

Company Flash

# China Everbright International 0257 HK

## Positive profit alert not a surprise

- ❑ *CEI last week announced it expects its recurring net profit for 1H FY12/13 will be significantly higher as compared to the same period last year.*
- ❑ *The alert is not a surprise to the market as it is public information that the 3 WTE projects have commenced construction at the beginning of 2013.*
- ❑ *We are positive to CEI as it is the major beneficiary of China's green policies and it has strong project pipeline.*

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### Stock Data

Rating	Not Rated
Price (HK\$)	6.74
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	3.61-6.85
Market cap. (HK\$m)	3563.7
3M average Daily t/o (HK\$)	103,620,638.6
Free float (%)	56.1

Source: Bloomberg

### Financial Summary

Year to Dec	10A	11A	12A
Turnover (HK\$ m)	2,929	3,487	3,410
Gross profit (HK\$)	1,146	1,438	1,684
Net profit (HK\$)	653	845	1,154
EPS (HK\$)	0.17	0.22	0.30
DPS (HK\$)	0.03	0.05	0.06
P/E (x)	39.8	30.8	27.8
P/B (x)	2.8	1.7	1.9
Dividend Yield (%)	0.4%	0.7%	0.9%

Source: Company data, bloomberg

China Everbright International (CEI) is principally engaged in environmental protection business such as waste to energy (WTE), waste water treatment (WWT) and other alternative energy (biomass, methane to energy and solar power). CEI was formerly known as Newfoundland International Co. Ltd. and was acquired by China Everbright Holdings Co. Ltd. in 1993.

**What's New.** CEI last week announced positive profit alert earlier this week, saying that the company is expected to see a significant YoY increase in its recurring profit (excluding net profit from discontinued operation) for the 6 months ended 30 June 2013. The company mentioned that the increase was mainly driven by: 1) the increase in construction service revenue, 2) recognition of construction cost saving and 3) the rise in profit contribution of operating projects. The 1H FY12/13 results of the company is expected to be announced on 6 Aug 2013.

**Our View.** We believe the increase in recurring income in 1H FY12/13 was within the market expectation, as the company has already announced that the 3 WTE (waste-to-energy) projects, which includes Nanjing WTE project, Ningbo Beilun WTE project and Pizhou WTE project, had commenced construction at the beginning of 2013. These projects have a cumulative investment value of HK\$2.4b and command a gross margin of ~20%. Assuming 18 months of construction period, the % of completion of these projects during the 6-month period would be 33%. This would translate into revenue and recurring profit of approximately HKD800m and HKD160m respectively. Therefore, the recurring net profit, which was HK\$375m in 1H-FY12/12, will increase by at least 43% YoY. Combined with increase in operating revenue, which is recurring in nature, it is not surprising to see a significant YoY increase in its recurring income for 1H FY12/13.

That said, we are still positive on the growth outlook of CEI because: 1) it is the beneficiary of the favourable government policies. The Chinese government target to raise the incineration rate (% of incineration to total waste disposal) in China from 20% in 2010 to 35% in 2015 and CEI's WTE projects are mainly located in coastal areas which the government has set higher target rates; 2) The company has a strong project pipeline, which we believe will contribute operating cash flow and recurring income after they become operational in 2015.

Peers Table									
Company	Ticker	Mkt Cap (HK\$ m)	2012E P/E (x)	2013E P/E (x)	ROIC (%)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
<b>China Everbright International</b>	<b>257 HK</b>	<b>26,227.5</b>	29.32	22.51	<b>8.08</b>	<b>15.45</b>	<b>7.37</b>	<b>0.93</b>	<b>37.53</b>
China Water	855 HK	4,170.4	14.66	14.45	4.76	8.62	2.56	1.73	38.62
Beijing Enterprises Water	371 HK	22,904.2	28.33	21.39	4.04	9.07	2.68	1.34	83.90
Guangdong Investment	270 HK	40,423.3	11.72	12.66	9.89	14.94	9.46	3.09	-7.46
Dongjiang Environmental	895 HK	9,829.8	16.62	14.78	12.80	17.54	10.47	2.94	-30.30
Pan Asia Environmental Protection	556 HK	504.0	n.a.	n.a.	n.a.	-2.51	-1.93	0.00	-46.41
China Environmental Technology	646 HK	427.6	n.a.	n.a.	n.a.	-23.22	-13.77	0.00	8.09
Guodian Technology & Environment	1296 HK	9,883.9	12.01	10.37	5.25	7.68	1.57	1.55	119.79
<b>Average*</b>		<b>14,296.3</b>	<b>18.8</b>	<b>16.0</b>	<b>7.5</b>	<b>5.9</b>	<b>2.3</b>	<b>1.4</b>	<b>25.5</b>

Source: Bloomberg, SBI E2 Capital

**Valuation.** Company's HK listed peers are trading at a 2013 forward P/E of 13.0x while CEI is trading at a 2013 forward P/E of 21.1x. We believe that CEI deserves to be trading at a premium to its peers because: 1) the company has distinguished itself from others by having both WTE and WWT projects, which are similarly environmental projects and will provide synergy to each other, in our view and 2) The company has a higher ROIC, ROE and ROA than its peers, meaning that the company uses its capital more efficiently than its peers. It is worth to note that Beijing Enterprises Water (0371 HK), which has a comparable size and similar operating business to CEI, is now trading at similar valuation to CEI.

In fact, we believe DCF would be a more reasonable estimate of CEI's intrinsic value than price-multiple method, as: 1) it is not affected by the mismatch between earnings and cash flow under concession accounting method; 2) it prices in new projects obtained during the current year, which will contribute recurring income and operating cash flow to the company after they become operational in 1-2 years.

Table 2: Profit and loss items			
HK\$ m	FY12/10A	FY12/11A	FY12/12A
<b>Revenue</b>	<b>2,929.4</b>	<b>3,486.7</b>	<b>3,409.9</b>
Cost of Sales	(1,783.7)	(2,048.4)	(1,726.3)
Gross Profit	1,145.8	1,438.3	1,683.7
Other income	60.6	57.8	96.9
Administrative costs	(187.2)	(235.8)	(297.4)
<b>Profit from operation</b>	<b>1,019.1</b>	<b>1,260.3</b>	<b>1,483.2</b>
Finance costs	(177.6)	(240.8)	(312.6)
Income tax	(191.8)	(254.7)	(266.6)
<b>Profit from continuing operation</b>	<b>653.2</b>	<b>764.8</b>	<b>904.0</b>
Profit discontinued operation	0.0	80.5	250.1
<b>Profit for the year</b>	<b>653.2</b>	<b>845.3</b>	<b>1,154.1</b>
Minority's interest	36.7	43.8	30.8
Shareholder's profit	616.4	801.4	1,123.3

Source: Company Data

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