

CANVEST ENV (1381.HK)

New processing capacity in line with expectations

Hong Kong | Environmental Protection | Company Update

December 10, 2019

Company Update

From September 2019, the company has obtained the following waste incineration power generation projects: 1. On September 10, Canvest Kewei Environmental Investment (Guangdong) Company Limited, a wholly-owned subsidiary of the company, was awarded the concession right in relation to the waste-to-energy process plant concession project located in Wuchang City, Harbin City, Heilongjiang Province, the total daily solid waste processing capacity of the Wuchang WTE Plant shall be 600 tonnes. 2. On November 26, Kewei acquired the entire equity interest of Zhongshan Guangye at a total consideration of RMB340 million. Zhongshan Guangye owns the concession right to operate the Zhongshan WTE Plant in Zhongshan, Guangdong. The daily municipal solid waste processing capacity of the Zhongshan WTE Plant is 1,040 tonnes. In 2018, the revenue of Zhongshan Guangye was RMB 98.31 million, profit after income tax was RMB 5.9 million, net asset value as at 31 December 2018 was RMB 210 million. The company expects that the acquisition will help business development in the Guangdong-Hong Kong-Macao Greater Bay Area. 3. On December 6, Kewei was awarded the concession right in relation to the circular economy industrial park phase I of waste-to-energy process plant and kitchen waste treatment public-private-partnership (“PPP”) project located in Jingjiang City, Taizhou City, Jiangsu Province. The total daily municipal solid waste processing capacity of the Jingjiang WTE Plant shall be 1,200 tonnes. The Jingjiang WTE Plant shall be constructed in two phases, of which the Processing Capacity of phase I shall be 800 tonnes and phase II shall be 400 tonnes.

As of 22 August 2019, the operating, secured, announced and under management agreement daily MSW processing capacity of 25 projects was 36,590 tonnes. When taking into account of the newly added waste incineration power generation projects since September 2019, the company's total processing capacity so far is about 39,430 tonnes, and the annual new processing capacity is about 10,390 tonnes, an increase of 35.8% YoY, which has completed the target of the company (more than 10,000 tonnes new capacity and 30% growth YoY).

In addition, Johnson Holdings (1955.HK) was successfully listed on the Hong Kong Stock Exchange on October 16, 2019. Johnson Limited is a leading environmental health service provider that provides a wide range of environmental health services in Hong Kong. We are still optimistic about the possible cooperation between the company and Johnson in the Guangdong-Hong Kong-Macao Greater Bay Area on project level.

Yangtze River Delta Regional Integration Development Plan Issued, Promising in Cooperation with SIIC

On December 1, 2019, the Central Committee of the Communist Party of China and the State Council issued the "Outline of the Yangtze River Delta Regional Integration Development Plan", and the development of the Yangtze River Delta regional integration development has become a national strategy. The planning scope covers the whole area of Shanghai, Jiangsu Province, Zhejiang Province, and Anhui Province (with an area of 358,000 square kilometers). The planning period is up to year 2025, and the outlook period is up to year 2035. The Plan calls for accelerating the construction of infrastructure such as garbage and sewage collection and treatment covering urban and rural areas, promoting the centralized disposal of garbage and sewage, and basically establishing a coordinated ecological and environmental supervision system, and further improving the quality of the regional ecological environment. On the other hand, with the promotion of the waste separation and treatment policy, it will directly lead to the increased demand for sanitation equipment and services for front-end classified disposal, classified collection, and classified transportation. By the end of 2020, 46 key cities are expected to be basically completed domestic waste sorting and processing system.

BUY (Maintain)

CMP HKD 3.33

(Closing price at 6 December 2019)

TARGET HKD 5.07 (+52.16%)

COMPANY DATA

O/S SHARES (MN)	2,441
MARKET CAP (HKDMN)	8,130
52 - WK HI/LO (HKD):	3.05/4.39

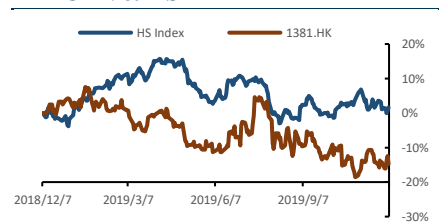
SHARE HOLDING PATTERN

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

PRICE PERFORMANCE

	1M	3M	1Y
CANVEST ENV	2.46%	-5.64%	-14.96%
HSI	-4.30%	-0.72%	1.31%

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	13.87	10.84	9.34	7.98	6.75
BVPS HKD	2.08	2.16	2.45	2.80	3.20
P/B	1.60	1.54	1.36	1.19	1.04
ROE	14.82	14.82	15.48	15.91	16.45
	%	%	%	%	%

Source: Company reports, Phillip Securities Est.

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On August 21, 2019, Canvest Environmental Investment, an indirect wholly-owned subsidiary of the company, entered into a joint venture agreement with the shareholders of Shanghai Industrial Environmental Technology (a direct wholly-owned subsidiary of SIIC Environment) to set up a joint venture. The joint company will focus on the investment, construction and operation of waste incineration power projects in the Yangtze River Delta. We expect that with the establishment of a project company with SIIC, the company will further strengthen the search for cooperation opportunities in the Yangtze River Delta region, and with the issue of the Yangtze River Delta development plan and the new regulations for "the most stringent" waste sorting further promoted, though the amount of waste incineration might be reduced, but it is believed that it will also promote the company to continuously adjust its business model, further strengthen cost control, and actively seek the integration of the industrial chain, which is beneficial to the company's long-term development.

Maintain "BUY" investment rating

We maintain a TP of HKD 5.07, corresponding to FY19/FY20/FY21 14.21x/12.14x/10.26x PE with a +52.16% potential upside compared with CP of HKD 3.33 as of December 6, 2019, we maintain "BUY" investment rating.

Table-1: 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

Risk

Fail expectations of project progress; policy risk of electricity price allowance; fail expectations of acquisition of new projects

Financials

Table-2: Financial data

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
Valuation Ratios					
P/E	13.87	10.84	9.34	7.98	6.75
P/B	1.60	1.54	1.36	1.19	1.04
Dividend Yield	0.99%	1.38%	1.85%	2.17%	2.56%
Per Share Data in HKD					
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
Growth & Margins (%)					
Growth					
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%
Margins					
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%
Key Ratios					
ROA	7.37%	7.48%	7.10%	6.73%	6.54%
ROE	14.82%	14.82%	15.48%	15.91%	16.45%
Income Statement in mn HKD					
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 December 6)

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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