

**Industrials**  
**Commercial Services**  
 Equity – China

## Overweight (V)

|                      |      |
|----------------------|------|
| Target price (HKD)   | 6.10 |
| Share price (HKD)    | 4.28 |
| Potential return (%) | 42.5 |

Note: Potential return equals the percentage difference between the current share price and the target price

| Performance               | 1M   | 3M   | 12M |
|---------------------------|------|------|-----|
| Absolute (%)              | -2.5 | -0.5 |     |
| Relative <sup>A</sup> (%) | -3.0 | -6.4 |     |

|                    |         |
|--------------------|---------|
| Index <sup>A</sup> | HSCEI   |
| RIC                | 1330.HK |
| Bloomberg          | 1330 HK |

|                         |       |
|-------------------------|-------|
| Market cap (USDm)       | 577   |
| Market cap (HKDm)       | 4,476 |
| Enterprise value (CNYm) | 2961  |
| Free float (%)          | 33    |

Note: (V) = volatile (please see disclosure appendix)

**20 March 2015**

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# Dynagreen (1330 HK)

OW(V): Growth on track

- **FY14 results in-line but tax rate higher than expected**
- **Smooth construction progress and future expansion in both coastal and inland China**
- **Reiterate OW(V) on earnings growth recovery, strong project pipeline, potential finance cost decline and SOE background; TP HKD6.10 (from HKD6.50)**

**FY14 results in line:** Dynagreen reported in-line 2014 results during lunch time on 20 March with net income of RMB142m, down 6% y-o-y.

Tax rate rose from 19% in 2013 to 27% in 2014, as more subsidiaries applied 25% tax rates in 2014. The company made provision of RMB10.9m on the Rushan project in 2014, as result of operating losses from low quantity of waste in-feeds.

Construction for the Anshun, Jurong and Jixian waste-to-energy (WTE) projects is ahead of schedule and the Huizhou WTE project is also under construction (the Huizhou landfill project started operation in Dec 2014). The company plans to start construction of more than two new projects in 2015 and has also started selling grate furnace externally.

Management believes that China will further strengthen policy and funding support for environmental protection. For future expansion, Dynagreen plans to focus on prefecture and county-level cities in south-eastern China and prefecture-level cities in central and western China.

**Reiterate OW(V):** We like Dynagreen on its earnings growth recovery, strong project pipeline, potential finance cost decline and SOE background. We expect Dynagreen's earnings growth to recover from -6% in 2014 to 43% in 2015e as more projects get constructed. The company has ~17,700tpd of waste-to-energy capacities to come on-stream, potentially expanding its operations to 4.4x of its current size of 5,250tpd. We see finance cost to potentially decline as management is studying low-cost overseas funding and we expect Dynagreen to continue to benefit from its status as Beijing government SOE (as it has been benefiting on the Miyun and Tongzhou projects in Beijing).

We fine-tune the earnings forecasts by factoring in latest tax rate, construction progress and utilization rates. We lower our target price marginally from HKD6.50 to HKD6.10, primarily driven by the earnings forecasts changes.

## Financials & valuation

### Financial statements

| Year to                                  | 12/2013a | 12/2014e | 12/2015e | 12/2016e |
|--|----------|----------|----------|----------|
| <b>Profit &amp; loss summary (CNYm)*</b> |          |          |          |          |
| Revenue                                  | 975      | 1,226    | 1,565    | 2,434    |
| EBITDA                                   | 284      | 365      | 467      | 690      |
| Depreciation & amortisation              | -37      | -59      | -59      | -79      |
| Operating profit/EBIT                    | 248      | 307      | 408      | 611      |
| Net interest                             | -74      | -122     | -153     | -263     |
| PBT                                      | 185      | 194      | 270      | 370      |
| HSBC PBT                                 | 185      | 194      | 270      | 370      |
| Taxation                                 | -34      | -52      | -68      | -93      |
| Net profit                               | 151      | 142      | 203      | 278      |
| HSBC net profit                          | 151      | 142      | 203      | 278      |

### Cash flow summary (CNYm)

|                           |      |      |        |        |
|---------------------------|------|------|--------|--------|
| Cash flow from operations | -256 | 7    | -278   | 44     |
| Capex                     | -4   | -321 | -561   | -860   |
| Cash flow from investment | -133 | 267  | -516   | -843   |
| Dividends                 | -14  | -119 | -121   | -120   |
| Change in net debt        | 527  | -269 | 963    | 1,401  |
| FCF equity                | -361 | -465 | -1,032 | -1,135 |

### Balance sheet summary (CNYm)\*

|                         |       |       |       |       |
|-------------------------|-------|-------|-------|-------|
| Intangible fixed assets | 1,346 | 1,598 | 2,099 | 2,879 |
| Tangible fixed assets   | 7     | 7     | 7     | 7     |
| Current assets          | 749   | 1,132 | 726   | 2,012 |
| Cash & others           | 502   | 762   | 420   | 1,553 |
| Total assets            | 3,350 | 4,461 | 5,076 | 8,071 |
| Operating liabilities   | 430   | 693   | 432   | 903   |
| Gross debt              | 1,883 | 1,874 | 2,494 | 5,029 |
| Net debt                | 1,381 | 1,112 | 2,075 | 3,476 |
| Shareholders funds      | 1,211 | 2,177 | 2,330 | 2,538 |
| Invested capital        | 2,800 | 3,624 | 4,619 | 6,447 |

### Ratio, growth and per share analysis

| Year to | 12/2013a | 12/2014e | 12/2015e | 12/2016e |
|---------|----------|----------|----------|----------|
|---------|----------|----------|----------|----------|

#### Y-o-y % change

|                  |      |       |      |      |
|------------------|------|-------|------|------|
| Revenue          | 4.6  | 25.8  | 27.6 | 55.5 |
| EBITDA           | 26.1 | 28.5  | 27.9 | 47.7 |
| Operating profit | 23.2 | 23.8  | 33.0 | 49.8 |
| PBT              | 11.3 | 4.6   | 39.5 | 36.8 |
| HSBC EPS         | 2.6  | -25.4 | 20.7 | 36.8 |

#### Ratios (%)

|                             |       |      |      |       |
|-----------------------------|-------|------|------|-------|
| Revenue/IC (x)              | 0.4   | 0.4  | 0.4  | 0.4   |
| ROIC                        | 8.1   | 7.0  | 7.4  | 8.3   |
| ROE                         | 12.5  | 8.4  | 9.0  | 11.4  |
| ROA                         | 7.3   | 5.9  | 6.7  | 7.2   |
| EBITDA margin               | 29.2  | 29.8 | 29.9 | 28.3  |
| Operating profit margin     | 25.4  | 25.0 | 26.1 | 25.1  |
| EBITDA/net interest (x)     | 3.8   | 3.0  | 3.1  | 2.6   |
| Net debt/equity             | 114.0 | 51.1 | 89.1 | 137.0 |
| Net debt/EBITDA (x)         | 4.9   | 3.0  | 4.4  | 5.0   |
| CF from operations/net debt |       | 0.6  |      | 1.3   |

#### Per share data (CNY)

|                              |      |      |      |      |
|------------------------------|------|------|------|------|
| EPS reported (fully diluted) | 0.22 | 0.16 | 0.19 | 0.27 |
| HSBC EPS (fully diluted)     | 0.22 | 0.16 | 0.19 | 0.27 |
| DPS                          | 0.02 | 0.07 | 0.05 | 0.07 |
| Book value                   | 1.73 | 2.08 | 2.23 | 2.43 |

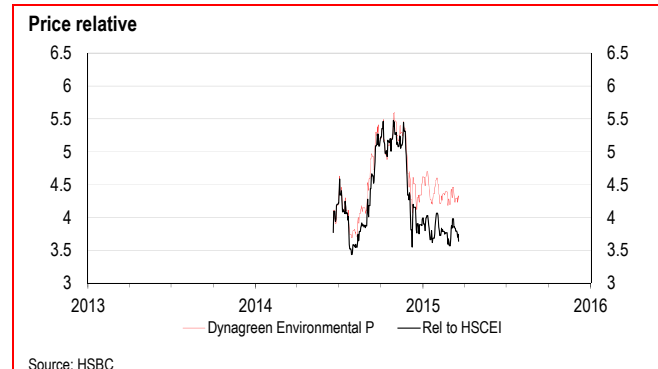
### Key forecast drivers

| Year to                      | 12/2013a | 12/2014e | 12/2015e | 12/2016e |
|------------------------------|----------|----------|----------|----------|
| Operating capacities (tpd)   | 5,250    | 5,250    | 6,650    | 8,600    |
| Utilization rates            | 61%      | 108%     | 92%      | 104%     |
| Waste processing fee (RMB/t) | 75       | 75       | 75       | 77       |
| On-grid electricity (MWh)    | 299,101  | 430,000  | 511,745  | 782,487  |
| Power tariff (RMB/kWh)       | 0.66     | 0.61     | 0.64     | 0.62     |

### Valuation data

| Year to            | 12/2013a | 12/2014e | 12/2015e | 12/2016e |
|--------------------|----------|----------|----------|----------|
| EV/sales           | 3.8      | 2.4      | 2.2      | 1.6      |
| EV/EBITDA          | 13.0     | 8.1      | 7.3      | 5.6      |
| EV/IC              | 1.3      | 0.8      | 0.7      | 0.6      |
| PE*                | 15.9     | 21.3     | 17.6     | 12.9     |
| P/Book value       | 2.0      | 1.6      | 1.5      | 1.4      |
| FCF yield (%)      | -15.5    | -25.1    | -77.6    | -282.7   |
| Dividend yield (%) | 0.6      | 2.0      | 1.4      | 1.9      |

Note: \* = Based on HSBC EPS (fully diluted)



Note: price at close of 20 Mar 2015

\*Represents actuals. The remaining figures are estimates.

## Valuation and risks

Our target price of HKD6.10 (from HKD6.50) is based on our DCF valuation (WACC: 6.6%, 25-year DCF, no terminal value). At our target price, Dynagreen would trade at 24.9x PE in 2015e and 18.2x in 2016e, and 2.1x PB in 2015e and 2.0x in 2016e.

Under our research model, the Neutral band for volatile Hong Kong-traded equities runs from 10ppt below to 10ppt above a local market hurdle rate of 8.5%. Our target price implies a potential return above this band; we therefore reiterate our Overweight (V) rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Downside risks: slower-than-expected capacity ramp-up; uncertainty about equity placement.

### Revised earnings forecasts, RMB m

|            | Old   |       | New   |       | Change |       |
|------------|-------|-------|-------|-------|--------|-------|
|            | 2015E | 2016E | 2015E | 2016E | 2015E  | 2016E |
| Revenues   | 1,586 | 2,552 | 1,565 | 2,434 | -1%    | -5%   |
| Net income | 210   | 281   | 203   | 278   | -4%    | -1%   |
| EPS, RMB   | 0.20  | 0.27  | 0.19  | 0.27  | -4%    | -1%   |

Source: HSBC

### Income statement, RMB m

|                          | 2013       | 2014       | YoY        | 2H13       | 1H14       | 2H14       | YoY         | HoH         |
|--------------------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| Revenue                  | 975        | 1,226      | 26%        | 269        | 391        | 835        | 210%        | 113%        |
| COGS                     | 688        | 849        | 23%        | 166        | 246        | 603        | 264%        | 145%        |
| <b>Gross profit</b>      | <b>287</b> | <b>377</b> | <b>31%</b> | <b>104</b> | <b>145</b> | <b>232</b> | <b>124%</b> | <b>60%</b>  |
| Gross margin             | 29%        | 31%        |            | 38%        | 37%        | 28%        |             |             |
| Admin expenses           | 56         | 83         | 48%        | 35         | 29         | 54         | 54%         | 89%         |
| % of revenue             | 6%         | 7%         |            | 13%        | 7%         | 7%         |             |             |
| Other op. expenses       | 1          | 0          | -70%       | 1          | 0          | 0          | -74%        | 478%        |
| % of revenue             | 0%         | 0%         |            | 0%         | 0%         | 0%         |             |             |
| <b>Operating profit</b>  | <b>230</b> | <b>294</b> | <b>28%</b> | <b>67</b>  | <b>116</b> | <b>177</b> | <b>163%</b> | <b>52%</b>  |
| Operating margin         | 24%        | 24%        |            | 25%        | 30%        | 21%        |             |             |
| Finance costs            | (74)       | (122)      | 64%        | (42)       | (63)       | (59)       | 40%         | -6%         |
| Other revenue            | 25         | 28         | 11%        | 11         | 7          | 20         | 85%         | 174%        |
| Other net income         | 5          | (5)        | n.a.       | 2          | (7)        | 2          | n.a.        | n.a.        |
| <b>Profit before tax</b> | <b>185</b> | <b>194</b> | <b>5%</b>  | <b>38</b>  | <b>54</b>  | <b>140</b> | <b>270%</b> | <b>159%</b> |
| Pre-tax margin           | 19%        | 16%        |            | 14%        | 14%        | 17%        |             |             |
| Tax (expenses)/credits   | (34)       | (52)       | 50%        | (4)        | (20)       | (32)       | 725%        | 65%         |
| Tax rate                 | 19%        | 27%        |            | 10%        | 36%        | 23%        |             |             |
| <b>Profit after tax</b>  | <b>151</b> | <b>142</b> | <b>-6%</b> | <b>34</b>  | <b>34</b>  | <b>108</b> | <b>218%</b> | <b>213%</b> |
| Minority interest        | -          | -          | n.a.       | -          | -          | -          | n.a.        | n.a.        |
| <b>Net income</b>        | <b>151</b> | <b>142</b> | <b>-6%</b> | <b>34</b>  | <b>34</b>  | <b>108</b> | <b>218%</b> | <b>213%</b> |
| Net margin               | 15%        | 12%        |            | 13%        | 9%         | 13%        |             |             |

Source: Company data, HSBC

# Disclosure appendix

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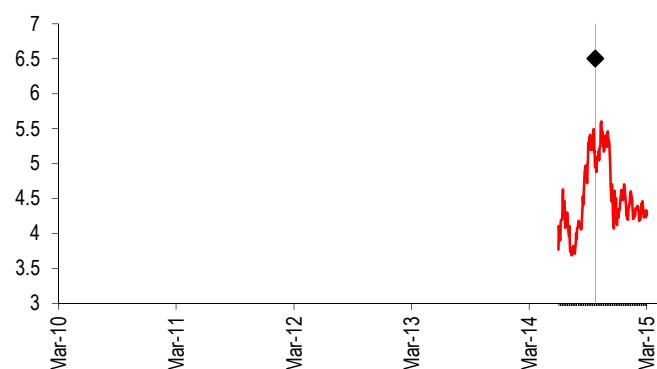
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|                           |     |  |
|---------------------------|-----|--|
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## Share price and rating changes for long-term investment opportunities

**Dynagreen Environmental P (1330.HK) Share Price performance HKD Vs**

**HSBC rating history**



Source: HSBC

**Recommendation & price target history**

| From         | To             | Date            |
|--------------|----------------|-----------------|
| N/A          | Overweight (V) | 12 October 2014 |
| Target Price | Value          | Date            |
| Price 1      | 6.50           | 12 October 2014 |

Source: HSBC

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