

Canvest Environmental Protection Gp Co Ltd ----- Maintain OUTPERFORM

Acquisition of Laibin—the first 'upgrade' project outside the home market

EPS: ◀▶ TP: ▶▶

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- Canvest announced the 100% acquisition of Guangxi Laibin's waste-to-energy (WTE) plant for Rmb187 mn. This is the first 'upgrade' project outside of its home market, Guangdong, and the start of its strategy to expand the 'upgrade' model nationwide.
- Laibin is an operating WTE plant using fluidised bed technology with a capacity of 500t/day. Canvest is expected to upgrade it to a grate furnace plant and expand the existing capacity to 800t/day. A potential phase II of 700t/day is also under discussion. The treatment tariff is Rmb95/t (slightly better versus our expectations). The project is expected to start operating in 2H16E–2017E.
- Laibin's acquisition will take Canvest's YTD projects signed to 2.8kt versus its FY target of 5kt/day (and our assumption), nearly doubling its current operating projects. We expect NP to grow by 72% in 2015E and 83% in 2016E, driven by higher treatment volumes, partly offset by potential lower inland tariffs.
- Trading at 18x 2016E PE (ex. BOT), Canvest remains 18–47% cheaper than peers. Maintain OUTPERFORM and TP of HK\$6.5.

Canvest announced the 100% acquisition of Guangxi Laibin waste-to-energy (WTE) plant for Rmb187 mn (including Rmb113 mn of debt). This is the first 'upgrade' project outside its home market, Guangdong, and the start of its strategy to expand the 'upgrade' model nationwide.

Currently, Guangxi Laibin is a fluidised bed project with treatment capacity of 500t/day. After acquisition, Canvest is expected to upgrade it to a grate furnace plant and expand capacity to 800t/day. A potential phase II of 700t/day is also under discussion with the local government. The current fluidised bed project has a high maintenance rate and is unable to treat all the collected waste and also waste from surrounding townships. It is estimated that Laibin city and the surrounding towns including Heshan, Wuxuan have a population of over 1 mn with waste generation of around 2,500t/day, which means that there is still room for expansion in the future.

According to the company, the current treatment tariff is Rmb 95/t and the local waste heat content is 5–10% lower than Dongguan's. We estimate that, if the plant can reach 1,500t/day, EBITDA/capex will be 13%, higher than the industry average for greenfield WTE projects.

The Laibin upgrade is expected to start in 3Q–4Q15 and should start operating in 2H16E–2017E, pending government approval. It should only need 1.5 years from signing to operate, quicker than the 2–3 years for a greenfield project.

| Bbg/RIC | 1381 HK / 1381.HK | Price (26 May 15, HK\$) | 4.64 | | |
|-----------------------------------|-------------------|-------------------------|-------------------|--------|--------|
| Rating (prev. rating) | O (O) [V] | TP (prev. TP HK\$) | 6.50 (6.50) | | |
| Shares outstanding (mn) | 2,000.00 | Est. pot. % chg. to TP | 40 | | |
| Daily trad vol - 6m avg (mn) | 8.0 | 52-wk range (HK\$) | 4.72 - 2.25 | | |
| Daily trad val - 6m avg (US\$ mn) | 3.3 | Mkt cap (HK\$/US\$ mn) | 9,280.0 / 1,197.2 | | |
| Free float (%) | 35.0 | Performance | 1M 3M 12M | | |
| Major shareholders | CT Laibin | Absolute (%) | 4.5 101.7 — | | |
| | | Relative (%) | 6.4 82.8 — | | |
| Year | 12/13A | 12/14A | 12/15E | 12/16E | 12/17E |
| Revenue (HK\$ mn) | 390 | 794 | 1,305 | 1,884 | 2,802 |
| EBITDA (HK\$ mn) | 220 | 402 | 577 | 880 | 1,061 |
| Net profit (HK\$ mn) | 131.0 | 191.0 | 328.1 | 601.9 | 745.9 |
| EPS (HK\$) | 0.09 | 0.13 | 0.16 | 0.30 | 0.37 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (HK\$) | n.a. | n.a. | 0.15 | 0.24 | 0.29 |
| EPS growth (%) | 3.5 | 45.7 | 28.9 | 83.5 | 23.9 |
| P/E (x) | 53.1 | 36.5 | 28.3 | 15.4 | 12.4 |
| Dividend yield (%) | 0 | 0 | 0 | 0 | 0 |
| EV/EBITDA (x) | 43.7 | 22.3 | 16.7 | 10.8 | 9.2 |
| P/B (x) | 10.3 | 3.0 | 3.5 | 2.9 | 2.3 |
| ROE (%) | 28.9 | 12.8 | 13.2 | 20.4 | 20.6 |
| Net debt(cash)/equity (%) | 43.6 | (12.4) | 13.6 | 5.7 | 11.6 |

Note 1: The company is a waste-to-energy (WTE) provider focused on the development, management and operation of WTE plants. Its WTE business involves in the processing of municipal solid waste (MSW) and selling of electricity

[Click here](#) for detailed financials

Figure 1: China solid waste sector—coverage summary

| Companies | Canvest | CEI | Dyna-green | Conch Venture | Sound Env | Yonker | BJC |
|----------------------|---------|---------|------------|---------------|-----------|-----------|-----------|
| Tickers | 1381.HK | 0257.HK | 1330.HK | 0586.HK | 000826.SZ | 300187.SZ | 600008.SS |
| Ratings | O | O | N | O | N | U | U |
| Target (trading ccy) | 6.5 | 15.5 | 4.7 | 23.0 | 32.0 | 19.0 | 10.0 |
| Share price | 4.6 | 15.0 | 6.6 | 24.8 | 51.8 | 54.8 | 16.7 |
| Mkt caps (US\$ mn) | 1,197 | 8,687 | 884 | 5,773 | 7,045 | 1,770 | 6,501 |
| P/E(rpt)-2015E | x 28.3 | 24.0 | 22.6 | 19.7 | 45.1 | 134.8 | 63.2 |
| P/E(rpt)-2016E | x 15.4 | 17.5 | 17.0 | 14.9 | 37.8 | 125.7 | 51.8 |
| P/E(rpt)-2017E | x 12.4 | 11.6 | 14.6 | 10.2 | 31.7 | 88.6 | 37.9 |
| P/E-15E (ex BOT) | x 37.5 | 30.3 | 36.2 | 28.8 | 45.1 | 134.8 | 63.2 |
| P/E-16E (ex BOT) | x 18.4 | 21.8 | 33.9 | 22.0 | 37.8 | 125.7 | 51.8 |
| P/E-17E (ex BOT) | x 16.8 | 14.7 | 26.1 | 14.7 | 31.7 | 88.6 | 37.9 |

Source: Company data, Credit Suisse estimates

Figure 2: Key assumptions and financials—Canvest

| | | 2013A | 2014A | 2015E | 2016E | 2017E |
|-------------------------|---------|-------|-------|-------|-------|-------|
| Capacity-total (yr end) | kt/day | 3.00 | 4.80 | 6.90 | 8.40 | 9.90 |
| Utilisation | % | 90% | 75% | 60% | 93% | 91% |
| Pwr gen/waste received | KWh/t | 471 | 431 | 410 | 411 | 401 |
| Tariff-treatment charge | HK\$/t | 140 | 138 | 135 | 132 | 129 |
| Unit EBIT-WTE | HK\$/t | 159 | 171 | 179 | 172 | 162 |
| Unit EBIT adj-WTE | HK\$/t | 168 | 206 | 212 | 205 | 194 |
| NP | HK\$ mn | 131 | 191 | 328 | 602 | 746 |
| NP-operation | HK\$ mn | 131 | 168 | 247 | 504 | 552 |
| EPS | HK\$/sh | 0.087 | 0.127 | 0.164 | 0.301 | 0.373 |
| EPS-ex BOT const | HK\$/sh | 0.087 | 0.112 | 0.124 | 0.252 | 0.276 |
| % of operating profit | % | 100% | 88% | 75% | 84% | 74% |
| Net debt | HK\$ mn | 332 | (299) | 374 | 192 | 473 |
| Operating CF-rpt | HK\$ mn | 221 | 202 | (45) | 182 | (281) |
| Operating CF-ex BT/BOT | HK\$ mn | 221 | 321 | 539 | 812 | 995 |
| Free cash flow | HK\$ mn | 12 | (66) | (674) | 182 | (281) |
| ROE-rpt | % | 29% | 13% | 13% | 20% | 21% |
| ROE-ex BOT | % | 29% | 11% | 10% | 17% | 15% |
| ROIC | % | 17% | 11% | 11% | 17% | 17% |
| ROIC-ex BOT | % | 17% | 10% | 9% | 14% | 12% |
| Gearing (D/(E+M)) | % | 44% | -12% | 14% | 6% | 12% |

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 26-May-2015)

Canvest Environmental Protection Gp Co Ltd (1381.HK, HK\$4.64, OUTPERFORM[V], TP HK\$6.5)

Disclosure Appendix

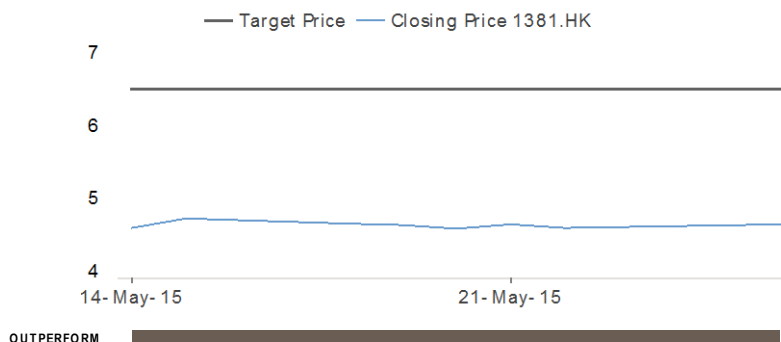
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3-Year Price and Rating History for Canvest Environmental Protection Gp Co Ltd (1381.HK)

| 1381.HK | Closing Price | Target Price | |
|-----------|---------------|--------------|--------|
| Date | (HK\$) | (HK\$) | Rating |
| 14-May-15 | 4.59 | 6.50 | O * |
| 15-May-15 | 4.72 | 6.50 | * |

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Canvest Environmental Protection Gp Co Ltd (1381.HK)

Method: Our HK\$6.50 target price for Canvest Environmental Protection Gp Co Ltd is based on a DCF (discounted cash flow) valuation, using a WACC (weighted average cost of capital) of 9.0% and terminal growth rate of 3.0%.

Risk: Risks that could impede achievement of our HK\$6.50 target price for Canvest Environmental Protection Gp Co Ltd include: potential delay in new projects acquisitions, execution risk in plant upgrade projects, delay in waste treatment tariff collection, waste treatment tariff decline.

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