

## Results Update

# China Everbright International 0257 HK

## Profit forecast revised up on the back of new projects secured

- CEI reported turnover and net profit attributable to shareholders of HKD2,943.8m and HKD801.9m in 1H FY12/14, representing a YoY increase of 19.3% and 23.3% respectively.
- The company has secured 11 new projects and has commenced the preparation of 2 wind power projects in 1H FY12/14.
- We expect that the company will perform better in 2H FY12/14 as most of its projects in their preparatory stages will begin construction in 2H FY12/14.
- We revised up our TP from HKD10.8 to HKD11.4, maintain rating at HOLD.

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**Stock Data (257 HK)**

Rating	HOLD
Price (HK\$)	10.54
Target Price (HK\$)	11.4
12m Price Range (HK\$)	6.62-12.12
Market cap. (HK\$m)	47,258.3
Daily t/o (HK\$m)	95.5
Free float (%)	60.3

Source: Bloomberg

**New projects secured in 1H FY12/14:** The company secured 11 new projects in 1H FY12/14, which include 7 WTE projects, 1 hazardous waste treatment project, and 3 biomass integrated utilization projects. The company has also commenced the preparation of 2 wind power projects. These projects (11 new projects + 2 wind power projects) command a total investment of RMB4.6b. Among the 7 WTE projects, 4 are in their preparatory stages and, we believe, will proceed to their construction stages in 3Q FY12/14, from which each will start contributing construction revenue to the company.

**Better performance expected in 2H FY12/14:** We expect the company's revenue and profit to be higher in 2H FY12/14 as compared to 1H FY12/14, as we expect the 15 WTE projects (including the 4 projects secured in 1H FY12/14) that are in their preparatory stages to begin construction in 2H FY12/14, and therefore we expect construction revenue would be significantly higher as compared to 1H FY12/14. That said, as construction revenue of WTE projects only commands gross profit of ~15.0%-20.0% (as opposed to 50.0%-70.0% recorded in operating revenue), we forecast the blended gross profit margin for FY12/14 to be 36.6%, which is lower than 45.9% recorded in 1H FY12/14.

**TP revised up to HKD11.4 with rating maintained at HOLD:** We revised up our revenue and profit forecast for CEI as a result of factoring in the new project the company secured in 1H FY12/14. Accordingly, we also revised up our TP from HKD10.8 to HK11.4, which represents an upside to the current price of 8.2%. It is worth noting that our forecast has not factored in the acquisition of Hankore that is expected to be completed in 4Q FY12/14.

**Figure 1: Financials and valuation**

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
<b>Total Revenue (HKD m)</b>	<b>3,410</b>	<b>5,320</b>	<b>9,042</b>	<b>11,504</b>	<b>6,247</b>
Revenue Growth(YoY)	-2.2%	56.0%	70.0%	27.2%	-45.7%
<b>EBIT (HKD m)</b>	<b>1,483</b>	<b>2,127</b>	<b>2,945</b>	<b>3,814</b>	<b>3,272</b>
EBIT Growth(YoY)	17.7%	43.4%	38.5%	29.5%	-14.2%
<b>Net Profit (HKD m)</b>	<b>1,154</b>	<b>1,364</b>	<b>1,895</b>	<b>2,408</b>	<b>2,005</b>
Net Profit Growth(YoY)	40.2%	17.9%	37.6%	27.1%	-16.7%
EPS (HKD)	0.30	0.30	0.41	0.52	0.43
DPS (HKD)	<b>0.06</b>	<b>0.09</b>	<b>0.08</b>	<b>0.10</b>	<b>0.09</b>
P/E (x)	35.5	35.7	25.9	20.4	24.5
Dividend Yield	0.6%	0.8%	0.8%	1.0%	0.8%

Source: SBI China Capital, Company data

**Figure 2. Result snapshot for 1H FY12/14 and 1H FY12/13**

	1H FY12/14 HKD m	1H FY12/13 HKD m	Change (%)
Revenue	2,943.8	2,466.7	19.3%
Gross profit	1,351.5	1,145.7	18.0%
Profit from operation	1,250.4	1,034.0	20.9%
Net profit attributable to shareholders	801.9	650.2	23.3%

Source: Company data

**Figure 3. Revenue breakdown for 1H FY12/14 and 1H FY12/13**

		1H FY12/14 HKD m	1H FY12/13 HKD m	Change (%)
Construction revenue	Waste-to-energy projects	1,526.7	1,249.3	22.2%
	Waste water treatment projects	81.0	199.7	-59.4%
	Alternative energy projects	164.1	0.0	N.A.
Operation service	Waste-to-energy projects	320.6	303.3	5.7%
	Waste water treatment projects	284.9	242.0	17.7%
	Alternative energy projects	123.9	123.7	0.2%
Finance Income		439.8	348.5	26.2%
Gross rentals from investing properties		2.2	0.3	753.7%
Construction management fee income		0.5	0.0	N.A.
<b>Total</b>		<b>2,943.8</b>	<b>2,466.7</b>	<b>19.3%</b>

Source: Company data

**Figure 4. Forecast changes**

	FY12/14			FY12/15			FY12/16		
	New HKD m	Old HKD m	Change (%)	New HKD m	Old HKD m	Change (%)	New HKD m	Old HKD m	Change (%)
Revenue	9,041.6	7,843.0	15.3%	11,504.0	8,966.8	28.3%	6,246.8	5,684.8	9.9%
Gross profit	3,307.2	3,022.8	9.4%	4,273.8	3,698.8	15.5%	3,522.0	3,283.6	7.3%
Net profit	1,895.3	1,746.1	8.5%	2,408.0	2,189.6	10.0%	2,005.2	1,968.4	1.9%

Source: Company data

## Valuation

We revised CEI's revenue and net profit upward for the next few years as the company has secured more environmental projects in 1H FY12/14, and therefore we expect to see significant improvements in its construction revenue and operating revenue. It is worth noting that we conservatively forecast revenue in FY12/16 to be lower than that in FY12/15, as we assume there will be only 3 WTE projects to begin construction during the year (while there are 19 WTE projects under construction or in their preparatory stages in FY12/14), therefore we expect the revenue from construction in FY12/16 to be significantly lower than that in FY12/15.

We also revised upward our target price on CEI from HKD10.8 to HKD11.4 based on our expectation of higher free cash flow generated from more environmental projects. Our target price is derived from our DCF model which assumes a weighted average cost of capital (WACC) of 7.6% and a terminal growth rate of 3.0%. We maintain our rating at HOLD.

**Figure 5. DCF model**

	FY12/14E	FY12/15E	FY12/16E	FY12/17E	FY12/18E	FY12/19E	FY12/20E
WACC@7.6%							
FCFF (HKD m)	(2,171.1)	(5,708.7)	3,408.1	4,207.6	2,574.0	3,537.0	3,512.8
Discount Factor	0.9	0.9	0.8	0.7	0.7	0.6	0.6
Discounted FCFF (HKD m)	(2,018.1)	(4,932.2)	2,736.9	3,140.8	1,785.9	2,281.1	2,105.8
PV of estimated FCFF (HKD m)	5,100.3						
PV of terminal FCFF (HKD m)	47,313.0						
Value of Firm (HKD m)	52,413.3						
Minus: debt (HKD m)	6,921.1						
Plus: cash and cash equivalent (HKD m)	5,771.1						
Value of Equity (HKD m)	51,263.3						
Total Share outstanding (m)	4,483.7						
Equity Value per share (HKD)	11.4						

Source: SBI China Capital

**Figure 6. Per share items**

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
EPS (HKD cents)					
-basic	29.7	29.5	40.6	51.6	43.0
-diluted	29.5	29.5	40.6	51.6	43.0
DPS (HKD cents)	6.0	8.5	8.1	10.3	8.6
BVPS (HKD)	1.9	3.1	3.4	3.8	4.2

Source: SBI China Capital, Company data

**Figure 7. Ratio analysis**

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
<b>Growth (YoY)</b>					
revenue	-2.2%	56.0%	70.0%	27.2%	-45.7%
Gross profit	17.1%	41.1%	39.2%	29.2%	-17.6%
Operating profit	17.7%	43.4%	38.5%	29.5%	-14.2%
Net profit (including discontinued operation)	36.5%	18.2%	38.9%	27.1%	-16.7%
Net Profit from continuing operation	18.2%	50.9%	38.9%	27.1%	-16.7%
<b>Margins</b>					
Gross margin	49.4%	44.7%	36.6%	37.2%	56.4%
EBIT margin	43.5%	40.0%	32.6%	33.2%	52.4%
Net profit margin (excluding discontinued operation)	26.5%	25.6%	21.0%	20.9%	32.1%
<b>Other Ratios</b>					
Return on average assets	7.6%	6.8%	7.3%	7.5%	5.9%
Return on average equity	15.1%	12.2%	13.0%	14.8%	11.1%
dividend payout ratio	20.2%	28.8%	20.0%	20.0%	20.0%
<b>Valuation Measures</b>					
P/E (x)	35.5	35.7	25.9	20.4	24.5
P/B (x)	5.5	3.4	3.1	2.7	2.5
Dividend yield	0.6%	0.8%	0.8%	1.0%	0.8%

Source: SBI China Capital, Company data

**Figure 8. Income statement (HKD m)**

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
Revenue	3,410	5,320	9,042	11,504	6,247
Cost of Sales	(1,726)	(2,944)	(5,734)	(7,230)	(2,725)
<b>Gross Profit</b>	1,684	2,375	3,307	4,274	3,522
Other income	97	144	271	345	187
Administrative costs	(297)	(392)	(633)	(805)	(437)
<b>Profit from operation</b>	1,483	2,127	2,945	3,814	3,272
Finance costs	(313)	(316)	(512)	(721)	(688)
<b>Profit before taxation</b>	1,171	1,812	2,434	3,092	2,585
Income tax	(267)	(447)	(539)	(684)	(579)
<b>Profit from continuing operation</b>	904	1,364	1,895	2,408	2,005
Profit discontinued operation	250	0	0	0	0
<b>Profit for the year</b>	1,154	1,364	1,895	2,408	2,005
Profit attributable to shareholders	1,123	1,325	1,823	2,316	1,928
Minority interest	31	40	73	92	77

Source: SBI China Capital, Company data

**Figure 9. Balance sheet (HKD m)**

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
<b>Non-Current Assets</b>					
PPE	1,471	1,587	1,543	1,493	1,443
Intangible assets	614	1,096	1,325	1,289	1,253
Other receivables and deposits	2,603	3,024	5,063	6,442	3,498
Gross amounts due from customers for contract work	6,890	9,035	12,063	19,141	20,275
Other	266	484	484	484	484
<b>Total Non-Current Assets</b>	<b>11,844</b>	<b>15,227</b>	<b>20,479</b>	<b>28,849</b>	<b>26,953</b>
<b>Current Assets</b>					
Inventories	65	76	136	172	172
Debtors, other receivables, deposits and prepayments	1,207	1,377	2,170	2,761	1,499
Gross amounts due from customers for contract work	644	941	1,094	1,736	1,816
Other	1,016	1,425	1,025	1,025	1,025
Cash and cash equivalent	1,807	4,426	3,758	679	1,355
<b>Total Current Assets</b>	<b>4,739</b>	<b>8,244</b>	<b>8,183</b>	<b>6,373</b>	<b>5,868</b>
<b>Total Assets</b>	<b>16,583</b>	<b>23,471</b>	<b>28,662</b>	<b>35,222</b>	<b>32,821</b>
<b>Current Liabilities</b>					
Bank loans	(1,635)	(1,780)	(2,140)	(3,017)	(2,636)
Creditors, other payables and accrued expenses	(1,191)	(1,734)	(2,987)	(3,766)	(1,419)
Current taxation	(58)	(58)	(83)	(106)	(89)
<b>Total Current Liabilities</b>	<b>(2,884)</b>	<b>(3,572)</b>	<b>(5,210)</b>	<b>(6,888)</b>	<b>(4,144)</b>
<b>Non-Current Liabilities</b>					
Bank loans	(4,369)	(5,141)	(7,164)	(10,100)	(8,823)
Deferred tax liabilities	(659)	(979)	(979)	(979)	(979)
<b>Total Non Current Liabilities</b>	<b>(5,028)</b>	<b>(6,120)</b>	<b>(8,142)</b>	<b>(11,079)</b>	<b>(9,802)</b>
<b>Equity</b>					
Share capital	404	448	448	448	448
Reserves	7,946	12,926	14,398	16,268	17,825
<b>Total Shareholder's Equity</b>	<b>8,350</b>	<b>13,374</b>	<b>14,846</b>	<b>16,716</b>	<b>18,274</b>
Minority interest	321	405	464	538	601
<b>Total Equity</b>	<b>8,670</b>	<b>13,779</b>	<b>15,310</b>	<b>17,255</b>	<b>18,874</b>

Source: SBI China Capital, Company data

**Figure 10. Cash flow statement (HKD m)**

	FY12/12	FY12/13	FY12/14E	FY12/15E	FY12/16E
<b>Operating Cash flow</b>					
Profit before tax	1,459	1,812	2,434	3,092	2,585
Depreciation	53	49	50	50	50
Amortisation of intangible assets	29	17	17	36	36
Finance costs	315	-	512	721	688
Other	(261)	(234)	(78)	(61)	(30)
<b>Operating Cash flow before W/C</b>	1,594	1,643	2,934	3,839	3,328
Change in Working Capital	(1,766)	(2,500)	(4,821)	(8,947)	645
Interest received	25	-	78	61	30
Tax paid	(143)	(121)	(514)	(662)	(596)
<b>Cash flow from operation</b>	(290)	(978)	(2,322)	(5,709)	3,408
<b>Investing Activities</b>					
Purchases of PPE	(621)	(166)	(6)	0	0
Payment for additions of intangible assets	(103)	(499)	(245)	0	0
Other	(338)	(0)	402	0	0
<b>Cash flow from investing activities</b>	(1,063)	(665)	151	0	0
<b>Financing Activities</b>					
Proceeds from new bank loans	2,773	917	2,382	3,814	(1,659)
Repayment of bank loans	(1,815)	-	-	-	-
Interest paid	(315)	-	(512)	(721)	(688)
Dividend paid	(246)	(366)	(365)	(463)	(386)
Other	1,061	3,711	(3)	0	0
<b>Cash flow from financing activities</b>	1,458	4,262	1,503	2,629	(2,732)
Net increase in cash and cash equivalent	105	2,619	(668)	(3,079)	676
Cash and Cash equivalents at the Beginning of the year	1,684	1,807	4,426	3,758	679
Effect of foreign rate exchange	17	0	0	0	0
Cash and Cash Equivalents at the End of the year	1,807	4,426	3,758	679	1,355

Source: SBI China Capital, Company data

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