

## Company Report: China Everbright International (00257 HK)

公司报告: 中国光大国际 (00257 HK)

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23 July 2019

# Slowdown in Industry Investment Might Delay Capacity Release Plan, However, Maintain "Buy"

行业投资放缓或将导致产能释放计划延迟, 但仍维持“买入”评级

- According to National Bureau of Statistics of China, for the first six months of 2019, FAI growth of irrigation management was 1.1%, below expectation. In addition, **accumulated YoY change in fiscal expenditure on the energy saving & environmental protection industry and on the agricultural irrigation industry in the first six months of 2019 amounted to 19.7% and 13.0%, respectively, down from 29.8% and 14.1%, respectively, for first five months.**
- As at 31<sup>st</sup> December 2018, 52% of the Company's outstanding borrowings of HK\$38.5 billion was denominated in RMB, and 98.2% of the Company's revenue was generated in the PRC and denominated in RMB. As such, depreciation in RMB will have a negative impact on the Company's shareholders' net profit as its reporting currency is in HKD. According to our sensitivity analysis, **for a 5% depreciation in RMB against HKD, the Company's shareholders' net profit will decrease by 1.0%, 1.1% and 1.3% in 2019, 2020, and 2021, respectively.**
- We lower our EPS estimates for 2019/ 2020/ 2021 to HK\$0.828, HK\$0.934 and HK\$1.030, respectively, representing EPS CAGR of 6.3% during 2018-2021. **Revise down the TP to HK\$9.50, representing 11.5x/ 10.2x/ 9.2x 2019/ 2020/ 2021 PER. As valuation remains attractive, maintain "Buy" rating.**
- 根据中国国家统计局的数据, 2019 年前六个月水利管理业固定资产投资增速为 1.1%, 低于预期。此外, 节能环保产业和农林水务产业前六个月的财政支出的累计同比变化分别为 19.7%及 13.0%, 较前五个月的 29.8%及 14.1%有所下跌。
- 截至 2018 年 12 月 31 日, 公司 385 亿港元未偿还借款中的 52%以人民币计值, 公司 98.2% 的收入来自中国, 并以人民币计值。因此人民币贬值将对公司股东净产生负面影响, 因其报告货币为港元。根据我们的敏感性分析, **人民币兑港元若贬值 5%, 公司的股东净利将分别于 2019 年、2020 年和 2021 年下降 1.0%、1.1%和 1.3%。**
- 我们将 2019/ 2020/ 2021 年每股盈利预测分别下调至 0.828 港元、0.934 港元及 1.030 港元, 对应 2018 - 2021 年每股盈利年均复合增长率为 6.3%。**将目标价下调至 9.50 港元, 相当于 11.5 倍/ 10.2 倍/ 9.2 倍 2019/ 2020/ 2021 年市盈率。由于估值仍具吸引力, 维持“买入”评级。**

Rating:

**Buy**

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

**HK\$9.50**

Revised from 原目标价:

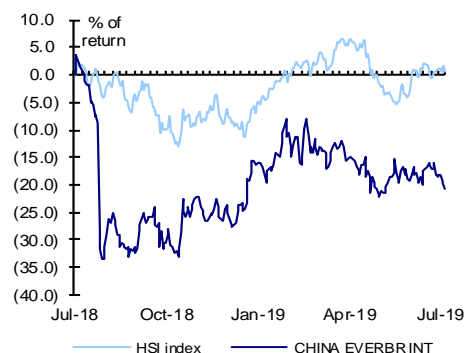
HK\$10.06

Share price 股价:

HK\$7.150

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(3.3)	(8.0)	(21.0)
Rel. % to HS Index 相对恒指变动 %	(3.2)	(3.0)	(21.8)
Avg. share price (HK\$) 平均股价 (港元)	7.4	7.4	7.2

Source: Bloomberg, Guotai Junan International.

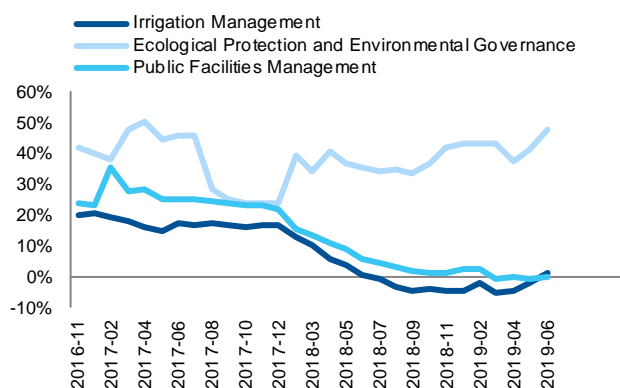
Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(△%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2017A	20,043	3,510	0.783	26.1	10.2	5.031	1.6	0.240	3.0	17.6
2018A	27,228	4,319	0.858	9.6	9.3	6.737	1.2	0.240	3.0	15.3
2019E	32,543	5,084	0.828	(3.5)	9.6	6.110	1.3	0.240	3.0	14.2
2020E	38,175	5,737	0.934	12.8	8.5	6.754	1.2	0.290	3.6	14.5
2021E	44,154	6,328	1.030	10.3	7.7	7.484	1.1	0.300	3.8	14.5
Shares in issue (m) 总股数 (m)				6,143.0	Major shareholder 大股东		China Everbright Group Ltd 42.0%			
Market cap. (HK\$ m) 市值 (HK\$ m)				49,021.1	Free float (%) 自由流通比率 (%)		58.0			
3 month average vol. 3 个月平均成交股数 ('000)				8,199.2	FY19 Net gearing (%) FY19 净负债/股东资金 (%)		59.0			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				9.817 / 6.060	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)		11.9			

Source: the Company, Guotai Junan International.

**Environmental protection investment growth was slower than expected in 1H2019 in China.** According to the National Bureau of Statistics of China, for the first six months of 2019, FAI growth of irrigation management was 1.1%, the first positive growth rate in 2019, but still below expectation. While for fiscal expenditure on the environmental protection industry, for the first six months of 2019, accumulated YoY change in fiscal expenditure on energy saving & environmental protection industry and on the agricultural irrigation industry amounted to 19.7% and 13.0%, respectively, down from 29.8% and 14.1%, respectively, for first five months. We think lower-than-expected growth in environmental protection investment will likely reduce the progress of the Company's construction services business, which contributed 61% of 2018 revenue of the Company, in 2019, and might delay the Company's capacity release plan.

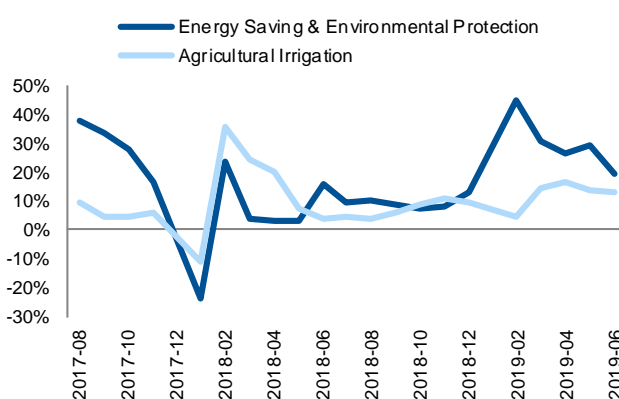
**A 5% RMB depreciation against HKD is likely to reduce shareholders' net profit by approximately 1% in 2019-2021.** As at 31<sup>st</sup> December 2018, 52% of the Company's outstanding borrowings of HK\$38.5 billion was denominated in RMB, and 98.2% of the Company's revenue was generated in the PRC and denominated in RMB. As such, depreciation in RMB will have a negative impact on the Company's shareholders' net profit as its reporting currency is in HKD. During the first four months of 2019, RMB had depreciated as much as 3% against the HKD. According to our sensitivity analysis, for a 5% depreciation in RMB against HKD, the Company's shareholders' net profit will decrease by 1.0%, 1.1% and 1.3%, respectively in 2019, 2020, and 2021.

**Figure 1: FAI in Irrigation, Environmental and Public Facilities Management**



Source: the Company.

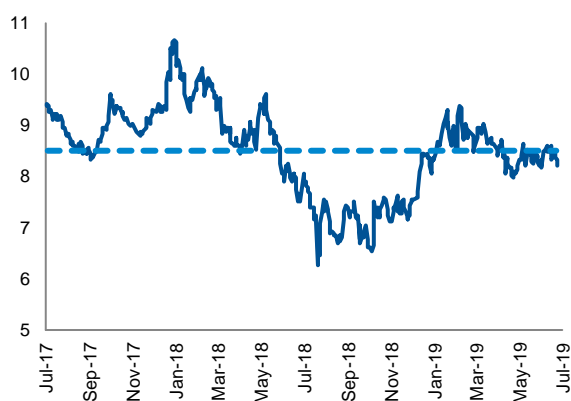
**Figure 2: Accumulated YoY Change in Fiscal Expenditure on Environmental Protection Industry**



Source: the Company.

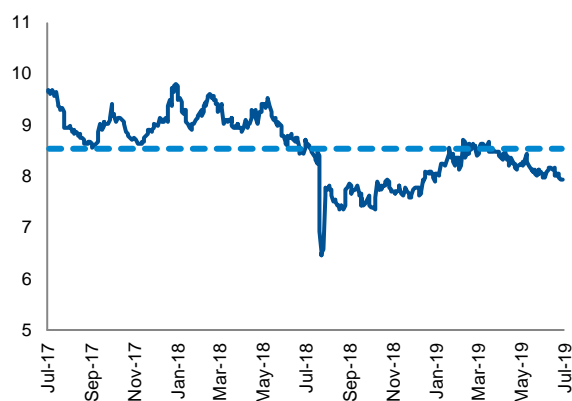
**Revise down the TP to HK\$9.50, maintain "Buy".** Based on expected slower progress in construction services business and the negative impact of RMB depreciation, we lower our EPS estimates for 2019/ 2020/ 2021 to HK\$.828, HK\$.934 and HK\$1.030, respectively, representing EPS CAGR of 6.3% during 2018-2021. Revise down the TP to HK\$9.50, representing 11.5x/ 10.2x/ 9.2x 2019/ 2020/ 2021 PER. As valuation remains attractive, maintain "Buy" rating.

**Figure 3: CEI Forward PE Ratio**



Source: Bloomberg.

**Figure 4: CEI Forward EV/EBITDA Ratio**



Source: Bloomberg.

**Table 1: Peers Comparison**

Company	Stock Code	Currency	Last Price	Market Cap(mn)	PE				PB				ROE	D/Y
					18A	19F	20F	21F	18A	19F	20F	21F	19F	19F
Solid Waste Treatment														
China Everbright Intl Ltd	257 HK	HKD	7.150	43,922	8.3	8.2	6.9	6.0	1.3	1.1	1.0	0.9	14.6	3.7
Dongjiang Environmental-H	895 HK	HKD	7.350	9,518	13.2	11.6	9.9	8.7	1.4	1.2	1.1	0.9	11.5	2.4
Dynagreen Environmental Pr-H	1330 HK	HKD	3.630	11,570	12.2	9.7	7.2	5.8	1.2	1.2	1.1	0.9	11.9	2.8
Canvest Environmental Protec	1381 HK	HKD	4.080	10,016	13.3	11.1	9.3	8.0	1.9	1.6	1.4	1.2	15.7	1.4
Capital Environment Holdings	3989 HK	HKD	0.210	3,002	13.8	11.7	7.5	5.4	0.8	0.6	0.5	0.5	5.7	n.a.
New Universe Environmental G	436 HK	HKD	0.300	911	12.2	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Enterprises Environm	154 HK	HKD	0.750	1,125	4.2	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					11.1	10.5	8.2	6.8	1.2	1.2	1.0	0.9	11.9	2.6
Weighted Average					10.3	9.3	7.7	6.5	1.3	1.2	1.1	0.9	13.6	3.1
Waste Water Treatment														
China Everbright Intl Ltd	257 HK	HKD	7.150	43,922	8.3	8.2	6.9	6.0	1.3	1.1	1.0	0.9	14.6	3.7
Beijing Enterprises Water Gr	371 HK	HKD	4.310	43,176	9.0	8.0	7.0	6.1	1.6	1.4	1.2	1.1	18.4	4.6
China Water Affairs Group	855 HK	HKD	7.270	11,697	10.0	8.5	7.7	6.6	1.6	1.5	1.3	1.2	18.1	2.8
Guangdong Investment Ltd	270 HK	HKD	16.600	108,528	21.6	20.3	18.5	17.0	2.7	2.5	2.4	2.3	12.6	3.6
Tianjin Capital Environ-H	1065 HK	HKD	2.790	10,450	6.7	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.
Ct Environmental Group Ltd	1363 HK	HKD	0.340	2,148	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Siic Environment Holdings Lt	807 HK	HKD	1.520	3,962	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.2	n.a
Yunnan Water Investment -H	6839 HK	HKD	2.110	2,518	5.3	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.
Kunming Dianchi Water Trea-H	3768 HK	HKD	2.300	2,367	5.7	6.1	4.9	n.a.	0.5	n.a.	n.a.	n.a.	8.3	8.4
China Water Industry Group L	1129 HK	HKD	0.520	830	123.8	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.
Kangda International Environ	6136 HK	HKD	1.000	2,032	5.7	5.7	5.3	4.5	0.4	0.4	0.4	0.3	6.7	0.0
Luzhou Xinglu Water Group -H	2281 HK	HKD	1.310	1,126	6.1	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					20.2	9.5	8.4	8.0	1.0	1.4	1.3	1.2	12.3	3.8
Weighted Average					15.2	14.4	12.9	11.7	2.0	1.9	1.8	1.7	14.3	3.7

Source: Bloomberg.

23 July 2019

China Everbright International 中国光大国际 (00257 HK)

Company Report

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F
Total Revenue	20,043	27,228	32,543	38,175	44,154	Property, Plant and Equipment	4,361	4,782	5,408	6,089	6,831
Direct Costs and Operating Expenses	(12,911)	(17,797)	(21,174)	(24,803)	(28,614)	Interest in Associates	248	335	345	355	366
Gross Profit	7,133	9,431	11,369	13,372	15,540	Intangible Assets	8,593	12,643	15,038	18,201	21,751
						Long-term Receivables	1,078	1,572	1,750	1,949	2,152
Other Income/Expenses, Net	612	682	876	1,018	1,151	Amounts Due from Customers	36,781	43,540	56,285	71,065	87,166
Administrative Expenses	(1,438)	(1,899)	(2,245)	(2,596)	(2,958)	Other Non-current Assets	2,425	2,585	2,952	3,385	3,894
Operating Profit	6,306	8,213	9,999	11,794	13,733	Total Non-current Assets	53,486	65,457	81,779	101,044	122,160
Finance Costs	(938)	(1,376)	(1,816)	(2,354)	(3,063)	Inventories	510	659	826	1,017	1,238
Share of Profits from Associates/JVs	60	162	180	223	276	Debtors	3,751	5,492	9,258	11,360	13,639
Profit Before Tax	5,428	6,998	8,363	9,663	10,946	Amounts Due from Customers	4,536	7,537	0	0	0
Income Tax	(1,376)	(1,729)	(2,049)	(2,367)	(2,682)	Other Current Assets	2,183	3,840	4,224	4,647	5,112
Profit After Tax	4,052	5,270	6,314	7,295	8,264	Cash & Cash Equivalents	8,657	12,136	12,518	9,799	8,932
						Total Current Assets	19,637	29,664	26,826	26,823	28,921
Non-controlling Interest	(542)	(951)	(1,230)	(1,558)	(1,936)	Total Assets	73,123	95,122	108,605	127,868	151,081
Shareholders' Profit / Loss	3,510	4,319	5,084	5,737	6,328						
						Short-term Debts	5,414	4,935	5,428	5,971	6,568
Basic EPS	0.783	0.858	0.828	0.934	1.030	Creditors	8,505	10,168	13,911	18,740	24,862
DPS	0.240	0.240	0.240	0.290	0.300	Other Current Liabilities	114	132	145	159	175
						Total Current Liabilities	14,033	15,234	19,485	24,871	31,606
						Long-term Loans	26,040	33,591	36,950	43,954	52,486
						Other Non-current Liabilities	4,406	5,601	6,635	7,994	9,519
						Total Non-current Liabilities	30,446	39,192	43,585	51,948	62,005
						Total Liabilities	44,480	54,426	63,070	76,819	93,611
						Share Capital	7,405	17,330	17,330	17,330	17,330
						Reserves	15,149	16,597	20,206	24,161	28,647
						Total Shareholders' Equity	22,554	33,926	37,535	41,491	45,976
						Minority Interest	6,089	6,769	7,999	9,558	11,494
						Total Equity	28,644	40,695	45,535	51,049	57,470
						Total Equity and Liabilities	73,123	95,122	108,605	127,868	151,081
						BVPS	5.031	6.737	6.110	6.754	7.484
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Profit Before Tax	5,428	6,998	8,363	9,663	10,946	Operations					
Depreciation and Amortisation	497	620	759	886	1,026	Gross Margin	35.6	34.6	34.9	35.0	35.2
Change in Working Capital	(9,846)	(12,386)	(6,310)	(13,215)	(13,386)	Operating Margin	31.5	30.2	30.7	30.9	31.1
Other Operating Activities	819	401	674	1,077	1,641	Net Margin	20.2	19.4	19.4	19.1	18.7
Cash from Operating Activities	(3,102)	(4,366)	3,486	(1,590)	228	ROA (%)	5.7	5.1	5.0	4.9	4.5
						ROE (%)	17.6	15.3	14.2	14.5	14.5
Capital Expenditure	(3,555)	(5,179)	(3,021)	(3,843)	(4,292)	Net Gearing Ratio (%)	76.7	58.2	59.0	72.2	80.9
Other Investing Activities	(1,278)	(2,319)	(459)	(507)	(541)	Interest Coverage (x)	6.7	6.0	5.5	5.0	4.5
Cash from Investing Activities	(4,833)	(7,498)	(3,480)	(4,350)	(4,833)						
Issuance of Shares	0	9,962	0	0	0						
Issuance / (Repayment) of Debts	7,665	7,046	3,853	7,547	9,129						
Dividends	(1,121)	(1,076)	(1,209)	(1,474)	(1,781)						
Other Financing Activities	3,399	(279)	(1,928)	(2,476)	(3,198)						
Cash from Financing Activities	9,944	15,652	716	3,596	4,150						
Cash at Beg of Year	6,341	8,657	12,136	12,518	9,799						
Net Changes in Cash	2,009	3,789	722	(2,344)	(455)						
Forex	308	(309)	(340)	(374)	(412)						
Cash at End of Year	8,657	12,136	12,518	9,799	8,932						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

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

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