

# Baguio Green (1397.HK)

Contracts on hand recorded historical high,  
and revenue growth in FY2023 has high certainty  
Hong Kong | Business and Professional Services

15 June 2023

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

For the year ended 31 December 2022 (FY2022), Baguio’s revenue was HK\$1,793.1 million, representing an increase of 40.8% YoY. Profit attributable to equity shareholders amounted to HK\$53.7 million (FY2021: HK\$12.8 million), representing in a yoy increase of 3.2 times. EPS was HK12.9 cents (FY2021: HK3.1 cents). Final dividend for the FY2022 at HK3.8 cents (FY2021: HK0.9 cents) per ordinary share.

Gross profit increased by 38.5% to HK\$151.0 million. However, the waste management and recycling segment was affected by the initial operation costs in new projects, its relevant income in short run may not be proportional to its expenditure. In addition, high service level demand in pest management services market with keen competition, together with the high energy price also affect the gross profit margin. The gross profit margin decreased by 0.2 percentage points to 8.4%.

By business segment, cleaning services, as Baguio’s core business, recorded a considerable growth in 2022. Revenue of cleaning services increased by 61.2% to approximately HK\$1.33 billion, accounting for 74.2% of the overall revenue during the Year. Company secured a number of service contracts worth approximately HK\$1.99 billion in total for street cleansing services in Mong Kok, Sha Tin, Yuen Long, Western and Tai Po districts. Demand for cleaning services increased due to the pandemic enabled the Baguio to secure the cleaning services projects with high profit margin, which contributed to an increase in gross profit margin of cleaning business to 9.3% from 8.8% in FY2022.

With regard to the waste management and recycling business, revenue increased by 3.9% YoY to HK\$243.2 million, accounting for 13.6% of total revenue. Baguio secured two new contracts with FEHD for the provision of waste collection services during the Year, worth HK\$140 million. The company is contracted by the Environmental Protection Department of the HKSAR Government to handle over 5,000 recycling spots (including plastic, glass bottles, metals and waste paper) across Hong Kong. During the Year, Baguio 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 of “GREEN@COMMUNITY” and Reverse Vending Machines, which were introduced by EPD and other institutions in Hong Kong. In addition, the company also provides collection and management services of glass bottles for the Hong Kong Island, the New Territories and Islands District. Although the gross profit margin of the segment decreased by 6.0 percentage points to 3.4% from 9.4% in FY2021, with the Municipal Solid Waste (MSW) charging scheme scheduled to be launched in the second half of 2023, the recycling volume is expected to increase rapidly.

## Buy

CMP HKD0.680  
(Closing price as of 9 June)  
Target HKD 1.18 (+73.5%)

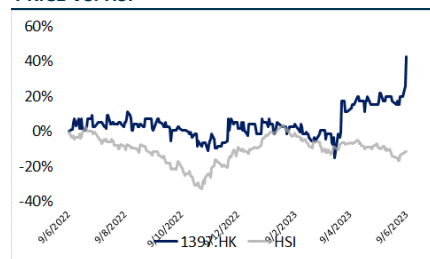
### COMPANY DATA

O/S SHARES (MN) :	415.000
MARKET CAP (HKD MN) :	282.2
52 - WK HI/LO (HKD):	0.700/0.400

### 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	FY21	FY22	FY23E	FY24E
Revenue	1,274	1,793	2,063	2,353
Net profit	13	54	61	69
Reported EPS	0.03	0.13	0.15	0.17
P/E ratio, x	22.0	5.3	4.6	4.1
Dividend Yield, %	5.3%	5.6%	6.3%	7.1%

Source: Company reports, Phillip Securities Est.

### Sr. Research Analyst

Eric Li (+852 2277 6516)  
erichyli@phillip.com.hk

With the potential legislation of the Producer Responsibility Scheme on Plastic Beverage Containers this year, when the new regulation becomes effective, producers of plastic beverage containers will add a deposit to the selling price and refund the deposit to consumers when they return their plastic beverage containers. The recycling volume of plastic beverage containers is expected to have a significant increase. It is expected that these two programs will directly stimulate the business volume of Baguio recycling services and provide higher return.

In the landscaping services, revenue increased by 8.8% yoy to HK\$122.2 million, accounting for 6.8% of total revenue; the gross profit margin of the segment increased by 4.6 percentage points yoy to 10.0%. During the year, Baguio secured a contract for the provision of landscaping services to Hong Kong University of Science and Technology and Tung Chung East Promenade.

For the pest management business, revenue decreased by 4.9% yoy to HK\$97.0 million, accounting for 5.4% of total revenue; the gross profit margin of the segment decreased slightly by 0.3 percentage points yoy to 7.4%. During the year, Baguio won the FEHD's contract for pest management services in the Wong Tai Sin and Tai Po districts worth HK\$150 million.

In 2022, new contracts awarded amounted to a total of HK\$3.08 billion. As a result, recorded a historical high for its contracts on hand of HK\$3.59 billion, representing a surge of 67.3%. In addition, the company continued to maintain a high tender success rate at 43.7% in 2022 (2021: 39.5%).

### Investment Thesis

Currently, ~80% of the Baguio's revenue was generated from contracts with government and quasi-government organizations, the amount of contracts on hand (generally with a term of 2–3 years) as of 31 December 2022, ~HK\$1,795.1 million will be recognized by the end of 2023 (~HK\$1,164.6 million will be recognized in 2024 and the rest of ~HK\$629.8 million will be recognized in 2025 and beyond), while this value is higher than the revenue for the whole year of 2022 (HK\$1,793.1 million). With potential new contracts to be obtained in 2023, despite the unsatisfactory in the global macroeconomic environment, it is expected that the company's business and revenue growth in FY2023 still has high certainty. We raised the company's FY2023E-FY2024E EPS forecast to 14.7 cents and 16.6 cents, with PT of HK\$1.18, implies a FY2023 Est. P/E ratio of 8.0x (in line with ~3-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	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	1,132	1,274	1,793	2,063	2,353
<b>COGS</b>	(1,068)	(1,165)	(1,642)	(1,891)	(2,160)
<b>Gross Profit</b>	64	109	151	173	193
Selling expenses	(1)	(2)	(2)	(3)	(3)
General & Admin exp	(96)	(92)	(101)	(115)	(128)
Others	96	22	30	38	38
Chg. in FV less costs to sell of bio. assets	(4)	(4)	(2)	(2)	(3)
<b>Operating Profit</b>	58	33	75	90	98
Finance costs, net	(8)	(5)	(8)	(9)	(9)
Share of result of a JV	(1)	(6)	(2)	(5)	(6)
<b>Profit before tax</b>	49	22	65	76	83
Income tax	2	(9)	(14)	(16)	(16)
<b>Shareholders Net profit</b>	51	13	54	61	69
Reported EPS, Diluted	0.12	0.03	0.13	0.15	0.17
DPS	0.036	0.009	0.038	0.043	0.048
Payout ratio	29%	29%	29%	29%	29%

### Key Financial Data

Dec Y/E	FY20	FY21	FY22	FY23E	FY24E
<b>Valuation Ratio</b>					
P/S ratio, x	0.2	0.2	0.2	0.1	0.1
P/E ratio, x	5.5	22.0	5.3	4.6	4.1
Dividend Yield, %	0.0%	5.3%	5.6%	6.3%	7.1%

### Per share data (HKD)

EPS	0.12	0.03	0.13	0.15	0.17
BVPS	0.70	0.69	0.81	0.92	1.05
DPS (HKD)	-	0.04	0.04	0.04	0.05

### Growth & Margin

<b>Growth</b>					
Revenue Growth	-19.0%	12.5%	40.8%	15.1%	14.0%
Gross Profit Growth	-9.8%	71.5%	38.5%	14.3%	12.0%
Operating Profit Growth	-	-43.8%	129.8%	19.6%	8.9%
Net Profit Growth	-	-75.0%	318.1%	13.8%	12.4%
<b>Margin</b>					
Gross Profit Margin	5.6%	8.6%	8.4%	8.4%	8.2%
Operating Profit Margin	5.1%	2.6%	4.2%	4.4%	4.2%
Net Profit Margin	4.5%	1.0%	3.0%	3.0%	2.9%

### Key Ratios

ROE	19.5%	4.5%	17.3%	17.1%	17.0%
ROA	7.8%	2.0%	6.9%	6.5%	6.8%

### Consolidated Statement of Financial Position

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>Non Current Asset</b>					
PPE	150	190	278	317	324
Others	99	89	87	93	98
<b>Total Non Current Assets</b>	249	279	365	410	422
<b>Current Asset</b>					
Inventory	3	4	3	5	5
Trade and other receivables	260	297	452	501	555
Bank balance and cash	29	32	29	21	27
Others	64	49	47	44	42
<b>Total Current Assets</b>	355	382	531	571	630
<b>Total Assets</b>	604	661	896	981	1,052
<b>Non Current Liabilities</b>					
Long-term debt	-	-	-	-	-
Other Non-current Liabilities	51	56	70	74	76
<b>Total Non-current Liabilities</b>	51	56	70	74	76
<b>Current Liabilities</b>					
Interest-bearing Borrowings	108	124	176	181	172
Trade payables	24	32	37	46	50
Others	133	163	277	300	324
<b>Total Current Liabilities</b>	265	319	490	526	546
<b>Equity</b>					
Shareholders' equity	289	287	338	383	434
Non-controlling interests	-	(0)	(2)	(3)	(4)
<b>Total equity</b>	289	287	336	380	430
<b>Total Liabilities and Equity</b>	604	661	896	981	1,052

### Consolidated Statement of Cash Flow

Dec Y/E, HKD mn	FY20	FY21	FY22	FY23E	FY24E
<b>CFO</b>					
Profit before income tax	49	22	65	76	83
D&A add-back	55	50	65	67	76
Others	23	8	4	(3)	(5)
Net (inc)/dec working capital	35	8	(44)	(16)	(23)
<b>Net cash flow from operating activities</b>	162	88	90	123	131
<b>CFI</b>					
Purchase of PP&E	(18)	(76)	(135)	(106)	(84)
Others	10	8	7	8	7
<b>Net cash flow from investing activities</b>	(8)	(68)	(129)	(98)	(77)
<b>CFF</b>					
Dividends paid	-	(15)	(4)	(16)	(18)
Interest paid	(6)	(3)	(7)	(9)	(9)
Others	(143)	2	46	(9)	(21)
<b>Net cash flows from financing activities</b>	(150)	(16)	36	(33)	(48)
<b>Net Change in Cash</b>	5	4	(3)	(8)	6
<b>Cash and CE at Y/E</b>	23	29	29	21	27

Current Price as of: June 9

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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**Contact Information (Regional Member Companies)**
**SINGAPORE**
**Phillip Securities Pte Ltd**

250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

[www.phillip.com.sg](http://www.phillip.com.sg)

**INDONESIA**
**PT Phillip Securities Indonesia**

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

[www.phillip.co.id](http://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 2268 0999 Fax: (66) 2 2268 0921

[www.phillip.co.th](http://www.phillip.co.th)

**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

**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 (60) 3 2162 8841 Fax (60) 3 2166 5099

[www.poems.com.my](http://www.poems.com.my)

**CHINA**
**Phillip Financial Advisory (Shanghai) Co. Ltd.**

No 436 Heng Feng Road, Green Tech Tower Unit 604  
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

[www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**
**King & Shaxson Capital Ltd.**

3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**
**PhillipCapital Australia**

L Level 10, 330 Collins Street  
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**HONG KONG**
**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

[www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**
**Phillip Securities Japan, Ltd**

4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

[www.phillip.co.jp](http://www.phillip.co.jp)

**INDIA**
**PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,  
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

[www.phillipcapital.in](http://www.phillipcapital.in)

**UNITED KINGDOM**
**King & Shaxson Ltd.**

6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA**
**Asha Phillip Securities Limited**

Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

[www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)