

DONGJIANG ENV (002672.SZ)

Leading Hazardous Waste Treatment Company, Accelerating Its Nationwide Expansion

Hong Kong | Environmental protection | Company report

29 January 2018

Summary of Investment

- Marching into the southwest market to expand its nationwide layout;
- Gaining a substantial increase in productivity in 2018;
- Cooperating with Conch Venture, constituting a strong partnership in respect of hazardous waste treatment;

Buy

CMP: CNY 15.85
(Closing price as at 24 Jan 2018)
TARGET: CNY 20.20 (27.4%)

COMPANY DATA

O/S SHARES (MN) :	888
MARKET CAP (CNYMN) :	14078
52 - WK HI/LO (CNY):	21.45 / 14.74

Investment Advice

It is forecast that net profit of the Company in 2017 and 2018 will reach RMB 476 million and RMB 635million, respectively; earnings per share (EPS) will be RMB 0.54 and RMB 0.72, respectively; the P/E ratio will be 29.5 and 22.1 , respectively; the target price will be RMB20.2, with a Buy rating. (Closing price as at 24 Jan 2018)

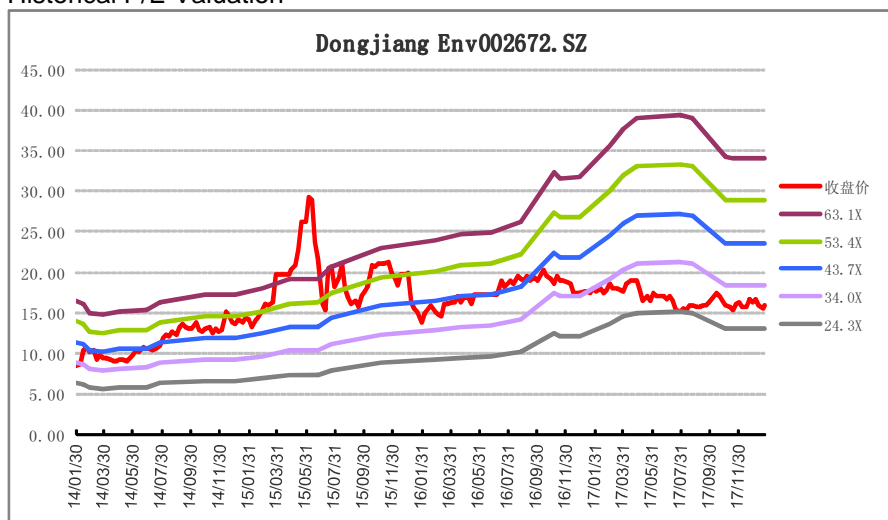
SHARE HOLDING PATTERN , %

Hongkong central clearing (agent) Co., Ltd.	22.54
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PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
DONGJIANG	-4.14	-6.01	-9.01
SSCI	7.57	4.67	12.85

Historical P/E Valuation



Source:Wind, Phillip securities(HK) Research

PRICE VS. SSCI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	2403	2617	3167	4098
Net Profit	333	534	476	635
P/E,x	40.6	25.6	29.5	22.1
EPS, RMB	0.39	0.62	0.54	0.70
P/B, x	5.0	4.3	3.8	3.3
BVPS, RMB	3.2	3.7	4.1	4.7
ROE, %	12.1	16.2	13.0	15.1

Source: Company reports, Phillip Securities Est.

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The Nationwide Leading Hazardous Waste Treatment Enterprise is Accelerating Its Expansion

Dongjiang Environment is mainly committed to three core fields, i.e., resource recovery, waste harmless treatment and environmental service, and owns 28 hazardous waste treatment and disposal bases around the country. The Company occupies the core industrial hazardous waste market share in China, and forms an industrial layout covering Pearl River Delta mainly including Guangdong, Yangtze River Delta mainly including Jiangsu Province and Zhejiang Province, North China mainly including Hebei Province, Shandong Province and Hubei Province, as well as Jiangxi Province, and Fujian Province, etc. As of the end of 2017, the Company's implemented hazardous waste productivity was about 1.8 million tons/year, of which about 0.9 million tons was attributable to harmless productivity, accounting for 50%. It is expected that, in five years, the Company's hazardous waste treatment productivity will reach 5 million tons/year, of which 1 million tons/year will be attributable to solid waste co-treatment in cement kilns co-disposing productivity, and the average compound annual growth rate will reach 22.7%.

Marching into the Southwest Market to Expand Its Nationwide Layout. The Company signed an investment agreement with Fucheng District, Mianyang City, Sichuan Province, planning to construct a large comprehensive industrial hazardous waste treatment base, which will have an annual solid waste treatment productivity of 0.35 million tons, including 0.25 million tons/year of harmless waste and 0.1 million tons/year of resource recovery, with a total investment of RMB1.5 billion. Currently, the demand-supply gap of hazardous waste treatment in Mianyang City is large, and after the project is completed, the contradiction between the high local industrial waste treatment demand and the deficient treatment capacity will be effectively solved. At the same time, such influence will be radiated to cities around Mianyang City like Chengdu City, Deyang City, etc., advantageous for the Company's regional from-point-to-area market layout, enhancing its market share and comprehensive competitiveness in the southwest region and laying a solid foundation for its future occupying the market.

Gaining a Substantial Increase in Productivity in 2018

In 2018, the Company will implement multiple hazardous waste projects in a concentrated way, including 0.28 million tons of resource recovery of Phase II of the project at Dongjiang River, Jiangxi Province, 0.2 million of harmless + resource recovery in Lanhai Area, Weifang City, about 40 thousand tons of harmless waste of the Nantong Project, about 60 thousand tons of harmless + resource recovery of the project at Caofeidian District, Hebei Province, about 20 thousand tons of harmless waste in Lvzhou Area, Nanping City, about 90 thousand tons of harmless + resource recovery of the Quanzhou Project, 17.8 thousand tons of resource recovery in Xiantao City, Hubei Province and so on; the predicted newly increased productivity will be about 0.7 million tons, resulting in an actual productivity of up to 2.5 million tons/year. We hold that the release of newly increased productivity and the increase of productivity utilization rate will facilitate the realization of a high result growth in the future two years.

Schedule of projects

Time	Name of project under construction	Scale (ten thousand tons/year)	Remarks
Put into operation in H1 2017	Burning of 20,000 tons/year, materialization of 10,000 tons/year and comprehensive utilization of 30,000 tons/year in Tianyin, Hubei	6	Put into operation
	Burning of 9,100 tons/year and materialization of 950 tons/year in Yongxingsheng, Zhuhai	1.005	Put into operation
Put into operation in H2 2017	80,000 tons/year of materialization project in Hengjian, Dongguan	8	Estimated to be put into trial production in Q4 2017
	About 775,000 tons/year of harmless expansion project in Ruitao, Hengshui	7.75	Estimated to be completed and put into trial production by the end of 2017
Total		22.76	
Estimated to be put into operation in 2018	Second phase of solid waste resource recovery project of 280,000 tons/year in Jiangxi	28	Estimated to be completed in 2018
	20,000 tons/year incineration project in Lvzhou Area, Nanping City, Fujian Province	2	Estimated to be completed in 2018
	About 200,000 tons/year resource recovery and harmless project in Lanhai Area, Weifang City	20	Estimated to be completed in 2018
	About 90,000 tons/year hazardous waste treatment project in Quanzhou PPP project	9	Estimated to be completed in 2018
	About 40,000 tons/year harmless project in Nantong, Jiangsu	4	Estimated to be completed in 2018
	The project in Caofeidian District, Hebei Province	6	Estimated to be completed in 2018
	17,800 tons/year resource recovery project in Xiantao Lvvi, Hubei	1.78	Estimated to be completed in 2018
Total		70.78	

Source: Phillip securities(HK) Research

Cooperating with Conch Venture, Constituting a Strong Partnership in Respect of Hazardous Waste Treatment

Dongliang Environment and Conch Venture reached a cooperative intention with regard to the solid waste co-treatment in cement kilns a few days ago. Taking Guangdong Province as the pilot site and executing equity cooperation, both parties would mutually advance the distribution of cement kiln solid waste co-treatment points in Guangdong Province and the development of cement kiln solid waste co-treatment projects across the country.

The cement kiln waste co-treatment technology has been developed maturely at abroad, and up to now has gradually entered its rapid development stage. Conch Venture is devoted to three fields, namely hazardous waste co-treatment in cement kilns, municipal waste co-treatment in cement kilns and waste incineration power generation. Up to now, its cement kilns completed and put into operation have a solid waste co-treatment capacity of 375 thousand tons/year, and those under construction have a solid waste co-treatment capacity of 1.67 million tons/year. Its hazardous waste co-treatment technology and business mode of the cement kilns take leading positions in the industry. We hold that through the productivity cooperation with Conch Venture, the Company can complement each other's advantages in treatment technologies and market layout, well supplement and expand the Company's existing hazardous waste treatment mode and regional layout, energetically improve the Company's hazardous waste treatment scale and efficiency, consolidate the industrial position and lead the industrial development.

According to the Three-year Action Plan on Control over Solid Waste Pollution (from 2018 to 2020) (Exposure Draft) issued by Guangdong Province on November 9, it was put forward that a batch of in-cement-kiln industrial solid waste co-treatment projects will be established at an accelerated speed with many efforts, so that the amount of industrial solid waste co-disposed in cement kilns would reach more than

5 million tons/year in 2020. Due to issuance of the policy, the degree of prosperity of in-cement-kiln co-treatment market has increased, bringing policy advantage to the cooperation between the two parties, possibly driving the implementation of the cooperative project between the two parties to achieve the Company's nationwide from-point-to-area expansion.

Risk Warnings

Intensified market competition;

Project implementation below expectation;

Project expansion below expectation;

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
Price Earnings(P/E)	21.4	40.6	25.6	29.5	22.1
Price to Book(P/B)	2.3	5.0	4.3	3.8	3.3
Per share data(RMB)					
EPS,Adjusted	0.74	0.39	0.62	0.54	0.72
Book Value Per Share	7.02	3.17	3.71	4.13	4.74
Dividends Per Share	0.15	0.08	0.12	0.11	0.14
Growth & Margins(%)					
Growth					
Revenue	29.3%	17.4%	8.9%	21.0%	29.4%
Operating income	27.0%	19.4%	61.4%	-14.6%	35.8%
Net profit	20.8%	32.2%	60.5%	-10.9%	33.5%
Margins					
Gross profit margin	32.5%	32.4%	36.1%	36.5%	37.0%
Operating profit margin	14.8%	15.1%	22.3%	15.8%	16.5%
Net income margin	12.3%	13.8%	20.4%	15.0%	15.5%
Key Ratios					
ROE(%)	10.3%	12.1%	16.2%	13.0%	15.1%
ROA(%)	6.1%	5.7%	7.2%	6.0%	7.8%
Income Statement(RM)					
Revenue	2,048	2,403	2,617	3,167	4,098
- Cost of Goods Sold	1,382	1,624	1,672	2,011	2,582
Gross Income	665	779	945	1,156	1,516
- Operating Expenses	362	417	361	657	838
Operating Income	303	362	584	499	678
- Net Non-Operating Loss	(18)	(87)	(89)	(110)	(120)
Pretax Income	322	449	674	609	798
- Income Tax Expenses	39	64	97	88	116
Net profit	252	333	534	476	635

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 24 Jan 2018)

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 ± 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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