

CHINA EVERBRIGHT 257 HK

BUY

UNCHANGED

TARGET PRICE	HKD14.59
CLOSE	HKD11.38
UP/DOWNSIDE	+28.2%
PRIOR TP	HKD13.98
CHANGE IN TP	+4.4%

HOW WE DIFFER FROM CONSENSUS		MARKET RECS	
TARGET PRICE (%)	10.4	POSITIVE	22
EPS 2014 (%)	(6.1)	NEUTRAL	7
EPS 2015 (%)	0.6	NEGATIVE	1

Stronger growth for water segment

CEWL earnings to grow at a 35% CAGR in 2014-17E

We expect China Everbright Water (CEWL SG), 74.4% controlled by China Everbright (CEI), to record 35% earnings CAGR in 2014-17E, driven by the ramp-up of Hankore's projects, and future new projects. CEWL aims to grow its WWT capacity from 3.4mt to 10mt. We now expect a more substantial contribution from the water segment.

We expect WTE new orders to remain high in 2015

CEI won 11.3kt/day of WTE orders in 2014. While some brokers expect new WTE orders to fall to 3kt/day in 2015, we think demand for WTE to remain high driven by PPP stimulus and the need to catch up with the 12th FYP target. YTD, CEI has secured 1.25kt/day of new orders, leaving upside risk to our 4.5kt/day forecast.

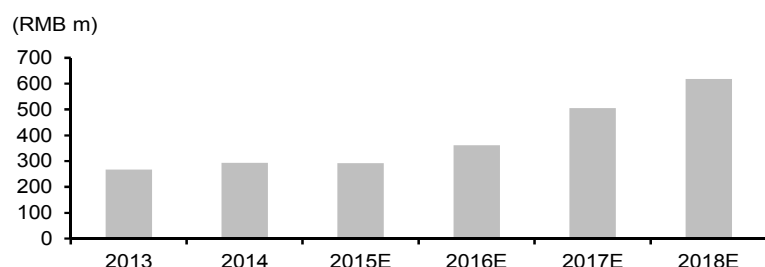
2014 results preview: we forecast 23% earnings growth

We expect 2014 earnings to grow 23% y-y to HKD1,630m, 6% lower than the Bloomberg consensus, mainly due to our conservative assumption on the construction schedule and utilisation rate.

Maintain BUY at new TP of HKD14.59

We incorporate CEWL's contribution in our model. Although small in 2015, we expect higher growth from 2016 and 2017 as new projects ramp up. We lift our new order assumptions for biomass as the first three months have already hit our previous full-year forecast. We fine-tune our WTE construction schedule and lift our TP to HKD14.59 on unchanged DCF assumptions.

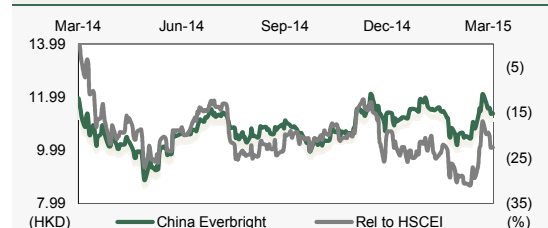
Higher contribution from water segment



Sources: China Everbright; BNP Paribas estimates

KEY STOCK DATA

YE Dec (HKD m)	2013A	2014E	2015E	2016E
Revenue	5,320	5,810	9,955	17,710
Rec. net profit	1,325	1,630	2,355	3,321
Recurring EPS (HKD)	0.33	0.36	0.53	0.74
Prior rec. EPS (HKD)	0.33	0.37	0.53	0.72
Chg. In EPS est. (%)	0.0	(1.5)	(1.6)	2.8
EPS growth (%)	40.4	11.3	44.5	41.0
Recurring P/E (x)	34.9	31.3	21.7	15.4
Dividend yield (%)	0.7	0.8	1.2	1.7
EV/EBITDA (x)	23.8	20.6	14.5	11.4
Price/book (x)	3.8	3.5	3.1	2.7
Net debt/Equity (%)	18.1	25.3	42.1	93.3
ROE (%)	12.2	11.7	15.2	18.9



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	7.2	(0.4)	(0.9)
Relative to country (%)	8.9	(4.6)	(26.5)

Next results	March 2015
Mkt cap (USD m)	6,571
3m avg daily turnover (USD m)	13.3
Free float (%)	59
Major shareholder	China Everbright Holdings (41%)
12m high/low (HKD)	12.12/8.88
3m historic vol. (%)	30.9
ADR ticker	CHFF US
ADR closing price (USD; 9 Mar 2015)	1.56
Issued shares (m)	4,484

Sources: Bloomberg consensus; BNP Paribas estimates



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Investment thesis

CEI is a market leader in China's waste-to-energy (WTE) industry. We believe the company will be the key beneficiary of sustained growth in the industry.

We think CEI could grow by bidding competitively for projects in new inland markets, by expanding current projects, and by winning new orders in cities where it has WTE projects and where it is operating other wastewater or renewable energy projects.

Meanwhile, organic growth could be achieved at existing plants by expansion of phase II projects.

We also expect higher contribution from its water segment after the reverse takeover of Hankore (CEWL SP). The company has high ambitions of being in the top three in the water industry.

We see further upside potential from other businesses, including equipment sales, sludge treatment, hazardous waste treatment and biomass heat and power projects.

Catalyst

Potential share price catalysts are new order wins for WTE projects, successful expansion into new business areas, and new supportive government policies for the industry.

Risks to our call

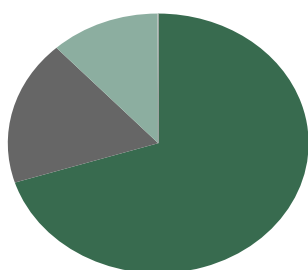
Key risks to our DCF-based TP of HKD14.59 are delays in the execution of current projects due to local resistance, slowdown in new order wins due to price competition from low-quality players, delays in the construction of current pipeline projects, and changes in supportive government policies.

Company background

China Everbright International (CEI) is the largest WTE operator in China in terms of installed capacity and power generation. By mid-2013, CEI had 10 WTE projects in operation with a total waste treatment capacity of 9,650 tons/day. CEI is also a leading WWT operator with 1.72m tons/day capacity by mid-2013.

Principal activities (revenue breakdown – 2014E)

- Environmental energy (70.1%)
- Environmental water (18.09%)
- Alternative energy (11.74%)
- Toll bridge revenue (0%)
- Property investments (0.06%)
- Others (0.01%)



Key executives

	Age	Joined	Title
Tang Shuangning	61	2007	Chairman
Liu Jun	43	2014	Vice Chairman
Chen Xiaoping	59	2001	CEO

<http://www.ebchinaintl.com/e/index.php>

Key assumptions

	Units	2014E	2015E	2016E
New WTE order wins	tonnes/day	11,300	4,500	3,000
Total WTE operating capacity	tonnes/day	14,550	15,650	20,150
New WWT order wins	'000 tonnes/day	30.00	800.00	1,000.00
New biomass order wins	'000 tonnes/year	1,430	2,080	1,200

Source: BNP Paribas estimates

Earnings sensitivity

Assumptions		--- Earnings change ---	
(%)		2014E	2015E
WTE			
-- Operating Capacity expansion	+1,000tonnes/day	2.8	2.0
-- Generation tariff	1	0.4	5.5
-- Waste treatment tariff	1	0.2	5.2
WWT operating capacity expansion	+100,000 tonnes/day	0.1	0.6
Interest rate	+25bp	(0.8)	(0.7)

Source: BNP Paribas estimates

- For every 1,000 tonne/day increase in WTE capacity, we project earnings would rise 2.0% in 2015, all else being equal.
- For every 100,000 tonne/day increase in WWT capacity, we expect earnings to grow 0.6% in 2015, all else being equal.
- For every 25bp interest rate cut, earnings would rise 0.7% in 2015, all else being equal.

Expect higher contribution from CEWL

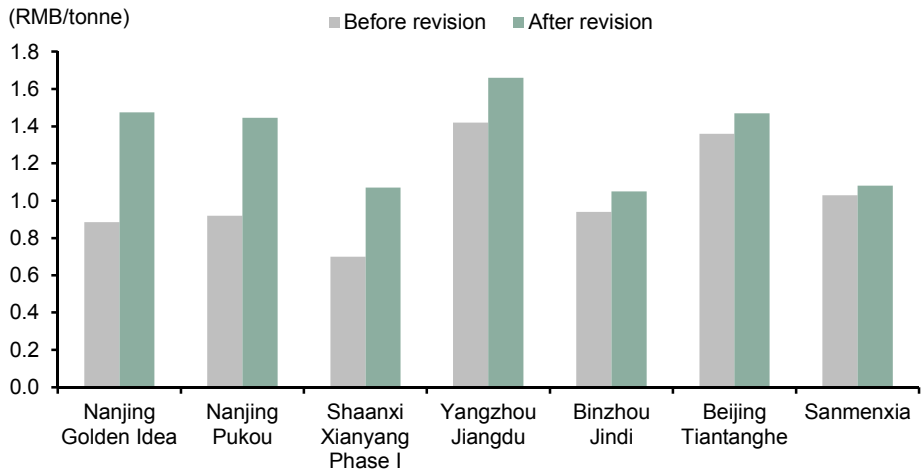
China Everbright Int'l (CEI) has spun off its waste water treatment (WWT) segment, and listed it on the Singapore Exchange after the reverse takeover of Hankore. At that time, CEI controlled 78% of the merged entity (now diluted to 74.4% after a placement in Jan 15), which was renamed China Everbright Water Limited (CEWL SP), after the reverse takeover. As the merger was completed on 12 December, the 2014 results of CEWL mainly reflect the earnings of CEI's WWT segment, with Hankore only consolidated for 20 days.

Hankore has contracted capacity of 1.57mt as at end-October 2014. Although we expect its contribution to be small initially as many of its projects are still undergoing upgrades and expansion, and operating capacity is not that high, we expect its future contribution to rise as new projects start construction and operation. Meanwhile, CEI has helped Hankore increase bargaining power with local governments. With the upgrade of its projects from the 1A emission standard to the 1B emission standard, it raised tariffs at seven plants by 4.8-66.4%, so profitability of Hankore's projects should also increase. There will also be cost savings from replacement of higher-cost debt and lower administrative costs as a result of economies of scale.

EXHIBIT 1: Project list for Hankore

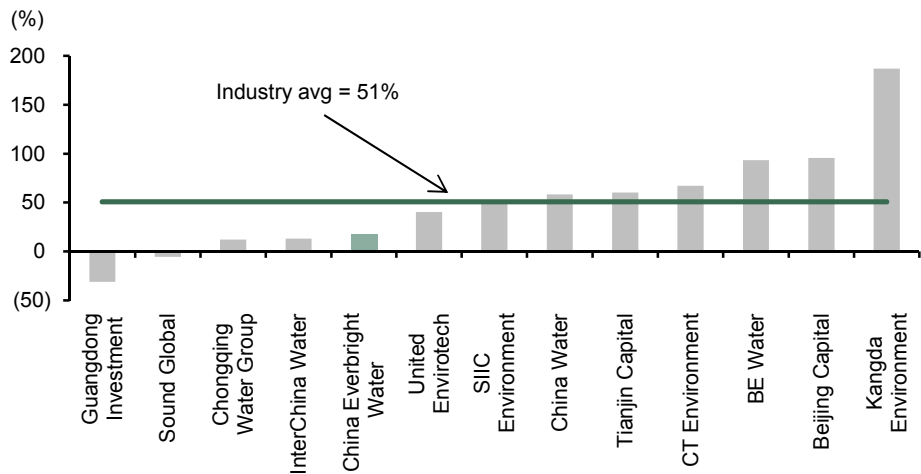
Project name	Location	Total investment (RMB m)	Date of commercial operation	Water treatment capacity (cbm/day)
Kunshan Gangdong Waste Water Treatment Project	Jiangsu		Apr-04	50,000
Jiangdu Development Zone Waste Water Treatment Project	Jiangsu	56	Nov-05	25,000
Nanjing Pukou Waste Water Treatment Project	Jiangsu	140	Apr-06	80,000
Nanjing Liuhe Waste Water Treatment Project	Jiangsu	67	Dec-06	40,000
Sanmenxia Industry Cluster Area Wastewater Treatment Project	Henan	78	4Q14	30,000
Jiangdu Development Zone Waste Water Treatment Project	Jiangsu	56	Trial run	12,500
Xianyang WWT- phase 2	Shaanxi	166	Trial run	100,000
Total capacity under operation		507		337,500
Xianyang Waste Water Treatment Project	Shaanxi	34	Upgrade construction to be completed soon	200,000
Nanjing Liuhe WWT - 2nd stage phase I	Jiangsu	67	Passed completion acceptance	20,000
Nanjing Pukou Phase II	Jiangsu	140	Early 2015	40,000
Total capacity to start operation in 2015		914		260,000
Daxing Tiantanghe Waste Water Treatment Project	Beijing	276		120,000
Binzhou		50		40,000
Suzhou Wuzhong Chengnan Waste Water Treatment Project	Jiangsu	225		225,000
Lianyungang Dapu Waste Water Treatment Project	Jiangsu			
Lianyungang Xugou Waste Water Treatment Project	Jiangsu	170		140,000
Total capacity to start construction in 2015		721		525,000
Kunshan Gangdong Waste Water Treatment Project	Jiangsu			50,000
Xianyang Waste Water Treatment Project	Shaanxi			70,000
Sanmenxia Industry Cluster Area Wastewater Treatment Project	Henan			420,000
Binzhou	Shandong			30,000
Lianyungang	Jiangsu			40,000
Jiangdu	Jiangsu			25,000
Total future pipeline capacity				635,000

Sources: CEWL; BNP Paribas

EXHIBIT 2: Tariff increase for Hankore projects

Source: CEWL

Apart from contribution from Hankore, CEWL also has ambitions for further expansion. The company has a very low gearing ratio of 18% as at end-2014. It raised another RMB526.9m by issuing 120.7m shares to two strategic investments: International Finance Corporation and Dalvey Asset Holding Ltd., in January 2015. Although CEI's holding will be slightly diluted to 74.4%, CEWL's balance sheet will be further strengthened. We estimate gearing ratio will further decline to 3% after the placement, while the industry average is above 50%. As WWT is a capital-intensive business, we believe CEWL now has enough capital for further expansion.

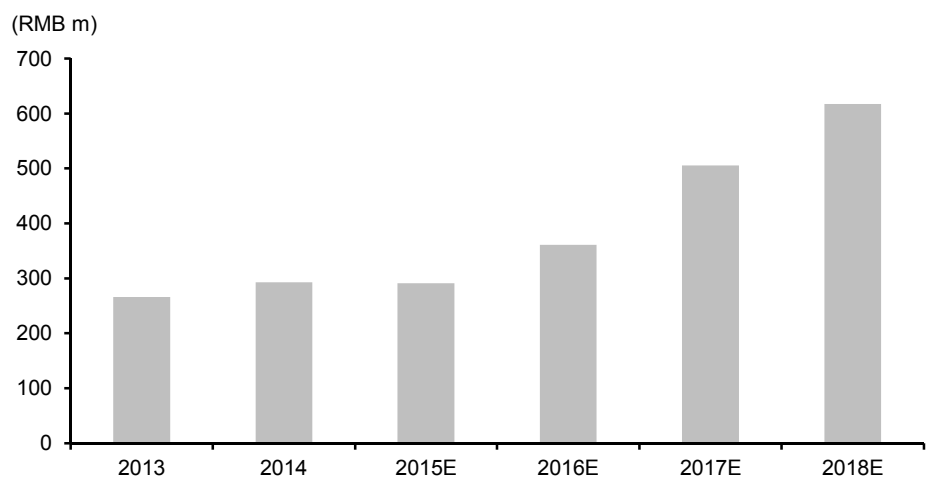
EXHIBIT 3: Gearing ratio at the low end

* 1H14 Gearing for others, 2014 gearing for CEWL

Source: Bloomberg

Management has very high ambitions for future growth. They expect contracted water project capacity can increase from 3.4mt currently to 10mt in the next 3-5 years, and achieve industry top-three ranking by then. Apart from a strong balance sheet, CEWL also has other advantages in project sourcing, including cross-selling opportunities in cities where CEI operates other environmental projects, as well as a good track record and brand name. We now conservatively forecast 0.8mt/1.0mt/0.8mt new pipeline capacity addition in 2015-17, which is lower than management guidance.

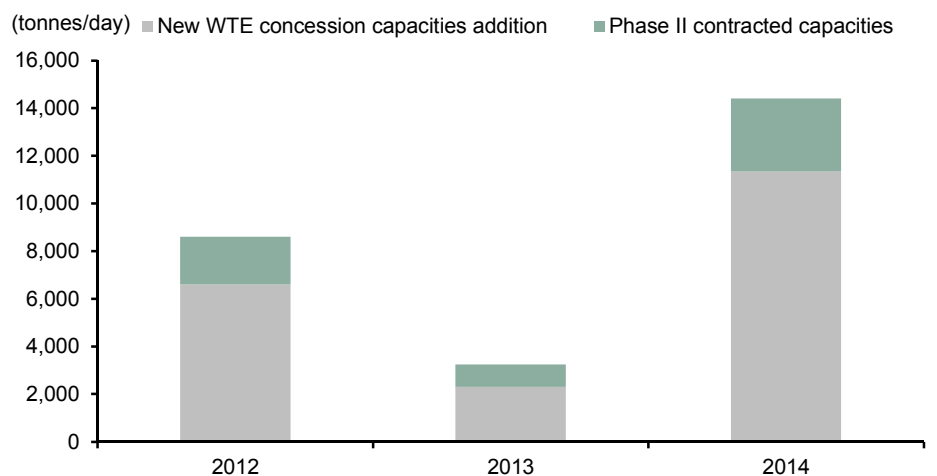
We expect CEWL's net profit could increase at 35% CAGR in 2014-2017E with Hankore's pipeline projects starting construction and operation and expansion of new projects. Even if we assume CEI's holding in CEWL further declines to 70% in 2017E after further equity financing of CEWL to fund growth, its contribution to CEI would still increase substantially, from around RMB290m in 2014 to RMB505m in 2017E, although initial contribution in 2015 will be relatively small.

EXHIBIT 4: Forecast contribution from CEWL

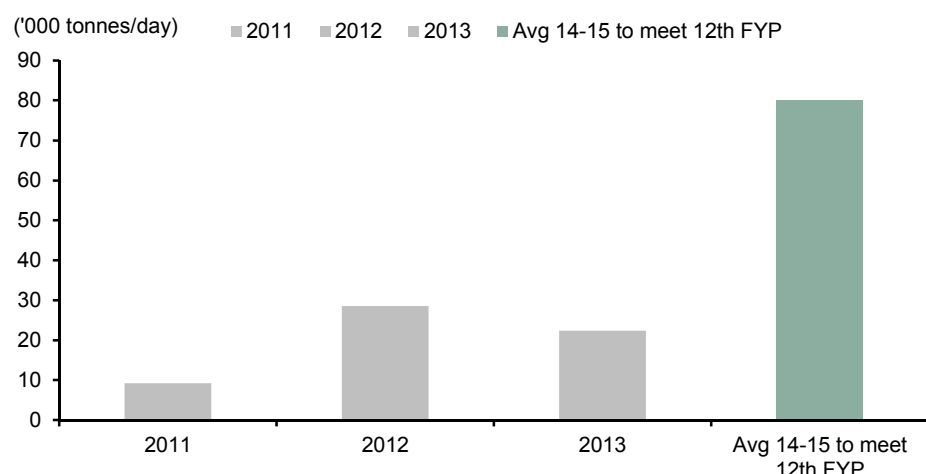
Sources: China Everbright; BNP Paribas estimates

Demand for WTE will remain high

The company won 11,300 tons/day of new WTE concession capacity in 2014, which is a historical peak level and much higher than the 2,300 tons/day in 2013. Some brokers expect new WTE orders will decline to normal level (around 3,000 tons/day) in 2015, we believe that demand for WTE will continue to be high driven by PPP (public-private-partnership) stimulus and the need to catch up with the 12th FYP target. The company has already secured 1,250 tons/day of new orders YTD. While we keep our 4,500 tons/day new WTE capacity addition forecast unchanged for the moment, we see a high chance of the company beating that forecast.

EXHIBIT 5: CEI's historical WTE new order wins

Source: China Everbright

EXHIBIT 6: China's WTE capacity addition largely lags 12th FYP

Sources: WTE year report; NDRC

Maintain BUY at higher TP of HKD14.59

We have incorporated the CEWL contribution into our model. Although earnings contribution will be small in 2015, we expect higher growth starting from 2016 and further in 2017 as new projects ramp up. We also lift our new order assumption for biomass as new orders in the first three months have already met our previous full-year forecast. We also fine-tune our WTE construction schedule, and lift our effective interest rate forecast by consolidating higher-cost debt from Hankore. Our earnings forecast is also negatively impacted by changes in the exchange rate, as most of its revenue sources are denominated in RMB and financial reporting currency is HKD.

Although our earnings change for 2014-16E is not much, we expect higher earnings in 2017E and beyond on a higher contribution from CEWL. We lift our TP to HKD14.42 using the same DCF assumptions (WACC of 7.5%, terminal growth of 2.0%). Maintain BUY.

EXHIBIT 7: Changes to assumptions

	2014E	2015E	2016E
Construction revenue for water segment (HKD m)			
Current	107	657	1,694
Previous	202	333	915
Change (%)	(47.4)	97.2	85.1
Construction revenue for WTE segment (HKD m)			
Current	2,494	4,737	7,596
Previous	2,500	4,842	8,148
Change (%)	(0.3)	(2.2)	(6.8)
Operation and finance revenue for water segment (HKD m)			
Current	944	1,225	1,365
Previous	983	1,082	1,204
Change (%)	(3.9)	13.3	13.4
Biomass new orders ('000 tonnes/year)			
Current	1430	2080	1200
Previous	1430	600	300
Change (%)	0.0	246.7	300.0
Effective interest rate (%)			
Current	(4.9)	(5.1)	(5.0)
Previous	0.0	0.0	0.0
Change (%)	(4.9)	(5.1)	(5.0)
Net profit (HKD m)			
Current	1,630	2,355	3,321
Previous	1,655	2,395	3,230
Change (%)	(1.5)	(1.6)	2.8

Source: BNP Paribas estimates

Financial statements

China Everbright

Profit and Loss (HKD m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Revenue	3,410	5,320	5,810	9,955	17,710
Cost of sales ex depreciation	(1,674)	(2,874)	(2,885)	(5,589)	(11,288)
Gross profit ex depreciation	1,736	2,445	2,925	4,366	6,422
Other operating income	107	144	157	270	480
Operating costs	(307)	(392)	(436)	(697)	(1,240)
Operating EBITDA	1,536	2,197	2,647	3,939	5,662
Depreciation	(53)	(70)	(81)	(119)	(213)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	1,483	2,127	2,565	3,820	5,449
Net financing costs	(313)	(316)	(336)	(431)	(706)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	242	0	0	0	0
Profit before tax	1,413	1,812	2,229	3,388	4,743
Tax	(267)	(447)	(551)	(837)	(1,171)
Profit after tax	1,146	1,364	1,679	2,551	3,572
Minority interests	(23)	(40)	(49)	(196)	(250)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	1,123	1,325	1,630	2,355	3,321
Non recurring items & goodwill (net)	(242)	0	0	0	0
Recurring net profit	881	1,325	1,630	2,355	3,321
Per share (HKD)					
Recurring EPS *	0.23	0.33	0.36	0.53	0.74
Reported EPS	0.30	0.33	0.36	0.53	0.74
DPS	0.06	0.08	0.09	0.14	0.19
Growth					
Revenue (%)	(2.2)	56.0	9.2	71.3	77.9
Operating EBITDA (%)	19.3	43.1	20.4	48.8	43.7
Operating EBIT (%)	17.7	43.4	20.6	48.9	42.6
Recurring EPS (%)	15.7	40.4	11.3	44.5	41.0
Reported EPS (%)	47.5	10.1	11.3	44.5	41.0
Operating performance					
Gross margin inc depreciation (%)	49.4	44.7	48.9	42.7	35.1
Operating EBITDA margin (%)	45.0	41.3	45.6	39.6	32.0
Operating EBIT margin (%)	43.5	40.0	44.2	38.4	30.8
Net margin (%)	25.8	24.9	28.1	23.7	18.8
Effective tax rate (%)	18.9	24.7	24.7	24.7	24.7
Dividend payout on recurring profit (%)	24.2	23.6	26.0	26.0	26.0
Interest cover (x)	4.7	6.7	7.6	8.9	7.7
Inventory days	11.9	8.9	9.6	4.9	2.4
Debtor days	870.9	689.3	774.0	579.8	492.7
Creditor days	285.0	185.7	220.2	166.8	163.8
Operating ROIC (%)	10.1	11.3	11.4	14.2	14.6
ROIC (%)	9.2	10.4	10.4	12.8	12.7
ROE (%)	12.1	12.2	11.7	15.2	18.9
ROA (%)	7.5	8.0	8.0	10.2	10.6
*Pre exceptional, pre-goodwill and fully diluted					
Revenue By Division (HKD m)					
Environmental energy	1,742	3,616	4,073	6,798	10,253
Environmental water	1,267	1,284	1,051	1,883	3,059
Alternative energy	400	416	682	1,270	4,393

Sources: China Everbright; BNP Paribas estimates

Financial statements

China Everbright

Cash Flow (HKD m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Recurring net profit	881	1,325	1,630	2,355	3,321
Depreciation	53	70	81	119	213
Associates & minorities	0	0	0	0	0
Other non-cash items	228	349	75	236	340
Recurring cash flow	1,161	1,744	1,786	2,710	3,875
Change in working capital	(1,766)	(2,424)	(1,667)	(3,202)	(7,483)
Capex - maintenance	0	0	0	0	0
Capex - new investment	(621)	(56)	(679)	(1,528)	(3,674)
Free cash flow to equity	(1,226)	(736)	(560)	(2,020)	(7,282)
Net acquisitions & disposals	0	0	0	0	0
Dividends paid	(246)	(263)	(424)	(613)	(865)
Non recurring cash flows	(442)	(894)	(326)	(698)	(3,077)
Net cash flow	(1,914)	(1,893)	(1,311)	(3,331)	(11,223)
Equity finance	1,245	3,628	0	0	0
Debt finance	774	845	(81)	3,278	8,095
Movement in cash	105	2,579	(1,391)	(53)	(3,128)
Per share (HKD)					
Recurring cash flow per share	0.31	0.43	0.40	0.60	0.86
FCF to equity per share	(0.32)	(0.18)	(0.12)	(0.45)	(1.62)
Balance Sheet (HKD m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Working capital assets	12,425	15,877	17,557	22,374	33,267
Working capital liabilities	(1,249)	(1,792)	(1,805)	(3,420)	(6,831)
Net working capital	11,176	14,085	15,752	18,954	26,437
Tangible fixed assets	1,471	1,587	2,185	3,594	7,055
Operating invested capital	12,647	15,672	17,937	22,548	33,492
Goodwill	21	21	21	21	21
Other intangible assets	614	1,096	1,396	2,055	5,041
Investments	197	431	431	431	431
Other assets	49	32	32	32	32
Invested capital	13,527	17,253	19,818	25,087	39,017
Cash & equivalents	(1,807)	(4,426)	(3,034)	(2,981)	147
Short term debt	1,635	1,780	1,759	2,602	4,684
Long term debt *	4,369	5,141	5,081	7,516	13,530
Net debt	4,197	2,495	3,806	7,137	18,360
Deferred tax	659	979	979	979	979
Other liabilities	0	0	0	0	0
Total equity	8,350	13,374	14,580	16,322	18,779
Minority interests	321	405	454	650	900
Invested capital	13,527	17,253	19,818	25,087	39,018
* includes convertibles and preferred stock which is being treated as debt					
Per share (HKD)					
Book value per share	2.07	2.98	3.25	3.64	4.19
Tangible book value per share	1.91	2.73	2.94	3.18	3.06
Financial strength					
Net debt/equity (%)	48.4	18.1	25.3	42.1	93.3
Net debt/total assets (%)	25.3	10.6	15.4	22.7	40.2
Current ratio (x)	4.9	5.7	5.8	4.2	2.9
CF interest cover (x)	(0.9)	(1.2)	1.4	(0.1)	(4.1)
Valuation	2012A	2013A	2014E	2015E	2016E
Recurring P/E (x) *	48.9	34.9	31.3	21.7	15.4
Recurring P/E @ target price (x) *	62.7	44.7	40.1	27.8	19.7
Reported P/E (x)	38.4	34.9	31.3	21.7	15.4
Dividend yield (%)	0.5	0.7	0.8	1.2	1.7
P/CF (x)	37.1	26.5	28.6	18.8	13.2
P/FCF (x)	(35.2)	(62.7)	(91.1)	(25.3)	(7.0)
Price/book (x)	5.5	3.8	3.5	3.1	2.7
Price/tangible book (x)	6.0	4.2	3.9	3.6	3.7
EV/EBITDA (x) **	31.4	23.8	20.6	14.5	11.4
EV/EBITDA @ target price (x) **	39.4	30.0	26.1	18.1	13.9
EV/invested capital (x)	3.7	3.1	2.8	2.3	1.8
* Pre exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income					

Sources: China Everbright; BNP Paribas estimates

Disclaimers and Disclosures

APPENDIX

DISCLAIMERS AND DISCLOSURES APPLICABLE TO NON-US BROKER-DEALER(S): BNP Paribas Securities (Asia) Ltd

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Company	Ticker	Disclosure (as applicable)
China Everbright	257 HK	6

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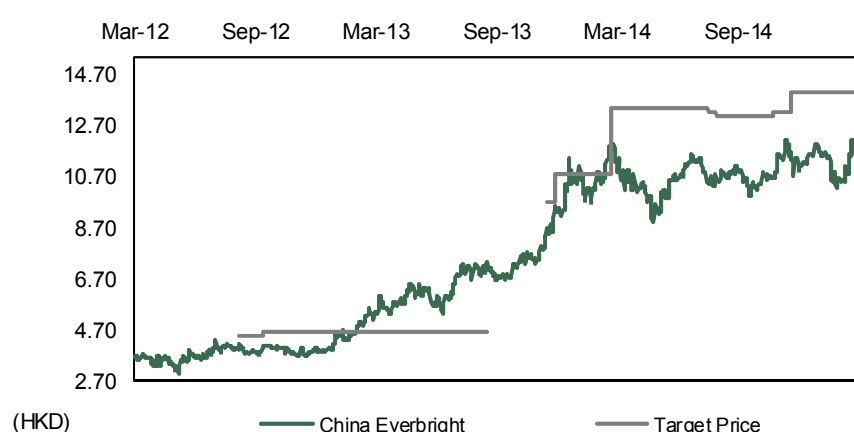
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History of change in investment rating and/or target price

China Everbright (257 HK)



Date	Reco	TP
20-Aug-12	BUY	4.42
2-Sep-13	Not Rated	
29-Nov-13	BUY	9.70

Penny Chen started covering this stock from 13-Aug-2013

Price and TP are in local currency

Valuation and risks: Key risks to our DCF-based TP of HKD14.59 are delays in the execution of current projects due to local resistance, slowdown in new order wins due to price competition from low-quality players, delays in the construction of current pipeline projects, and changes in supportive government policies

Sources: Bloomberg; BNP Paribas

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