

CH ENERGY ENG (3996.HK)

Newly signed contracts keep growing

Hong Kong | Construction and Engineering | Company Update

December 17, 2019

Company update

Since November 2019, the company and its subsidiaries have signed or awarded a number of new projects, including four domestic projects involving an investment of approximately RMB17.2 billion; eight overseas projects mainly focus on power station projects. Major projects include: 1) China Energy Engineering Group Guangdong Power Engineering Co., Ltd., a subsidiary of China Energy Engineering Group Southern Construction & Investment Co., Ltd. has entered into an EPC contract for the Baltic Sea 324.8MW Wind Farm Project in Poland. The project is located in Słupsk, Poland near the Baltic Sea, and includes 5 specific projects, Its main work comprises power station EPC construction, which includes designing services, manufacturing, supervising, testing, equipment supplying, whole factory constructing, installing, debugging, training, spare parts within the warranty period, consumables and services, etc. The contract amount of the project is approximately EUR568 million. 2) The project is located in Umm Al Quwain, United Arab Emirates. Its main work comprises the construction of a seawater desalination plant with a daily production capacity of 150MIG (approximately 682,000 tonnes/day), including the design, procurement, construction, debugging and testing of seawater intake and drainage ancillary facilities and water storage tanks. The total contract amount of the project is approximately USD625 million, of which the contract amount of Gezhouba International Co. is approximately USD369.5 million. The contract term is 33 months, commencing from the date of construction. 3) The project company is jointly established by the government-funded representative and the social investor, and is responsible for the unified operation. The total investment of the project is approximately RMB5.732 billion, and the term of cooperation is 30 years, including 4 years of construction period and 26 years of operation period. 4) a subsidiary and cooperating parties has entered into an EPC contract for the 1000MW Oil and Gas Combined Cycle Power Station Project in Maysan, Iraq. The project is situated in Maysan Governorate, Iraq. Its main works comprise the design, procurement, and construction of the 1000MW Oil and Gas Power Station. The contract amount of the Project is approximately USD1,200 million. The contract term is 36 months. According to the National Bureau of Statistics, the cumulative annual growth rate of China's fixed asset investment was 5.2% in October 2019, maintaining moderate growth. However, the current downward pressure on the economy is increasing, government is expected to continue introducing relevant policies to increase the infrastructure investment to drag the bottom of the economy. In addition, the monetary policy remains stable and loose, which will benefit the development of the infrastructure sector. We expect that the new contract value of the company will continue to grow steadily.

Signed strategic cooperation agreements with SHIG and Sansha city's government to promote business transformation and development

On November 19, 2019, the signing ceremony of the strategic cooperation framework agreement between China Energy Construction Group Co., Ltd. and Sansha City Government was held in Sansha. According to the agreement, the two sides will carry out comprehensive cooperation in the areas of infrastructure construction and ecological protection in Sansha City, and jointly advance the implementation of relevant major projects. On July 26, 2019, the company has entered into a strategic cooperation framework agreement with Shandong Heavy Industry Group Co., Ltd. (SHIG). Both parties unanimously agreed to establish a comprehensive strategic co-operative partnership in various aspects such as engineering construction and equipment procurement, international business, high-end equipment and industrial park construction, new energy, capital cooperation, technological services as well as talent cooperation. The two parties would fully utilize their respective advantages in various aspects such as their technology, capital, talents, management, market and resources, achieving a win-win situation with mutual benefits and joint development. It is understood that SHIG is a Shandong Provincial state-owned enterprise, and is a Chinese leading and internationally renowned automobile and equipment manufacturing group. The company actively explores cooperation opportunities, seeks business transformation and development, and lays the foundation for new performance growth points in the future.

ACCUMULATE (Degraded)

CMP HKD 0.89

(Closing price at 13 December 2019)

TARGET HKD 1.05 (+17.98%)

COMPANY DATA

O/S SHARES (MN)	9,262
MARKET CAP (HKDMN)	8,244
52 - WK HI/LO (HKD):	1.08/0.74

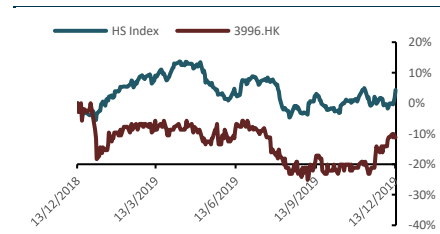
SHARE HOLDING PATTERN

China Energy Engineering Group Co.,	60.32%
China Reform Holdings Corporation	6.76%

PRICE PERFORMANCE

	1M	3M	1Y
CH ENERGY ENG	15.58%	7.23%	-11.17%
HSI	4.20%	1.23%	4.39%

RETURN & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

mn HKD	FY17 A	FY18 A	FY19 E	FY20 E	FY21 E
Revenue	234,	224,	238,	247,	256,
	370	034	933	645	900
Net Profit for Owners	5,26	4,57	4,49	4,79	5,06
EPS RMB	1	1	0	3	0
P/E	0.18	0.15	0.15	0.16	0.17
BVPS	4.61	5.28	5.37	5.03	4.77
RMB P/B	1.64	1.70	1.82	1.95	2.09
	0.49	0.48	0.44	0.42	0.39
ROE	11.2	9.18	8.56	8.54	8.42
	7%	%	%	%	%

Source: Company reports, Phillip Securities Est.

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

Adjust TP to HKD 1.05, downgrade to "ACCUMULATE" rating

We adjusted target price to HKD 1.05, corresponding to FY19/FY20/FY21 6.34x/5.94x/5.62x PE, which was +17.98% higher than the current price (HKD 0.89 as of December 13, 2019), degrading to "ACCUMULATE" rating.

Figure-1: P/E Band

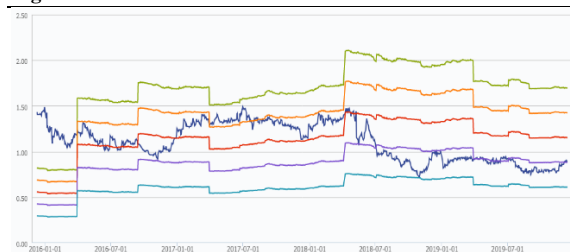


Figure-2: P/B Band



Source: Phillip Securities (HK) Research, Wind

Table-1: Recent new projects

Announcement Date	Location	Contract Size	Project	Term	Details
5/11/2019	POLAND	EUR568 million	WIND FARM PROJECT		The project is located in Słupsk, Poland near the Baltic Sea, and includes 5 specific projects, i.e. Drzewowo 100MW Wind Farm Project, Człuchow 99MW Wind Farm Project, DIV 79.2MW Wind Farm Project, Warblewo 40MW Wind Farm Project and Jaromierz 6.6MW Wind Farm Project. The Project plans to construct a 324.8MW wind power machine unit. Its main work comprises power station EPC construction, which includes designing services, manufacturing, supervising, testing, equipment supplying, whole factory constructing, installing, debugging, training, spare parts within the warranty period, consumables and services, etc. The contract amount of the Project is approximately EUR568 million.
8/11/2019	KENYA	USD200 million	100MW WIND POWER PROJECT		The Project is situated on the Ngong Hills, Kajiado, Kenya, which is 45 km from the capital Nairobi. Its main work comprises the construction of a 100MW wind power farm on the Ngong Hills. The Project is divided into three phases. A capacity of 30MW will be installed in the first phase, a capacity of 40MW will be installed in the second phase, and a capacity of 30MW will be installed in the third phase. The contract amount of the Project is approximately USD200 million.
12/11/2019	Greece		THE GREECE MINOS 50MW TOWER PHOTOTHERMAL PROJECT	30 months	The Project is located in Crete, Greece. Its main work comprises the construction of a 50MW Molten Salt Tower Solar Energy Photothermal Storage Power Station including the design, procurement, construction, and commissioning. The contract term of the Project is 30 months, commencing from the date of construction.

12/11/2019	China	RMB3 billion	THE WATER DIVERSION AND POWER GENERATION SYSTEM		The Project is located on the upper reaches of Jinsha River at the junction of Baiyu County, Ganzi Tibetan Autonomous Prefecture, Sichuan Province and Gongjue County, Changdu District, Tibet Autonomous Region. The main works are permanent transportation engineering, diversion tunnel engineering, water retaining structures, spillway projects, flood discharge hole projects, water transport structures, power plant projects, right bank downstream protection works, firefighting engineering, renovation works, metal-structural equipment manufacturing and installation works, environmental protection and soil and water conservation works, and completed external sand and gravel concrete projects, etc.. After the Project is completed, it will transport a large amount of clean electric energy every year and reduce carbon dioxide, sulfur dioxide, dust and other emissions by approximately 10 million tonnes, which will play an important role in promoting the economic development of Tibet Autonomous Region.
14/11/2019	UMM AL QUWAIN OF UNITED ARAB EMIRATES	USD625 million	THE 150MIG SEAWATER DESALINATION PROJECT	33 months	The Project is located in Umm Al Quwain, United Arab Emirates. Its main work comprises the construction of a seawater desalination plant with a daily production capacity of 150MIG (approximately 682,000 tonnes/day), including the design, procurement, construction, debugging and testing of seawater intake and drainage ancillary facilities and water storage tanks. The total contract amount of the Project is approximately USD625 million, of which the contract amount of Gezhouba International Co. is approximately USD369.5 million. The contract term is 33 months, commencing from the date of construction.
15/11/2019	SAUDI ARABIA		SUDAIR 1000MW PHOTOVOLTAIC POWER GENERATION PROJECT		The Project is located in Sudair Industrial City, Saudi Arabia, which is 150KM northwest to Riyadh. Its main work comprises the designing, procurement, construction, debugging and trial run of the 1090.214MW (direct-current side-installed machine) photovoltaic power station.
19/11/2019	KINGDOM OF LESOTHO	USD523 million	MAFEITENG SPECIAL ECONOMIC ZONE PROJECT		The Project is situated in the Mafeiteng area of the Kingdom of Lesotho, which is 80 km from the capital Maseru. Its main work comprises the construction of a light industrial, agricultural, pharmaceutical processing park with an area of approximately 60,000 square metres, including processing plants, warehouses, office areas, logistics facilities, ancillary living facilities, water supply and electricity facilities etc. The contract amount of the Project is approximately USD523 million.
22/11/2019	China	RMB5.732 billion	THE PPP PROJECT OF THE WATER SUPPLY IRRIGATION PROJECT	30 years	The project company of the Project is jointly established by the government-funded representative and the social investor, and is responsible for the unified operation of the Project. The total investment of the Project is approximately RMB5.732 billion, and the term of cooperation is 30 years, including 4 years of construction period and 26 years of operation period.
27/11/2019	China	RMB3.772 billion	THE NEW CONSTRUCTION OF EPC GENERAL CONTRACTING PROJECT	762 calendar days	The construction scale of the Project is a new 2×660MW ultra-supercritical coal-fired power generation unit, which includes the construction of environmental protection facilities such as highefficient desulfurization, denitrification and ultra-low-emission facilities at the same time. The bid price of the Project is approximately RMB3.772 billion, and the contract term is 762 calendar days (calculation will start basing on the date of the first cubic meter of concrete of the main factory).

27/11/2019	China	RMB4.7 billion	THE SUB-STANDARD WATER BODY COMPREHENSIVE IMPROVEMENT EPC+O PROJECT	96 months	The Project is situated in Zhongshan, Guangdong Province, and mainly comprises testing and modification of pipeline of 55.22 km, construction of new sewage interception pipe with a total length of 542.35 km, silt removal of 52,200 m ³ , ecological restoration project along the river and water utilities informatization construction project etc. The bid-winning amount of the Project is approximately RMB4.7 billion and the term of cooperation is 96 months.
28/11/2019	IRAQ	USD1,200 million	OIL AND GAS COMBINED CYCLE POWER STATION PROJECT	36 months	The Project is situated in Maysan Governorate, Iraq. Its main works comprise the design, procurement, and construction of the 1000MW Oil and Gas Power Station. The contract amount of the Project is approximately USD1,200 million. The contract term is 36 months
29/11/2019	Mexico	USD254 million	OIL AND GAS STORAGE AND TRANSPORTATION PROJECT		The Project is located in Manzanillo, Colima, Mexico. Its main work is the construction of oil and gas storage and pipeline facilities, railway connections and station facilities, as well as five oil and gas transshipment terminals in Manzanillo, Colima, Mexico. The contract amount of the Project is approximately USD254 million.

Source: Phillip Securities (HK) Research

Risk

International business fails expectations;
China infrastructure investment fails expectations;
China electricity investment fails expectations;
Policy risk.

Financials

Table-2: Financial data

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
Valuation Ratios					
P/E	4.61	5.28	5.37	5.03	4.77
P/B	0.49	0.48	0.44	0.42	0.39
Dividend Yield	3.78%	3.78%	3.71%	3.96%	4.18%
Per Share Data in RMB					
EPS	0.18	0.15	0.15	0.16	0.17
DPS	0.03	0.03	0.03	0.03	0.03
BVPS	1.64	1.70	1.82	1.95	2.09
Growth & Margins (%)					
Growth					
Revenue	5.49%	-4.41%	6.65%	3.65%	3.74%
Operating Profit	7.80%	3.82%	12.18%	10.56%	6.06%
Net Profit	21.85%	-5.66%	5.88%	6.74%	5.58%
Margins					
Gross Margin	11.79%	13.29%	13.51%	13.97%	14.21%
Operating Profit Margin	4.67%	5.08%	5.34%	5.70%	5.82%
Net Profit Margin	3.87%	3.82%	3.79%	3.90%	3.97%
Key Ratios					
ROA	1.65%	1.25%	1.09%	1.05%	1.02%
ROE	11.27%	9.18%	8.56%	8.54%	8.42%
Income Statement in mn RMB					
Revenue	234,370.11	224,034.35	238,932.82	247,644.50	256,900.20
Gross Profit	27,628.71	29,763.35	32,275.88	34,593.10	36,494.79
EBIT	14,317.81	14,708.28	15,696.57	17,043.49	17,897.68
EBT	11,955.26	11,676.81	12,367.57	13,201.20	13,937.96
Net Profit	9,064.24	8,551.51	9,054.30	9,664.60	10,203.98
Net Profit for Owners	5,261.15	4,570.69	4,490.25	4,792.92	5,060.41

Source: Company, Phillip Securities (HK) Research
(Financial data as of December 13, HKD/CNY=0.910)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

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