

2015 年 4 月 17 日

买入
维持

水十条出台，提标改造提速

北控水务集团 (371:HK)

Market Data:

Closing Price (HK\$)	6.62
Price Target (HK\$)	7.97
HSCEI	14,720
HSCCI	5,324
52-week High/Low (HK\$)	6.88/4.13
Market Cap (US\$m)	7,437
Market Cap (HK\$m)	57,648
Shares Outstanding (m)	8,708
Exchange Rate (Rmb-HK\$)	1.27

Price Performance Chart:



Source: Bloomberg

Analyst

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Related Reports

"Bumpy expansion" – 31 Mar 2015
"Seeking synergy" – 4 Feb 2015
"Ambitious expansion" – 11 Sep 2014

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (HK\$m)	6,406.46	8,925.94	10,671.93	14,413.17	16,837.38
YoY (%)	71.89	39.33	19.56	35.06	16.82
Net income (HK\$m)	1,145.40	2,074.72	2,693.21	3,966.33	4,944.36
YoY (%)	32.11	81.13	29.81	47.27	24.66
EPS (HK\$)	0.14	0.21	0.27	0.40	0.49
Diluted EPS (HK\$)	0.14	0.21	0.27	0.40	0.49
ROE (%)	8.15	11.37	14.10	19.83	23.60
Debt/asset (%)	63.96	63.04	63.89	66.57	68.47
Dividend yield (%)	1.08	1.54	1.22	1.79	2.23
PE (x)	36.48	24.56	24.67	16.75	13.44
PB (x)	2.48	2.31	2.88	2.75	2.62
EV/Ebitda (x)	24.16	17.63	16.22	12.05	10.24

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

投资要点:

政策发布。期待已久的水行动计划终于发布，其针对污水和自来水处理标准的提升将使得北控水务受益。我们预计北控水务毛利将自 14 年的 39% 提升至 17 年的 54%。

污水处理标准提升。行动计划要求至 2017 年敏感区域污水处理标准达到 1 级 A 类。我们预计全国性布局的北控水务将逐步改造占现有产能约 50% 的低处理标准水厂（日处理能力合计约为 340 万吨）使之在 2017 年达到 1 级 A 类标准。由于管线布局链接污水处理使得其在提标后同政府协商价格时占据优势（替换现有污水厂成本高昂）。我们预计北控水务将实现污水处理价涨幅约 30%（同行业平均涨幅接近）。因此未来三年其污水处理费年化增长率可达 8.3%。

自来水处理标准提升。行动计划计划分别于 16 年和 18 年在城市和县城启动自来水水质公示计划。这将使得地方政府提升自来水处理标准变得迫切。我们预计至 2017 年北控水务将提升约 9 百万吨日处理能力的自来水水厂处理标准。基于同样的 30% 的涨价幅度，未来 3 年自来水水价复合增长率将达到 11.8%。

维持买入评级。由于自来水提标改造的进度可能超我们的预期，我们上调未来 3 年自来水处理费的增幅。同时由于市场反应充分，我们维持污水处理标准提升的进度。我们预计未来较长时期水处理费的增长将超越成本的增长，从而使得毛利扩张。我们上调公司 15-17 年利润至 26.9 亿/39.7 亿/49.4 亿（之前分别为 26.7 亿/37.5 亿/47.6 亿），我们上调 15-17 年每股收益预测为 0.27/0.40/0.49（之前为 0.27/0.37/0.47），同比分别增长 27.9%/40.7%/24.7%。我们上调目标价为 HK\$7.97，相比现价有 20.4% 的上涨空间，我们维持买入评级。

Investment Highlights:

Policy release. We believe the release on 16 April of the long-awaited Water Pollution Prevention and Treatment Action Plan will accelerate upgrading of waste water treatment (WWT) and tap water supply facilities to meet higher water quality standards. We believe Beijing Enterprises Water will be a major beneficiary and expect its gross margin to improve from 39% in 14A to 54% in 17E as higher standard plants generate higher treatment tariffs.

WWT standard upgrade. The action plan requires WWT treatment facilities in key cities to reach the 1A standard – the country's highest water quality standard – by end-2017. BEW currently runs c.50% of its WWT capacity at 1B. We expect the company will upgrade c.3.4mt/d of capacity to the 1A standard by 17E. As the government has already built and connected waste water pipelines, the high replacement cost will provide BEW with a strong basis for setting new treatment prices for its existing WWT plants with the government after completing the upgrades. We expect a c.30% average increase in WWT tariffs across the industry and assume that BEW's below-1A capacity will achieve a similar increase in tariffs, with a Cagr of 8.3% over the next three years.

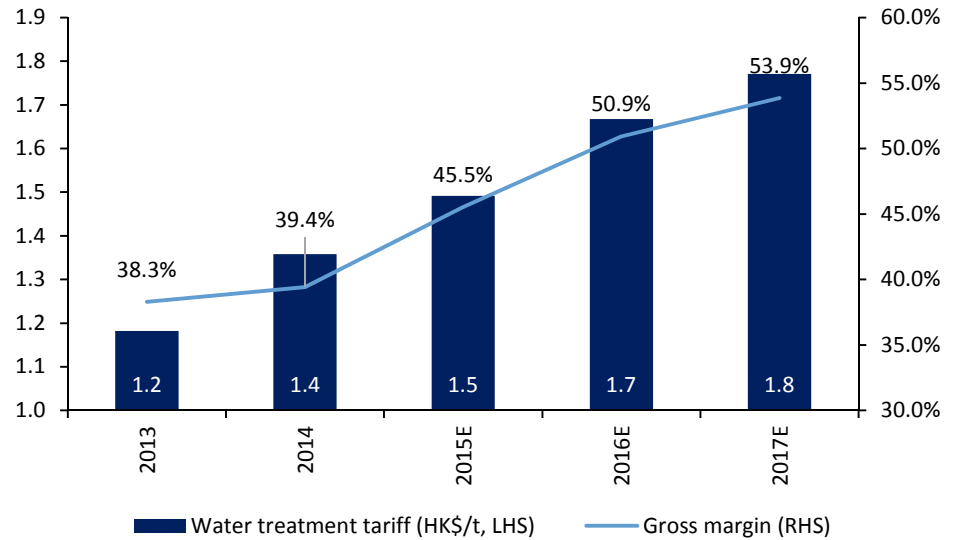
Tap water standard upgrade. The plan also calls for public disclosure of tap water quality by all city-level governments on a quarterly basis by 2016, and by county-level rural governments by 2018. We believe this will encourage local governments to implement stricter treatment standards. We forecast c.9mt/d tap water capacity will be upgraded as a result by 17E. Assuming the post upgrade tariff also has c.30% upside we forecast a three-year Cagr in tap water treatment tariffs of 11.8%.

Sludge treatment enforced. The action plan also seeks to address issues with financing for sludge treatment works. The new WWT tariffs are to include a payment scheme for sludge treatment. As the largest WWT operator in China, BEW produced 1.2mt sludge (80% water content) in 2014. This could serve as another earnings upside once detailed pricing policies for sludge treatment are released.

Maintain BUY. We raise our assumptions of water treatment tariffs for the next three years to factor in the faster-than-expected pace of tap water standard upgrades. We maintain our previous assumptions for WWT standard upgrades as this part of plan has long been expected. We expect increased treatment tariffs to outpace cost growth to result in a margin expansion over the coming years. We maintain our 15E EPS forecast at HK\$0.27 (+27.9% YoY), and raise our forecasts from HK\$0.37 to HK\$0.40 for 16E (+40.7% YoY) and from HK\$0.47 to HK\$0.49 for 17E (+24.7% YoY). We raise our target price from HK\$7.53 to HK\$7.97. With 20.4% upside, we maintain our BUY recommendation.

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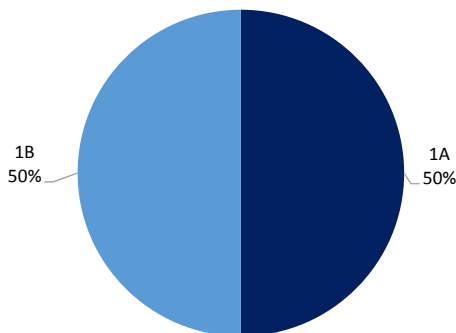
Fig 1: BEW's water treatment tariffs and gross margin expansion by 2017



Source: Company data, SWS Research

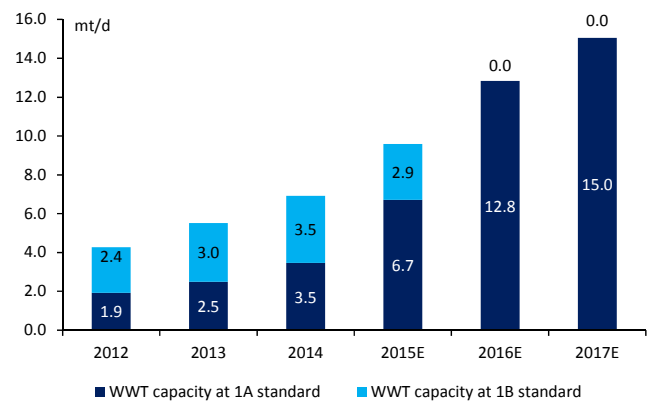
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Fig 2: 50% WWT plant run at 1B treatment standard for BEW



Source: Company data, SWS Research

Fig 3: BEW to upgrade all plants to run at 1A by 2017E



Source: Company data, SWS Research

Fig 4: Treatment tariff increase by large extent for WWT operator after upgrade.

Plant	Province	Capacity (t/day)	Tariff (pre) (Rmb/t)	Tariff (curr) (Rmb/t)	Upside*	Date of tariff adjustment	Processing standard
Hankore's WWT plants							
Kunshan East Plant	Jiangsu		1.00	1.20	20%	Aug 2012	Grade 1A
Xianyang Eastern Suburbs WWT	Shaanxi	200,000	0.70	1.01	44%	Nov 2012	Grade 1A
Yangzhou WWT phase II	Jiangsu	12,500	1.42	1.66	17%	Mar 2013	Grade 1A
Nanjing Liuhe WWT	Jiangsu	40,000	0.92	1.45	58%	Mar 2013	Grade 1A
Nanjing Pukou WWT phase I & II	Jiangsu	40,000	0.89	1.48	66%	Aug 2013	Grade 1A

* Average treatment tariff increase by 41%; Hankore has been acquired by China Everbright International in 2014 and remained to China Everbright Water in 2015.

Source: Company data, SWS Research

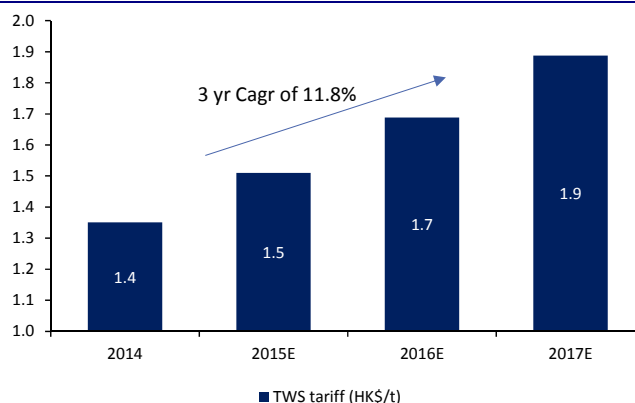
Tap water standard upgrade. The plan also calls for public disclosure of tap water quality by all city-level governments on a quarterly basis by 2016, and by county-level rural governments by 2018. We believe this will encourage local governments to implement stricter treatment standards. We forecast c.9mt/d tap water capacity will be upgraded as a result by 17E. Assuming the post upgrade tariff also has c.30% upside we forecast a three-year Cagr in tap water treatment tariffs of 11.8%.

Fig 5: New drinking water standards (GB5749-2006) has more quality indices than old standard

	GB5749-1985	GB5749-2006
Total indices	35	106
Microorganism indices	2	6
Disinfectants	1	4
Toxicological indicators		
Inorganic compounds	10	21
Organic compounds	5	53
Sensory, physicochemical indices	15	20
Other	2	2

Source: Company data, SWS Research

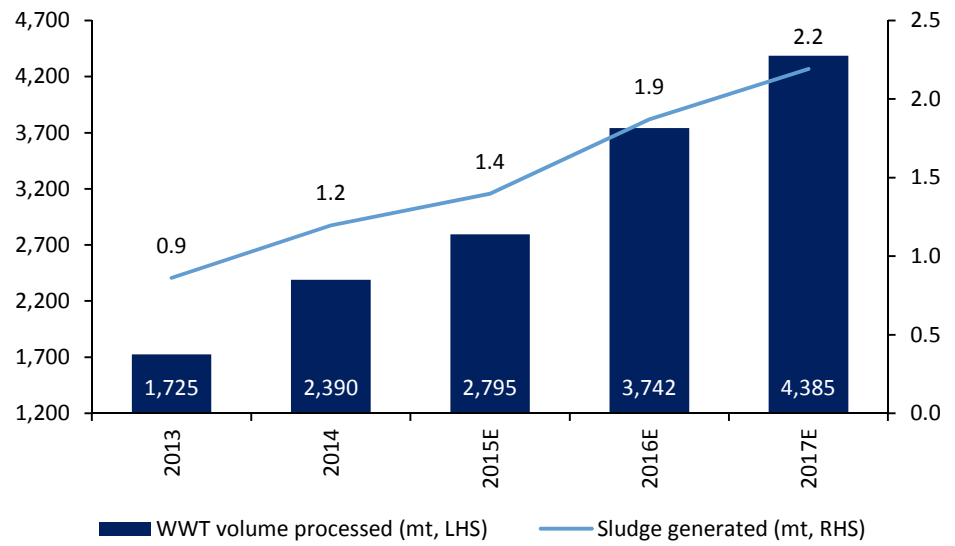
Fig 6: TWS tariff would increase in 3 year Cagr of 11.8%.



Source: Company data, SWS Research

Sludge treatment enforced. The action plan also seeks to address issues with financing for sludge treatment works. The new WWT tariffs are to include a payment scheme for sludge treatment. As the largest WWT operator in China, BEW produced 1.2mt sludge (80% water content) in 2014. This could serve as another earnings upside once detailed pricing policies for sludge treatment are released.

Fig 7: BEW's waste water treatment volume and sludge generation



Source: Company data, SWS Research

Maintain BUY. We raise our assumptions of water treatment tariffs for the next three years to factor in the faster-than-expected pace of tap water standard upgrades. We maintain our previous assumptions for WWT standard upgrades as this part of plan has long been expected. We expect increased treatment tariffs to outpace cost growth to result in a margin expansion over the coming years. We maintain our 15E EPS forecast at HK\$0.27 (+27.9% YoY), and raise our forecasts from HK\$0.37 to HK\$0.40 for 16E (+40.7% YoY) and from HK\$0.47 to HK\$0.49 for 17E (+24.7% YoY). We raise our target price from HK\$7.53 to HK\$7.97. With 20.4% upside, we maintain our BUY recommendation.

APPENDIX

Consolidated Income Statement

HK\$ m	2013	2014	2015E	2016E	2017E
Revenue	6,406	8,926	10,672	14,413	16,837
Cost of sale	-3,901	-5,430	-5,812	-7,071	-7,768
Gross profit	2,506	3,496	4,860	7,342	9,069
Other income	634	1,054	736	637	703
Administration expenses	-775	-1,066	-1,239	-1,740	-2,053
EBITDA	2,952	4,540	5,596	7,979	9,772
EBIT	2,178	3,475	4,357	6,239	7,720
Finance cost	-788	-1,084	-1,104	-1,354	-1,581
Profit before tax	1,497	2,669	3,453	5,085	6,339
Income tax expense	-352	-594	-760	-1,119	-1,395
Minority interests	61	279	362	533	665
Profit for the year	1,145	2,075	2,693	3,966	4,944

Source: SWS Research

Consolidated Cash Flow Statement

HK\$ m	2013	2014	2015E	2016E	2017E
Profit before taxation	1,497	2,669	3,453	5,085	6,339
Depr. and amortisation	34	43	21	13	13
Finance cost	797	1,084	1,104	1,354	1,581
Losses from investments	0	0	0	0	0
Change in working capital	-2,671	-4,189	-4,602	-8,881	-6,116
Others	18	1,012	80	0	0
CF from operating activities	-759	-509	-1,070	-3,796	223
CAPEX	2,448	3,770	4,152	8,348	5,556
Other CF from investing activities	-41	0	0	0	0
CF from investing activities	-2,857	-2,949	-1,385	-589	-2,891
Equity financing	2,297	0	0	0	0
Net change in liabilities	3,726	6,039	2,920	4,324	5,195
Dividend and interest paid	-789	-1,084	-1,104	-1,354	-1,581
Other CF from financing activities	191	0	0	0	0
CF from financing activities	5,425	4,955	1,816	2,970	3,615
Net cash flow	1,632	1,497	-638	-1,414	947
FCFF	1,603	2,462	3,147	4,587	5,765
FCFE	6,126	9,585	7,171	10,265	12,541

Source: SWS Research

Consolidated Balance Sheet

HK\$ m	2013	2014	2015E	2016E	2017E
Current Assets	15,212	15,078	15,235	14,359	15,881
Bank balances and cash	5,513	6,091	6,224	4,810	5,757
Trade and other receivables	8,469	8,505	9,010	9,549	10,123
Inventories	55	58	0	0	0
Other current assets	1,175	424	0	0	0
Long-term investment	3,025	3,109	3,169	3,232	3,297
PP&E	379	1,243	1,268	1,293	1,319
Intangible and other assets	25,571	32,211	35,815	44,734	50,894
Total Assets	44,187	51,641	55,487	63,619	71,391
Current Liabilities	27,430	31,305	33,953	40,812	47,224
Borrowings	17,451	23,490	25,287	31,012	36,207
Trade and other payables	8,147	7,815	8,665	9,801	11,017
Other current liabilities	1,833	0	0	0	0
Long-term liabilities	-1,000	1,247	1,536	1,853	2,209
Total Liabilities	28,262	32,552	35,489	42,665	49,433
Minority Interests	2,627	3,304	3,470	3,643	3,825
Shareholder Equity	0	0	0	0	0
Share Capital	844	871	869	869	869
Reserves	12,454	14,914	15,659	16,442	17,264
Equity attributable	13,298	15,784	16,528	17,311	18,133
Total Liabilities and equity	44,187	51,641	55,487	63,619	71,391

Source: SWS Research

Key Financial Ratios

	2013	2014E	2015E	2016E	2017E
Ratios per share (HK\$)					
Earnings per share	0.14	0.21	0.27	0.40	0.49
Diluted EPS	0.14	0.21	0.27	0.40	0.49
Operating CF per share	-0.10	-0.06	-0.12	-0.44	0.03
Dividend per share	0.05	0.08	0.08	0.12	0.15
Net assets per share	2.05	2.21	2.30	2.41	2.53
Key Operating Ratios(%)					
ROIC	26.2	36.6	47.9	73.1	95.9
ROE	8.2	11.4	14.1	19.8	23.6
Gross profit margin	39.1	39.2	45.5	50.9	53.9
EBITDA Margin	36.4	39.3	44.3	48.3	51.1
EBIT Margin	24.1	27.1	34.0	38.9	41.7
Growth rate of Revenue(YoY)	71.9	39.3	19.6	35.1	16.8
Growth rate of Profit(YoY)	32.1	81.1	29.8	47.3	24.7
Debt-to-asset ratio	64.0	63.0	64.0	67.1	69.2
Turnover rate of net assets	40.2	46.8	53.4	68.8	76.7
Turnover rate of total assets	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	36.8	40.0	27.0	22.8	22.5
Dividend yield (%)	1.1	1.5	1.2	1.8	2.2
Valuation Ratios (X)					
P/E	36.5	24.6	24.7	16.8	13.4
P/B	2.5	2.3	2.9	2.7	2.6
EV/Sale	8.8	6.9	7.2	5.8	5.2

Source: SWS Research

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Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight : Industry performs better than that of the whole market :

Equal weight : Industry performs about the same as that of the whole market :

Underweight : Industry performs worse than that of the whole market.

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HSCEI is the benchmark employed in this report.

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