

# CANVEST ENV (1381.HK)

Performance remained stable in the first half of 2019

Hong Kong | Environmental Protection | Company Update

August 27, 2019

## Company Update

For the six months ended 30 June 2019, the company's revenue was HKD 2,004.0 million (corresponding period in 2018: HKD 1,310.8 million), representing an increase of 52.9%. Revenue from power sales and waste treatment was HKD 853.8 million (corresponding period in 2018: HKD 763.2 million), representing an increase of 11.9%. The operating profit was HKD 566.0 million (corresponding period in 2018: HKD 440.1 million). Profit attributable to equity holders of the company was HKD 400.8 million (corresponding period in 2018: HKD 318.0 million), representing an increase of 26.0%. Basic earnings per share was HK16.3 cents (corresponding period in 2018: HK13.0 cents). The interim dividend of HK3.2 cents per ordinary share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK1.9 cents per ordinary share). The company's performance of core business is basically consistent with our forecast, related performance increase in total revenue was mainly contributed by the construction revenue from the additional projects. Additionally, Xinfeng WTE plant and phase 2 of Beiliu WTE plant commenced trial operation, and phase 1 of Lufeng WTE plant commenced trial operation in 2018Q3. Together with the stable contribution from the existing plants, the company recorded satisfactory results.

## Investment Highlights

### Benefit from the development opportunities brought by environmental industry policies

With 2020 being the last year of the 13<sup>th</sup> Five Year Plan, new project opportunities will continue to be tendered by local governments in order to achieve the 54% municipal solid waste treatment by incineration target. Following the "Notice on the Implementation Plan of Municipal Solid Waste Sorting System" released by the General Office of the State Council in March 2017, which targeted a municipal solid waste recycle rate of 35% in 46 selected cities by 2020, a new "Circular of the Ministry of Housing and Urban-Rural Development and other Departments on Implementing the Classification System for Municipal Solid Waste in Cities at or above the Prefecture" was released in June 2019, which targeted to establish municipal solid waste sorting system in 46 selected key cities by 2020, and in all prefecture and above level cities by 2025. In response to the Central Government's plan to promote the implementation of waste sorting system, the "Shanghai Household Waste Management Regulation" became effective in July 2019, and Shanghai became one of the first pilot cities to require its residents to strictly follow waste sorting practice. The company believes that the waste incineration power generation industry will continue to develop steadily and rapidly in the next few years, and it will capture the opportunity and benefit from such new growth potentials.

### Waste incineration business processing capacity has been steadily improved

As of 30 June 2019, the operating, secured, announced and under management agreement daily MSW processing capacity of 23 projects was 34,490 tonnes, the operating daily MSW processing capacity of 12 projects (including the project under management) reached 15,890 tonnes. As of 22 August 2019, the operating, secured, announced and under management agreement daily MSW processing capacity of 25 projects is 36,590 tonnes. During the period under review, the company's implementation of innocuous treatment of waste volume amounted to 2,836,859 tonnes, representing an increase of 19.8% YoY. The company generated 1,124,759,000kWh from green energy, saving 348,650 tonnes of standard coal and reducing emission of carbon dioxide by 1,907,847 tonnes. During the Period, the company further expanded its presence to other provinces. 1) The company were awarded Mancheng WTE PPP project in Hebei Province and the Ruili WTE PPP project in Yunnan Province, with the daily MSW processing capacity both being 1,000 tonnes. 2) The company entered into an agreement for the acquisition of 49% equity interest of the Machong Town WTE project in Guangdong Province with a total daily MSW processing capacity of 2,250 tonnes. 3) The company were awarded the Shaoguan WTE public-private-

**BUY**

**CMP HKD 3.68**

(Closing price at 23 August 2019)

**TARGET HKD 5.07 (+37.69%)**

### COMPANY DATA

O/S SHARES (MN)	2,452.9
MARKET CAP (HKDMN)	8,981
52 - WK HI/LO (HKD):	3.46/4.39

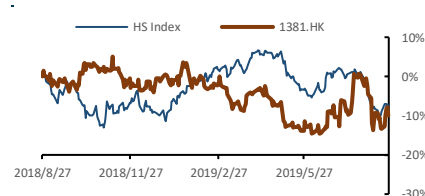
### SHARE HOLDING PATTERN

Best Approach Developments Limited	54.4%
True Victor Holdings Limited	17.5%

### PRICE PERFORMANCE

	1M	3M	1Y
CANVEST ENV	-10.46%	-4.45%	-10.02%
HSI	-8.22%	-4.29%	-7.40%

### RETURN & HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

mn HKD	FY17 A	FY18 A	FY19 E	FY20 E	FY21 E
Revenue	2,398	3,326	4,130	4,831	5,707
NP for Owners	564	754	875	1,025	1,212
EPS HKD	0.24	0.31	0.36	0.42	0.49
P/E	15.33	11.98	10.32	8.82	7.45
BVPS HKD	2.08	2.16	2.45	2.80	3.20
P/B	1.77	1.71	1.50	1.32	1.15
ROE	14.82%	14.82%	15.48%	15.91%	16.45%

Source: Company reports, Phillip Securities Est.

Research Analyst  
**Leon Duan** (+852 2277 6515)  
 leonduan@phillip.com.hk

partnership project in Guangdong Province in July 2019 and the Qiandongnan Prefecture South Area WTE project in Guizhou Province in August 2019, with the daily MSW processing capacity both being 1,050 tonnes.

### Closer cooperation with SIHL

In March 2019, the company entered into an agreement with Shanghai Fudan Water Engineering Technology Co., Ltd (a non-wholly-owned subsidiary of SIIC Environment Holdings Ltd, which is an associate of SIHL), Shanghai Nanyi Environmental Technology Company Limited and Shandong Sanding Company Limited, both of which are Independent Third Parties, for the establishment of a project company, which will be principally engaged in the investment, construction and operation of a WTE project with total daily MSW processing capacity of 1,200 tonnes located in the Circular Economy Industrial Park in Shen County, Shandong Province. The establishment of a project company with SIHL represents an important new business development model for the company, and the company will capture more new project opportunities via the same cooperation model in the future.

### New developed environmental hygiene services

To perfect its business model, the company further extended its business portfolio to the treatment of fly ash, bottom ash and environmental hygiene business. The company indirectly holds 35% equity interest in Dongguan Xindongyue, which currently owns the first landfill project for fly ash in Dongguan City. During the first 6 months of 2019, it processed 49,048 tonnes solidified fly ash under the strict treatment requirement by the local environment authority. The company indirectly holds 40% equity interest in Zhongzhou Environmental, which is principally engaged in the treatment of bottom ash created from the incineration of waste in China. Zhongzhou Environmental is under trial operation. Sichuan Jiajieyuan, a renowned environmental hygiene and related services player in China, continued to provide stable contributions during the period under review. The company holds 41% equity interest in Johnson, which indirectly holds 100% equity interest in Johnson Cleaning Services Company Limited, a leading environmental hygiene service provider providing a wide range of environmental services in Hong Kong. Johnson Cleaning Services Company Limited continued to provide stable contributions during the period under review. In the first half year of 2019, the company recorded a total income of HKD 52,104 million of environmental hygiene services, accounting for 2.6%.

**Table-1: 2019H1 Operating Projects**

Projects	Characteristic	Current status	Power sales			Waste treatment		Utilization rate
			Power generated (MWh)	Power sold (MWh)	Sales to generation ratio	Designed processing capacity (tonnes)	Processed MSW (tonnes)	
Eco-Tech I (Guangdong)	Greenfield BOO	Technological upgrade in April 2014, resumed trial operation in August 2015	150,356	132,356	88.0%	325,800	327,893	100.6%
Eco-Tech II (Guangdong)	Greenfield BOO	Obtained in January 2015, commenced trial operation in 2017Q2	173,424	157,391	90.8%	271,500	357,089	131.5%
Kewei (Guangdong)	Greenfield BOO	Established in 2009, operating in 2011	124,507	110,298	88.6%	325,800	284,629	87.4%
China Scivest I (Guangdong)	M&AB OT	Technological upgrade in 2012, operating since 2013	149,511	131,776	88.1%	325,800	401,857	123.3%
China Scivest II (Guangdong)	Greenfield BOT	Obtained in January 2016, commenced preliminary trial operation in late 2017	132,028	115,267	87.3%	217,200	283,649	130.6%
Laibin Phase I (Guangxi)	M&AB OT	Project acquisition in May 2015, commenced trial operation in 2017Q3	73,448	65,614	89.3%	181,000	222,501	122.9%
Zhanjiang (Guangdong)	Greenfield BOT	Awarded of BOT concession right in April 2013, operating since 2016Q2	105,885	91,815	86.7%	271,500	316,987	116.8%
Xingyi (Guizhou)	M&AB OT	Project acquisition in January 2016, Phase I commenced trial operation in 2015, Phase II commenced trial operation in 2017Q2	67,752	56,220	83.0%	217,200	203,229	93.6%
Beiliu Phase I (Guangxi)	Greenfield BOT	Phase 1 and Phase 2 of Beiliu WTE plant commenced trial operation in the first half of 2018 and first half of 2019, respectively	48,196	40,380	83.8%	168,933	132,611	78.5%

Lufeng Phase I (Guangdong)	Greenfield BOT	Phase 1 of Lufeng WTE plant commenced trial operation in the second half of 2018	65,730	54,965	83.6%	144,800	197,259	136.2%
Xinfeng (Jiangxi)	M&A	Xinfeng WTE plant commenced trial operation in first half of 2019.	33,922	28,709	84.6%	89,600	109,155	121.8%
Total			1,124,759	984,791	87.6%	2,539,133	2,836,859	111.7%

Source: Phillip Securities (HK) Research, Company Report

**Table-2: 2018 Rankings of WTE Companies**

垃圾焚燒發電企業排名	裝機容量排名 Ranking of Installed Capacity	裝機容量 Installed Capacity	發電量(萬 千瓦時) Electricity Production (10000 kWh)	上網電量 排名 Ranking of On-grid Power	上網電量 (萬千瓦 時) On-grid Power (10000 kWh)	發電設備平均 利用小時數 Average hours of generating equipment used	垃圾處理 量排名 Ranking of Waste Treatment	年處理垃圾 量(噸) Annual Waste Treatment (ton)
中國光大國際 China EB Int'l	1	68	403,502	1	343,072	6,118	1	10,743,336
中國環境保護集團 China National Environmental Protection	2	37	193,147	2	147,166	5,412	2	4,727,473
重慶三峰環境產業 Chongqing Sanfeng Environment Industry Group	3	28	167,106	9	82,523	6,578	16	1,537,281
杭州錦江 Hangzhou Jinjiang Group	4	26	92,199	12	67,313	5,185	6	3,058,805
浙江偉明環保 Zhejiang Weiming Envim	5	23	134,833	6	109,651	6,679	5	3,165,294
瀚藍環境 Grandblue ENV	6	22	145,973	4	122,447	5,381	4	3,959,312
上海環境集團 Shanghai Environment Group	7	22	153,847	3	127,573	6,860	3	4,183,706
粵豐環保電力 Canvest Environmental	8	20	122,766	5	110,983	1,210	7	2,962,038
浙江富春江環保熱電 Zhejiang Fuchunjiang	9	18	114,239	7	94,404	6,135	20	477,846
臨安嘉盛環保 Linan Jiasheng Environmental	10	16	77,045	14	57,888	5,945	11	2,382,879

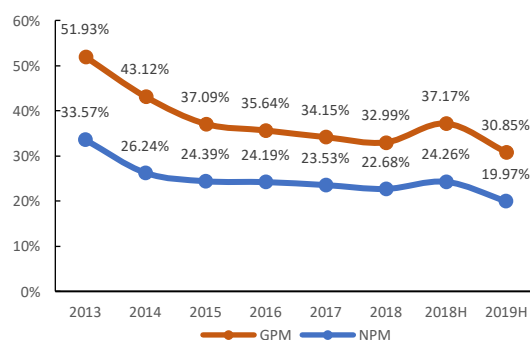
Source: Phillip Securities (HK) Research, 《2018年中國生物質發電產業排名報告》

## Financial Forecast and Valuation

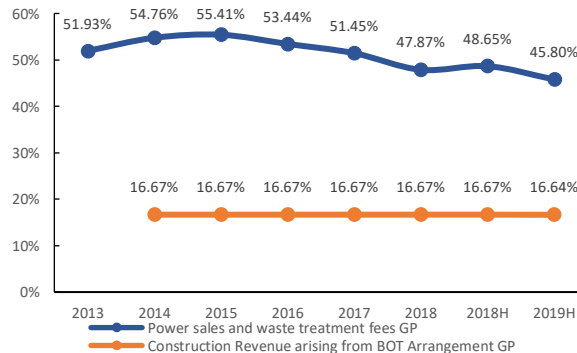
### Financial Performance

In the first half of 2019, the company realized gross profit of HKD 618.3 million, representing an increase of 26.9% YoY as compared to HKD 487.2 million in 2018. The increase in gross profit was mainly attributable to the construction plants. Gross profit margin of the company decreased from 37.2% in 2018 to 30.9% in 2019. The decrease was mainly due to the profit from construction projects which has lower margin.

**Figure-1: Profitability level**



**Figure-2: GPM of segments**

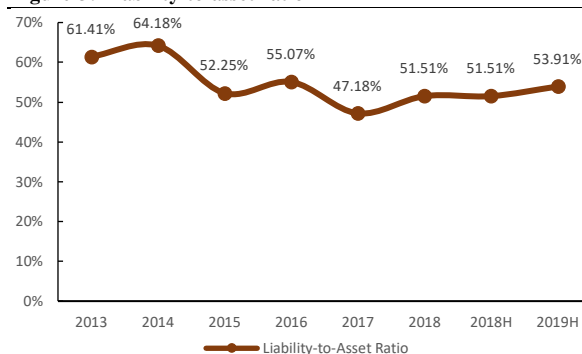


Source: Phillip Securities (HK) Research, Company Report

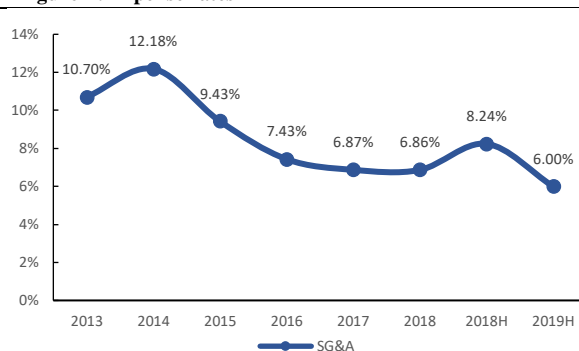
After the company went public in 2015, the liability-to-asset ratio fell to 52.25%. In recent years, it has been a dynamic trend, and the average overall liability-to-asset ratio has remained at 53.91%, increasing 2.4% compared with 2018. In terms of expense rate, the company's overall expense rate has decreased from 12.18% in 2014 to 6.86% in 2018, and to 6% of the first half of 2019,

which we believe that it was beneficial from the company's effective internal cost control, overall expense has declined gradually year by years.

**Figure-3: Liability-to-asset ratio**



**Figure-4: Expense rates**



Source: Phillip Securities (HK) Research, Company Report

**Table-3: Financial performance of last five years**

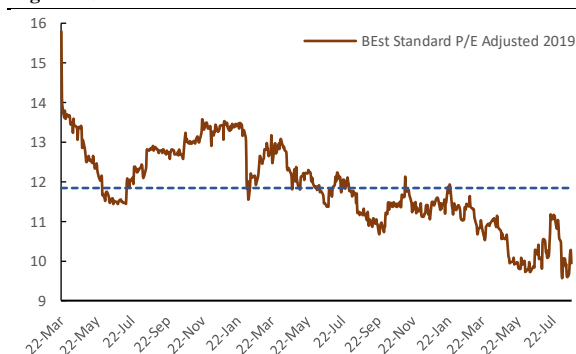
HKD in million		FY2014	FY2015	FY2016	FY2017	FY2018	FY2018H	FY2019H
Power Sales	Revenue	349.15	376.21	519.39	772.61	1,129.33	553.49	612.93
	YoY	33.40%	7.75%	38.06%	48.75%	46.17%		10.74%
Waste Treatment Fee	Revenue	192.80	204.92	256.20	306.56	434.37	209.68	240.88
	YoY	50.11%	6.29%	25.03%	19.66%	41.69%		14.88%
Sub-total	Revenue	541.95	581.13	775.59	1,079.17	1,563.69	763.17	853.81
	YoY	38.90%	7.23%	33.46%	39.14%	44.90%		11.88%
	GP	296.77	322.02	414.46	555.18	748.56	371.26	391.02
	GPM	54.76%	55.41%	53.44%	51.45%	47.87%	48.65%	45.80%
Construction Revenue arising from BOT Arrangement	Revenue	247.76	583.33	843.76	1,265.85	1,696.41	518.04	1,053.97
	YoY		135.44%	44.65%	50.03%	34.01%		103.45%
	GP	41.29	97.22	140.63	210.98	282.73	86.34	175.38
	GPM	16.67%	16.67%	16.67%	16.67%	16.67%	16.67%	16.64%
Finance Income arising from BOT Arrangement	Revenue	4.26	20.08	34.20	52.51	65.79	29.55	44.14
	YoY		371.58%	70.33%	53.52%	25.31%		49.36%
	GP	4.26	20.08	34.20	52.51	65.79	29.55	44.14
	GPM	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total	Revenue	793.97	1,184.54	1,653.55	2,397.53	3,325.89	1,310.77	2,004.03
	YoY	103.49%	49.19%	39.59%	44.99%	38.72%		52.89%
	GP	342.32	439.32	589.29	818.66	1,097.09	487.16	618.27
	GPM	43.12%	37.09%	35.64%	34.15%	32.99%	37.17%	30.85%

Source: Phillip Securities (HK) Research, Company Report

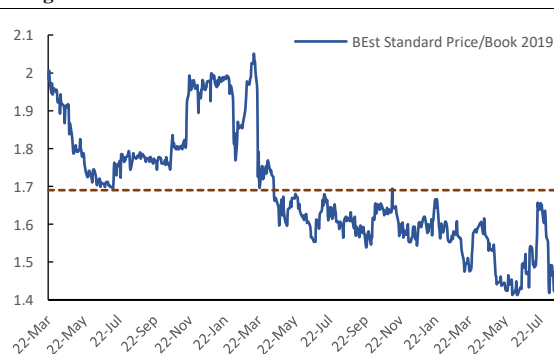
### Financial Forecast and Valuation

We adjust the company's revenue in FY19/FY20/FY21 to be HKD 4.13/4.83/5.71 billion, representing increases of 24.18%/16.96%/18.14% YoY; gross profit will be HKD 1.34/1.57/1.88 billion, representing increases of 21.80%/17.22%/19.92% YoY; net profit attributable to shareholders will be HKD 0.88/1.02/1.21 billion, representing increases of 16.06%/17.05%/18.27% YoY; corresponding EPSs are HKD 0.357/0.417/0.494. Based on our residual income valuation model, we adjust a TP of HKD 5.07, corresponding to FY19/FY20/FY21 14.21x/12.14x/10.26x PE with a +37.69% potential upside compared with CP of HKD 3.68 as of August 23, 2019, we maintain "BUY" investment rating.

**Figure-5: Forward P/E Band**



**Figure-6: Forward P/B Band**



Source: Phillip Securities (HK) Research, Bloomberg

**Table-4: Key Actual Figures and Forecast**

mn HKD	2019H	Previous 2019 Forecast	% of Completion
Revenue	2,004.03	4,040.20	49.6%
GP	618.27	1,327.64	46.6%
Operating Profit	498.01	1,050.31	47.4%
EBIT	580.06	1,237.16	46.9%
EBT	475.86	1,019.05	46.7%
NP attributable to shareholders	400.77	857.15	46.8%

Source: Phillip Securities (HK) Research, Company Report

**Table-5: Key Forecast and Target Price Revision**

mn HKD		Old	New	% Change
Revenue	FY2019E	4,040.20	4,129.98	2.2%
	FY2020E	4,723.44	4,830.58	2.3%
	FY2021E	5,579.79	5,706.73	2.3%
GP	FY2019E	1,327.64	1,336.31	0.7%
	FY2020E	1,556.20	1,566.46	0.7%
	FY2021E	1,866.78	1,878.51	0.6%
Operating Profit	FY2019E	1,050.31	1,052.82	0.2%
	FY2020E	1,231.96	1,234.87	0.2%
	FY2021E	1,483.76	1,486.78	0.2%
NP attributable to shareholders	FY2019E	894.93	875.50	-2.2%
	FY2020E	1,030.30	1,024.76	-0.5%
	FY2021E	1,218.93	1,212.01	-0.6%
RI TP		5.08	5.07	-0.3%

Source: Phillip Securities (HK) Research, Company Report

## Risk

1. Fail expectations of project progress
2. Policy risk of electricity price allowance
3. Fail expectations of acquisition of new projects

## Financials

**Table-6: Financial data**

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Valuation Ratios</b>					
P/E	15.33	11.98	10.32	8.82	7.45
P/B	1.77	1.71	1.50	1.32	1.15
Dividend Yield	0.90%	1.25%	1.67%	1.96%	2.32%
<b>Per Share Data in HKD</b>					
EPS	0.24	0.31	0.36	0.42	0.49
DPS	0.03	0.05	0.06	0.07	0.09
BVPS	2.08	2.16	2.45	2.80	3.20
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	44.99%	38.72%	24.18%	16.96%	18.14%
Operating Profit	40.22%	32.85%	21.18%	17.29%	20.40%
Net Profit	41.06%	33.69%	16.06%	17.05%	18.27%
<b>Margins</b>					
Gross Margin	34.15%	32.99%	32.36%	32.43%	32.92%
Operating Profit Margin	27.28%	26.12%	25.49%	25.56%	26.05%
Net Profit Margin	23.53%	22.68%	21.20%	21.21%	21.24%
<b>Key Ratios</b>					
ROA	7.37%	7.48%	7.10%	6.73%	6.54%
ROE	14.82%	14.82%	15.48%	15.91%	16.45%
<b>Income Statement in mn HKD</b>					
Revenue	2,397.53	3,325.89	4,129.98	4,830.58	5,706.73
Gross Profit	818.66	1,097.09	1,336.31	1,566.46	1,878.51
EBIT	749.15	1,022.26	1,239.67	1,455.09	1,747.41
EBT	643.58	852.27	1,021.56	1,176.10	1,391.01
Net Profit	564.25	754.36	875.49	1,024.76	1,212.01
Net Profit for Owners	564.25	754.36	875.50	1,024.77	1,212.02

Source: Company, Phillip Securities (HK) Research  
(Financial data as of August 23)

### 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

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**Contact Information (Regional Member Companies)**


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**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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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