

CANVEST ENV (1381.HK)

Relevant policies issued, sector with high certainty

Hong Kong | Environmental Protection | Company Update

February 27, 2020

Event Update

On January 20, 2020, the Ministry of Finance, the National Reform Commission and the National Energy Administration jointly issued "Several Opinions on Promoting the Healthy Development of Non-aqueous Renewable Energy Power Generation" and "About Printing and Distribution Notice of the "Administrative Measures for Renewable Energy Electricity Price Additional Funds", the "Opinions" pointed out that the current subsidy method should be improved to settle expenditures and reasonably determine the scale of new subsidy projects; fully guarantee the continuation of policies and reasonable incomes on existing projects. For the renewable energy power generation projects that have been approved (recorded) in accordance with regulations, all units have been connected to the grid, and reviewed and included in the subsidy list, the central government subsidy quota will be determined based on reasonable utilization hours. For existing projects that have been voluntarily converted to parity projects, the finance and energy authorities will provide policy support in terms of preferential payment of subsidies and the scale of new projects. Subsequently, on February 6, the National Development and Reform Commission issued the "Notice on Implementing Several Opinions on Promoting the Healthy Development of Non-aqueous Renewable Energy Power Generation and Accelerating the Compilation of Medium- and Long-Term Special Plans for Domestic Waste Incineration and Power Generation." It requires the compilation of special mid-to-long-term plans for domestic waste incineration and power generation, and prepare them before March 31, 2020. "Notice" pointed out that the national renewable energy price supplementary subsidy funds are preferentially used for projects included in special planning. For those provinces (autonomous regions and municipalities) that is not received a special plan by development and reform commissions before March 31, 2020, in principle, the subsidy funds needed for new domestic waste incineration power generation projects should be settled by the provinces (autonomous regions and municipalities) where they are located.

It's believed that electricity price subsidies, as an important part of project investment returns, have made great contributions to cultivating high-quality companies, promoting technological progress, and promoting industrial development. But at the same time, due to the amount of waste treatment guarantee and the price adjustment clauses of the treatment service fee when the project contract is signed, the company has a certain bargaining power, which can offset the impact of the national subsidy and decline to a certain extent, and maintain corporate profits. Refining management of single project, improving operating efficiency while reducing operating costs, bring synergistic effects between projects, and sharing fixed costs, will also be an alternative development direction for waste incineration enterprises. According to statistics from the data center of the E20 Research Institute, from January to December 2019, China has released more than 150 waste incineration projects with a total investment of more than 58 billion RMB. We believe that although the suspension of construction projects will have a negative impact on enterprises due to the epidemic situation in early 2020, the stability of operating projects and the increase in the requirements for waste disposal by the epidemic will also benefit the relevant sectors.

According to the company's disclosure, on January 20, 2020, the company's subsidiary, Canvest Kewei, had obtained the PPP concession right for Yingkou WTE Plant in Yingkou City, Liaoning Province. The total daily municipal solid waste processing capacity would be 2,250 tons. The Yingkou WTE plant will be constructed in two phases, of which the processing capacity of the first phase is 1,500 tons and the processing capacity of the second phase is 750 tons. The garbage disposal fee is expected to be RMB 66 per ton, while the construction cost is approximately RMB 50 to 60 per ton. The company's total processing capacity is currently estimated to be approximately 42,680 tons, and the processing capacity has been steadily increased.

BUY (Maintain)

CMP HKD 3.77

(Closing price at 25 February 2020)

TARGET HKD 5.06 (+34.31%)

COMPANY DATA

O/S SHARES (MN)	2,440
MARKET CAP (HKDMN)	9,343
52 - WK HI/LO (HKD):	3.05/4.19

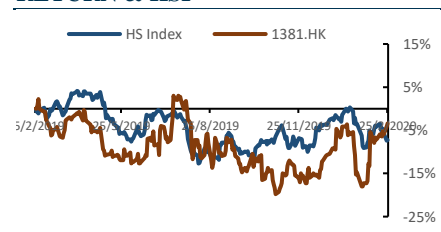
SHARE HOLDING PATTERN

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

PRICE PERFORMANCE

	1M	3M	1Y
CANVEST ENV	11.54%	13.55%	-4.91%
HSI	-3.78%	-0.37%	-7.13%

RETURN & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

mn HKD	FY 17A	FY 18A	FY 19E	FY 20E	FY 21E
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	15.71	12.27	10.57	9.03	7.64
BVPS (HKD)	2.08	2.16	2.45	2.80	3.20
P/B	1.81	1.75	1.54	1.35	1.18
ROE	14.82%	14.82%	15.48%	15.91%	16.45%

Source: Company reports, Phillip Securities Est.

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Maintain “BUY” investment rating

We are still optimistic about the performance of WTE companies in 2020, and the issuances of related policies have also alleviated investors' concerns about the decline of the country subsidies. With company's high-quality projects in hand and cooperation with SIIC, and through the support of policies such as the Yangtze River Delta development plan and the Yangtze River Protection, it is expected the company would have a stable performance in 2020. We fine-tuned the model and revised TP to HKD 5.06, corresponding to PE of FY19/FY20/FY21 14.20x/12.13x/10.26x, with a +34.31% potential increase from the current price (HKD3.77 as of February 25, 2020), maintaining "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

Figure-1: Forward P/E

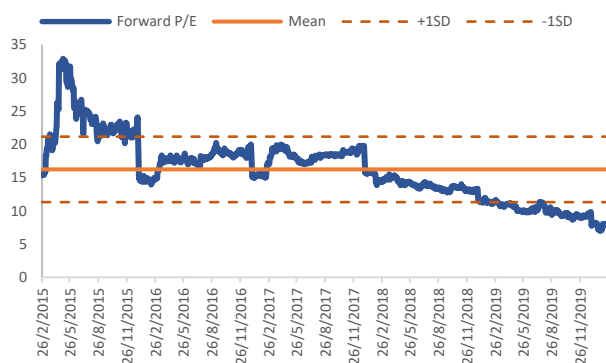
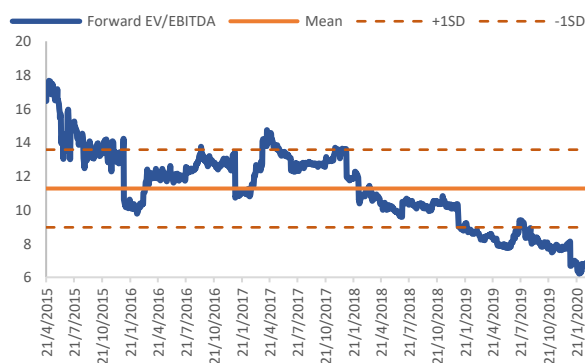


Figure-2: Forward EV/EBITDA



Source: Phillip Securities (HK) Research, Bloomberg

Table-2: Comparable Companies

Name	Mkt Cap (bn HKD)	EV (bn HKD)	EV/TTM EBITDA	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	P/FCF	Dividend Yield
CANVEST ENVIRONMENTAL PROTEC	9.17	12.70	8.82	8.39	6.84	11.03	10.22	8.1	N.A.	1.57
CNY (1 security)										
DONGJIANG ENVIRONMENTAL CO-A HKD (4 securities)	8.67	12.06	N.A.	9.74	8.1	24	17.91	14.64	16.63	1.42
Median	9.46	15.80	7.39	7.6	6.22	8.64	7.66	6.16	0	3.46
Average	13.01	24.76	7.49	9.56	7.69	8.66	7.84	6.31	0	3.28
CHINA EVERBRIGHT INTL LTD DYNAGREEN ENVIRONMENTAL PR-H	33.11	73.12	7.51	6.81	5.6	6.68	6.38	5.28	N.A.	4.64
	9.86	17.81	N.A.	17.14	13.49	10.61	8.95	7.04	N.A.	3.43

CHINA EVERBRIGHT GREENTECH L BEIJING ENTERPRISES URBAN RE	9.46	15.80	6.37	5.88	4.82	6.34	5.8	4.8	N.A.	3.49
	3.46	4.38	7.26	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Phillip Securities (HK) Research, Bloomberg

Risk

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

Financials

Table-3: Financial data

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
Valuation Ratios					
P/E	15.71	12.27	10.57	9.03	7.64
P/B	1.81	1.75	1.54	1.35	1.18
Dividend Yield	0.88%	1.22%	1.63%	1.91%	2.26%
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 February 25)

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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