

Longma Environmental(603686.SH)

With the Completion of Private Placement, Has Entered a New Development Stage

Hong Kong | Environmental Protection | Company report

15 February 2018

Buy

CMP: RMB 23.21

(Closing price as at 13 Feb 2018)

TARGET: RMB 30.90 (33%)

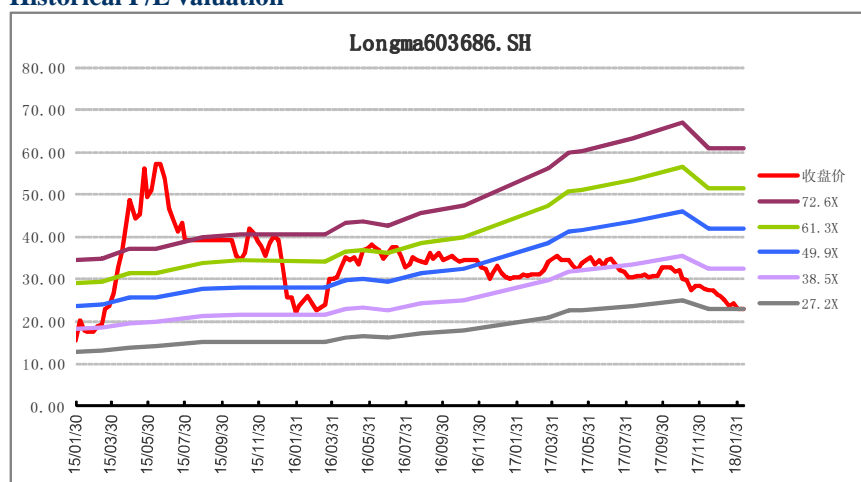
Summary of Investment

- With the booming environmental sanitation market, growth matched the expectation;
- Completion of private placement marked the beginning of a new development stage;

COMPANY DATA

O/S SHARES (MN) :	299
MARKET CAP (RMB MN) :	6946
52 - WK HI/LO (RMB):	37/22

Historical P/E valuation



Source: Wind, Phillip Securities(HK)Research

SHARE HOLDING PATTERN , %

Zhang Guifeng	20.06
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PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Longma	-11.27	-22.47	-26.84
SSE	-8.72	-8.82	-2.09

PRICE VS. SSE



Source: Phillip Securities (HK) Research

Investment Rating

As there are optimistic expectations about the company's competitive edge in the field of "equipment+services" and result growth, the net profit attributable to the parent company in 2017 and 2018 is expected to reach RMB268/355mn, with EPS of 0.9/1.19, respectively, equivalent to 26/19.6 times of the PE. Hence, it is rated as "Buy". (Closing price as at 13 Feb 2018)

A leader in environmental sanitation equipment and service

Fujian Longma Environmental Sanitation Equipment Co., Ltd. concentrates on sanitation and cleaning equipment, waste collecting equipment, and sanitation equipment consuming new energy and clean energy. Since implementation of the strategy on integrated development of sanitation equipment manufacturing and sanitation services in 2015, its sanitation service business has started to make contribution to revenue. Achieving considerable growth in 2016, the sanitation service business contributed over 20% to the company's total revenue in the first half of 2017. Being one of the top 3 in the field of sanitation equipment, the company sold 4,205 units of sanitation equipment in the H1 of 2017, up by 25% yoy, with the market share of 6.4%. Notably, the market share of some high-end products reached 13.3%.

KEY FINANCIALS

RMBmn	FY15	FY16	FY17E	FY18E
Revenue	1532	2218	3106	4286
Net Profit	151	211	268	355
P/E,x	38.8	29.5	26.0	19.6
EPS, RMB	0.6	0.8	0.9	1.19
P/B, x	6.0	5.3	4.9	4.0
BVPS, RMB	3.9	4.4	4.8	5.8
ROE, %	14.5	17.7	18.7	20.5

Source: Company reports, Phillip Securities Est.

Research Analyst

Wang Yannan

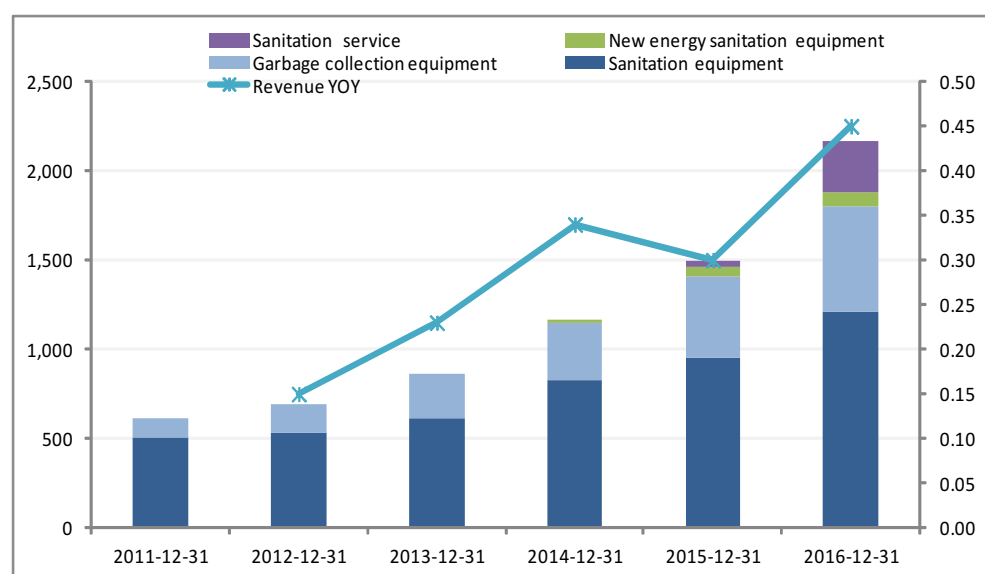
(+ 86 21 51699400-107)

wangyannan@phillip.com.cn

Result growth matched the expectation

According to the company’s result forecast, its revenue of 2017 is expected to be between RMB2.99 billion and RMB3.22 billion, up by 35%-45% yoy. Its net profit attributable to the parent company is expected to be between RMB253 million and RMB274 million, up by 20%-30% yoy and 23%-33% yoy after deduction of non-recurring profit, equivalent to the EPS of RMB0.85 to RMB0.92. Such result growth conforms to our expectation. Thanks to implementation of the integrated development strategy, and driven and supported by its service business and manufacturing, both the company’s production and sales of sanitation equipment expanded, and the sanitation service order and value of contracts continued to increase. With further expansion of market layout, revenue of the two business reached a new high.

Revenue composition and growth



Source: Wind, Phillip Securities(HK)Research

Completion of private placement marked the beginning of a new development stage

In December 2017, the company completed the private placement at RMB27.11/share (which spills by 20.5% compared with current price) for 2,692,000 shares, raising RMB729 million to fund its sanitation equipment comprehensive specification service projects, sanitation service research and training base projects and marketing network construction project. Through this fundraising, the company has gained more operational funds, successfully expanded its assets and business scale, and introduced investment of some state-owned enterprises such as Shandong Hi-speed Group Co., Ltd., which is expected to facilitate further expansion of its business scope and model.

Policies have helped expansion of sanitation projects

After the third quarter, the company won the tender of Gong’an County’s urban and rural sanitation integration PPP project, with an annual contract value of

RMB18,411,800, and total contract value of RMB368 million. It also won the tender of the project of integrated construction of Le'an County's urban and rural household waste disposal, with an annual contract value of RMB34.01 million, and total contract value of RMB510 million. At present, value of contracts the company has won amounts to RMB11.2 billion. On February 5, the Three-Year Action Plan on Improving Rural Living Environments was announced, in which goals of improving rural environments are laid out. The government aims to significantly improve rural living environments by 2020 by placing emphasis on addressing the issues like disposal of rural household waste, toilet reconstruction and sewage treatment. We believe that continuous promotion of the policies will accelerate the process of shifting the focus on environmental governance from cities to rural areas, and help unlock rural sanitation market potential.

Risk Warnings

Competition of the equipment market becomes increasingly fierce;

Expansion of service projects falls short of the expectation;

Policy risk;

Financials

FYE	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratios					
P/E	17.9	38.7	29.4	25.9	19.6
P/B	13.1	5.9	5.3	4.9	4.0
Dividend Yield	--	0.8%	1.0%	1.2%	1.5%
Per share data(RMB)					
EPS,Adj+	1.30	0.60	0.79	0.90	1.19
BVPS	1.78	3.90	4.40	4.78	5.79
Dividend Per Share	--	0.18	0.24	0.27	0.36
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%	18.7%	20.5%
ROA(%)	13.8%	10.3%	9.4%	9.6%	11.3%
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 13 Feb 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 $\pm 5\%$ 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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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