



## Flash Note: Dongjiang Environmental (00895 HK)

Gary Wong 黄家玮  
(852) 2509 2616

快讯: 东江环保 (00895 HK)

gary.wong@gtjas.com.hk

25 June 2018

# Counterfeited Emissions Statistics Revealed for Jiangxi Fengcheng Project

江西丰城市项目被揭发排放数据造假

- Dongjiang Environmental Protection's (00895 HK) Jiangxi Fengcheng project counterfeiting of emissions data was exposed by Chinese TV station CCTV-2. This mainly involved temperatures of dioxin combustion chambers one and two, which failed to meet the standards in the Company's staff internal records (below the specified 850 degrees and 1,100 degrees standards, respectively), but in the Company's computerized monitoring system, the records were normal or even far better than the specified emissions standards.** The reason, according to the report, was that the Company's operator could directly change parameter settings in the user interface and modify various parameters such as range, slope, etc., of exhaust gas being monitored. The reporter contacted the third-party operation and maintenance company (Sick) through Dongjiang Environmental Protection's officer and learned that the password of the monitoring system administrator had already been handed over to Dongjiang Environmental Protection. At present, Fengcheng City, Jiangxi Province has required the Company to suspend production and rectification is needed. Several responsible officers, including corporate legal representatives, were detained by the Fengcheng Public Security Bureau of Jiangxi Province.
- This is not the first time that the Jiangxi Company has violated regulations. In the 58<sup>th</sup> issue submitted by the Fourth Environmental Protection Inspectorate of the Central Government to Jiangxi Province in November 2016, it was pointed out that environmental violations in hazardous waste management units in Jiangxi Province were widespread. Among them, the licensing scope of hazardous waste business licenses of Jiangxi Dongjiang Environmental Protection Company exceeded actual disposal capacity. The Company has never issued an announcement on the issue, nor has it issued an announcement regarding its officers criminal detention in Jiangxi. **We believe that the incident has caused the market to seriously question the Company's ability and integrity of business operation.**
- We believe that the Company's other projects may have similar problems; we are waiting for the Company to provide a more detailed disclosure. The market's valuation level for the Company might remain depressed for a long time before the Company can be assumed to be honest and compliant again.** Since it is unclear how many projects are affected, the Company's prospects are very uncertain. We do not recommend investors to buy at this stage. We will lower the Company's target price and adjust investment rating in the next report.
- 东江环保(00895 HK)江西丰城市项目被央视二台曝光其排放数据造假, 主要涉及二恶英处理排放的一燃室和二燃室温度, 在公司内部的人手纪录里多次不达标(分别低于规定的 850 度以及 1,100 度), 但在企业计算机监控系统内则显示正常甚至远低于排放标准。记者揭发原因在于操作员的操作界面中可以直接打开参数设置, 对监测废气的各种参数如量程、斜率等参数进行修改。记者通过东江环保公司环保负责人联系到第三方运维企业(西克公司), 得知监控系统管理员的密码早已交给了东江环保。目前江西省丰城市已经要求企业停产整治, 包括企业法人代表在内的多名责任人被江西省丰城市公安局刑事拘留。
- 这已不是江西公司第一次违规, 在 2016 年 11 月中央第四环境保护督察组向江西省交办的第五十八项问题中, 指出江西省危险废物经营单位环境违法现象普遍, 其中江西东江环保等企业危险废物经营许可证许可范围超出实际处置能力。公司从未就相关问题发出公告公布, 亦未就其江西公司法人被刑拘发出公告。**我们认为事件已引起市场对公司经营的能力及诚信的严重质疑。**
- 我们认为公司的其他项目或有类似的情况, 正等待公司作更详尽的披露, 市场对公司的估值水平在公司被证实为合规诚实前或将长期低迷。**由于不清楚有多少个项目受影响, 公司前景十分不明朗, 我们不建议投资者于现阶段买入。我们将于下一份报告里调低公司的目标价及调整投资评级。

**Company Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating     |    | Definition  |
|------------|----|---|
| Buy        | 买入 | Relative Performance > 15%;<br>or the fundamental outlook of the company or sector is favorable.            |
| Accumulate | 收集 | Relative Performance is 5% to 15%;<br>or the fundamental outlook of the company or sector is favorable.     |
| Neutral    | 中性 | Relative Performance is -5% to 5%;<br>or the fundamental outlook of the company or sector is neutral.       |
| Reduce     | 减持 | Relative Performance is -5% to -15%;<br>or the fundamental outlook of the company or sector is unfavorable. |
| Sell       | 卖出 | Relative Performance < -15%;<br>or the fundamental outlook of the company or sector is unfavorable.         |

**Sector Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating       |      | Definition   |
|--------------|------|--|
| Outperform   | 跑赢大市 | Relative Performance > 5%;<br>or the fundamental outlook of the sector is favorable.       |
| Neutral      | 中性   | Relative Performance is -5% to 5%;<br>or the fundamental outlook of the sector is neutral. |
| Underperform | 跑输大市 | Relative Performance < -5%;<br>Or the fundamental outlook of the sector is unfavorable.    |

**DISCLOSURE OF INTERESTS**

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), CHINA MINSHENG BANKING CORP. - H SHARES (01988 HK), BINHAI INVESTMENT (02886 HK), CAM SCSMALLCAP (03157 HK), ZHENRO PPT (06158 HK), GFI MSCI A I-R (CNY) (83156 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

**DISCLAIMER**

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2018 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk