

# CEB GREENTECH (1257. HK)

Performance meets Expectations and the Strong Growth of Biomass

Hong Kong | Environmental Protection | Company report

9 March 2018

## Summary of Investment

- The annual result is in line with expectations and the growth momentum of biomass is strong;
- Strong project expansion ability and efficient operation and management;
- Benefiting from government support, the industry remains booming;

## Investment Rating

Based on the business layout, the company founded three management centers, including clean energy, solid waste and environmental restoration. While consolidating existing main business, the company actively enhances natural gas, soil, soil remediation to brew a new growth point. Based on the fundamentals of good quality and the boom of the biomass and hazardous waste industry, we expect the net profits attributable to the parent company in 2018-2019 will reach HKD1345 / 1680 million, and the EPS will be HKD0.65/0.81, equivalent to the PE of HKD12.0 / 9.6, respectively. The target price of HKD 9.36 and an Buy rating is given. (Closing price as at 7 March 2018)

### Peer comparison

Stock code	Stock name	Mkt Cap(mn)	PE-TTM	PE-TTM	PE-19E	PB-M
1257.HK	中国光大绿色环保	15371	16.12	11.60	9.90	
257.HK	中国光大国际	54778	16.25	12.46	11.06	
895.HK	东江环保	15174	16.77	11.53	9.48	
133.HK	绿色动力环保	4409	9.97	7.47	7.81	
1381.HK	粤丰环保	11196	-	15.47	-	

Source: Wind, Phillip securities(HK) Research

## The Annual Result Achieved Amazing Growth

According to the 2017 full-year result announcement, CEB Greentech recorded a revenue of HKD4,581 million, up by 52.7% yoy, EBITDA was HKD1,518 million, up by 54.4% yoy, and the profit attributable to shareholders was HKD954 million, up by 51.6% yoy. The EPS was HKD0.52. The final dividend was Hong Kong 9 cents per share. The result growth is consistent with our previous expectations.

The overall gross margin was 31.32%, down by 1.73% yoy, which was mainly due to the increased proportion of the biomass business with lower gross margin, and the net profit margin was 20.87%, basically unchanged from the same period of last year. The administration expense ratio was 5.16%, decreased by 1.42pct yoy. The financial expense ratio was 2.74%, up by 0.49% yoy.

## Buy

CMP: HKD 7.79  
(Closing price as at 7 March 2018)  
TARGET: HKD 9.36 (20.1%)

### COMPANY DATA

O/S SHARES (MN) :	2,066
MARKET CAP (HKDMN) :	16,094
52 - WK HI/LO (HKD):	7.9/5.21

### SHARE HOLDING PATTERN , %

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

	1-Month	3-Month	1-Year
CEB	4.94	6.44	40.38
GREENTECH			
HSI	-5.15	6.03	29.85

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

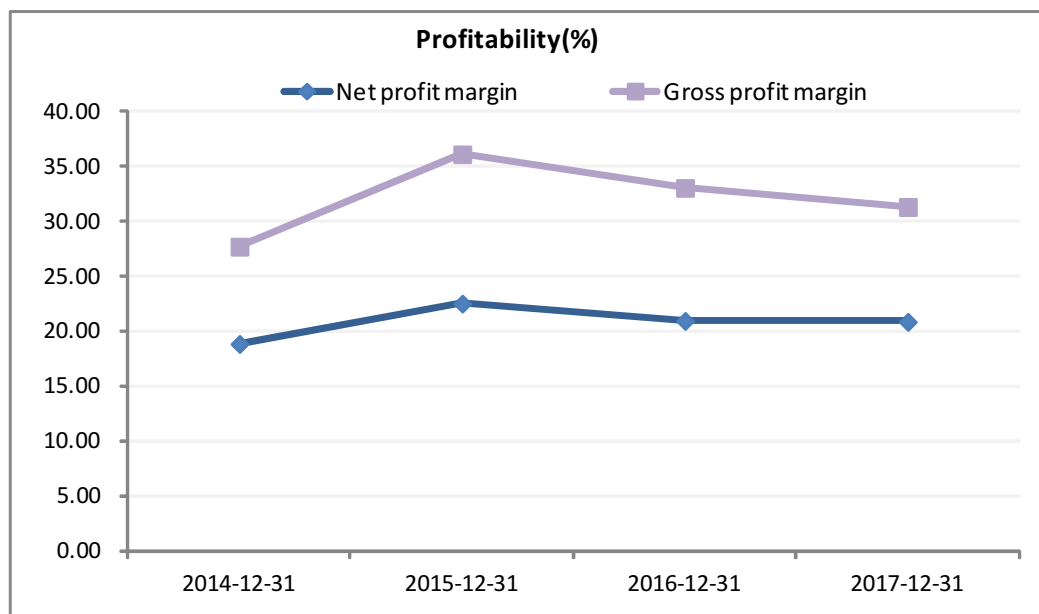
### KEY FINANCIALS

HKDmn	FY16	FY17	FY18E	FY19E
Revenue	3004	4587	6665	8537
Net Profit	629	954	1345	1680
P/E,x	--	15.1	12.0	9.6
EPS, HKD	--	0.52	0.65	0.81
P/B, x	--	2.2	1.6	1.4
BVPS, HKD	--	3.5	4.8	5.5
ROE, %	15.0	10.9	13.5	14.8

Source: Company reports, Phillip Securities Est.

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The company continued to increase cash to HKD3,343 million, increased by HKD2,351 million compared with that in the end of the previous year. The asset-liability ratio was 39%, down by 5pct compared with that in the end of the previous year, and the current ratio was 2.16, which was 0.94 higher than that in the end of the previous year, and the amount of outstanding financing was still HKD3.56 billion. Abundant funds and sound financial structure provide a solid guarantee for subsequent expansion.

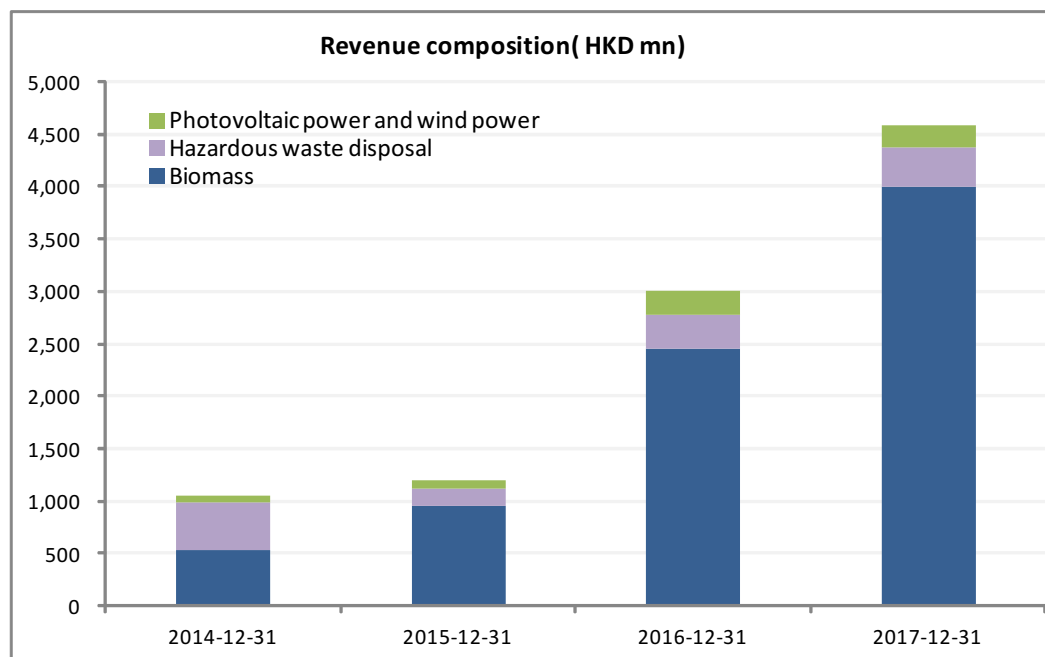


Source: Wind, Phillip securities(HK) Research

## The Growth Momentum of Biomass Business is Strong

The continuous increase of total processing capacity drives the continuous growth of operation revenue. In 2017, the aggregate on-grid electricity was about 1,393GWH, up by 125% yoy. The company processed 1.68 million tons of biomass raw materials, an increase of 131% yoy, and processed 249,000 tons household garbage, up by 239% yoy. The increase of total processing capacity drives the increase of the company's operation revenue. The revenue from operation services was HKD1,549 million, up by 69% yoy. Revenue accounted for 34% compared with the previous year's 30.5%. The revenue from construction services was about HKD2,953 million, up by 44% yoy. The revenue proportion decreased from 68% to 64%. Revenue structure has slightly improved.

Biomass grows fast and contributes main source of income. The annual revenue from biomass was HKD3.994 billion, up by 63% yoy, accounting for 87% of the total revenue. The revenue from biomass operation services increased by 124% yoy to 1.03 billion, while the yield of biomass construction services increased by 47.3% yoy to 2,893 million. Due to the small number of current projects, the revenue of the hazardous waste treatment business increased by 12.7% yoy to 378 million, while the revenue from solar energy and wind power project operation services was 209 million (-2.8%).



Source: Wind, Phillip securities(HK) Research

## Steady Progress has been Made in Project Acquisition and Construction

New breakthroughs have been made in market development. In the last year, the company has newly obtained 19 projects and 1 copy of the supplementary agreement, involving investment of HKD5,473 million, including 9 biomass and waste integration projects, 3 biomass electricity and heat cogeneration projects, 7 hazardous waste treatment projects; the newly added biomass processing capacity was 2.1 million tons/year, the new household waste treatment capacity was 2,000 tons/day, and the new hazardous waste designed processing capacity was 170,000 tons per year. Among other things, Zhejiang Lishui industrial solid waste comprehensive treatment project (hazardous waste processing capacity of 7,000 tons/year), was the first project the company obtained in Zhejiang province. It marked the company's breakthrough of business development in new areas. As at 2017, the aggregate biomass material processing designed capacity was 8.45 million tons/year, aggregate household waste processing designed capacity was 6,250 tons/day, and hazardous waste treatment capacity was about 674,000 tons/year. All the business processing scales are at a record high.

Steady progress has been made in the construction of the project. As at the end of the period, the company had 36 completed projects, and the amount of investment was about HKD7,291 million. In addition, 11 construction projects of investment about HKD3,513 million are expected to be completed and put into operation in 2018 and the first half of 2019. The company has 35 projects under preparation with about HKD8,954 million investment, and rich project reserves to boost future growth.

## Clear Business Layout and Outstanding Competitive Advantage

The company develops the unique business model of biomass material + rural household garbage integration, which is the only company that operates the integrated mode of biomass and garbage generation in China. Through planning on

agricultural and forestry waste and the rural living garbage as a whole, the company satisfies the environmental protection requirements of the government at all levels, and can effectively reduce the overall development and operation costs, highlighting the competitive advantage in business expansion.

Biomass power generation low nitrogen combustion technology of the company has made significant breakthrough. The technology can make the biomass power generation project nitrogen oxide (NOx) emission concentration below 100mg/m<sup>3</sup>, and has run stably for a long time in Nanqiao and Dingyuan biomass direct combustion project implementation. The successful application of this technology will make the company's biomass power generation project operation level reach the domestic leading level. We believe that the company will increase technological innovation and build technical barriers, which will help consolidate and expand its competitive advantage and enhance its core competitiveness.

## Risk Warnings

Risks of macroeconomic and environmental policy changes;

Intensified risks in industry competitions;

Project construction progress is lower than expected;

## Financials

FYE	FY15	FY16	FY17	FY18E	FY19E
<b>Valuation Ratios</b>					
P/E	-	-	14.98	11.97	9.58
P/B	-	-	2.20	1.62	1.42
Dividend Yield	-	-	1.2%	1.7%	2.1%
<b>Per share data(HKD)</b>					
EPS,Adj+	-	-	0.52	0.65	0.81
BVPS	-	-	3.54	4.81	5.50
Dividend Per Share	-	-	0.09	0.13	0.16
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	13.8%	149.3%	52.7%	45.3%	28.1%
Operating income	45.0%	138.2%	50.9%	40.1%	25.0%
Net profit	38.8%	131.3%	51.7%	41.0%	25.0%
<b>Margins</b>					
Gross profit margin	36.2%	33.1%	31.4%	30.6%	30.2%
Operating profit margin	27.8%	26.6%	26.2%	25.3%	24.7%
Net profit margin	22.6%	20.9%	20.8%	20.2%	19.7%
<b>Key Ratios</b>					
ROE(%)	9.3%	15.0%	10.9%	13.5%	14.8%
ROA(%)	6.0%	9.7%	8.7%	8.7%	9.3%
<b>Income Statement(HKD mn)</b>					
Revenue	1,205	3,004	4,587	6,665	8,537
- Cost of Goods Sold	769	2,009	3,146	4,626	5,959
Gross Income	436	995	1,441	2,040	2,578
- Operating Expenses	102	198	237	353	470
Operating Income	335	798	1,204	1,686	2,109
- Net Non-Operating Losses (Gains)	7	15	16	12	15
Pretax Income	328	783	1,188	1,674	2,094
- Income Tax Expense	56	154	230	326	410
Net profit	272	629	954	1,345	1,680

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 7 March 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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