

CEB WATER (1857.HK)

Results of 3Q2019 in Line, M&A Projects Enhance Businesses

Hong Kong | Environmental Protection | Company Update

November 19, 2019

Company Update

For the nine months ended 30 September 2019, the company's revenue was HKD 3.859 billion (corresponding period in 2018: HKD 3.397 billion), representing an increase of 13.61% YoY and 8.3 pts compared with 2019H; among which the revenue of 3QFY2019 was HKD 1.374 billion (corresponding period in 2018: HKD 1.037 billion), representing an increase of 33% YoY, which is slightly lower than our expectation; the increase was mainly attributable to the increase of HKD 193.07 million in construction revenue, HKD 85.85 million in operation revenue, HKD 23.20 million in finance income and HKD 35.47 million in other kind of revenue. The increase in construction revenue was mainly attributable to the construction of river-basin ecological restoration projects in addition to the expansion and upgrading of several waste water treatment plants. The increase in operation revenue was the result of the commencement of operation of new projects and the tariff hikes for several projects effected. The increase in finance income was due to the increase in contract assets.

The gross profit was HKD 1.382 billion (corresponding period in 2018: HKD 1.161 billion), representing an increase of 19.1% YoY and 2.3 pts compared with 2019H; among which the gross profit of 3Q2019 was HKD 462 million (corresponding period in 2018: HKD 373 million), representing an increase of 24% YoY. Direct costs and operating expenses in 3Q2019 was HKD 911.84 million (corresponding period in 2018: HKD 663.93 million), representing an increase of 37% YoY; the increase was mainly due to the increase in construction cost arising from the increased construction services, which contributed to a construction revenue of HKD 684.78 million in 3Q2019 as compared to HKD 491.71 million in 3Q2018. The GP margin was in 3Q2019 decreased to 34% (corresponding period in 2018: 36%), it was mainly due to a slightly larger proportion of construction revenue recognized in the mix of the total revenue of 3Q2019 as compared with 3Q2018; construction revenue comprised approximately 57% of total revenue in 3Q2019 (corresponding period in 2018: 54%).

The net profit attributable to shareholders in 9M2019 was HKD 603 million (corresponding period in 2018: HKD 515 million), increase of 17.1% YoY and 3.7 pts compared with 2019H; among which in 3Q2019 was HKD 183 million (corresponding period in 2018: HKD 144 million), representing an increase of 27% YoY. The net profit attributable to shareholders exceed our expectations, which is mainly due to effective control of costs.

Secures two waste water treatment projects in Shandong province, stable growth in production capacity

As at November 2019, the company has secured Shandong Ji'nan Tangye New Area Waste Water Treatment PPP project, which will be invested in, constructed and operated by a project company jointly established and led by the company based on a PPP (Public-private Partnership) model, with a concession period of 30 years. The company holds a 99.9% stake in the project company. The project has a total designed daily waste water treatment capacity of 45,000 m³, with a total investment of approximately RMB 313 million. Additionally, the company entered into an agreement with the Management Committee of Shandong Zibo Economic Development Zone and secured Zibo Northern Expansion Project. The project will be invested in and constructed based on a BOT (Build-Operate-Transfer) model, with an investment of approximately RMB 83 million for a concession period of 30 years. Its designed daily waste water treatment capacity is 20,000 m³. The waste water treatment capacity remain growing stably, which is expected to enhance businesses through outstanding M&A projects.

BUY (Maintain)

CMP HKD 1.81

(Closing price at 15 November 2019)

TARGET HKD 2.66 (+46.98%)

COMPANY DATA

O/S SHARES (MN)	2,812.5
MARKET CAP (HKDMN)	5,178
52 - WK HI/LO (HKD):	3.00/1.72

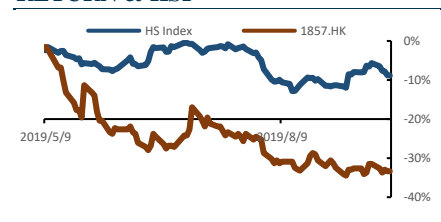
SHARE HOLDING PATTERN

CE Intl Ltd	72.43%
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PRICE PERFORMANCE

	1M	3M	1Y
CEB WATER	0.56%	2.63%	-
HSI	-1.27%	2.30%	-

RETURN & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

mn HKD	FY17	FY18	FY19	FY20	FY21
	A	A	E	E	E
Revenue	3,592	4,768	5,396	5,986	6,406
NP for Owners	513	676	789	881	962
EPS HKD	0.20	0.26	0.29	0.32	0.35
P/E	9.23	7.08	6.30	5.68	5.24
BVPS HKD	3.00	3.02	3.12	3.34	3.57
P/B	0.60	0.60	0.58	0.54	0.51
ROE	7.01%	8.54%	9.53%	9.89%	10.03%

Source: Company reports, Phillip Securities Est.

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Maintain "BUY" Rating

We adjusted our forecast for FY19/FY20/FY21 incomes to HKD 5.396/5.986/6.406 billion, showing increases of 13.16%/10.93%/7.02% YoY; net profit attributable to shareholders were HKD 789/881/962 million, with increase of 16.63%/11.63%/9.23% YoY; the corresponding EPS was HKD 0.2874/0.3185/0.3453. The target price was adjusted to HKD 2.66, corresponding to FY19/FY20/FY21 9.26x/8.35x/7.70x PE, which was +46.98% higher than the current price (HKD 1.81 as of November 15, 2019), maintaining a "BUY" rating.

Figure-1: Profitability level

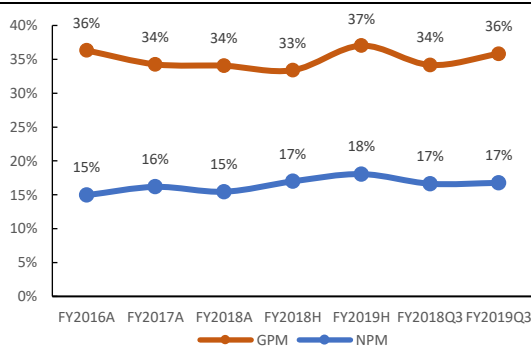
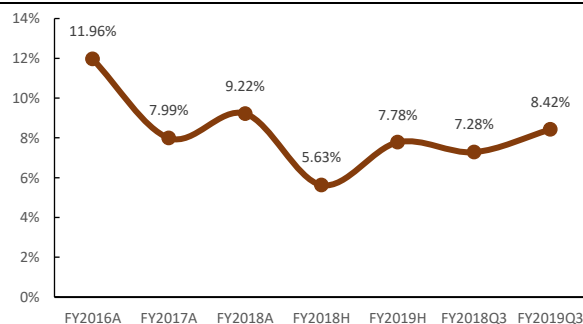


Figure-2: SG&A expense



Source: Phillip Securities (HK) Research, Company Report

Table-1: Financial performance of last five years

HKD in million		2015A	2016A	2017A	2018A	2018H	2019H
Water Treatment Services	Revenue	3,515.10	3,653.90	4,031.70	4,644.50	2,063.63	2,513.21
	YoY		3.95%	10.34%	15.20%		21.79%
	COS	1,340.65	1,596.65	1,898.74	2,204.23	915.31	1,113.72
	GPM	61.86%	56.30%	52.90%	52.54%	55.65%	55.69%
	NP Attributable to Shareholders	1,616.30	1,697.00	1,757.40	2,099.00	988.10	1,230.80
	NP Margin	45.98%	46.44%	43.59%	45.19%	47.88%	48.97%
	Revenue	881.10	1,371.40	1,839.70	2,341.90	1,014.79	1,173.32
	YoY		55.65%	34.15%	27.30%		15.62%
	COS	435.81	703.79	995.49	1,256.39	545.06	615.63
	GPM	50.54%	48.68%	45.89%	46.35%	46.29%	47.53%
	NP Attributable to Shareholders	409.30	578.50	690.00	849.30	298.80	456.30
	NP Margin	46.45%	42.18%	37.51%	36.27%	29.44%	38.89%
Sub-total	Revenue	4,396.20	5,025.30	5,871.40	6,986.40	3,078.42	3,686.53
YoY		14.31%	16.84%	18.99%		19.75%	
COS	1,776.46	2,300.44	2,894.23	3,460.62	1,460.37	1,729.35	
GPM	59.59%	54.22%	50.71%	50.47%	52.56%	53.09%	
Construction services for the water environmental renovation	Revenue	1,889.70	4,612.30	7,335.30	6,606.90	2,463.20	3,221.20
	YoY		144.08%	59.04%	-9.93%		30.77%
	COS	1,436.17	3,597.59	6,308.36	5,021.24	1,822.77	2,351.48
	GPM	24.00%	22.00%	14.00%	24.00%	26.00%	27.00%
	NP Attributable to Shareholders	396.20	786.60	1,045.50	1,398.90	812.90	908.50
	NP Margin	20.97%	17.05%	14.25%	21.17%	33.00%	28.20%
	Revenue	6,441.30	6,696.30	6,647.10	8,698.60	3,288.70	4,718.50
	YoY		3.96%	-0.73%	30.86%		43.48%
	COS	5,001.13	5,255.58	4,985.33	6,523.95	2,466.53	3,538.88
	GPM	22.36%	21.52%	25.00%	25.00%	25.00%	25.00%
	NP Attributable to Shareholders	894.70	1,113.30	1,133.40	1,654.10	593.40	861.90
	NP Margin	13.89%	16.63%	17.05%	19.02%	18.04%	18.27%
Sub-total	Revenue	8,331.00	11,308.60	13,982.40	15,305.50	5,751.82	7,939.69
YoY		35.74%	23.64%	9.46%		38.04%	
COS	6,437.30	8,853.18	11,293.68	11,545.19	4,289.29	5,890.35	
GPM	22.73%	21.71%	19.23%	24.57%	25.43%	25.81%	
Technical services and sale of machineries for the water environmental renovation	Revenue	775.80	1,020.90	1,338.60	2,305.00	1,178.51	1,202.89
	YoY		31.59%	31.12%	72.19%		2.07%
	COS	318.08	449.20	535.44	922.00	436.05	481.16
	GPM	59.00%	56.00%	60.00%	60.00%	63.00%	60.00%
	NP Attributable to Shareholders	264.40	274.90	506.20	773.00	348.50	356.80
	NP Margin	34.08%	26.93%	37.82%	33.54%	29.57%	29.66%
Total	Total Revenue	13,502.96	17,354.83	21,192.37	24,596.86	10,008.75	12,829.12
	YoY		28.53%	22.11%	16.06%		28.18%
	COS adj	8,536.06	11,569.99	14,727.85	15,820.92	6,175.25	8,056.93

GPM	36.78%	33.33%	30.50%	35.68%	38.30%	37.20%
NP Attributable to Shareholders adj	2,455.37	3,227.01	3,717.23	4,471.27	2,366.12	2,769.86
NP Margin	18.18%	18.59%	17.54%	18.18%	23.64%	21.59%

Source: Phillip Securities (HK) Research, Company Report

Table-2: Results of 3Q2019

mn HKD	2018Q1-Q3	2019Q1-Q3	YoY Growth
P&L Analysis			
Total Revenue	3,396.99	3,859.47	13.6%
COS	-2,236.37	-2,477.13	10.8%
GP	1,160.62	1,382.35	19.1%
SG&A	-247.40	-325.10	31.4%
Operating Profit	913.21	1,057.25	15.8%
Net Other Income	97.79	56.38	-42.3%
EBIT	1,011.00	1,113.62	10.2%
Net Interest Expense	-200.33	-251.42	25.5%
EBT	810.67	862.20	6.4%
Tax	-245.57	-215.23	-12.4%
NP	565.10	646.98	14.5%
Minority Interest	50.09	43.87	-12.4%
NP attributable to shareholders	515.01	603.10	17.1%
EPS (Basic)	0.20	0.22	12.4%
EPS (Diluted)	0.20	0.22	12.4%
Margin Analysis			
Gross Margin	34%	36%	+2ppt
Operating Margin	27%	27%	+0ppt
Net Margin	17%	17%	+0ppt
Effective Tax Rate	-30%	-25%	+5ppt

Source: Phillip Securities (HK) Research, Company Report

Table-3: Key Actual Figures and Forecast

mn HKD	2019Q1-Q3	Previous 2019 Forecast	% of Completion
Revenue	3,859.47	5,473.17	70.5%
GP	1,382.35	1,915.97	72.1%
Operating Profit	1,057.25	1,293.89	81.7%
EBIT	1,113.62	1,426.77	78.1%
EBT	862.20	1,108.56	77.8%
NP attributable to shareholders	603.10	759.03	79.5%

Source: Phillip Securities (HK) Research, Company Report

Table-4: Key Forecast and Target Price Revision

mn HKD		Old	New	% Change
Revenue	FY2019E	5,473.17	5,395.97	-1.4%
	FY2020E	6,152.49	5,985.62	-2.7%
	FY2021E	6,585.42	6,405.96	-2.7%
GP	FY2019E	1,915.97	1,888.72	-1.4%
	FY2020E	2,153.78	2,095.11	-2.7%
	FY2021E	2,305.34	2,242.24	-2.7%
Operating Profit	FY2019E	1,293.89	1,337.10	3.3%
	FY2020E	1,555.59	1,513.14	-2.7%
	FY2021E	1,665.05	1,651.43	-0.8%
NP attributable to shareholders	FY2019E	759.03	788.96	3.9%
	FY2020E	879.92	880.70	0.1%
	FY2021E	939.35	962.02	2.4%
RI TP		2.64	2.66	0.9%

Source: Phillip Securities (HK) Research, Company Report

Risk

Project progress fail expectations; Industry policy; M&A fails expectations.

Financials

Table-5: Financial data

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
Valuation Ratios					
P/E	9.23	7.08	6.30	5.68	5.24
P/B	0.60	0.60	0.58	0.54	0.51
Dividend Yield	1.62%	3.17%	3.97%	4.40%	4.77%
Per Share Data in HKD					
EPS	0.20	0.26	0.29	0.32	0.35
DPS	0.03	0.06	0.07	0.08	0.09
BVPS	3.00	3.02	3.12	3.34	3.57
Growth & Margins (%)					
Growth					
Revenue	44.01%	32.76%	13.16%	10.93%	7.02%
Operating Profit	55.34%	25.50%	12.91%	13.17%	9.14%
Net Profit	55.87%	26.85%	16.30%	11.63%	9.23%
Margins					
Gross Margin	34.26%	34.05%	35.00%	35.00%	35.00%
Operating Profit Margin	26.27%	24.84%	24.78%	25.28%	25.78%
Net Profit Margin	16.17%	15.45%	15.88%	15.98%	16.31%
Key Ratios					
ROA	3.20%	3.60%	3.76%	3.80%	3.87%
ROE	7.01%	8.54%	9.53%	9.89%	10.03%
Income Statement in mn HKD					
Revenue	3,591.63	4,768.32	5,395.97	5,985.62	6,405.96
Gross Profit	1,230.59	1,623.78	1,888.72	2,095.11	2,242.24
EBIT	1,073.53	1,325.22	1,469.98	1,646.02	1,784.31
EBT	844.60	1,051.74	1,151.76	1,285.69	1,404.40
Net Profit	580.79	736.76	856.87	956.51	1,044.83
Net Profit for Owners	67.44	60.30	67.91	75.80	82.80

Source: Company, Phillip Securities (HK) Research
(Financial data as of November 15)

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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