

2 March 2018

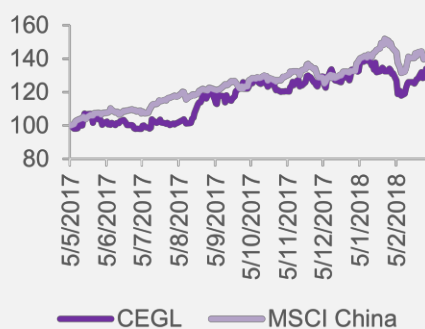
Company update

Environment

Trading data

52-week range	HK\$5.21-7.70
Market cap (mn)	US\$1,848
Outstanding shares (mn)	2,066
Free float (%)	26
3M ADT	US\$4mn

Source: Bloomberg

Relative stock performance since IPO


Source: Bloomberg, CEBI

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Inline 2017 results

Net profit up 52% yoy; Maintain BUY

- CEGL reported an inline FY2017 results with profit up 52% yoy and core earnings up 45% yoy
- Biomass construction revenue: +47% yoy; Biomass operating revenue: +124% yoy; HWT revenue + 29% yoy
- Overall margin declined by 1.7ppt to 31% as lower margin biomass operating revenue rose faster than HWT revenue
- CEGL declared a final dividend of HK\$0.09, implying 19% payout
- Factoring in the latest project wins and higher earnings assumption, we arrive at a new target price of HK\$8.50. Maintain BUY

Inline 2017 results: CEGL reported inline 2017 net profit of HK\$954mn, up 52% yoy. Stripping out a forex gain and a disposal loss, we estimate core earnings increased 45% yoy to HK\$943mn. The strong results were driven by a 47% yoy surge in biomass construction revenue, a 124% yoy jump in biomass operating revenue and 29% yoy higher hazardous waste treatment (“HWT”) operating revenue. Mainly because the lower margin biomass operating revenue rose faster than HWT operating revenue, overall gross margin slid 1.7ppt to 31%. CEGL declared a final dividend of HK\$0.09 per share, implying a 19% payout.

Stable fuel cost and expect on-grid tariff stays flat: The Company maintained stable unit fuel cost of Rmb0.37/kWh in 2017, compared with historical average of Rmb0.40/kWh. The management also expects to biomass on-grid tariff to be stay stable (Rmb0.75/kWh at the moment). But it is worth to mention that CEGL recorded a notable increase in receivables (up from Rmb269mn in 2016 to Rmb837mn in 2017) mainly due to tariff subsidy delay.

Expect another good year ahead: CEGL acquired 19 new projects in 2017 (12 biomass projects and 7 HWT projects). The Company expects new wins to stay high in 2018 and it also plans to explore opportunities in new areas such as soil remediation, biogenic gas and biomass high-parameter technology. We expect the first soil remediation and biogenic gas project to materialize in 2018. The Company’s robust earnings growth, high pipeline visibility and healthy balance sheet should continue to support its solid result.

Buy rating remains with higher TP: After factoring in the latest project commencement schedule and new project wins, we raise our 2018-2019F earnings forecasts by 8-12% and that allows us to lift our target price from HK\$8.00 to HK\$8.50. Trading at 11x 2018F P/E with 35% core earnings CAGR in 2017-2020F, the stock looks attractive. Maintain BUY.

Key takeaways from the Q&A session of CEGL's 2017 annual results briefing**Q: What are the major components in the account receivables?**

A: We had HK\$837mn account receivables as of the end of 2017. Most of them are the renewable energy subsidy.

Q: When will the Company receives the 7th batch of renewable energy subsidy?

A: We expect to receive the 7th batch of renewable energy subsidy in 2Q18 and that would be a one-off amount of Rmb200mn. We also receive some subsidies from local government, but the relevant amount was booked as "other income".

Q: What is the target of new projects for 2018?

A: Our overall target for 2018 is to get new projects of "not less than 2017" (CEGL secured 19 new projects in 2017). And the management is confident to achieve the target.

Q: What would be the proportion of BOT/BOO projects in the future?

A: We do not have a specific target on that. It depends on the opportunities that come up.

Q: Why did the construction revenue of HWT decreased?

A: The Company recognize construction revenue for HWT projects depending on the terms of the concession agreements. In the past, the ratio is 50:50.

Q: How many of the new projects will be Combined-heat-and-power ("CHP") projects? Will CEGL turn the existing biomass projects into CHP?

A: The projects in pipeline are largely urban-rural integrated projects and CHP projects. The energy efficiency of CHP units is actually much higher than the pure power units. CEGL will turn the existing projects into CHP if there is chance to do so.

Q: Will the policy on biomass on-grid tariff changed?

A: We are not aware of any talk to change the tariff. We do not see any reason to cut the tariff as the biomass power generation is inline with the central government strategies on "Beautiful China", "Ecological Civilization" and "Poverty alleviation".

Q: What was the HWT fee in 2017?

A: The average fee was Rmb14.3, slightly higher than 2016.

Q: When will the project pipeline start operation?

A: We have 35 projects in preparation. We target to get these projects ready near the end of 2019, or in the 1H20.

Q: Will there be any incentive scheme for the management?

A: The compensation package for management is market driven. But some other SOEs have already launched employee share option scheme. We believe that is something we can expect in the future.

Q: What is the strategy on debt financing?

A: After the IPO last year, we have sufficient cash on hand. But we will continue to balance the mix of Rmb and non-Rmb borrowings.

Q: What is the gross profit margin (“GPM”) by business segment? What did the overall GPM declined in 2017?

A: The major is that the growth of biomass business (GPM: 25-30%) was faster than the growth of HWT business (GPM: 60-70%) last year. As we have 17 HWT projects in the pipeline, management expects the overall GPM to rebound in 2019-2020.

Q: Any guidance on CEGL’s dividend payout in the future?

A: CEGL’s dividend payout was about 20% in 2017. But the Company conducted IPO in May 2017. If you calculate the payout based on the 2H17 net profit, the payout was 32%. Dividend should see stable increment in the future.

Q: What is the target utilization hours for new projects?

A: In 2017, the utilization hours for existing projects was 8000 hours. We will try to maintain it at similar level for new projects.

Fig.1: Financial highlights

Income statement	2016	2017	YoY (%)	1H17	YoY (%)	2H17	YoY (%)
(HK\$ mn)	3,000	4,581	53	2,047	69	2,534	41
Revenue	-2,009	-3,146	57	-1,387	77	-1,760	44
Cost of sales	992	1,435	45	660	56	775	36
Gross profit	62	92	49	49	139	43	4
Other income	-10	-2	-75	0	-99	-2	-74
Other gains/losses	-198	-237	20	-99	62	-138	1
Other operating expenses	0	0	NA	0	NA	0	NA
Operating profit	846	1,288	52	611	60	677	46
Finance income	6	26	361	7	304	19	387
Finance costs	-68	-126	85	-53	77	-72	92
Share of profits of JCEs	-1	-1	3	-1	6	0	-2
Pretax profit	783	1,188	52	565	59	623	45
Income tax	-154	-230	50	-105	68	-125	37
Net profit	630	957	52	460	58	498	47
Minority interests	0	-3	NA	-2	-753	-1	110
Net profit attributable to shareholders	629	954	52	457	57	496	47
Core earnings	652	943	45	457	56	486	35
Basic EPS (HK\$)	0.437	0.517	18	0.28	39	0.23	0
Diluted EPS (HK\$)	0.437	0.517	18	0.28	39	0.23	0
Core EPS (HK\$)	0.452	0.511	13				
DPS (HK\$)	0.00	0.09	NA				

Source: Company, CEBI

Fig. 2: Profit and loss

(HK\$ mn)	2016	2017	2018F	2019F	2020F
Biomass	2,449	3,994	6,342	7,793	100,383
HWT	336	379	781	1,937	1,730
Solar/wind	215	209	217	217	217
Revenue	3,000	4,581	7,340	9,946	12,330
COGS	(2,009)	(3,146)	(5,195)	(6,974)	(8,412)
Gross profit	992	1,435	2,145	2,972	3,917
Other income	53	90	127	199	266
Operating expenses	(198)	(237)	(402)	(544)	(724)
EBIT	846	1,288	1,871	2,627	3,459
Net financial income (exp.)	(62)	(100)	(234)	(384)	(527)
JV's and associates	(1)	(1)	3	7	10
Profit before tax	783	1,188	1,643	2,250	2,942
Tax	(154)	(230)	(321)	(450)	(600)
Total profit	630	957	1,322	1,800	2,341
Minority interest	(0.3)	(3.5)	(4.8)	(6.5)	(8.5)
Net profit attributable to shareholders	629	954	1,317	1,793	2,333
EPS (HK\$)		0.52	0.64	0.87	1.13
DPS (HK\$)		0.09	0.14	0.20	0.29

Source: Company, CEBI

Fig. 3: Balance sheet

(HK\$ mn)	2016	2017	2018F	2019F	2020F
Cash and equivalents	886	2,404	1,721	1,200	1,296
Bank deposits	106	939	939	939	939
Receivables	498	1,198	1,359	1,841	2,282
Inventory	46	111	130	174	210
Other current assets	48	141	386	553	553
Total current assets	1,585	4,793	4,535	4,707	5,281
Property, plant & equipment	1,714	2,144	2,605	3,833	4,261
Intangible assets	2,976	5,132	8,516	11,690	15,993
JV's and associates	34	52	112	225	228
Other non-current assets	1,156	2,311	2,937	4,012	4,895
Total non-current assets	5,879	9,638	14,170	19,760	25,377
Total assets	7,464	14,432	18,705	24,467	30,658
Short-term borrowings	270	541	837	1,186	1,711
Trade and bills payable	1,017	1,666	2,641	3,737	4,738
Other current liabilities	8	10	13	16	18
Total current liabilities	1,295	2,217	3,491	4,939	6,468
Long-term borrowings	1,698	2,953	4,569	6,786	8,794
Other non-current liabilities	270	495	753	1,040	1,352
Total non-current liabilities	1,968	3,449	5,312	7,827	10,147
Total liabilities	3,263	5,666	8,803	12,765	16,614
Share capital	0.003	1,608	1,608	1,608	1,608
Reserves and retained profits	4,187	7,140	8,271	10,065	12,398
Shareholders' equity	4,187	8,748	9,879	11,673	14,006
Minority interest	13	18	23	29	38
Total equity	4,201	8,766	9,902	11,702	14,043
Total equity and liabilities	7,464	14,432	18,705	24,467	30,658

Source: Company, CEBI

Fig. 4: Cashflow statement

(HK\$ mn)	2016	2017	2018F	2019F	2020F
Profit before tax	783	1,188	1,643	2,250	2,942
Amortization & depreciation	127	149	153	213	268
Net financial charge adjustment	62	100	231	384	527
Non-cash items adjustment	96	193	209	259	271
Change in working capital	267	(212)	551	402	523
Tax paid	(154)	(230)	(321)	(450)	(600)
Other	(681)	(2,032)	(785)	(1,339)	(1,339)
Operating cashflow	500	(846)	1,680	1,720	2,592
CAPEX	(1,866)	(3,198)	(3,604)	(4,669)	(5,032)
Other	248	429	(485)	(138)	2
Investment cashflow	(1,618)	(2,769)	(4,088)	(4,807)	(5,029)
Change in borrowings	811	1,526	1,912	2,566	2,534
Equity issues	0	1,608	0	0	0
Dividend paid	0	0	(186)	0	0
Other	185	1,999	0	0	0
Financing cashflow	997	5,133	1,726	2,566	2,534
Change in cashflow	(121)	1,518	(683)	(522)	96
Cash & equivalents	1,044	886	2,404	1,721	1,200
Forex	(38)	0	0	0	0
Cash & equivalents	886	2,404	1,721	1,200	1,296
Free cashflow	(1,365)	(4,044)	(1,924)	(2,950)	(2,439)

Source: Company, CEBI

Fig. 5: Ratios

(%)	2016	2017	2018F	2019F	2020F
Growth					
Revenue	149.3	52.7	60.2	35.5	24.0
EBITDA	124.0	47.6	40.9	40.3	31.2
EBIT	133.6	52.2	45.3	40.4	31.7
Net profit	131.4	51.6	38.1	36.2	30.1
Core net profit	138.5	44.7	39.7	36.2	30.1
Profitability					
Gross margin	33.0	31.3	29.2	29.9	31.8
EBITDA margin	32.5	31.4	27.6	28.6	30.2
EBIT margin	28.2	28.1	25.5	26.4	28.1
Net margin	21.0	20.8	17.9	18.0	18.9
Core net margin	21.7	20.6	17.9	18.0	18.9
Tax rate	19.6	19.4	19.5	20.0	20.4
Returns & leverage					
ROAA	9.7	8.7	8.0	8.3	8.5
ROAE	17.7	14.7	14.1	16.6	18.2
Net debt/equity	25.8	12.4	37.2	57.9	65.6
Liquidity (x)					
Current ratio	1.2	2.2	1.3	1.0	0.8
Quick ratio	1.2	2.1	1.3	0.9	0.8

Source: Company, CEBI

Fig. 6: Comparable table (Data as of Mar 2, 2018)

Company	Ticker	Market cap USD mn	Price (local)	PE			ROE			Dividend yeild (%) 2017E
				2016	2017E	2018E	2016	2017E	2018E	
CHINA EVERBRIGHT	1257 HK Equity	1,848	7.00	22.79	13.46	10.94	17.68	13.67	11.78	1.24
Biomass										
KAIDI ECOLOGIC-A	000939 CH Equity	3,084	4.99	61.40	NA	NA	3.47	NA	NA	NA
GUANGDONG CHAN-A	002616 CH Equity	958	8.20	39.01	26.45	14.64	9.12	NA	NA	NA
Average				50.21	26.45	14.64	6.29	NA	NA	NA
HWT										
DONGJIANG ENV-H	895 HK Equity	1,926	10.78	23.95	15.88	12.74	17.67	12.96	13.58	1.31
NEW UNIVERSE ENV	436 HK Equity	240	0.62	30.13	NA	NA	9.00	NA	NA	0.97
Average				27.04	15.88	12.74	13.34	12.96	13.58	1.14
Sewage water										
BJ ENT WATER	371 HK Equity	6,036	5.11	14.27	11.06	9.04	19.75	21.85	22.42	3.14
GUANGDONG INVEST	270 HK Equity	9,939	11.90	18.32	14.86	15.64	13.23	15.02	12.81	3.71
CHINA WATER AFFA	855 HK Equity	1,431	6.96	18.25	10.84	8.90	13.24	15.40	16.50	2.00
CT ENVIRONMENTAL	1363 HK Equity	1,122	1.39	14.35	12.99	11.12	17.00	17.48	17.11	1.21
TIANJIN CAP-H	1065 HK Equity	2,241	4.57	33.58	10.60	10.02	9.69	10.00	9.75	2.36
CHINA WATER INDU	1129 HK Equity	330	1.62	82.04	NA	NA	2.43	NA	NA	NA
KANGDA ENV	6136 HK Equity	429	1.63	8.52	6.27	5.13	9.92	11.23	12.10	NA
YUNNAN WATER I-H	6839 HK Equity	497	3.26	8.50	7.23	5.80	9.35	9.30	9.60	3.55
CAPITAL ENV	3989 HK Equity	566	0.31	85.74	NA	NA	1.39	NA	NA	NA
Average				31.51	10.55	9.38	10.67	14.33	14.33	2.66
WTE										
CHINA EVERBR INT	257 HK Equity	7,044	12.30	19.63	15.41	12.47	16.10	18.66	19.84	2.06
DYNAGREEN ENVI-H	1330 HK Equity	561	4.20	10.45	7.85	6.29	13.84	15.10	16.39	1.62
CANVEST ENV	1381 HK Equity	1,437	4.58	27.88	19.74	15.47	15.82	15.89	15.66	0.57
Average				19.32	14.34	11.41	15.25	16.55	17.30	1.41
Average				30.52	16.80	12.04	11.69	14.71	14.79	1.98

Source: Bloomberg, CEBI

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Buy	Expected return 10 % over the next twelve month
Hold	Expected return between -10% and 10% over the next twelve month
Sell	Expected return -10 % over the next twelve month

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