EQUITY RESEARCH

BAGUIO GREEN (1397.HK)

Driven by both policy dividends and profitability improvement, the leading position is securely maintained

Hong Kong | Business and Professional Services

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Overview

Baguio Green ("Baguio") was established in 1980 and is one of Hong Kong's largest integrated environmental services groups, providing services such as environmental hygiene, resource recycling, waste recovery and recycling, green technology, organic fertilizer production, landscaping projects, pest control, and waste management. The company's main business is primarily divided into four segments, including: (1) cleaning services; (2) waste treatment and recycling business; (3) landscaping services; and (4) pest management business. Its clientele spans various industries and types of organizations, such as government departments, public organizations, and multinational corporations.

Net Profit Surged in H1 2025, Profitability Improved Significantly

Benefiting from revenue growth in the Cleaning and Landscaping segments, the Company's revenue for the first half of 2025 reached HKD 1.354 billion, representing a year-on-year increase of 4.8%. The Cleaning business, being the core operation, generated revenue of HKD 1.08 billion, up 4% year-on-year, accounting for 79.6% of the total revenue. Revenue from the Waste Management and Recycling business was HKD 150 million, down 1.4% year-on-year, accounting for 10.7% of the total revenue. The Landscaping business reported revenue of HKD 100 million, a significant increase of 40.9% year-on-year, accounting for 7.4% of the total revenue. The Pest Management business generated revenue of HKD 32 million, down 16.7% year-on-year, accounting for 2.3% of the total revenue. Benefiting from effective cost control and a decrease in financial expenses, the gross profit margin was 9.8%, an increase of 2.3 percentage points year-on-year. The gross profit for the Cleaning business was HKD 850 million, an increase of 27.4% year-on-year, with a gross margin of 7.9%, up 1.5 percentage points year-on-year, primarily due to new cleaning service contracts with various government departments and different organizations. The gross profit for the Waste Management and Recycling business was HKD 28 million, up 46.6% year-on-year, with a gross margin of 19.2%, a substantial increase of 6.3 percentage points year-on-year, mainly driven by the government's active promotion of recycling, significant expansion of the recycling point network including food waste, which facilitated public participation and effectively stimulated collection volumes, as well as contributions from the green technology business. The gross margin for the Landscaping business was 19%, an increase of 5.7 percentage points year-on-year. The gross margin for the Pest Management business was 3.6%, a decrease of 1.5 percentage points year-on-year. Net profit surged by 128.1% year-on-year to HKD 59 million. Earnings per share (EPS) for the first half of 2025 already reached 14.2 HK cents, surpassing the full-year 2024 EPS of 13.0 HK cents, representing a remarkable year-on-year increase of 142.7%. From 2021 to 2024, the Company's EPS achieved a compound annual growth rate (CAGR) of 61%. The average accounts receivable turnover days were 69 days, a decrease of 4 days compared to the end of 2024. The average accounts payable turnover days were 46 days, a decrease of 8 days compared to the end of 2024, demonstrating improved working capital turnover efficiency and faster collection times. Net cash generated from operating activities was HKD 200 million, an increase of 36.8% year-on-year. Available cash and bank balances were approximately HKD 291 million, an increase of 127.1% compared to the end of 2024, further proving the high quality of the Company's earnings and its sound financial health.

Securing First Large-Scale Marine Cleaning Contract, Marking a Strategic Business Breakthrough

The company's cleaning services span across various districts in Hong Kong, comprehensively covering venues such as hospitals, police stations, streets, recreational facilities, airports, exhibition centers, the public stands of the Jockey Club, and universities.

Buy

CMP HK$1.2
(Closing price as of 31 Oct)
Target 1.55HKD (+29.2%)

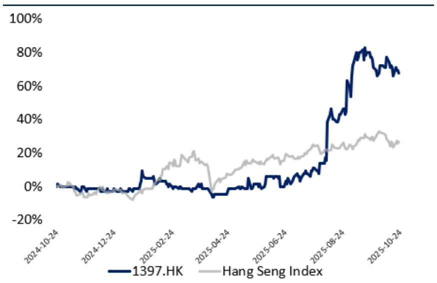
COMPANY DATA

O/S SHARES (MN) :	415
MARKET CAP (HKD bn) :	0.5
52 - WK HI/LO (HKD):	1.22/0.552

SHARE HOLDING PATTERN, %

Wing Hong Ng	67.29%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY24	FY25E	FY26E	FY27E
Revenue	2603	2777	3005	3366
Net profit	54	119	128	145
Diluted EPS (HKD)	0.13	0.29	0.31	0.35
P/E ratio, x	9.2	4.2	3.9	3.4
Dividend Yield,%	3.2%	7.0%	7.5%	8.5%

Source: Company reports, Phillip Securities Est.

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The company has been awarded the "Eastern Waters Marine Cleaning Contract" by the Hong Kong Marine Department. This three-year contract, effective from October 1, 2025, with a total value of HK$150 million, covers key areas of Hong Kong's eastern waters. These include internationally renowned landmarks like Victoria Harbour, Central, Causeway Bay, and Tsim Sha Tsui, as well as ecologically sensitive areas such as Sai Kung and Tolo Harbour. The services encompass marine debris clearance and the collection of domestic waste from vessels, playing a critical role in protecting Hong Kong's marine ecosystem and maintaining the city's image. The contract signifies a crucial breakthrough for Baguio Green, expanding its operational scope from land to sea, and stands as a significant milestone in its comprehensive environmental service capabilities. It will help further consolidate the market position of its core cleaning services business. Furthermore, as a key component of the environmental services supporting the Hong Kong government's "event-based economy," the contract strengthens the Group's long-term collaborative relationship with the government and lays the groundwork for undertaking high-value-added environmental projects in the future.

Awarded Long-term Government Contracts; Green Technology Monetization Potential Awaits Verification

Baguio Green is a core service provider for the Hong Kong Environmental Protection Department (EPD) and plays a pivotal role in the recycling sector. The company provides collection services for thousands of recycling points across Hong Kong, covering various materials such as plastics, glass bottles, and waste paper. It has secured two contracts from the EPD with a total value of HK$43 million. Both contracts have a term of 35 months and primarily involve operating the "Green @ Tai Wo" and "Green @ Po Lam" recycling stations. These are key projects within the government's "Green Outreach" community recycling network. The high gross profit margin of the recycling business indicates significant profit elasticity, meaning its contribution to overall profits will far exceed its revenue share. The company is actively promoting green technology products, including office food waste recycling bins, smart scales, and solar-powered compacting recycling bins. It has won a new contract to supply the government with a new generation of solar-powered waste compaction bins. In the future, the company is expected to launch more green technology products, unlocking market potential and securing more new contracts.

Producer Responsibility Scheme (PRS) Expected to Drive Growth in Both Volume and Price for Baguio Green's Recycling Business

The Producer Responsibility Scheme (PRS) is expected to significantly increase the recycling volume of plastic beverage containers and beverage cartons. The recycling volume for plastic bottles and beverage cartons is projected to grow 2-3 times over the next three years, creating incremental market space for Baguio Green's waste treatment and recycling business. As a leading recycling service provider in Hong Kong, the company, leveraging its existing smart recycling technology, government collaboration foundation, and recycling network advantages, is well-positioned to handle a majority of the new recycling demand. This is expected to drive the expansion of its recycling business revenue scale and help maintain high gross margins, making it a core beneficiary of the PRS implementation.

Investment Thesis

As a leading player in Hong Kong's recycling services industry, Baguio Green is poised to continue benefiting from policy dividends, including the Plastic Beverage Container and Beverage Carton Producer Responsibility Scheme and the Northern Metropolis development. The government is advancing the Northern Metropolis initiative at full speed, with four new development areas—including Kwu Tung North/Fanling North, Hung Shui Kiu/Ha Tsuen, Yuen Long South, and the San Tin Technopole—already in the construction phase. Upon completion, all of Baguio's business segments are expected to benefit. As of June 30, 2025, the company’s total contract value on hand amounted to approximately HK$3.1 billion, of which about HK$1.044 billion is expected to be recognized by the end of 2025. This indicates strong short-term earnings visibility and a solid foundation for long-term growth. Baguio's customer base primarily consists of government bodies, quasi-public organizations, and public utility providers, which collectively contribute 85% of the company's revenue. Demand from these clients is relatively resilient to economic cycles, underpinning stable and sustainable earnings. In addition, the company has maintained a consistent dividend policy, with a payout ratio of around 30% for five consecutive years. Baguio management expressed that it is actively seeking suitable merger and acquisition opportunities—such as property management-related companies—with the goal of achieving vertical integration across the entire industry chain. If successful, this could lead to economies of scale, further reducing costs, improving efficiency, and enhancing profitability. We forecast the company's EPS for 2025 to 2027 to be 29, 31, and 35 cents, respectively. Our target price is HK$1.55, implying a forward P/E ratio of 5x for 2026. We assign a "Buy" rating.

Risk factors

Intensifying industry competition; Sharply rising operating costs; Slowing service demand

Financial

Consolidated Statement of Profit or Loss

Dec Y/E, HKD mn	FY23	FY24	FY25E	FY26E	FY27E
Total Revenue	2328	2603	2777	3005	3366
Cost of sales	-2121	-2415	-2504	-2707	-3033
Gross profit	206	188	273	297	333
Operating expenses	-131	-122	-129	-140	-156
Finance costs	-14	-11	-6	-10	-9
Profit before tax	63	66	138	148	168
Income tax expense	-14	-9	-19	-20	-23
Profit for the year	48	57	119	128	145
Profit for the year attributable to					
– Owners of the Company	47	54	119	128	145
EPS (HKD)	0.11	0.13	0.29	0.31	0.35
DPS (HKD)	0.03	0.04	0.08	0.09	0.10
Dividend payout ratio	30%	29%	29%	29%	29%
Weighted shares outstanding	415	415	415	415	415

Key Financial Data

Dec Y/E	FY23	FY24	FY25E	FY26E	FY27E
Valutation Ratio					
P/E ratio	10.6	9.2	4.2	3.9	3.4
Dividend Yield, %	2.8%	3.2%	7.0%	7.5%	8.5%
Per share data(HKD)					
EPS	0.11	0.13	0.29	0.31	0.35
BVPS	0.9	1.0	1.2	1.5	1.7
DPS(HKD)	0.03	0.04	0.08	0.09	0.10
Growth & Margin					
Growth					
Revenue Growth	29.8%	11.8%	6.7%	8.2%	12.0%
Gross Profit Growth	36.5%	-8.6%	44.9%	9.0%	12.0%
Net Profit Growth	-6.4%	17.2%	110.7%	7.8%	13.3%
Margin					
Gross Profit Margin	8.9%	7.2%	9.8%	9.9%	9.9%
Net Profit Margin	2.1%	2.2%	4.3%	4.3%	4.3%
Key Ratios					
ROE	12.7%	13.1%	23.1%	21.1%	20.3%
ROA	4.7%	5.3%	10.7%	10.5%	10.8%

Consolidated Statement of Financial Position

Dec Y/E, HKD mn	FY23	FY24	FY25E	FY26E	FY27E
Current assets					
Inventories	3	2	3	3	3
Accounts receivable	600	555	571	609	673
Cash and cash equivalents	41	128	231	302	357
Others	40	41	43	45	48
Total current assets	684	726	847	959	1081
Non-current assets					
PPE	245	199	180	173	175
Others	83	88	88	88	88
Total current assets	327	286	268	260	262
Total Assets	1011	1012	1115	1219	1343
Current liabilities					
Accounts and bills payables	48	42	50	54	60
Short-term Bank and other loans	183	81	69	75	84
Others	345	420	424	424	425
Total current liabilities	576	543	543	553	570
Non-current liabilities					
Long-term Bank& other loans	0	0	0	0	0
Others	66	55	55	55	55
Total non-current liabilities	66	55	55	55	55
Total liabilities	641	598	598	608	625
Equity attributable to equity holders of the Company	370	412	515	608	716
Non-controlling interests	-1	2	2	2	2
Total equity	370	414	517	611	718
Total liabilities and equity	1011	1012	1115	1219	1343

Consolidated Statement of Cash Flow

Dec Y/E, HKD mn	FY23	FY24	FY25E	FY26E	FY27E
CFO	96	262	190	166	157
Net profit before tax	63	66	138	148	168
Change in working capital	-135	22	-26	-56	-83
Depreciation and Amortization	85	87	72	65	62
Others	84	88	6	10	9
CFI	-49	-32	-53	-57	-64
Purchase of PP&E	-44	-35	-53	-57	-64
Short term and long term investment,net	-6	3	0	0	0
CFF	-34	-144	-34	-39	-38
Cash payments for distribution of dividends, profits or repayment of interest	-27	-23	-22	-44	-47
Cash received from financing	-7	-121	-11	6	9
Net increase in cash and cash equivalents	12	87	103	70	55
Cash and cash equivalents at 31 December	41	128	231	302	357

Current Price as of: 31 Oct
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 ± 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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