



China Water Affairs (855 HK)

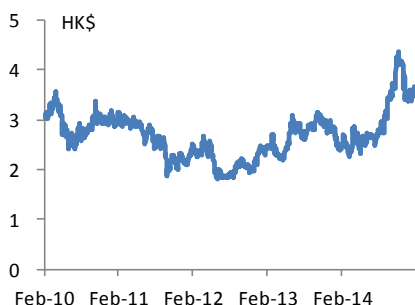
Not-rated



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Stock performance



Source: Bloomberg

Key data

Mar 11 close (HK\$)	3.58
Shares in issue (m)	1,445
Major shareholder	Duan Chuan Liang (29.3%)
Market cap (HK\$ bn)	5.2
3M avg. vol. (m)	3.0
52W high/low (HK\$)	4.40 / 2.24

Source: Bloomberg

Takeaways from investor luncheon

We hosted an investor luncheon with China Water Affairs (CWA) on Mar 10. Michelle Liu, executive director, and Nick Huang, IR Manager, were the main speakers.

Strong growth to continue in its water supply and processing segments CWA's focus on water supply differentiates it from other HK-listed water plays. The company currently has water supply/raw water/sewage water projects with capacity of 5.4mt/day (including associates) across 30 cities in China, ~80% of which are water supply projects. CWA is also primarily a BOO/TOO company, unlike other major water names who have a heavy weighting towards BOT/TOT projects. Management expects 20% YoY revenue growth in coming financial years from its water supply and processing segments, stemming from an increase in water tariffs, organic growth in volume and new contributions from M&A.

Substantial M&A ahead? CWA has reaccelerated its M&A plan in FY15 with ~400kt/day in new capacity acquired so far. We believe the company is still targeting large acquisitions, aiming to capture growth opportunities before project acquisition costs rise further. We expect >HK\$2bn in acquisitions this year, compared to its typical capex of around HK\$1bn. Although CWA had relatively high gearing of ~87% as of end-1HFY15, we believe it could take advantage of its remaining bank facilities from the Asian Development Bank (up to US\$200m) before considering equity financing.

Non-core businesses: no rush to get more involved Although CWA filed for a spin-off of its concrete and installation business on the HKEX main board last year, management stated that it would wait for the best time and valuation before going ahead with the spin-off plan. CWA also has a landbank of 6.7m sqm at its water supply plants. However, as this is scattered across China, management typically sells these land parcels to property developers – unless developing the project themselves will mean decent value accretion. Given the low cost of these land parcels, we believe CWA will gain on disposal. Net proceeds could also enrich its internal resources.

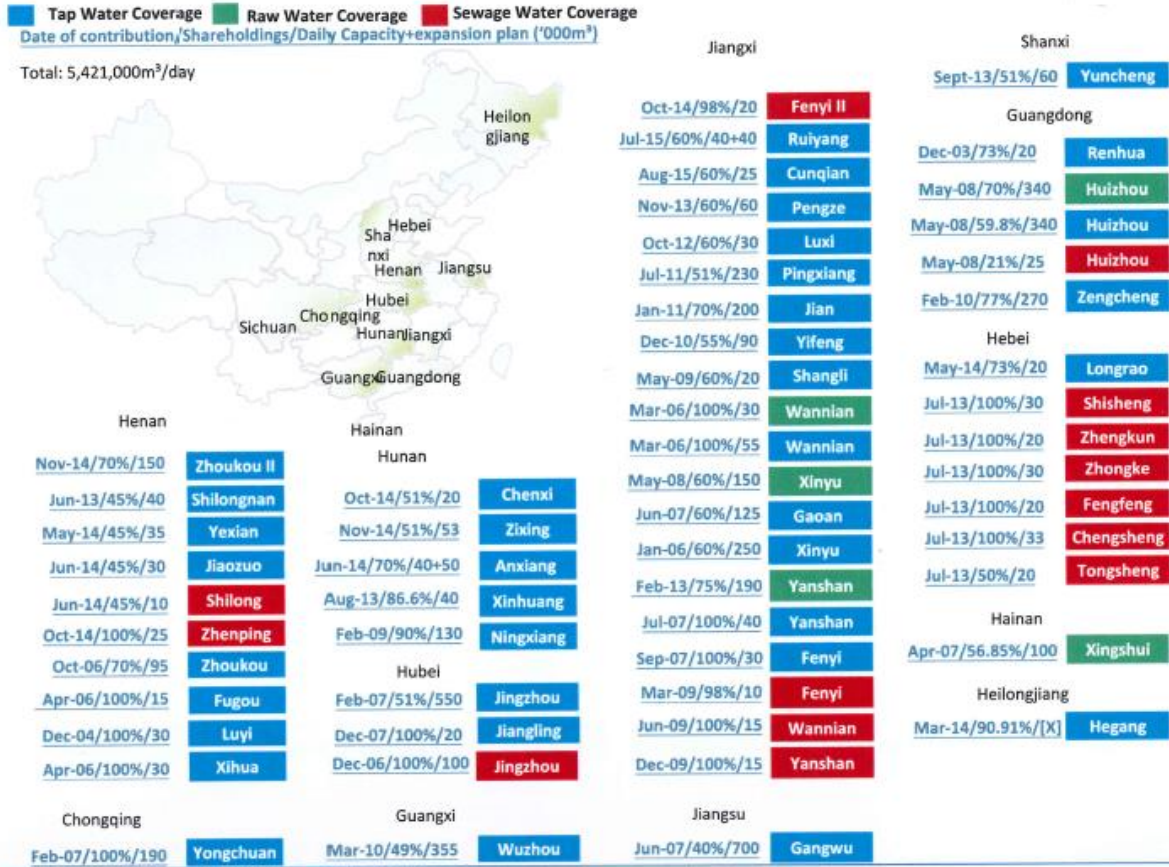
Undemanding valuation; upside on new M&A Trading at 11.6 FY16E (March end) P/E, CWA's valuation is still undemanding when compared to the average 2015E P/E of 17x for other environmental plays listed in HK. We see the following as near-term catalysts: 1) new M&A; 2) strong FY15 results; 3) favorable policies for China's water industry.

Stock valuation

FY-end	Turnover	Net profit	EPS	EPS YoY	P/E	DPS	Yield	ROE
31 Mar	(HK\$ m)	(HK\$ m)	(HK\$)	(%)	(x)	(HK\$)	(%)	(%)
2013	2,251	286	0.20	-8.8	18.1	0.05	1.4	8.4
2014	2,747	281	0.20	1.1	17.9	0.05	1.4	8.0
2015E	2,868	372	0.26	28.6	13.9	0.07	2.0	10.1
2016E	3,271	446	0.31	19.9	11.6	0.08	2.2	11.2
2017E	3,647	507	0.35	13.7	10.2	0.09	2.5	11.7

Sources: Company data, Bloomberg (estimates are Bloomberg consensus)
Note: Calculated based on diluted shares.

Table 1: CWA's projects



Sources: Company data, GF Securities (HK)

Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

Company ratings

Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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