

Baguio Green (01397.HK)

Core cleaning services recorded a considerable growth in 1H2022, contracts on hand recorded historical high
Hong Kong | Business and Professional Services

25 November 2022

Originated in 1980, Baguio Green Group (“Baguio”) has developed into a group of providing integrated environmental services, ranging from Professional Cleaning, Recycling, Waste Management and Collection, Horticulture and Landscaping, and Integrated Pest Management. The company's main business is mainly divided into four segments, including: (1) Cleaning services business; (2) Waste management and recycling business; (3) Landscaping services business; and (4) Pest management business, customers cover all walks of life and different Types of institutions, such as HKSAR Government, public utilities, and private corporations.

Core cleaning services recorded a considerable growth in 1H2022

For the six months ended 30 June 2022 (1H2022), revenue amounted to HK\$714.1mn, representing an increase of 21.6% YoY. The increase was mainly due to the increase in revenue in cleaning segment with increase in number of contracts and orders during the Period. Net profit attributable to equity shareholders for the period amounted to HK\$17.8mn (1H2021: HK\$12.2mn), representing an increase of 45.3% YoY. Basic EPS was HK\$4.29 cents (1H2021: HK\$2.95 cents), with no interim dividend.

The gross profit for the period was HK\$57.7 million, representing an increase of 17.6% YoY. Though there was a strong performance in cleaning segment which were partially offset by the initial operation costs from new projects in waste and recycling segment. The overall gross profit margin dropped from 8.4% to 8.1% mainly due to the initial operation costs in our new projects in waste and recycling segment. Relevant income in short run may not proportional to expenditure. In additions, the progress delay of landscaping projects and high service level demand in pest management services market with keen competition, together with the high energy price also affected the gross profit margin.

By business segment, cleaning services recorded a considerable growth in 1H2022. Revenue of cleaning services increased by 42% to HK\$498.6mn, accounting for 69.8% of the overall revenue. secured a number of new service contracts from the HKSAR Government worth HK\$1.6 billion. Demand for cleaning services increased due to the pandemic. Specifically, high profit margin cleaning services, such as disinfection and cleaning services for quarantine hotels, greatly contributed to the overall growth in our cleaning business and an increase in gross profit margin to 9.7% from 7.4%.

Buy

CMP HKD0.445
(Closing price as of 22 November)
Target HKD 0.67 (+50.6%)

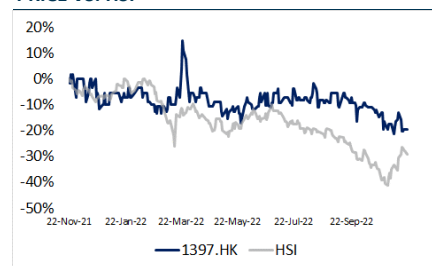
COMPANY DATA

O/S SHARES (MN) :	415.000
MARKET CAP (HKD MN) :	180.5
52 - WK HI/LO (HKD):	0.771/0.400

SHARE HOLDING PATTERN, %

Mr. Ng Wing Hong	67.29%
Ms. Ng Yuk Kwan Phyllis	6.44%
David Michael Webb	5.01%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY20	FY21	FY22E	FY23E
Revenue	1,132	1,274	1,624	1,965
Net profit	51	13	34	39
Reported EPS	0.12	0.03	0.08	0.09
P/E ratio, x	3.6	14.4	5.4	4.8
Dividend Yield, %	8.1%	2.0%	5.4%	6.1%

Source: Company reports, Phillip Securities Est.

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With regard to the waste management and recycling business, revenue slightly decreased by 4.9% to HK\$111.8mn, accounting for 15.7% of the overall revenue. Company is contracted by the EPD to handle over 5,000 recycling spots (including plastic, glass bottles, metals and waste paper) across HK and currently operate various sorting facilities to support recycling business. Baguio is also the operator contracted by the EPD to manage three-colour recycling bins in the HK Island, Kowloon and New Territories. In Jan-2022, it won a new 33-month EPD Plastic Recycling Pilot Scheme contract to provide plastic collection services for three districts (Eastern, Kwun Tong and Central & Western). Baguio also provides plastic collection services for Recycling Stations and Reverse Vending Machines, which were introduced by EPD and other institutions in HK. In addition, the Baguio also provides collection and management services of glass bottles for the HK Island (including Islands District) and the New Territories. During the Period, the gross profit margin declined 8.4 percentage points to 3.0% due to various factors including increasing energy prices and inflation combined with a decline in the recycling rate during the pandemic., the overall decline was mainly due to the impact of our plastic recycling services. Under the EPD's Plastic Recycling Pilot Scheme, the contractor needed to invest substantial resources and costs to initiate and establish the collection network in the first half of the year. Revenue generated in the short run may not be proportional to expenditure. Management stated in the report that it is expected after the contract has commenced for a certain period of time, this short-term disproportionate issue will be improved.

In the landscaping services, revenue decreased by 9.2% to HK\$56.9mn, accounting for 8.0% of the overall revenue. Projects continued to experience delays with increased logistics costs due to the ongoing pandemic, the gross profit margin declined 0.7 percentage points to 6.7%. Additionally, intense market competition affected the gross profit margin and the overall performance.

For the pest management business, revenue decreased by 15.1% to HK\$46.8mn, accounting for 6.5% of the overall revenue. Since the outbreak of COVID-19 pandemic, the entry of newcomers has led to keen competition affecting the gross profit margin declined 4.3 percentage points to 4.6%.

As of 30 June 2022, new contracts awarded to the company amounted to a total of HK\$1950mn. As a result, company recorded a historical high for its contracts on hand of HK\$3406mn, representing an increase of 59% YoY. Among which, HK\$900mn would be recognized by the end of 2022; HK\$1,328mn would be recognized in 2023 and the rest of HK\$1,178mn would be recognized in 2024 and beyond.

Investment Thesis

With the Municipal Solid Waste (MSW) Charging Scheme scheduled to be launched in the second half of 2023, it is expected to further motivate the public to recycle and to increase the recycling volume. With the implementation of the Producer Responsibility Scheme on Plastic Beverage Containers enshrining the principle of "polluter pays" and the vision of "eco-responsibility", the recycling rate of plastic beverage containers is expected to have a significant increase. The two schemes are expected to directly drive the growth of Baguio's recycling business and create better returns. We expect FY2022E-FY2023E EPS to be HKD8.22 cents and HKD9.28 cents respectively, with PT of HKD0.67, implies a FY2022E P/E of 8.2x (~2-yrs historical average). Our investment rating is "Buy".

Risk factors

1) Market competition intensifies; 2) Soaring in operating cost; and 3) Unexpected slowdown in service demand.

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,397	1,132	1,274	1,624	1,965
COGS	(1,327)	(1,068)	(1,165)	(1,493)	(1,800)
Gross Profit	70	64	109	131	165
Selling expenses	(2)	(1)	(2)	(2)	(3)
General & Admin exp	(80)	(96)	(92)	(110)	(121)
Others	5	96	22	43	29
Chg. in FV less costs to sell of bio. assets	5	(4)	(4)	(5)	(5)
Operating Profit	(2)	58	33	58	66
Finance costs, net	(10)	(8)	(5)	(6)	(7)
Share of result of a JV	(1)	(1)	(6)	(5)	(6)
Profit before tax	(13)	49	22	47	53
Income tax	1	2	(9)	(13)	(15)
Shareholders Net profit	(11)	51	13	34	39
Reported EPS, Diluted	(0.03)	0.12	0.03	0.08	0.09
DPS	-	0.04	0.01	0.02	0.03
Payout ratio	0%	29%	29%	29%	29%

Key Financial Data

Dec Y/E	FY19	FY20	FY21	FY22E	FY23E
Valuation Ratio					
P/S ratio, x	0.1	0.2	0.1	0.1	0.1
P/E ratio, x	-	3.6	14.4	5.4	4.8
Dividend Yield, %	0.0%	8.1%	2.0%	5.4%	6.1%

Per share data (HKD)

EPS	(0.03)	0.12	0.03096	0.08220	0.09279
BVPS	0.57	0.70	0.69	0.76	0.83
DPS (HKD)	-	0.04	0.01	0.02	0.03

Growth & Margin

Growth					
Revenue Growth	-2.2%	-19.0%	12.5%	27.5%	21.0%
Gross Profit Growth	-24.2%	-9.8%	71.5%	20.4%	26.1%
Operating Profit Growth	-	-	-43.8%	76.7%	13.6%
Net Profit Growth	-	-	-75.0%	165.5%	12.9%
Margin					
Gross Profit Margin	5.0%	5.6%	8.6%	8.1%	8.4%
Operating Profit Margin	-0.1%	5.1%	2.6%	3.6%	3.3%
Net Profit Margin	-0.8%	4.5%	1.0%	2.1%	2.0%

Key Ratios

ROE	-4.5%	19.5%	4.5%	11.3%	11.7%
ROA	-1.6%	7.8%	2.0%	4.9%	5.0%

Consolidated Statement of Financial Position

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E
Non Current Asset					
PPE	182	150	190	196	187
Others	106	99	89	92	93
Total Non Current Assets	287	249	279	287	281
Current Asset					
Inventory	3	3	4	4	5
Trade and other receivables	320	260	297	372	453
Bank balance and cash	23	29	32	25	12
Others	78	64	49	50	49
Total Current Assets	423	355	382	452	519
Total Assets	711	604	661	739	799
Non Current Liabilities					
Long-term debt	-	-	-	-	-
Other Non-current Liabilities	54	51	56	60	62
Total Non-current Liabilities	54	51	56	60	62
Current Liabilities					
Interest-bearing Borrowings	235	108	124	140	167
Trade payables	28	24	32	37	42
Others	157	133	163	186	183
Total Current Liabilities	420	265	319	363	393
Equity					
Shareholders' equity	237	289	287	317	346
Non-controlling interests	-	-	(0)	(1)	(1)
Total equity	237	289	287	316	344
Total Liabilities and Equity	711	604	661	739	799

Consolidated Statement of Cash Flow

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E
CFO					
Profit before income tax	(13)	49	22	47	53
D&A add-back	39	55	50	46	47
Others	7	23	8	(3)	(4)
Net (inc)/dec working capital	1	35	8	(49)	(80)
Net cash flow from operating activities	34	162	88	41	16
CFI					
Purchase of PP&E	(24)	(18)	(76)	(52)	(39)
Others	(7)	10	8	8	7
Net cash flow from investing activities	(31)	(8)	(68)	(44)	(32)
CCF					
Dividends paid	(3)	-	(15)	(4)	(10)
Others	(14)	(150)	(1)	(1)	12
Net cash flows from financing activities	(17)	(150)	(16)	(5)	2
Net Change in Cash	(13)	5	4	(7)	(14)
Cash and CE at Y/E	23	29	32	25	12

Current Price as of: November 22

Source: PSHK Est.

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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