

2015 年 3 月 31 日

买入
维持

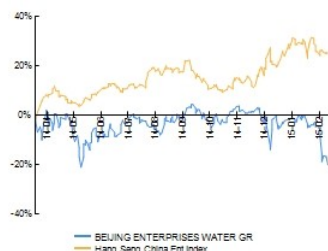
扩张坎坷

北控水务集团 (371:HK)

Market Data:

Closing Price (HK\$)	5.10
Price Target (HK\$)	7.53
HSCEI	12,307
HSCCI	4,638
52-week High/Low (HK\$)	5.62/4.13
Market Cap (US\$m)	5,729
Market Cap (HK\$m)	44,411
Shares Outstanding (m)	8,708
Exchange Rate (Rmb-HK\$)	1.27

Price Performance Chart:



Source: Bloomberg

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Related Reports

"Seeking synergy" – 4 Feb 2015

"Ambitious expansion" – 11 September 2014

Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (HK\$m)	6,406.46	8,925.94	10,636.06	14,138.47	16,614.08
YoY (%)	71.89	39.33	19.16	32.93	17.51
Net income (HK\$m)	1,145.40	2,074.72	2,664.59	3,749.75	4,760.86
YoY (%)	32.11	81.13	28.43	40.73	26.96
EPS (HK\$)	0.14	0.21	0.27	0.37	0.47
Diluted EPS (HK\$)	0.14	0.21	0.27	0.37	0.47
ROE (%)	8.15	11.37	13.95	18.75	22.73
Debt/asset (%)	63.96	63.04	63.94	66.90	69.00
Dividend yield (%)	1.08	1.54	1.56	2.20	2.79
PE (x)	36.48	24.56	19.21	13.65	10.75
PB (x)	2.48	2.31	2.22	2.11	2.02
EV/Ebitda (x)	24.16	17.63	13.53	10.57	8.96

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:

业绩超预期。北控水务公布 14 年业绩, 收入为 89 亿港币同比增长 39.3%, 利润 21 亿港币, 同比增长 81.1%。每股收益为 0.21 港币同比增长 65.5%。业绩超市市场预期。

产能增长。公司 14 年增加水处理产能 350 万吨/天, 总产能同比增长 21%至 2020 万吨/天 (包括在产产能和在规划产能)。在产污水处理产能达到 760 万吨/天, 同比增长 21.1%。在产自来水处理产能达到 350 万吨/天, 同比增长 25.7%。

毛利下降。尽管 14 年来自水处理 (污水及自来水) 的收入为 41 亿港币, 同比增长 60.9%, 水处理 (包括国内和国外) 的毛利下降了 4 个百分点至 59%。其中自来水处理毛利下降了 2 个百分点至 50%, 污水处理毛利下降了 7 个百分点至 61%。成本的快速上升是公司毛利下降的主要原因。公司 14 年吨水处理成本同比上涨了 27%至每吨 0.54 港币, 其中电费增长了 27%, 人工成本增长了 52.2%。产能的快速扩张考验管理层对成本的有效控制。

升级改造进度缓慢。管理层披露 14 年 250 座污水处理厂中有 4 座进行了提标改造, 涉及污水处理产能 28 万吨/天 (约占总污水处理产能的 3.7%)。鉴于公司目前还有约合 350 万吨/天的污水处理设施运行在 1 级 B 类或其以下的标准, 14 年的提标改造进度低于我们的预期。管理层披露污水处理费一般于提标改造后上调 30%-40%。

维持买入。由于提标改造的进度低于我们的预期, 我们下调未来 3 年污水处理费的增幅。同时由于成本的快速上升我们预计短期毛利可能承压。但是管理层于产能扩张时表现的高效的执行力将保证公司外来处理能力的快速提升, 从而增加公司的收入与利润。因此我们小幅下调公司 15-16 年利润至 26.7 亿/37.5 亿 (之前分别为 27.5 亿/39.7 亿), 我们预计 17 年公司利润可达 47.6 亿元。我们 15-17 年每股收益预测为 0.27/0.37/0.47, 同比分别增长 27.9%/40.7%/27%。我们目标价为 HK\$7.53, 相比现价有 48%的上涨空间, 我们维持买入评级。

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Investment Highlights:

Results exceed expectation. Beijing Enterprises Water reported 2014 revenue of HK\$8.9bn (39.3% YoY) and net profit of HK\$2.1bn (+81.1% YoY). EPS came in at HK\$0.21 (65.5%YoY). The results exceeded SWS and market expectation.

Capacity expansion. The company increase water treatment capacity by 3.5mt/d in 2014, up 21%YoY to 20.2mt/d (including operating and pipeline capacity). Waste water treatment (WWT) capacity in operation increased to 7.6mt/d, up 21.1%YoY. Operational tap water supply capacity increased to 3.5mt/d, up 25.7% YoY. The total water treated in 2014 reached 3.1bt, up 38.5% YoY. Utilisation increased to 82% in 2014, up 8ppts YoY.

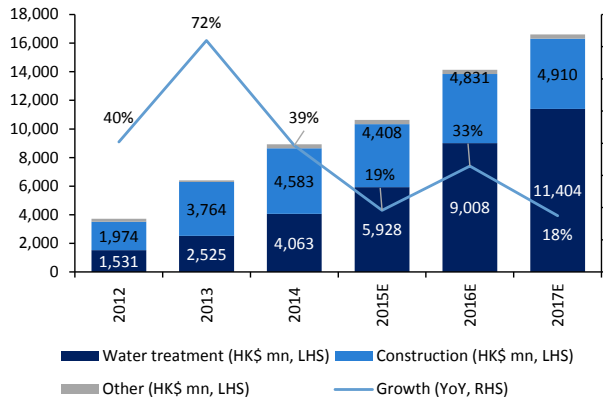
Margin contacted in 2014. Revenue from the water treatment sector (both tap water supply and WWT) was HK\$4.1bn (+60.9% YoY). However, water treatment margin was 59%, down 4ppts YoY. Tap water supply margin decreased 2ppts from last year to 50% in 2014. WWT margin fell 7ppts to 61% in the same period, as costs rose. The company experienced a significant increase in unit water processing cost in 2014 (+27% YoY), with electricity cost up 27% YoY and labour cost up 52.2% YoY, due to rapid expansion.

Upgrade slows. The management reported four of its 250 WWT plants completed treatment standard upgrades in 2014 with total capacity of 0.28mt/d (representing 3.7% of operational WWT capacity). Given that 3.5mt/d WWT capacity (46% of BEW's operational WWT capacity) operates under standard 1B (the highest national water quality standard is "1A") the pace of upgrading in 2014 was slower than expected. Management expects tariffs to increase 30-40% after it upgrades its capacity to the higher standard.

Maintain BUY. We lower our assumption of water treatment tariffs in next three to factor in the slower-than-expected pace of WWT capacity upgrades. We expect increased costs to continue to squeeze margins in the near-term. However we see strong execution of management in terms of capacity expansion, which could still result in decent earnings growth. Therefore we lower our earnings forecasts, from HK\$2.75bn to HK\$2.67bn in 15E and from HK\$3.97bn to HK\$3.75bn in 16E, we forecast earnings of HK\$4.76bn in 17E. We lower our EPS forecast from HK\$0.3 to HK\$0.27 in 15E (+27.9% YoY), from HK\$0.43 to HK\$0.37 in 16E (+40.7% YoY) and forecast EPS of HK\$0.47 in 17E (+27% YoY). We lower our target price from HK\$8.22 to HK\$7.53. With 48% upside, we maintain our BUY recommendation.

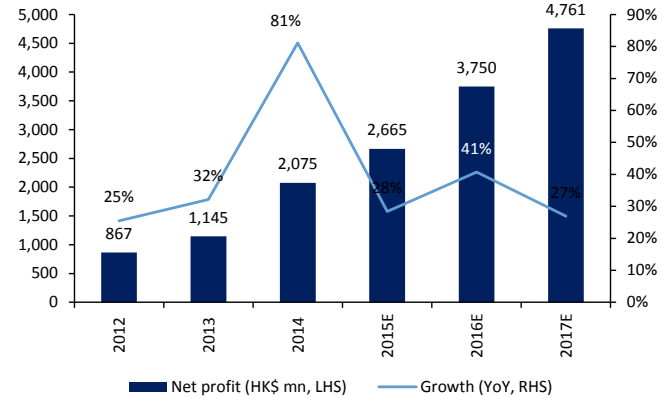
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Fig 1: Revenue grows 39.3% for 2014



Source: Company data, SWS Research

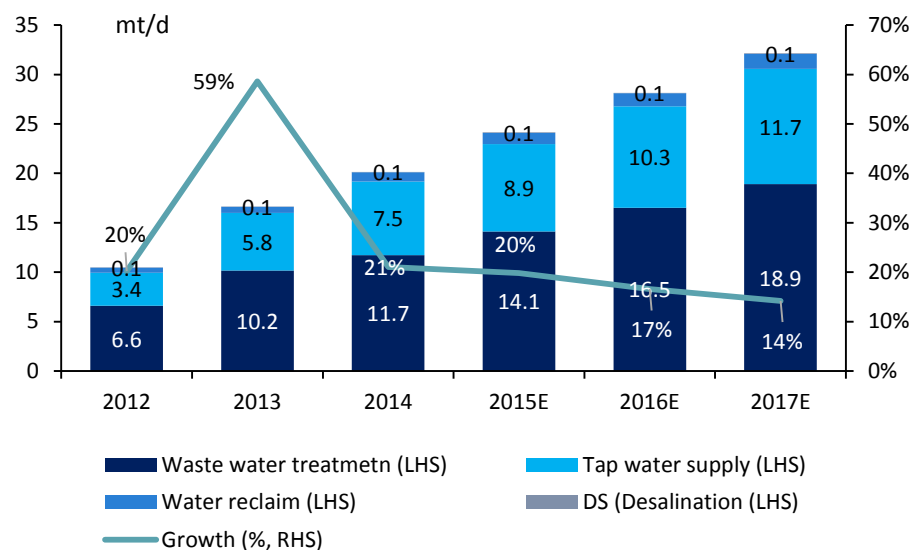
Fig 2: Net profits grows 81.1% for 2014



Source: Company data, SWS Research

Capacity expansion. The company increase water treatment capacity by 3.5mt/d in 2014, up 21%YoY to 20.2mt/d (including operating and pipeline capacity). Waste water treatment (WWT) capacity in operation increased to 7.6mt/d, up 21.1%YoY. Operational tap water supply capacity increased to 3.5mt/d, up 25.7% YoY. The total water treated in 2014 reached 3.1bt, up 38.5% YoY. Utilisation increased to 82% in 2014, up 8ppts YoY.

Fig 3: BEW's capacity expand fast in past 3 years

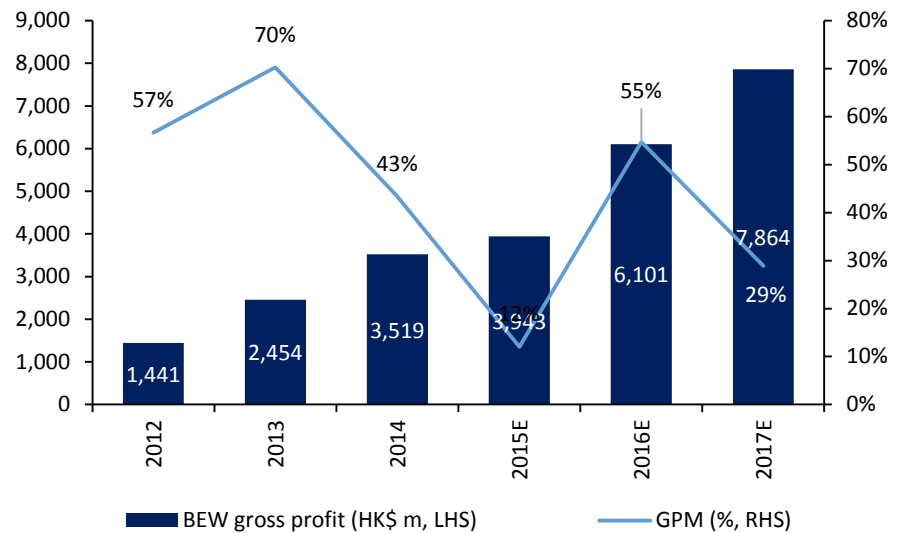


Source: Company data, SWS Research

Margin contracted in 2014. Revenue from the water treatment sector (both tap water supply and WWT) was HK\$4.1bn (+60.9% YoY). However, water treatment margin was 59%, down 4ppts YoY. Tap water supply margin decreased 2ppts from last year to 50% in 2014. WWT margin fell 7ppts to 61% in the same period, as

costs rose. The company experienced a significant increase in unit water processing cost in 2014 (+27% YoY), with electricity cost up 27% YoY and labour cost up 52.2% YoY, due to rapid expansion.

Fig 4: BEW's margin contract in 2014



Source: Company data, SWS Research

Upgrade slows. The management reported four of its 250 WWT plants completed treatment standard upgrades in 2014 with total capacity of 0.28mt/d (representing 3.7% of operational WWT capacity). Given that 3.5mt/d WWT capacity (46% of BEW's operational WWT capacity) operates under standard 1B (the highest national water quality standard is "1A") the pace of upgrading in 2014 was slower than expected. Management expects tariffs to increase 30-40% after it upgrades its capacity to the higher standard.

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APPENDIX

Consolidated Income Statement

HK\$ m	2013	2014E	2015E	2016E	2017E
Revenue	6,406	8,926	10,636	14,138	16,614
Cost of sale	-3,901	-5,430	-5,812	-7,071	-7,768
Gross profit	2,506	3,496	4,824	7,067	8,846
Other income	634	1,054	735	634	691
Administration expenses	-775	-1,066	-1,239	-1,740	-2,053
EBITDA	2,952	4,540	5,559	7,701	9,537
EBIT	2,178	3,475	4,320	5,961	7,484
Finance cost	-788	-1,084	-1,104	-1,354	-1,581
Profit before tax	1,497	2,669	3,416	4,807	6,104
Income tax expense	-352	-594	-752	-1,058	-1,343
Minority interests	61	279	358	504	640
Profit for the year	1,145	2,075	2,665	3,750	4,761

Source: SWS Research

Consolidated Cash Flow Statement

HK\$ m	2013	2014E	2015E	2016E	2017E
Profit before taxation	1,497	2,669	3,416	4,807	6,104
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	-4,577	-8,634	-6,009
Others	18	1,012	80	0	0
CF from operating activities	-759	-509	-1,082	-3,827	95
CAPEX	2,448	3,770	4,127	8,101	5,449
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	-650	-1,445	819
FCFF	1,603	2,462	3,118	4,370	5,582
FCFE	6,126	9,585	7,143	10,048	12,358

Source: SWS Research

Consolidated Balance Sheet

HK\$ m	2013	2014E	2015E	2016E	2017E
Current Assets	15,212	15,078	15,223	14,317	15,710
Bank balances and cash	5,513	6,091	6,213	4,768	5,587
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	35,790	44,462	50,516
Total Assets	44,187	51,641	55,450	63,305	70,842
Current Liabilities	27,430	31,305	33,916	40,498	46,674
Borrowings	17,451	23,490	25,287	31,012	36,207
Trade and other payables	8,147	7,815	8,629	9,486	10,468
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	35,452	42,351	48,883
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	55,450	63,305	70,842

Source: SWS Research

Key Financial Ratios

	2013	2014E	2015E	2016E	2017E
Ratios per share (HK\$)					
Earnings per share	0.14	0.21	0.27	0.37	0.47
Diluted EPS	0.14	0.21	0.27	0.37	0.47
Operating CF per share	-0.10	-0.06	-0.12	-0.44	0.01
Dividend per share	0.05	0.08	0.08	0.11	0.14
Net assets per share	2.05	2.21	2.30	2.41	2.53
Key Operating Ratios(%)					
ROIC	26.2	36.6	47.4	68.4	88.7
ROE	8.2	11.4	14.0	18.7	22.7
Gross profit margin	39.1	39.2	45.4	50.0	53.2
EBITDA Margin	36.4	39.3	44.1	47.3	50.4
EBIT Margin	24.1	27.1	33.7	37.7	40.9
Growth rate of Revenue(YoY)	71.9	39.3	19.2	32.9	17.5
Growth rate of Profit(YoY)	32.1	81.1	28.4	40.7	27.0
Debt-to-asset ratio	64.0	63.0	63.9	66.9	69.0
Turnover rate of net assets	40.2	46.8	53.2	67.5	75.7
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	1.6	2.2	2.8
Valuation Ratios (X)					
P/E	36.5	24.6	19.2	13.7	10.8
P/B	2.5	2.3	2.2	2.1	2.0
EV/Sale	8.8	6.9	6.0	5.0	4.5

Source: SWS Research

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

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