

WEIMING(603568.SH)

Steadily improved results and maintains strong profitability expected

Hong Kong | Environmental Protection | Company report

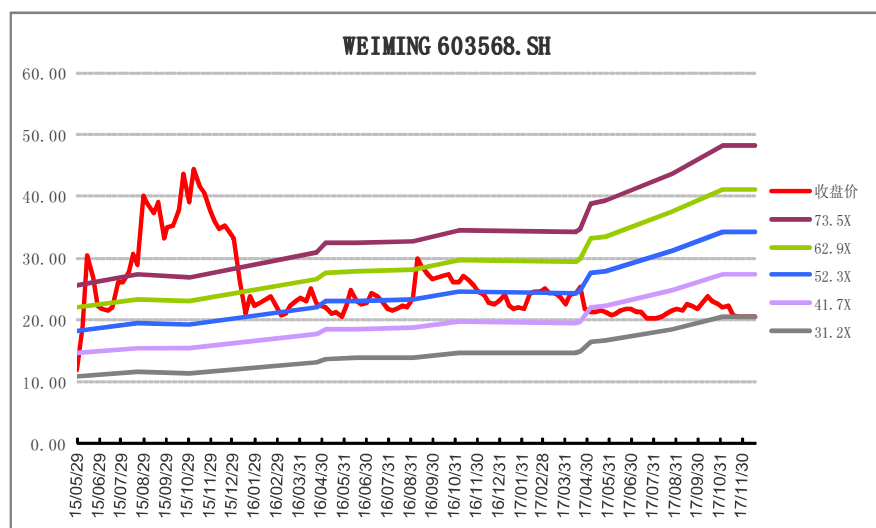
20 December 2017

Summary of Investment

- Steady increase in business scale and profitability;
- Launch employee stock ownership plan to release positive signals;

Investment Rating

The Company boasts excellent profitability and possesses abundant ongoing projects. It is expected that the gradual introduction of new projects will accelerate the growth of revenue and profit scale. It is estimated that the net profits attributable to the parent company for 2017-2018 will reach RMB475 million and RMB581 million, respectively; EPS will be RMB0.69 and RMB0.85, respectively, equivalent to PE 30.1 and 24.6, respectively. The target price is expected to be RMB25.5 and the rating is "Buy" for the first coverage during 12 months. (Closing price as at 18 Dec 2017)



Source: Wind, Phillip Securities(HK)Research

Buy

CMP: RMB 20.80

(Closing price as at 18 Dec 2017)

TARGET: RMB 25.50 (23%)

COMPANY DATA

O/S SHARES (MN) :	687
MARKET CAP (RMB MN) :	14294
52 - WK HI/LO (RMB):	26.4/19.0

SHARE HOLDING PATTERN , %

Weiming group co. LTD	44.42
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PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
WEIMING	-11.03	-7.94	-8.74
SSE	-3.45	-2.88	4.58

PRICE VS. SSE



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	675	693	995	1225
Net Profit	291	329	475	581
P/E,x	31	43.3	30.1	24.6
EPS, RMB	0.67	0.48	0.69	0.85
P/B, x	8.5	7.5	6.3	5.3
BVPS, RMB	2.5	2.8	3.3	3.9
ROE, %	17.3	17.1	21.0	21.5

Source: Company reports, Phillip Securities Est.

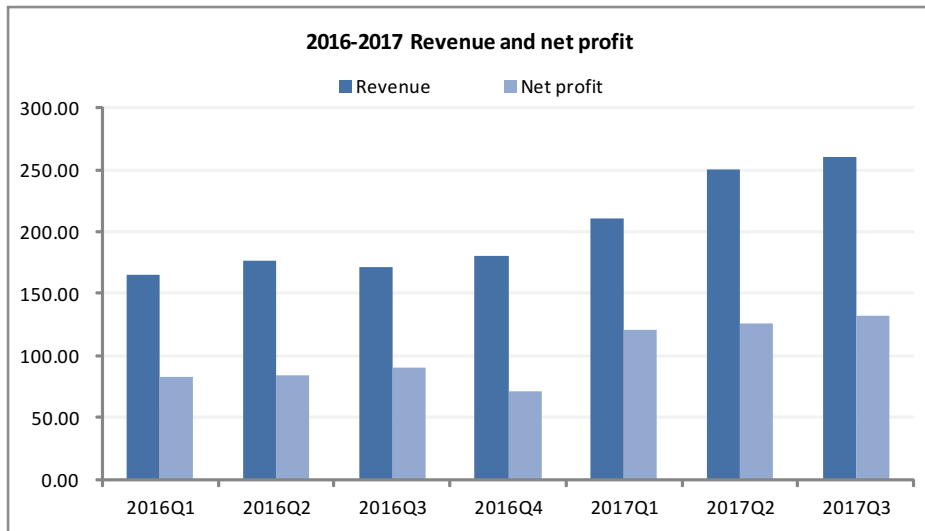
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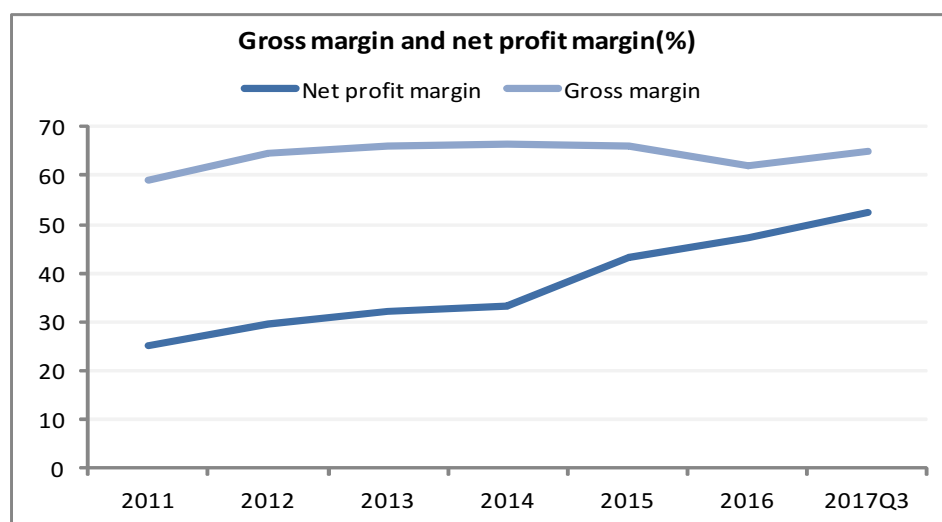
In the first three quarters of 2017, the Company recorded a revenue of RMB722 million, up by 40.9% yoy, more than 97% of which came from operating income (including waste disposal fees and generation income) of the BOT projects. The net profit was RMB378 million, up by 47.26% yoy, and up by 47.48% yoy excluding non-recurring items, equivalent to an EPS of RMB0.55, up by 44.74% yoy. The high growth in result is mainly due to the formal operation of Longwan Company in January 2017 and the confirmed relevant revenue. The Company forecasts that the net profit attributable to parent company for the whole year recorded an increase of 40% -60% yoy, equivalent to the profit of RMB82-148 million in the fourth quarter.



Source: Wind, Phillip Securities(HK)Research

It mainly attributes to the effective control of cost-expense ratio, and period cost rate was down by 3.8 pct to 14.03%. With regard to strong profitability, the gross margin is 65.12%, up by 0.12pct yoy; the net profit margin is 52.35%, up by 2.26pct yoy. The Company maintains high gross margin in its operation projects mainly due to (1) the high profitability of the integrated operation model designed and manufactured by engineering outsourcing and key equipment; (2) as the Company's assets and liabilities are dominated by non-current assets and non-current liabilities, differences in accounting render the result that the Company is not totally comparable with the similar listed companies in the industry.

The net operating cash flow in the first three quarters was RMB291 million, a slight decrease from RMB326 million yoy. However, the net cash flow in each quarter was positive and stable, and the cash return was of good condition.



Source: Wind, Phillip Securities(HK)Research

Ample project in hand and smooth expansion of projects in other places

Operation projects contribute a steady source of revenue. At present, the Company owns 12 BOT operation projects mainly in Zhejiang and Jiangsu Provinces. The waste treatment capacity reaches 9,835 tons/day, contributing a continuous and steady income to the Company. The scale of waste disposal and the on-grid electricity consumption increased steadily. In the first three quarters, the volume of waste storage recorded 2,745,300 tons, up 10.5% yoy, and the net electricity consumption was 808.81 million kWh, up 25.5% yoy.

Projects are expanded smoothly in other places. In the third quarter, the Company acquired a number of new projects in Heilongjiang, Shandong, Jiangxi and other regions and achieved a record of new projects in quarters. At present, the Company has 9 projects under construction and in preparation with a disposal capacity of 7,150 tons/day, and has ample orders, providing strong guarantee for future growth.

The current convertible bonds have received a feedback notice.

The Company intends to issue RMB845 million of convertible bonds and to raise funds after deducting non-issuing costs for the incineration projects under construction or expansion in Cangnan, Ruian, Wannian and Wuyi County, which is the first refinancing of the Company since listing in 2015. It can be expected that smooth implementation of convertible bonds will help to reduce interest expenses and improve the overall financial structure. Meanwhile, it will also speed up the progress of projects and promote the rapid expansion of the scale of operations and profits of the Company.

Launch employee stock ownership plan to release positive signals.

On November 30, 2017, the Company launched Employee Stock Ownership Plan with no more than 19 participants, including 8 directors, supervisors and senior executives and no more than 11 other staff. The maximum planned size is RMB183 million, of which the posterior grade is less than RMB61 million. The plan is expected to be completed within 6 months. The Employee Stock Ownership Plan, which binds the interests of executives and core employees to the interests of the Company, helps to increase the enthusiasm and cohesion of employees, releases confidence in the long-term development and helps the Company to develop healthily and sustainably.

Risk Warnings

Intensified risks in industry competitions;
 Acquisition of project and progress of construction slower than expectations;
 Risk of changes in tax incentives;
 Downside risk of profitability;

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
Price Earnings(P/E)	37.8	31.0	43.3	30.1	24.6
Price to Book(P/B)	14.6	8.5	7.5	6.3	5.3
Per share data(RMB)					
EPS,Adjusted	0.55	0.67	0.48	0.69	0.85
Book Value Per Share	1.42	2.45	2.79	3.28	3.93
Dividends Per Share	-	0.20	0.20	0.20	0.30
Growth & Margins(%)					
Growth					
Revenue	25.7%	1.2%	2.7%	43.5%	23.2%
Operating income	42.5%	10.4%	4.0%	68.6%	24.8%
Net profit	30.2%	30.9%	12.8%	44.4%	22.5%
Margins					
Gross profit margin	66.5%	66.1%	62.1%	64.4%	64.0%
Operating profit margin	37.5%	40.9%	41.4%	48.7%	49.3%
Net income margin	33.4%	43.2%	47.4%	47.7%	47.4%
Key Ratios					
ROE(%)	22.8%	17.3%	17.1%	21.0%	21.5%
ROA(%)	8.1%	10.0%	10.3%	13.3%	14.3%
Income Statement(RMB m)					
Revenue	667	675	693	995	1,225
- Cost of Goods Sold	224	229	263	354	441
Gross Income	443	446	430	641	784
- Operating Expenses	193	170	143	157	180
Operating Income	250	276	287	484	604
- Net Non-Operating Losses	2	(54)	(100)	(62)	(64)
Pretax Income	248	330	387	546	668
- Income Tax Expense	25	39	58	71	87
Net profit	223	291	329	475	581

Source: Company, Phillip Securities (HK) Research Estimates
 (Financial figures as at 18 Dec 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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