

Environmental	Last Close HK\$4.20	Target Price HK\$5.81	Upside +38%	15 June 2018
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Canvest (1381 HK)

Project execution on track; maintain Buy

- ⊕ **Project execution on track:** We had an update with the company. We found no material change in project execution, and expect Beiliu phase 1 and Lufeng phase 1 to start operation this year. Meanwhile, local government has speeded up site selection for Qingyuan phase 1, for which we expect construction could start as early as 4Q18. We estimate Canvest's waste processing capacity in operation to reach 13.7/16.1/18.6ktpd in 2018/19/20E.
- ⊕ **Update on new investments at associate level:** Regarding the new investment in waste collection business via acquisition of Johnson Cleaning Services (JCS), Canvest is still working closely with Huafa Group on further business expansion in the Bay Area. We still expect Huafa Group's extensive network in mainland China to support further expansion of JCS' waste collection business. Our base case is that JCS could contribute ~HK\$16m net profit per year at Canvest's associate level.
- ⊕ **New long-term loan could help finance new projects/M&As:** Canvest has recently secured a 60-month HK\$1.176bn syndicated loan led by the International Finance Corporation. We expect Canvest to use this loan to finance new greenfield projects and M&As. As stated previously in investor presentation, Canvest still targets to add 7ktpd of new contract capacity in 2018. While Canvest has been inactive so far in 1H18, apart from the acquisition of JCS and investment in fly ash landfill project, we expect Canvest to speed up project acquisition in 2H18.
- ⊕ **Strong foundation with good earnings visibility; maintain Buy:** We maintain our earnings forecasts and TP of HK\$5.81 (on 18x 2018E P/E). Canvest's share performance has been lackluster in 2Q18 without further progress in gaining new projects. We still see re-rating potential for Canvest, well supported by its good earnings visibility, strong project pipeline and robust earnings CAGR of 23% in 2017-20E. Maintain **Buy**.

Financial highlights

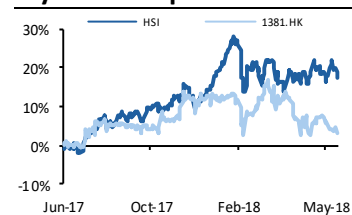
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (HK\$ m)	1,654	2,398	2,924	3,721	4,224
YoY growth (%)	39.6	45.0	22.0	27.3	13.5
Net profit (HK\$ m)	400	564	792	998	1,027
EPS (HK\$)	0.197	0.230	0.323	0.406	0.418
YoY growth (%)	44.6	16.9	40.4	25.9	2.9
P/E (x)	21.4	18.3	13.0	10.3	10.0
BVPS (HK\$)	1.34	1.99	2.28	2.63	2.99
P/B (x)	3.1	2.1	1.8	1.6	1.4
Dividend yield (%)	0.7	0.8	1.1	1.4	1.4

Source: Company data, BOCOM Int'l estimates

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	4.80
52w low (HK\$)	4.01
Market cap (HK\$ m)	10,312
Avg daily vol (m)	2.92
YTD change (%)	-8.89
200d MA (HK\$)	4.42

Source: Bloomberg

Wallace Cheng

wallace.cheng@bocomgroup.com
(852) 3766 1810

Spencer Luo

spencer.luo@bocomgroup.com
(852) 3766 1853

Figure 1: Segmental forecast

Y/E Dec	2016	2017	2018E	2019E	2020E
(HK\$ m)					
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 2: Forward P/E band



Source: Bloomberg, BOCOM Int'l estimates

Figure 3: Forward P/B band



Source: Bloomberg, BOCOM Int'l estimates

Figure 4: 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

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	2017	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	2017	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

BOCOM International

10/F, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong

Main: (852) 3766 1899 Fax: (852) 2107 4662

Rating System

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**.

15 June 2018

Canvest (1381 HK)



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