

Environmental	Last Close	Target Price	Upside
	HK\$4.61	HK\$5.81↓	+26%

20 March 2018

Canvest (1381 HK)

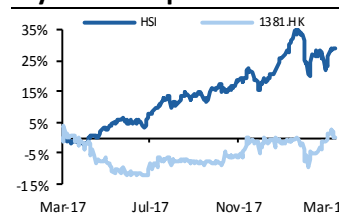
New solid waste treatment types as next catalyst

- ⊕ **FY17 net profit maintained robust growth of 41% YoY:** FY17 net profit came in at HK\$64m, up 41% YoY, in line with the profit alert. This was slightly lower than our forecast of HK\$589m, due to (1) slower recognition of construction revenue in 2H17 (-17% HoH); and (2) overall interest expense being 23% ahead of our expectation. Yet, operational revenue in 2H17 was 9.4% better than our estimation, which helped to partially offset the aforementioned factors. Operational GPM dropped slightly to 51.4% in FY17 (vs 53.4% in FY16) due to higher maintenance costs and environmental expenses.
- ⊕ **Targeting at least 7kt contract capacity in 2018:** During the results presentation, management stated the target of 30% YoY growth in contract capacity in 2018E, which translates into >7kt in contract capacity (vs 7.6kt gain in 2017). However, management expressed that it will not be easy to gain another 30% YoY growth in contract capacity in 2019E due to higher base. Regarding existing projects, the Zhongshan project (under O&M agreement) is likely to kick start the second-phase expansion. We do not rule out the possibility that Canvest could form a JV with the project owner to develop this project.
- ⊕ **Another comprehensive solid waste treatment company in the making:** Apart from consistent growth in WTE contract capacity, management also revealed their intention to invest in areas related to WTE. These include ashes/slag treatment, solid waste collection & transportation service and sludge treatment, which should bring synergies with Canvest's current focus in WTE projects. Management expects such new types of solid waste treatment projects to materialize and bring contribution to Canvest this year.
- ⊕ **New business development as major catalyst; maintain Buy:** We adjust our 2018/19E earnings by -0.8%/-2.4% after fine-tuning operational data and project pipeline, as well as moving Jianyang project to JV level (not consolidated). Net profit CAGR during 2017-20E should reach 25% under our estimation. Pegging 18x forward P/E (unchanged), we reset our TP to HK\$5.81 (from HK\$5.86). We believe Canvest's potential investment in new types of solid waste treatment could be a major catalyst. Maintain **Buy**.

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	4.88
52w low (HK\$)	4.01
Market cap (HK\$ m)	11,319
Avg daily vol (m)	2.74
YTD change (%)	0.00
200d MA (HK\$)	4.36

Source: Bloomberg

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Financial highlights

Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (HK\$ m)	1,654	2,398	2,924	3,721	4,224
YoY growth (%)	39.6	45.0	22.0	27.3	13.5
Net profit (HK\$ m)	400	564	792	998	1,027
EPS (HK\$)	0.197	0.230	0.323	0.406	0.418
YoY growth (%)	44.6	16.9	40.4	25.9	2.9
Previous EPS (HK\$)	-	-	0.325	0.416	NA
Change (%)	-	-	-0.8	-2.4	NA
P/E (x)	23.4	20.1	14.3	11.3	11.0
BVPS (HK\$)	1.34	1.99	2.28	2.63	2.99
P/B (x)	3.4	2.3	2.0	1.8	1.5
Dividend yield (%)	0.6	0.7	1.0	1.3	1.3

Source: Company data, BOCOM Int'l estimates

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Figure 1: Results highlights

Y/E Dec (HK\$ m)	1H17	2H17	2H17E	HoH (%)	2016	2017	2017E	YoY (%)	Difference (%)
Revenue									
Project operation	444	635	581	42.9	776	1,079	1,025	39.1	5.3
Construction	690	576	803	(16.5)	844	1,266	1,493	50.0	(15.2)
Financial income	24	29	30	20.7	34	53	54	53.5	(2.9)
Total	1,158	1,240	1,414	7.0	1,654	2,398	2,572	45.0	(6.8)
Gross profit									
Project operation	213	342	327	60.6	414	555	540	34.0	2.7
Construction	115	96	134	(16.5)	141	211	249	50.0	(15.4)
Financial income	24	29	30	18.8	34	53	54	53.5	(2.9)
Total	352	467	492	32.6	589	819	844	38.9	(3.0)
General and admin expenses	(78)	(87)	(77)	11.9	(123)	(165)	(154)	34.0	6.7
Other income	51	56	61	9.2	83	107	112	29.1	(5.1)
Other loss, net	(9)	(3)	(1)	(66.5)	(2)	(11)	(10)	601.5	14.1
Operating profit	317	433	475	36.7	547	749	792	36.9	(5.4)
Interest expense, net	(46)	(59)	(40)	27.7	(84)	(106)	(86)	25.0	22.8
Profit before tax	270	373	436	38.2	463	644	706	39.0	(8.8)
Income tax expense	(44)	(35)	(72)	(19.9)	(63)	(79)	(116)	26.2	(31.9)
Non-controlling interests	0	0	0	NM	0	0	0	NM	NM
Net profit	226	338	363	49.5	400	564	589	41.1	(4.3)
Operational data									
Processed MSW (kt)	1,483	2,045	1,724	37.9	2,369	3,527	3,207	48.9	10.0
Power generated (GWh)	608	844	711	38.8	963	1,452	1,320	50.8	10.1
Power sold (GWh)	533	740	619	38.8	843	1,273	1,152	51.0	10.5

Source: Company data, BOCOM Int'l estimates

Figure 2: Change in forecast

	Old forecast			New forecast			Change (%)		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Revenue (HK\$ m)	3,061	4,607	NA	2,924	3,721	4,224	-4.5	-19.2	NA
Net profit (HK\$ m)	799	1,022	NA	792	998	1,027	-0.8	-2.4	NA
EPS (HK\$)	0.325	0.416	NA	0.323	0.406	0.418	-0.8	-2.4	NA

Source: BOCOM Int'l estimates

Figure 3: Segmental forecast

Y/E Dec (HK\$ m)	2016	2017	2018E	2019E	2020E
Revenue					
Project operation	776	1,079	1,386	1,658	1,837
Construction	844	1,266	1,473	1,982	2,333
Financial income	34	53	65	81	54
Total	1,654	2,398	2,924	3,721	4,224
Gross profit					
Project operation	414	555	755	915	1,010
Construction	141	211	246	331	390
Financial income	34	53	65	81	54
Total	590	819	1,066	1,327	1,454
GPM (%)					
Project operation	53.4	51.4	54.5	55.2	55.0
Construction	16.7	16.7	16.7	16.7	16.7
Financial income	100.0	100.0	100.0	100.0	100.0
Total	35.7	34.1	36.5	35.7	34.4

Source: Company data, BOCOM Int'l estimates

Figure 4: Forward P/E band

Source: Bloomberg, BOCOM Int'l estimates

Figure 5: Forward P/B band

Source: Bloomberg, BOCOM Int'l estimates

Figure 6: Project list

Project name	Location	Status	Project model	MSW processing capacity (tpd)	MSW treatment fee (RMB/t)
Eco-Tech P1	Dongguan, Guangdong	In operation	BOO	1,800	110
Eco-Tech P2	Dongguan, Guangdong	In operation	BOO	1,500	110
Kewei	Dongguan, Guangdong	In operation	BOO	1,800	110
Scivest P1	Dongguan, Guangdong	In operation	BOT	1,800	110
Scivest P2	Dongguan, Guangdong	In operation	BOT	1,200	110
Zhanjiang	Zhanjiang, Guangdong	In operation	BOT	1,500	82
Qingyuan P1	Qingyuan, Guangdong	Expect operation start in 2020	BOT	1,500	50
Qingyuan P2	Qingyuan, Guangdong	Under planning	BOT	1,000	50
Lufeng P1	Lufeng, Guangdong	Expect operation start in 4Q18	BOT	1,200	92
Lufeng P2	Lufeng, Guangdong	Under planning	BOT	400	92
Beiliu P1	Beiliu, Guangxi	Expect operation start in 1H18	BOT	700	83
Beiliu P2	Beiliu, Guangxi	Under planning	BOT	350	83
Laibin P1	Laibin, Guizhou	In operation	BOT	1,000	95
Laibin P2	Laibin, Guizhou	Under planning	BOT	500	95
Xingyi P1	Xingyi, Guizhou	In operation	BOT	700	80
Xingyi P2	Xingyi, Guizhou	In operation	BOT	500	80
Xinyi P1	Maoming, Guangdong	Expect operation start in 1Q19	BOT	500	79
Xinyi P2	Maoming, Guangdong	Under planning	BOT	250	79
Dianbai P1	Maoming, Guangdong	Expect operation start in 2020	PPP	1,500	90
Dianbai P2	Maoming, Guangdong	Under planning	PPP	750	90
Xuwen P1	Xumen, Guangdong	Expect operation start in 2020	BOT	500	81
Xuwen P2	Xumen, Guangdong	Under planning	BOT	250	81
Xinfeng P1	Xinfeng, Jiangxi	Expect operation start in 1Q19	BOT	400	Under negotiation
Xinfeng P2	Xinfeng, Jiangxi	Under planning	BOT	400	Under negotiation
Jianyang P1	Jianyang, Sichuan	Expect operation start in 2019	BOT	1,500	66
Jianyang P2	Jianyang, Sichuan	Under planning	BOT	1,500	66
Zhongshan	Zhongshan, Guangdong	In operation	O&M	1,040	93
Total				26,040	

Source: Company data, BOCOM Int'l

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Financial Statements

Income statement (HK\$ m)

Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Turnover	1,654	2,398	2,924	3,721	4,224
COGS	(1,064)	(1,579)	(1,858)	(2,394)	(2,770)
Gross profit	589	819	1,066	1,327	1,454
General and admin expenses	(123)	(165)	(175)	(223)	(253)
Other income	83	107	127	154	171
Other loss, net	(2)	(11)	0	0	0
Operating profit	547	749	1,018	1,257	1,371
Net finance costs	(84)	(106)	(121)	(160)	(245)
Share profit from JV	0	0	7	41	45
Pre-tax profit	463	644	904	1,138	1,171
Income tax expense	(63)	(79)	(111)	(140)	(144)
After tax profit	400	564	792	998	1,027
Minority interest	0	0	0	0	0
Net profit	400	564	792	998	1,027

Balance sheet (HK\$ m)

As of 31 Dec	2016	2017	2018E	2019E	2020E
Cash and cash equivalents	662	1,363	1,176	1,289	1,175
Financial receivables	56	65	86	107	130
Trade and other receivables	254	542	661	841	954
Other current assets	1	2	2	2	2
Total current assets	972	1,972	1,925	2,239	2,262
Property, plant & equipment	1,202	1,519	1,641	1,540	1,449
Intangible assets	2,630	3,883	5,052	6,629	8,464
Financial receivables	821	1,027	1,261	1,576	1,908
Other non-current assets	436	857	920	1,317	1,538
Total non-current assets	5,089	7,287	8,874	11,062	13,359
Short-term borrowings	277	363	428	492	566
Trade and other payables	567	641	942	1,312	1,518
Other current liabilities	15	32	88	158	230
Total current liabilities	859	1,036	1,457	1,962	2,314
Long-term borrowings	2,042	2,797	3,217	4,342	5,428
Other non-current liabilities	437	536	536	536	536
Total non-current liabilities	2,479	3,333	3,753	4,878	5,964
Share capital	20	25	25	25	25
Reserves	2,703	4,866	5,564	6,436	7,318
Equity attri. to shareholders	2,723	4,890	5,589	6,461	7,343
Minority interests	0	0	0	0	0
Total equity	2,723	4,890	5,589	6,461	7,343

Source: Company data, BOCOM Int'l estimates

Cash flow statement (HK\$ m)

Y/E 31 Dec	2016	2017E	2018E	2019E	2020E
Pre-tax profit	463	644	904	1,138	1,171
Tax paid	(23)	(40)	(56)	(70)	(72)
Dep and amort.	151	188	258	304	342
Concession related items	(878)	(1,318)	(1,538)	(2,063)	(2,387)
Change in working capital	147	(255)	182	190	92
Others	86	106	115	119	200
Cash from operations	(54)	(675)	(136)	(382)	(654)
Capital expenditure	(381)	(328)	(261)	(50)	(50)
M&A	(29)	0	0	0	0
Others	(225)	6	(53)	(353)	(173)
Cash from investing	(635)	(321)	(314)	(403)	(223)
Proceed from share issuance	111	1,018	0	0	0
Change in borrowings	857	841	485	1,190	1,159
Others	(68)	(133)	(222)	(292)	(396)
Cash from financing	901	1,726	263	898	763
FX change	(42)	0	0	0	0
Net change in cash	170	729	(187)	113	(114)

Financial ratios

Y/E 31 Dec	2016	2017E	2018E	2019E	2020E
Gross margin (%)	35.6	34.1	36.5	35.7	34.4
EBIT margin (%)	33.1	31.2	34.8	33.8	32.5
Net margin (%)	24.2	23.5	27.1	26.8	24.3
ROA (%)	6.6	6.1	7.3	7.5	6.6
ROE (%)	14.7	11.5	14.2	15.4	14.0
Net gearing (%)	60.9	36.8	44.2	54.9	65.6
Interest coverage (x)	6.5	7.1	8.4	7.8	5.6
Current ratio	1.1	1.9	1.3	1.1	1.0

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Analyst Stock Ratings:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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