

CEB GREENTECH (1257. HK)

Accelerates Business Expansion and has a Rich Reserve of Projects

Hong Kong | Environmental Protection | Company report

28 December 2017

Summary of Investment

- Favorable industry policy, good market prospects and strong capacity of business expansion;
- Abundant reserve of projects and continuously growing business;

Investment Rating

Based on the favorable policy environment, abundant reserve of projects, sustained growth momentum that drives results and high margin of safety in valuations, we expect that the net profits attributable to the parent company for 2017-2018 will reach HKD962 million and HKD1413 million, respectively; EPS will be HKD 0.47/0.68, equivalent to a PE of 14.8/10.2. The target price is expected to be RMB8.84 and the rating is "Buy" for the first coverage. (Closing price as at 22 Dec 2017)

Strong Momentum in Result Growth

Everbright Greentech was listed on the stock market in May 2017 separated from the parent company Everbright International. Its main business includes comprehensive utilization of biomass and hazardous waste disposal. Besides, there are still a small number of photovoltaic and wind power projects.

In H1, the company recorded an income of HK\$2.047 billion, up 69% YoY. EBITDA was HK\$713 million, soared 60% YoY, and the profit attributable to shareholders stood at HK\$457 million, up 57% YoY. EPS was equivalent to 28.23 cents, up 39.2% YoY.

Biomass contributed most of its results with fast growth. Biomass recorded the profit of HK\$342 million, up 104% YoY, accounting for 74.8%; the profit of hazardous waste disposal was RMB90.7 million, increased 29% YoY; the profit of photovoltaic and wind power projects was RMB585,210,00, basically flat compared to the same period in last year mainly due to the lack of new projects in the period.

Buy

CMP: HKD 6.95
(Closing price as at 22 Dec 2017)
TARGET: HKD 8.84 (27%)

COMPANY DATA

O/S SHARES (MN) :	2,066
MARKET CAP (HKDMN) :	14,359
52 - WK HI/LO (HKD):	7.45/5.21

SHARE HOLDING PATTERN , %

China everbright green holding co. LTD	69.7
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PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
CEB GREENTECH	-1.0	9.31	30.75
HSI	-2.12	5.13	35.73

PRICE VS. HSI



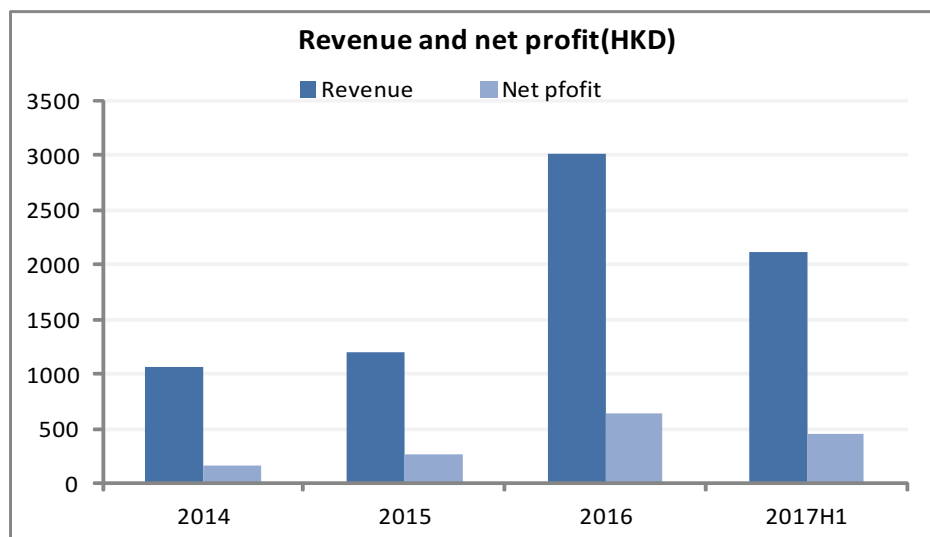
Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKDmn	FY15	FY16	FY17E	FY18E
Revenue	1205	3004	4901	7435
Net Profit	272	629	962	1413
P/E,x	--	--	14.8	10.2
EPS, HKD	--	--	0.47	0.68
P/B, x	--	--	2.8	2.3
BVPS, HKD	--	--	2.5	3.0
ROE, %	9.3	15.0	18.6	21.5

Source: Company reports, Phillip Securities Est.

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Source:Company report, Phillip securities(HK) Research

The gross margin was 32.26%, down by 3pct YoY. The main reason is that the construction revenue with low gross margin has been increased, and the new biomass project is in breaking-in period, which has dragged down the overall gross margin. The net profit margin was 21.85%, down by 1.86 YoY.

The company is financially sound and rich in cash. As of H1, the company's cash on the book was HK\$3.89 billion; unused loan limit was HK\$3.903 billion; asset-liability ratio was 35% and mobility ratio was 3.36. The sound financial structure and abundant funds provide fund guarantee for accelerating project implementation.

Projects of hands

As of 2017H1	Total Projects at Hand		Projects in Operation	Projects under Construction	Projects in Preparation
Biomass projects	Total number of projects	38	10	10	18
	Biomass processing capacity	7,549,800 tons / year		207,000 tons / year	
	Domestic garbage disposal capacity	5,050 tons / day		1,300 tons / day	
Hazardous waste disposal projects	Total number of projects	26	8	2	16
	Hazardous waste disposal capacity	594,000 tons / year		40,000 tons / year	
Photovoltaic power projects	Total number of projects	7	7		
Wind power projects	Total number of projects	2	2		

Source:Company report, Phillip securities(HK) Research

Biomass Power Generation Business Shows Great Growth Potential

As of H1, the company had 38 biomass projects, with a total installed capacity of 867 MW, an increase of 251 MW compared with the end of 2016. The market share of the company topped the industry. The company developed the unique business mode of the integration of biomass and rural domestic waste, which could effectively reduce the overall development and operating costs and enhance the competitive advantage in business expansion.

According to the 13th Five-Year Plan, by 2020 the cumulative biomass power installed capacity will reach 15,000 MW. By the end of 2016, however, the total installed capacity was only 6,692 MW. It is expected that the CAGR will reach 17% in the next few years. The biomass resources available in China are abundant, but the

utilization rate is low. Biomass power generation is still in the initial stage of development. Benefiting from the promotion of favorable policy and the demand for air pollution control, the biomass power generation industry will usher in the golden period of development. The company has an integrated advantage and rich operating experience in the field of biomass. It is expected to speed up the acquisition of the project and expand the market share.

Excellent Qualification of the Hazardous Waste Disposal Capacity

As of H1, the company had 26 hazardous waste disposal projects, with total disposal capacity of 594,000 tons. At present, it can dispose 42 items of the 46 categories of hazardous wastes listed in the National Hazardous Wastes Catalogue, and mainly disposes hazardous wastes in a harmless way. The company has carried out strategic layout for the Eastern China with the largest out of waste disposal, and has a leading position in the hazardous waste disposal capacity in the industry.

At present, China's hazardous waste disposal capacity is not strong, effective capacity is not enough, and market concentration is not high. It is expected that, between 2017 and 2021, the CAGR of hazardous waste industry will reach 11.7%, of which the CAGR of the resource utilization will reach 10.0%, and the CAGR of harmless disposal will reach 15.7%. Benefiting from the strictness of environmental standards and the rapid growth of the disposal demand, the hazardous waste industry will have a good prospect in the future. At present, the company has secured fewer hazardous waste projects. With the continuous expansion of the company's hazardous waste capacity and the acceleration of the project implementation, the result contribution of the company is expected to be further improved.

Actively Planning the Layout of Soil Remediation Industry

In the period, the company established the environmental remediation and management center, and will enter the fields such as soil remediation and the pollution control of volatile organic compounds (VOC). The soil remediation industry is still young in China and the trillion markets will soon be started. The active layout of the soil remediation industry is expected to bring new growth opportunities to the result of the company.

Risk Warnings

Industry policy risk;

The acquisition and implementation progress of projects falls below expectations;

Risk of intensified market competition;

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	--	--	--	14.92	10.16
P/B	--	--	--	2.78	2.29
Per share data(HKD)					
EPS,Adj+	--	--	--	0.47	0.68
BVPS	--	--	--	2.50	3.04
Growth & Margins(%)					
Growth					
Revenue	--	13.8%	149.3%	63.1%	51.7%
Operating income	--	45.0%	138.2%	62.8%	50.5%
Net profit	--	75.5%	131.3%	53.0%	46.8%
Margins					
Gross profit margin	27.8%	36.2%	33.1%	32.0%	31.6%
Operating profit margin	21.8%	27.8%	26.6%	26.5%	26.3%
Net income margin	14.6%	22.6%	20.9%	19.6%	19.0%
Key Ratios					
ROE(%)	--	9.3%	15.0%	18.6%	21.5%
ROA(%)	--	6.0%	9.7%	12.0%	14.7%
Income Statement(HKD mn)					
Revenue	1,059	1,205	3,004	4,901	7,435
- Cost of Goods Sold	765	769	2,009	3,333	5,086
Gross Income	294	436	995	1,568	2,349
- Operating Expenses	103	138	213	269	394
Operating Income	231	335	798	1,299	1,955
- Net Non-Operating Losses (Gains)	-1	-3	15	104	200
Pretax Income	225	328	783	1,195	1,755
- Income Tax Expense	25	56	154	229	337
Net profit	155	272	629	962	1,413

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 22 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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