

# BGE(603588.SH)

High result growth of the year can be expected

Hong Kong | Environmental Protection | Company report

12 December 2017

## Summary of Investment

- Efforts will be made in the fourth quarter, and thus high result growth of the year can be expected
- The risk of acquisition falling short of expectations has basically been released;
- The management has held more shares, showing their confidence;

## Investment Rating

In general, we are optimistic to the prospect of soil remediation market. Beijing GeoEnviron Engineering & Technology has strong overall strength in the soil remediation field, and at the same time, has accelerated its layouts in the dangerous wastes disposal and garbage burning fields, bringing sufficient momentum for continuous result growth. A few days ago, after the Company resumed trading by terminating its purchasing Shenzhen Shentou Environmental Technology Co, Ltd., the risk of falling short of expectations has been released to a large extent, and the controlling shareholders, supervisors and senior executives successively held more shares to show to the market their confidence in the long-term development of the company. We expect the company's 2017-2018 net profit attributable to the parent company to reach RMB324million/RMB477million, respectively; the corresponding EPS to be RMB0.49/0.72 respectively; the corresponding PE to be 25.6/17.4 times, respectively; the given target price to be RMB18.00, rated Buy. (Closing price as at 8 Dec 2017)

### Buy

CMP: RMB 15.52  
(Closing price as at 8 Dec 2017)  
TARGET: RMB 18.00 (44%)

#### COMPANY DATA

O/S SHARES (MN) :	662
MARKET CAP (RMB MN) :	8,291
52 - WK HI/LO (RMB):	19.47/11.75

#### SHARE HOLDING PATTERN , %

Li Weiguo	22.35
-----------	-------

#### PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
BGE	-14.87	-14.87	-25.63
SSE	-4.20	-2.77	1.76

#### PRICE VS. SSE



Source: Phillip Securities (HK) Research

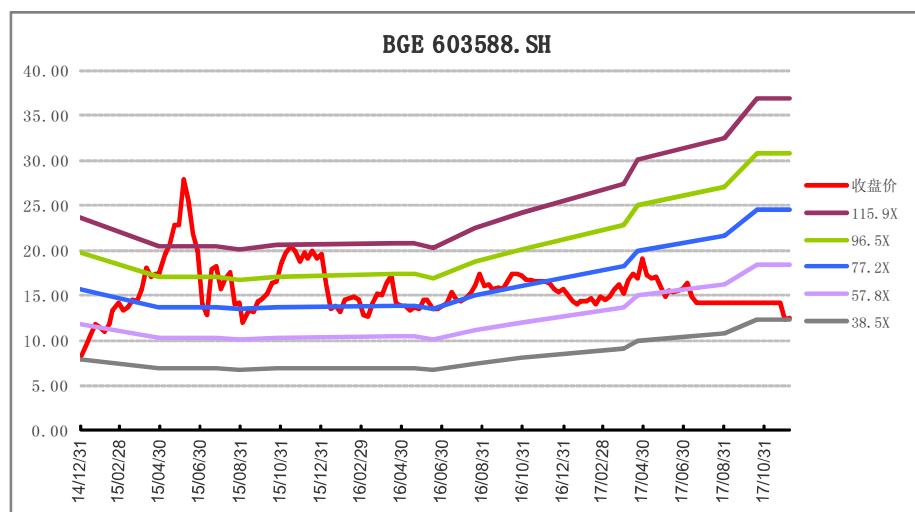
#### KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	1018	1565	2738	4190
Net Profit	106	156	324	477
P/E,x	19.0	25.9	25.6	17.4
EPS, RMB	0.66	0.48	0.49	0.72
P/B, x	1.1	2.1	3.4	2.8
BVPS, RMB	11.2	6.0	3.7	4.5
ROE, %	5.9	7.9	13.4	16.1

Source: Company reports, Phillip Securities Est.

Research Analyst

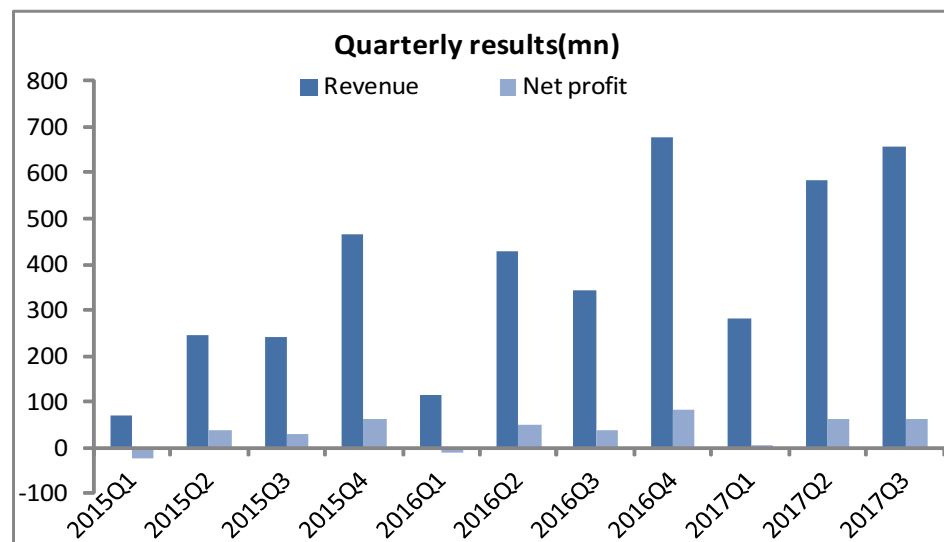
**Wang Yannan**  
(+ 86 21 51699400-107)  
wangyannan @phillip.com.cn



Source: Wind, Phillip Securities(HK)Research

## High Result Growth in the First Three Quarters

In the first three quarters of 2017, the revenue of Beijing GeoEnviron Engineering & Technology reached RMB1.52 billion, up by 71.19% yoy, and the net profit of returns attributable to the parent company was RMB129 million, up by 71.89% yoy and up by 73.96% excluding non-recurring items, equivalent to an EPS of RMB0.195, up by 68% yoy. The rapid revenue and profit growths mainly originate from the increase of the quantities of construction projects and the 30% yoy increase of the profits in the consolidated financial statement and from investment and acquisition.



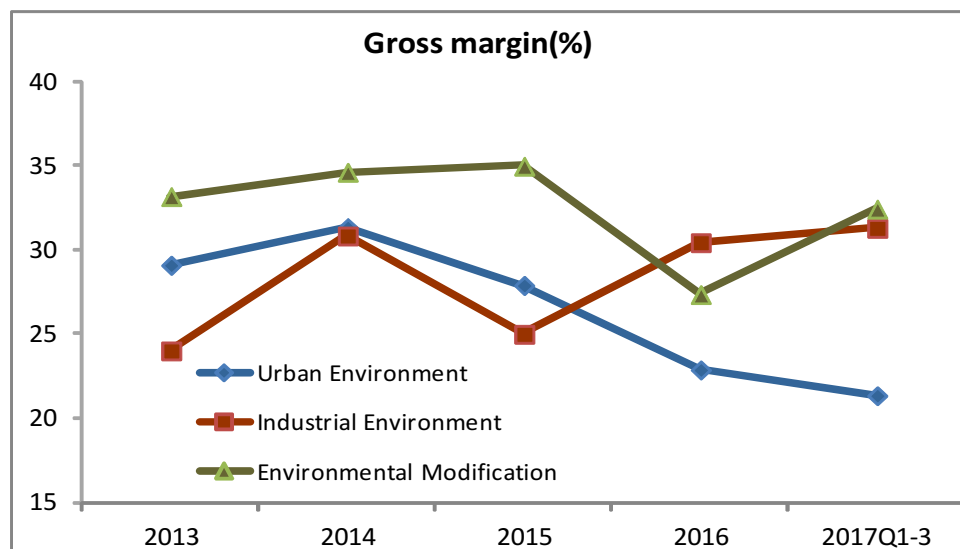
Source: Wind, Phillip Securities(HK)Research

## Fee management and returns on investment have driven the net profit to increase

The overall fee control by the Company is in a good state, but the financial expense has greatly increased. In the first three quarters, the period cost rate decreased by 1.34 pts yoy. Specifically, the sales expense rate was 2.84%, down by 0.92% yoy, the administration expense rate was 9.84%, down by 2.13% yoy, and the financial expense rate was 3.95%, up by 1.71% yoy, mainly due to the increased interest expense led by the increase of bank loans.

Fee management and returns on investment have driven the net profit to increase greatly. The gross margin and net profit were 27.84% and 10.67%, respectively, up by 0.94% and 2.32% yoy, respectively. By virtue of the Company's enhancing the collection of accounts receivable, the net operating cash flow of the first three quarters were -RMB72.85 million, up to some extent yoy.

In June 2017, the Company issued a plan that it would non-publicly issue RMB1.2 billion of green bonds and RMB0.84 billion of convertible bonds. Up to now, the convertible bonds have been accepted by the China Securities Regulatory Commission (CSRC), and the expected multi-channel financing will effectively boost the capital strength and accelerate the Company's project acquisition and implementation.



Source: Wind, Phillip Securities(HK)Research

### The number of environmental restoration orders decrease compared with the last year

Up to now, the amount of orders is RMB2,293 million, including RMB586 million of environmental modification, RMB1161 million of industry environment and RMB546million of urban environment. At present, the amount of order in hand is RMB9,329 million, of which RMB1,756 million have been executed and RMB7,576 million have not. There are adequate orders to be executed.

Compared with 2016, the Company's orders increased at an obviously lower speed this year. The environmental modification and urban environment orders greatly reduced, except the industry environment orders greatly increased. This is mainly caused by these two facts: The industrial policy has been implemented at a speed lower than expected, and the industrial orders have been released at a lower speed.

#### 2015-2017 New projects

Projects	2015	2016	2017Q1-3
Env modification	4.41	14.28	5.86
Urban environment	22.22	10.72	5.46
Industry environment	3.35	5.95	11.61
<b>Total(100mn)</b>	<b>29.98</b>	<b>30.95</b>	<b>22.93</b>

Source: Company files, Phillip Securities(HK)Research

## The soil remediation market is about to surge

The soil remediation industry is still in the starting stage in China, and relevant law and standard systems haven't been completed yet. In May 2016, with the issuance of the Action Plan for Soil Pollution Prevention and Control (hereinafter referred to as "the Ten-Chapter Plan"), the soil pollution control market was started. In June 2017, Public opinions were sought for the Soil Pollution Prevention Law (draft), which is expected to be issued in 2018. Moreover, relevant technical rules and management methods will also be released in succession. With the deep implementation of "the Ten-Chapter Plan" and the gradual completion and release of relevant regulation systems, the room in the soil remediation market will be gradually released.

According to market estimations, the room of cultivated lands, industrial lands and mineral areas in the soil remediation market will reach RMB1 trillion in ten years, indicating a significant market prospect. We hold that in the long run, advanced soil remediation techniques and strong capital strength will become the cores of corporate competitiveness in the industry. Beijing GeoEnviron Engineering & Technology ranks front with regard to the soil remediation technology, project experience and capital strength, and with the gradual release of soil remediation market, the Company will benefit from the prominent pre-emptive advantage.

## Risk Warnings

Risk of the advancement of industrial policies falling short of expectations;

Risk of market competition intensification;

Risk of the acquisition of orders falling short of expectations;

Risk of insufficient capital;

## Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratios</b>					
Price Earnings(P/E)	13.1	19.0	25.9	25.6	17.4
Price to Book(P/B)	1.2	1.1	2.1	3.4	2.8
<b>Per share data(RMB)</b>					
EPS,Adjusted	0.95	0.66	0.48	0.49	0.72
Book Value Per Share	10.67	11.23	5.95	3.66	4.48
Dividends Per Share	-	0.10	0.10	0.05	0.10
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	-0.7%	31.2%	53.6%	75.0%	53.0%
Operating income	-19.3%	-1.2%	55.7%	133.5%	57.4%
Net profit	-17.3%	-7.9%	47.1%	107.0%	47.2%
<b>Margins</b>					
Gross profit margin	31.9%	29.4%	27.4%	29.5%	30.0%
Operating profit margin	15.4%	11.6%	11.8%	15.7%	16.2%
Net income margin	14.9%	10.4%	10.0%	11.8%	11.4%
<b>Key Ratios</b>					
ROE(%)	6.7%	5.9%	7.9%	13.4%	16.1%
ROA(%)	5.0%	3.4%	4.1%	6.5%	7.3%
<b>Income Statement(RMB mn)</b>					
<b>Revenue</b>	777	1,018	1,565	2,738	4,190
- Cost of Goods Sold	529	720	1,135	1,931	2,933
<b>Gross Income</b>	248	299	429	808	1,257
- Operating Expenses	128	181	245	378	580
<b>Operating Income</b>	120	118	184	430	677
- Net Non-Operating Losses (Gains)	(5)	(4)	(0)	(3)	(5)
<b>Pretax Income</b>	125	122	184	433	682
- Income Tax Expense	10	16	28	109	205
<b>Net profit</b>	116	106	156	324	477

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 8 Dec 2017)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

<b>Total Return</b>	<b>Recommendation</b>	<b>Rating</b>	<b>Remarks</b>
<b>&gt;+20%</b>	<b>Buy</b>	<b>1</b>	<b>&gt;20% upside from the current price</b>
<b>+5% to +20%</b>	<b>Accumulate</b>	<b>2</b>	<b>+5% to +20% upside from the current price</b>
<b>-5% to +5%</b>	<b>Neutral</b>	<b>3</b>	<b>Trade within ± 5% from the current price</b>
<b>-5% to -20%</b>	<b>Reduce</b>	<b>4</b>	<b>-5% to -20% downside from the current price</b>
<b>&lt;-20%</b>	<b>Sell</b>	<b>5</b>	<b>&gt;20% downside from the current price</b>

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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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