanitation equipment configuration, sanitation service research and training base, marketing network construction and supplementary liquidity. Among them, special sanitation vehicles and sanitation equipment expansion projects, research and development center project have begun to be implemented. With the gradual landing of construction projects, it is expected that the operation scale, profitability and core competitiveness of the company will be further enhanced.

New breakthroughs are made in the area of waste sorting.

During the period, the company undertook Xiamen Community Waste Sorting Operation Project for the first time. The total amount of the project was RMB985,600 with a contractual period of 5.5 months, which started operation on July 15, 2017. This project is a pilot project of Xiamen Municipal Government in the field of waste sorting and also the first project of the company in the field of waste sorting. Based on this, the company is expected to add more such operations. In October, the company successfully won the bid for the urban-rural living waste collection and transportation as well as disposal PPP project in the Liuzhi Special District with a total investment of RMB375 million, including a cleaning area of 4.58 million square meters, a daily living waste transportation volume of 540 tons and a daily waste incineration volume of 500 tons. This is an important breakthrough made by the company in building a vertically integrated sanitation industry chain, which will help enrich the overall business type and accelerate the expansion of sanitation business.

Risk Warnings

Industry competition is intensified, and the gross margin is subject to continued downward risk;

The implementation of projects is below expectations;

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	21.22	45.98	34.92	28.03	21.15
P/B	15.54	7.07	6.27	5.36	4.48
Dividend Yield	--	0.7%	0.9%	1.1%	1.4%
Per share data(RMB)					
EPS,Adj+	1.30	0.60	0.79	0.98	1.30
BVPS	1.78	3.90	4.40	5.15	6.16
Dividend Per Share	--	0.18	0.24	0.30	0.39
Growth & Margins(%)					
Growth					
Revenue	34.4%	29.6%	44.8%	40.0%	38.0%
Operating income	36.1%	12.6%	52.6%	30.1%	37.9%
Net profit	35.0%	16.3%	40.2%	26.7%	32.6%
Margins					
Gross profit margin	32.8%	31.2%	30.9%	28.0%	28.2%
Operating profit margin	12.4%	10.8%	11.3%	10.5%	10.5%
Net income margin	11.0%	9.8%	9.5%	8.6%	8.3%
Key Ratios					
ROE(%)	26.8%	14.5%	17.7%	19.1%	21.2%
ROA(%)	13.8%	10.3%	9.4%	9.7%	11.5%
Income Statement(RMB mn)					
Revenue	1,182	1,532	2,218	3,106	4,286
- Cost of Goods Sold	794	1,054	1,533	2,236	3,077
Gross Income	388	478	685	870	1,209
- Operating Expenses	225	288	400	478	681
Operating Income	146	165	252	328	452
- Net Non-Operating Losses (Gain)	(4)	(13)	(11)	(13)	(12)
Pretax Income	150	178	263	341	464
- Income Tax Expense	20	25	45	58	79
Net profit	130	151	211	268	355

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 20 Nov 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