



Asia  
China  
Utilities  
Utilities

Industry  
**China Environmental**

Date  
13 November 2017  
**Industry Update**

## Stronger enforcement, improving cashflow; raising CEI EPS, Target Price

**Recommending Buy: stronger environmental enforcement, improving cashflow**  
China usually strengthens environmental enforcement during the last three years of Five-Year Plan periods, as the country gets closer to assessment deadlines. We expect the same to take place from 2018, especially as the CPC's 19<sup>th</sup> National Congress recently mentioned that China plans to set up a "National Natural Resources and Ecology Administration" soon. We expect these factors to benefit this laggard sector, together with improving cashflow profile/earnings quality with selective companies over the next few years. Top pick: CEI on potential earnings beat and improving free cashflow profile for its waste-to-energy segment.

**Top pick: China Everbright Intl - potential earnings beat and improving cashflow**  
We raise CEI earnings by 6%/14% in 2017/18e on fast project construction progress and our EPS is 7%/9% above consensus. We calculate that the WTE segment's free cashflow should improve from -HKD2.9bn in 2017e to -HKD970m in 2019e as operational capacity should grow significantly and position the segment well for positive free cashflow thereafter. This is positive, as any positive free cashflow from WTE would be used to support higher dividends according to management, while CEW and CEG will finance their own capex via debt/equity financing. The improving free cashflow profile and improving earnings quality (operating earnings as % of total earnings rising from 40% in 2017e to 50% in 2019e) should lead to a re-rating, considering the company's cheap valuation of ~10.7x PE in 2018e.

**Buy on Beijing Enterprises Water on valuation; cash earning from PPP key**  
Our calculation shows that BEW would need to carry out EPC worth 11% of PPP orders (ex-relocation expenses) if it wants to reach cashflow break-even for its PPP projects, i.e. collecting back capital contribution during the construction stage. BEW has obtained EPC qualification in 2017; how much EPC the company can ultimately carry out depends on: 1) EPC experience requirements from specific projects, and 2) BEW's negotiation power with its construction partners. Maintaining Buy on valuation (~11.4x PE in 2018e).

**Other names we particularly like; risks**

We like CEG on its strong project pipeline, excellent project management and exposure to hazardous waste treatment; our channel checks show that biomass raw material costs are well under control in 10M17. See Figure 7 for a full list of

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Key Changes		
Company	Target Price	Rating
002672.SZ	13.34 to 12.00	-
0895.HK	14.70 to 13.60	-
0257.HK	12.70 to 13.50	-
0270.HK	13.50 to 13.20	-
1257.HK	7.70 to 7.90	-
1363.HK	1.26 to 1.29	-
SIIC.SI	0.63 to 0.61	-

Source: Deutsche Bank

Top picks	
China Everbright Intl (0257.HK),HKD10.82	Buy

Source: Deutsche Bank

Companies featured	
Dongjiang Environmental (0895.HK),HKD12.02	Buy
China Everbright Intl (0257.HK),HKD10.82	Buy
Guangdong Investment (0270.HK),HKD11.36	Buy
Beijing Enterprises Water (0371.HK),HKD6.56	Buy
China Everbright Greentech (1257.HK),HKD6.68	Buy
CT Environmental (1363.HK),HKD1.32	Hold
SIIC Environment (SIIC.SI),SGD0.52	Buy

Source: Deutsche Bank

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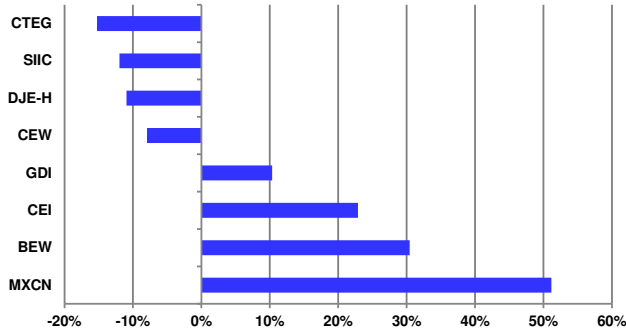
companies that we cover. Our valuations are DCF-based; key risks include: fewer-than-expected project wins, lower-than-expected project returns.



## Share price performance and valuation

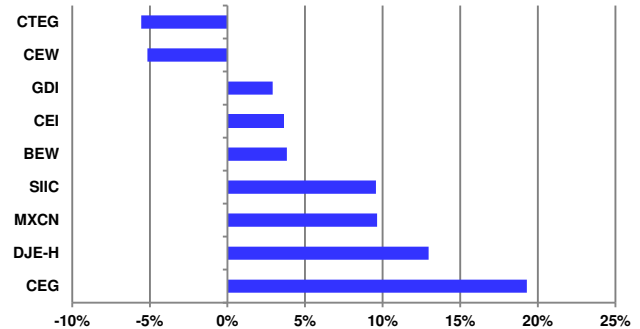
Stocks in China's environmental sector have had diverging performances recently. China Everbright Greentech (1257 HK, Buy) has outperformed MSCI China on a three-month basis, driven by strong 1H17 results and fast construction progress. On the other hand, CT Environmental (1363 HK, Hold) has underperformed significantly, due to low utilization, ASP and profitability for most of its assets in 1H17.

Figure 1: Share price returns, YTD



Source: Bloomberg Finance LP, Deutsche Bank

Figure 2: Share price returns, past three months



Source: Bloomberg Finance LP, Deutsche Bank

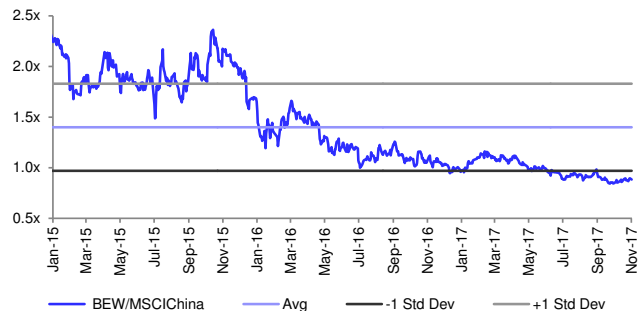
The sector's valuation looks attractive at current levels compared with its own trading history and also with the index. The P/E's of most stocks are below/close to their average minus one standard deviation since 2015, in terms of both their own PE and also relative PE to MSCI China. We think that the sector's current valuation offers decent safety margins to buy into most stocks.

Figure 3: BEW - 12m forward P/E



Source: Bloomberg Finance LP, Deutsche Bank

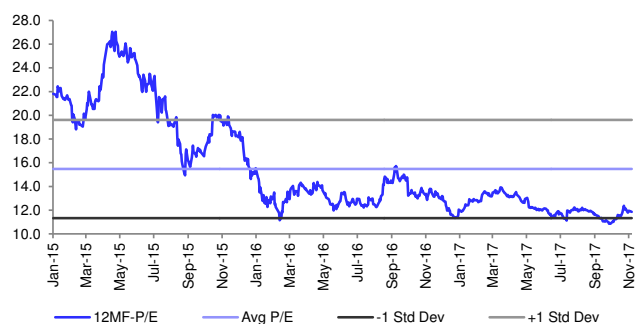
Figure 4: P/E of BEW vs. MSCI China, 12m forward



Source: Bloomberg Finance LP, Deutsche Bank



Figure 5: CEI -12m forward P/E



Source: Bloomberg Finance LP, Deutsche Bank

Figure 6: P/E of CEI vs. MSCI China, 12m forward



Source: Bloomberg Finance LP, Deutsche Bank

China usually strengthens environmental enforcement during the last three years of Five-Year Plan periods as the country gets closer to assessment deadlines. We expect the same to take place from 2018, especially as the CPC's 19<sup>th</sup> National Congress recently mentioned that China plans to set up a "National Natural Resources and Ecology Administration" soon. We expect these factors to benefit this laggard sector, together with improving cashflow profile/earnings quality with selective companies over the next few years. Top pick: CEI on potential earnings beat and improving free cashflow profile for its waste-to-energy segment.

Figure 7: Valuation comps

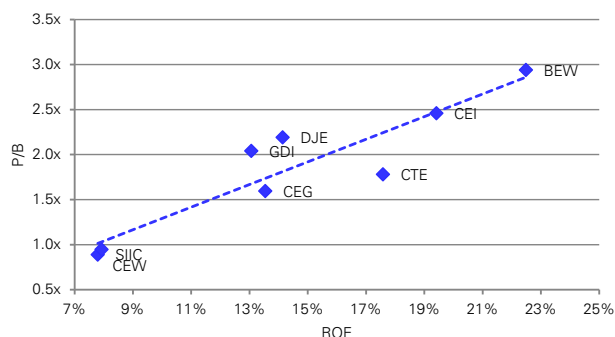
Company	Ticker	Price	Rating	Price target	% to target	Vlkt. Cap US\$m	Avg. daily trade US\$m	EPS CAGR 17-19E	P/E 17E	P/E 18E	P/E 19E	P/BV 17E	P/BV 18E	P/BV 19E	Net debt/Equity 17E	Net debt/Equity 18E	Net debt/Equity 19E	RoE 17E	RoE 18E	RoE 19E	Dividend yield 17E	Dividend yield 18E	Dividend yield 19E
<b>On recurring earnings basis (concession accounting)</b>																							
BEW	371 HK	6.54	Buy	7.4	13%	5,744	12.5	18%	13.5	11.2	9.7	2.9	2.5	2.1	118%	143%	146%	24.0	24.2	23.7	2.4	2.9	3.3
CEI	257 HK	10.88	Buy	13.5	24%	6,253	15.7	16%	12.9	10.6	9.7	2.1	1.9	1.6	70%	84%	98%	18.5	18.5	18.0	2.7	3.3	3.6
CEG	1257 HK	6.81	Buy	7.9	16%	1,805	2.1	23%	14.5	10.7	9.6	1.7	1.5	1.3	-5%	20%	58%	15.6	15.0	14.9	1.4	1.9	2.1
CEW	CEWL SP	0.46	Buy	0.54	17%	881	0.5	12%	13.7	11.3	10.9	0.9	0.9	0.8	50%	62%	76%	7.2	8.1	7.8	0.9	1.1	1.1
CTEG	1363 HK	1.32	Hold	1.29	(2%)	1,069	5.3	18%	13.5	10.2	9.6	1.9	1.6	1.4	60%	49%	32%	16.8	17.4	16.0	1.5	1.9	2.0
DJE-H	895 HK	12.12	Buy	13.6	12%	1,958	1.1	17%	20.5	17.9	14.9	2.4	1.6	1.4	69%	15%	35%	12.7	10.4	10.1	1.0	1.2	1.4
GDI	270 HK	11.46	Buy	13.2	15%	9,129	9.1	4%	15.7	14.5	14.6	2.0	1.9	1.9	-14%	-18%	-22%	13.5	13.7	13.0	4.2	4.9	5.2
SIIC	SIIC SP	0.52	Buy	0.61	18%	853	0.7	10%	12.1	10.9	10.0	0.9	0.8	0.8	81%	89%	93%	7.6	7.6	7.8	1.2	1.4	1.5
<b>Average ex. GDI</b>								<b>16%</b>	<b>14.4</b>	<b>11.8</b>	<b>10.6</b>	<b>1.8</b>	<b>1.5</b>	<b>1.4</b>	<b>63%</b>	<b>66%</b>	<b>77%</b>	<b>14.6</b>	<b>14.5</b>	<b>14.0</b>	<b>1.6</b>	<b>1.9</b>	<b>2.2</b>

Note: Price and target price are in HKD, except for SIIC and CEW, which are in SGD; price are closing price on 9 Nov, 2017

Source: Company data; Deutsche Bank estimates

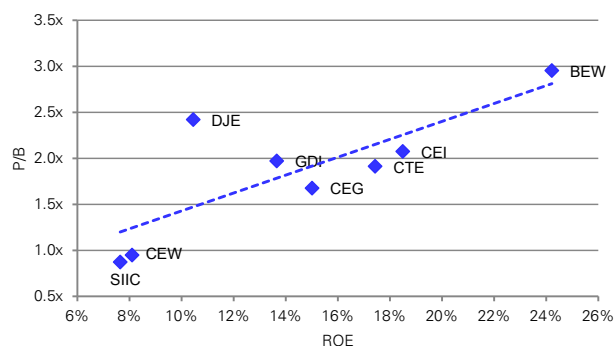


Figure 8: 2017 P/B vs. 2018 ROE (Consensus)



Source: Bloomberg Finance LP; Deutsche Bank

Figure 9: 2017 P/B vs. 2018 ROE (Deutsche Bank estimates)



Source: Deutsche Bank estimates

## Earnings revisions and Deutsche Bank vs. consensus

**BEW:** We fine-tune our earnings forecasts for 2017-19e and keep our target price flat at HKD7.4. Our earnings are 5-3% above consensus in 2017-19e.

**CEG:** We fine-tune our earnings forecast in 2017/18e but raise 19e earnings by 7%, backed on higher RMB exchange rate assumptions and additional project wins recently. Our target price is lifted to HKD 7.90 on the back of the earnings change. Our earnings are 3%/11% above consensus in 2017/19e (but in-line for 2018e), likely because we factor in faster project construction and also recent project wins.

**CEI:** We raise our earnings forecast in 17/18/19e by 6%/14%/9%, driven by the strong WTE project winning, shortened preparation and appreciation of the RMB. WTE project construction progress in 2017 is stronger than expected and thus boosts the construction revenue growth. Thanks to simplified approval procedures, the construction preparation stage has generally been shortened. We also fine-tune the foreign exchange rate to reflect a stronger RMB over HKD. Our target price is increased from HKD12.70 to HKD13.50 as a result of the earnings revision. Our earnings are 7%/9%/6% above consensus for 2017/18/19e, likely driven by faster construction progress and also recent project wins.

**CEW:** We revise our earnings forecast by -6%/1%/-7% in 17/18/19e, mainly due to slower capacity addition and higher minority interest assumptions. We maintain our target price at SGD0.54. Our earnings are 6% below consensus for 2017e (but in-line for 2018-19e), likely driven by lower construction revenue assumption for 2017e.

**CTEG:** We keep our earnings unchanged but raise our target price slightly to HKD1.29 on higher RMB exchange rate assumptions. Our earnings are 14%/8% below consensus in 2017/19e (but in-line for 2018e), likely because of lower utilization rates and margin assumptions.

**DJE-A & DJE-H:** We fine-tune our recurring earnings forecasts in 2018-19e but lower our forecasts by 7% in 2017e on higher minority interests assumptions to stay in line with 3Q17 results. We significantly lower our EPS forecasts



for 2018-19e as we factor in the planned A-share placement. We assume the placement will be done in mid-2018 at RMB15/sh for 153m shares. We lower our target price to HKD13.6, driven by lower long-term profitability assumptions and also the potential new share issue. Our earnings forecasts are 7% below consensus in 2017e (but in-line for 2018/19e), likely because of lower utilization and higher minority interest assumptions.

**GDI:** We fine-tune our earnings forecasts in 2017/19e, but raise our forecast by 10% in 2018e, driven by higher earnings assumptions for Water Group HK, and a higher profit contribution from Guangdong Land. We now factor in Guangdong Investment adding 500ktpd of water capacity in 2018e on the back of the company's strong water capacity addition in 8M17. We factor in earnings contribution from Guangdong Land based on consensus, which expects its 2018 earnings to grow significantly, supposedly as its property projects enter into delivery stage from 2018. We fine-tune our target price to HKD13.2. Our earnings are 11% below consensus in 2017e as we have not factored in the bargain purchase and revaluation gains, which are not recurring. Our earnings are 5% above consensus in 2018e, likely as a result of the difference in factoring in the earnings contribution from Guangdong Land. Our earnings are in-line in 2019e.

**SIIC:** We fine-tune our earnings forecasts in 2017-19e and slightly lower our target price to SGD0.61 on slightly higher tax rates assumptions. Our earnings are in line with consensus.

Figure 10: Earnings estimates and target prices

Company	Reported earnings			% of change			Recurring earnings			% of change			Recurring EPS			% of change			Target price		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	New	Old	Change
BEW	4,298	5,126	5,943	2%	1%	-1%	4,228	5,126	5,943	2%	1%	-1%	0.48	0.58	0.67	2%	1%	-2%	7.4	7.4	0%
CEI	3,768	4,597	5,052	6%	14%	9%	3,768	4,597	5,052	6%	14%	9%	0.84	1.03	1.13	6%	14%	9%	13.5	12.7	6%
CEG	971	1,315	1,468	0%	0%	7%	971	1,315	1,468	0%	0%	7%	0.47	0.64	0.71	0%	0%	7%	7.9	7.7	3%
CEW	504	610	633	-6%	1%	-7%	504	610	633	-6%	1%	-7%	0.19	0.23	0.24	-6%	1%	-7%	0.54	0.54	0%
CTEG	583	698	735	0%	0%	0%	524	698	735	0%	0%	0%	0.08	0.11	0.12	0%	0%	0%	1.3	1.3	2%
DJE-H	448	559	733	-7%	-2%	-3%	448	559	733	-7%	-2%	-3%	0.50	0.57	0.69	-7%	-10%	-17%	13.6	14.7	-7%
GDI	4,671	5,177	5,160	3%	10%	5%	4,671	5,177	5,160	3%	10%	5%	0.73	0.79	0.79	3%	10%	5%	13.2	13.5	-2%
SIIC	517	599	654	-1%	0%	-2%	517	599	654	-1%	0%	-2%	0.21	0.23	0.25	-1%	0%	-2%	0.61	0.63	-3%

Note: Reported earnings and recurring earnings are in HKDm, except for SIIC and CTEG, which are in RMBm; target prices are in HKD, except for SIIC and CEW, which are in SGD  
 Source: Deutsche Bank estimates

Figure 11: Deutsche Bank vs. consensus

Company name	Ticker	2017E recurring earnings			2018E recurring earnings			2019E recurring earnings		
		DB	Consensus	DBe vs. consensus	DB	Consensus	DBe vs. consensus	DB	Consensus	DBe vs. consensus
BEW	0371.HK	4,228	4,013	5%	5,126	4,915	4%	5,943	5,745	3%
CEG	1257.HK	971	945	3%	1,315	1,297	1%	1,468	1,317	11%
CEI	0257.HK	3,768	3,534	7%	4,597	4,208	9%	5,052	4,783	6%
CEW	CEWL.SI	504	535	-6%	610	613	0%	633	636	0%
CTEG	1363.HK	524	608	-14%	698	704	-1%	735	801	-8%
DJE-H	0895.HK	448	469	-5%	559	602	-7%	733	749	-2%
GDI	0270.HK	4,671	5,238	-11%	5,177	4,935	5%	5,160	5,232	-1%
SIIC	SIIC.SI	517	499	4%	599	599	0%	654	690	-5%

Note: Net earnings are in HKDm, except for SIIC, CTEG, DJE-H and DJE-A, which are in RMBm  
 Source: Deutsche Bank estimates, Bloomberg Finance LP

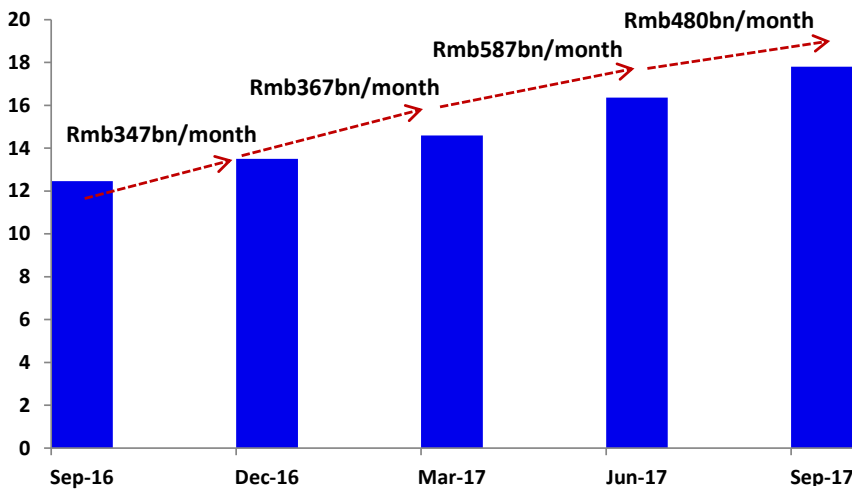


# PPP industry dynamic

## PPP rollouts continue at a fast pace

PPP rollouts in China have continued at a fast pace over the past few months. As of September 2017, investment in PPP projects in the Ministry of Finance's (MoF) database reached Rmb17.8tr, with average monthly additions of Rmb480bn in 3Q17.

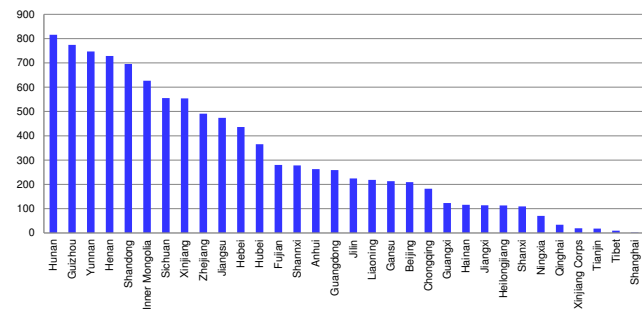
Figure 12: Investment in PPP projects (Rmb tr)



Source: Deutsche Bank, Ministry of Finance

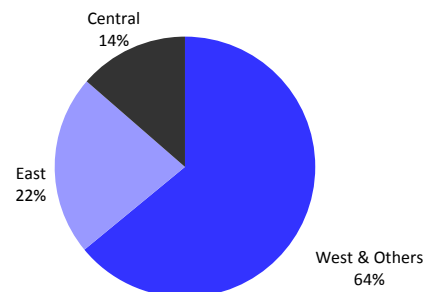
Looking at geographic distribution, West China, East China and Central China represent 64%, 22% and 14% of total investments, respectively. Specifically, investments in Hunan, Guizhou, Yunnan, Henan and Shandong rank as the top five.

Figure 13: PPP investment as of September 2017 (Rmb bn)



Source: Deutsche Bank, Ministry of Finance

Figure 14: PPP investment as of September 2017

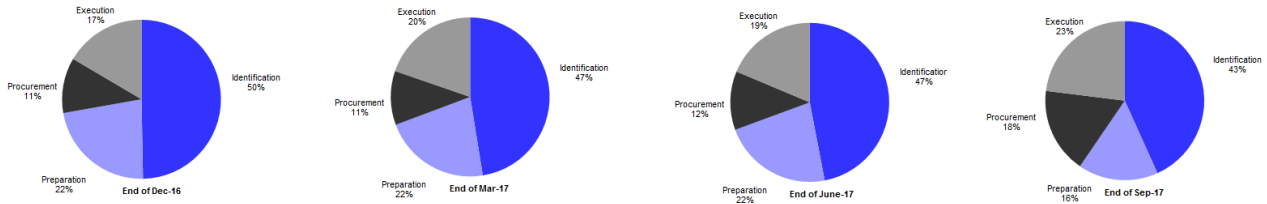


Source: Deutsche Bank, Ministry of Finance



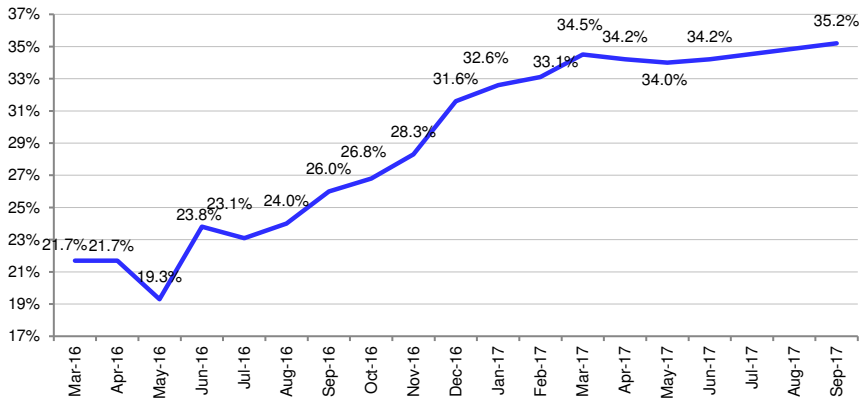
Looking at investments by stage, projects in the execution stage reached RMB4.1tr by September (23% of overall investment), up from 19% by June. In terms of the sign-up rate (published by the MoF), the rate rose from 34% by June 2017 to 35% by September 2017.

Figure 15: Investment in PPP projects by stage



Source: Deutsche Bank, Ministry of Finance

Figure 16: Sign-up rate



Source: Deutsche Bank, Ministry of Finance





# Investment summary

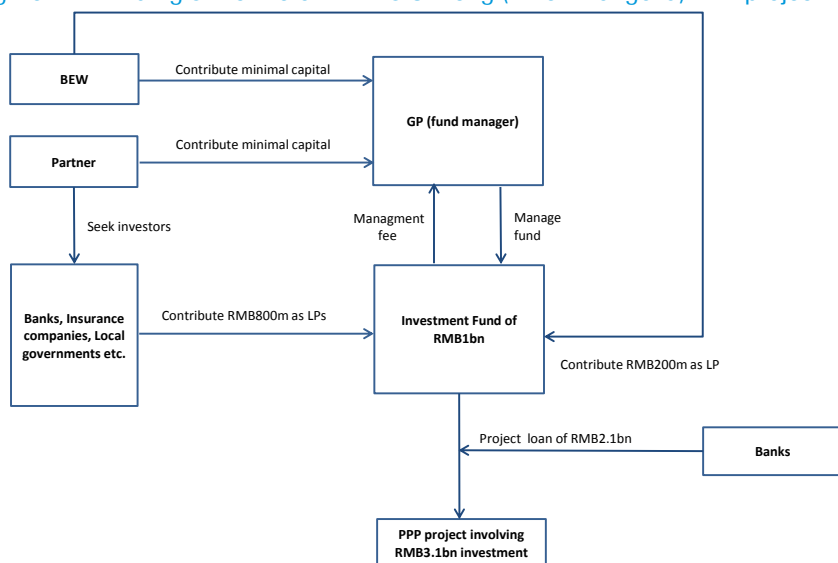
## Beijing Enterprises Water (BEW) - Maintaining Buy

**Stock view:** We maintain our Buy on BEW on valuation. BEW is trading at a cheap valuation of 11.4x PE in 2018e (EPS growth of 15.5% in 2019e), close to average minus standard deviation since 2015. Our calculation shows that the company would need to carry out cash EPC equivalent to 11% of PPP project investment (ex-relocation expenses) if the company is to reach cashflow break-even for its PPP projects during the construction stage. We expect re-rating with BEW's shares if the company manages to achieve this, which we believe depends on: 1) EPC experience requirements from specific projects and 2) BEW's negotiation power with its construction partners.

### Cashflow from PPP projects financed by investment funds...

BEW started using investment funds to carry out its PPP projects from April 2017 and plans to use the investment fund model for almost all of its PPP projects going forward. We calculate that profits from investment funds should represent 45% of BEW's net profit in 2018-19e. We believe the market has well understood the earnings impact from the PPP funds and we believe that the key to BEW's share price is how much cash the company can collect from the PPP projects.

Figure 17: Funding structure of BEW's Chifeng (Inner Mongolia) PPP project



Source: Company data, Deutsche Bank

Key assumptions for our PPP projects cashflow analysis include:

- PPP order size of RMB60bn, in line with the company's guidance for new sign-ups in 2017
- 25% of the total order size is related to relocation and therefore no construction/design fee/technical service fees can be booked on that part



- BEW charging total technical service fees of 11%, consisting of 4% design fee and 7% technology transfer fee
- Technical services fees generating 50% gross margin with minimal SG&A expenses
- Income tax rate of 25%
- PPP fund representing 20% of total project investment
- BEW contributing 20% of capital to PPP fund
- BEW generating 15% from potential EPC

Specifically, our assumption for BEW contributing 20% of total project investment is in line with the capital structure of the Chifeng PPP fund. While BEW does not have to contribute capital for the China Life fund at the parent fund level, BEW does have to contribute capital as junior tranche investor when children funds are set up to invest in specific projects.

According to our calculations, BEW would reach cashflow break-even during the construction stage if the company can obtain EPC orders equal to 11% of PPP order size ex-relocation expenses. We understand that BEW has obtained EPC qualification this year and we think how much EPC BEW can successfully carry out depends on: 1) possible requirement on EPC experience from specific projects (e.g. a PPP project in Hainan requires companies to have EPC experience with projects of at least RMB400m) and 2) BEW's negotiation power with its construction partners.

Figure 18: Cashflow from the PPP projects, RMB bn

(RMB bn)		Comment
PPP order size	60 a	Company guidance
PPP order size ex-relocation expenses	45 b=a*75%	25% of PPP investment related to relocation
Technical service fees from PPP orders	5.0 c=b*11%	11% design fees and technical service fees together
Gross profit from technical service fees	2.5 d=c*50%	Assume blended gross margin of 50%
<b>Net profit/Operating cash inflow from technical service fees</b>	<b>1.9 e=d*75%</b>	<b>25% tax rate</b>
Investment fund to support PPP order	12 f=a*20%	Investment fund 20% of total project investment
<b>BEW's capital contribution</b>	<b>2.4 g=f*20%</b>	<b>BEW contributes 20% of investment fund</b>
Funding gap	(0.5) h=e-g	
<b>Net profit/Operating cash inflow needed from EPC</b>	<b>0.5 i=-h</b>	
Gross profit needed from EPC	0.7 j=i/75%	Tax rate of 25%
Revenue needed from EPC	4.8 k=j/15%	Assume gross margin of 15%
EPC revenue as % of total PPP order size ex-relocation expenses	11% l=k/b	

Source: Company data, Deutsche Bank estimates

### ...and from water plants

For the cashflow from water plants, we start with the company's adjusted operating cashflow in 2016. The company reported that after adjusting the "capex" for BOT/TOT/BT projects from operating cashflow to investment cashflow, adjusted operating cashflow should be HKD2.3bn in 2016. Key assumptions for our following analysis include:

- Operating capacity growing by 3mtpd p.a. going forward



- Unit capex of RMB2,000/tpd for water plants

Figure 19: Cashflow from water plant projects, HKD m

(HKD m)	2016	2017E	2018E	2019E
<b>Reported OCF</b>	(2,500)			
Adjustment for cash flow from BOT projects	3,929			
Adjustment for cash flow from TOT projects	559			
Adjustment for cash flow from comprehensive renovation projects	265			
<b>Adjusted OCF</b>	<b>2,253</b>			
Sewage treated (tonnes m)	3,052	3,474	4,147	4,849 a
Tariff (HKD/tonne)	1.18	1.14	1.16	1.17 b
Revenue from sewage treatment (HK\$m)	3,604	3,949	4,810	5,697 c=a*b
<i>Profit Margin</i>	56%	57%	57%	57% d
Gross profit from sewage	2,017	2,251	2,732	3,225 e=c*d
Water supply (tonnes m)	588	755	1,180	1,842 f
Tariff (HKD/ton)	1.77	1.75	1.78	1.80 g
Revenue from water supply (HK\$m)	1,042	1,325	2,102	3,315 h=f*g
<i>Profit Margin</i>	49%	49%	49%	49% i
Gross profit from water supply	510	649	1,026	1,611 j=h*i
Total water treatment gross profit (HKD m)	2,527	2,900	3,757	4,836 k
<i>yoY</i>		15%	30%	29% l
<b>Adjusted OCF excluding BT</b>	<b>1,988</b>	<b>2,281</b>	<b>2,956</b>	<b>3,804 X</b>
<i>yoY</i>		15%	30%	29% m-l
Capex for water plants		(7,059)	(7,059)	(7,059) n=2000*3000/0.85/1000, assume unit capex of RMB2,000/tpd
<b>Net cashflow from BEW's water plants</b>		<b>(4,777)</b>	<b>(4,103)</b>	<b>(3,255) Y=X+n</b>

Source: Company data, Deutsche Bank estimates

Based on our assumptions, BEW's free cashflow profile for the water plants is likely to improve gradually, although it is likely to remain negative over the next few years. While we have not factored in the discharge standard upgrades in our calculation, we note that the conclusion should be similar - improving the cashflow profile, but free cashflow to remain negative.

**Valuation:** We derive our target price using the DCF method, incorporating a 6.2% WACC (CoD 3.4%, 0.90 beta and 5.6% ERP yielding an 8.9% CoE), which incorporates longer-term growth and is not affected by the mismatch between reported earnings and cashflows under concession accounting.

**Risks:** The main downside risks include: 1) credit risk on the receivables from local governments; 2) delays in implementing cost pass-through for wastewater (including the impact of the VAT rule change) and water supply projects; 3) rising competition for new water projects; 4) stress on managerial and financial resources from rapid expansion; 5) political or foreign exchange risks for overseas investment; 6) larger-than-expected EPS dilution from potential share placements; and 7) any delay in project construction due to the relatively high reliance on earnings from construction activities in the near term (as opposed to recurring earnings from operational wastewater and water supply projects).



Figure 20: Summary for BEW

HK\$ m	2015	2016	2017E	2018E	2019E
<b>Year-end contracted capacity (ktpd)</b>					
Sewage treatment	13,808	15,674	16,880	18,690	20,500
Water supply	10,497	11,175	14,325	16,515	18,705
Overseas	319	319	463	463	463
<b>Year-end operational capacity (ktpd)</b>					
Sewage treatment	8,965	10,454	12,520	14,557	16,412
Water supply	3,961	5,704	6,725	9,188	11,432
Overseas	91	319	463	463	463
<b>Utilisation</b>					
Sewage treatment	85%	88%	86%	85%	87%
Water supply	56%	66%	59%	60%	61%
<b>Tariff (HK\$/cm, ex-VAT)</b>					
Sewage treatment	1.47	1.18	1.14	1.16	1.17
Water supply	2.20	2.17	2.15	2.18	2.20
<b>Revenue (HK\$ m)</b>					
Sewage treatment	3,515	3,654	4,036	4,884	5,745
Water supply	881	1,371	1,930	2,746	3,788
Construction for comprehensive renovation	1,890	4,612	9,121	767	882
Water plant construction	6,441	6,696	4,811	3,959	3,256
Technical services	776	1,021	1,531	2,037	2,342
Others	-	-	-	-	-
<b>Total</b>	<b>13,503</b>	<b>17,355</b>	<b>21,430</b>	<b>14,392</b>	<b>16,013</b>
<b>Gross profit (HK\$ m)</b>					
Sewage and reclaimed water treatment	2,166	2,044	2,301	2,774	3,252
Water supply	448	672	946	1,340	1,841
Construction for comprehensive renovation	454	1,015	1,733	146	168
Construction of water plants	1,466	1,473	1,155	950	782
Technical services for water environmental	456	576	842	1,120	1,288
Others	-	-	-	-	-
<b>Total</b>	<b>4,989</b>	<b>5,780</b>	<b>6,976</b>	<b>6,330</b>	<b>7,330</b>
<b>Gross profit margin</b>					
Sewage and reclaimed water treatment	62%	56%	57%	57%	57%
Water supply	51%	49%	49%	49%	49%
Construction for comprehensive renovation	24%	22%	19%	19%	19%
Construction of water plants	23%	22%	24%	24%	24%
Technical services for water environmental	59%	56%	55%	55%	55%
Others	-	-	-	-	-
<b>Total</b>	<b>37%</b>	<b>33%</b>	<b>33%</b>	<b>44%</b>	<b>46%</b>
<b>JV &amp; associate (HK\$ m)</b>					
Share of JV & asso	175	375	1,269	3,248	3,725
<b>Net income (HK\$ m)</b>					
Net income	2,455	3,227	4,298	5,126	5,943

Source: Deutsche Bank estimates

## China Everbright Intl (CEI) - Recommending Buy

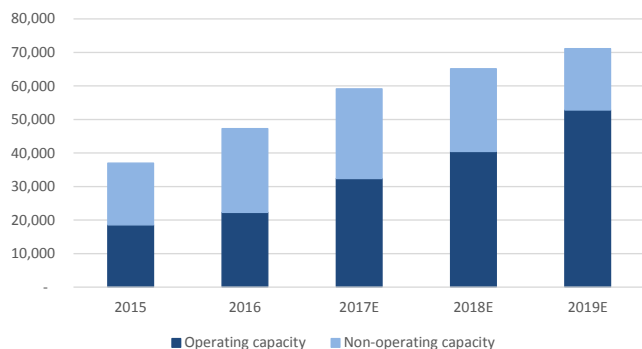
**Stock view:** We rate CEI as our sector top pick on potential earnings beat and also an improving free cashflow profile for the WTE segment and earnings quality. We revise up earnings forecasts for CEI on fast project construction (as a result of shortened preparation and construction periods) for its WTE projects and our earnings forecasts are now 7%/9% above consensus in 2017/18e. We calculate that operational capacity should represent 62%/74% of total capacity by end-2018/19e (vs. 55% by end-2017e) and we expect CEI's to get close to free cashflow positive for its WTE segment as a higher proportion of capacities come into operation. With the stock now trading at ~10.7x PE in 2018e (close to average minus standard deviation since 2015), we expect the stock to re-rate with improving cashflow/earnings quality (operating earnings as % of total rising from ~40% in 2017e to ~50% in 2019e).

### Cashflow improvement to come



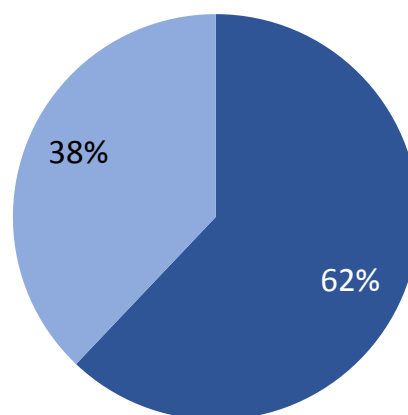
We expect CEI's free cashflow profile for the WTE segment to improve over the next few years, as significantly higher proportion of capacities should become operational. We calculate that operational capacity should represent 62%/74% of total capacity by end-2018/19e, up significantly from 55% by end-2017e. We think this is especially positive as management made it clear that free cashflow from WTE will be used to support higher dividend payouts. Any capex demand for China Everbright Water (CEWL SP, Buy) and China Everbright Greentech (1257 HK, Buy) is going to be satisfied by debt/equity funding of respective listcos, rather than by the cashflow from CEI's WTE business (refer to our report [China Environmental - Environmental Corporate Day takeaways, 17 October 2017](#)).

Figure 21: Consolidated WTE capacity (ex-JV/asso/entrusted operation), tpd



Source: Company data, Deutsche Bank

Figure 22: Consolidated WTE capacity in 2018e



■ Operating capacity    ■ Non-operating capacity

Source: Company data, Deutsche Bank

We calculate WTE segment's free cashflow profile going forward based on the following key assumptions:

- Operating cashflow of HKD195/t of waste treated, same as what Canvest (1381 HK, not rated) reported for FY16
- CEI generating 17% construction cost savings



Figure 23: WTE free cash flow

Real "operating cashflow" - WTE	2016	2017E	2018E	2019E
Waste processed ('000 tons)	8,933	11,235	16,737	21,273 a
Real "operating cashflow" - WTE (HK\$m)	1,742	2,191	3,264	4,148 b=195*a/1000
Estimated capex requirement - WTE (HK\$m)	2016	2017E	2018E	2019E
Estimated capex requirement - WTE, nominal	4,624	6,127	5,792	6,166 c
Less: cost saving	(786)	(1,042)	(985)	(1,048) d=-c*17%
Estimated capex requirement - WTE, effective	3,838	5,085	4,807	5,118 e=c+d
Cash surplus/deficit - WTE (HK\$m)	2016	2017E	2018E	2019E
Cash surplus/(deficit) - WTE, nominal	(2,882)	(3,936)	(2,528)	(2,018) f=b-c
Cash surplus/(deficit) - WTE, effective	(2,096)	(2,895)	(1,544)	(970) g=b-e

Source: Company data, Deutsche Bank

Our calculation shows that the WTE segment's free cashflow profile should improve from -HKD2.9bn in 2017e to -HKD970m in 2019e, positioning the segment well for positive free cashflow and higher dividend in the following years.

**Valuation:** We derive our target price using DCF valuation, which is not affected by the mismatch between reported earnings and cashflows under concession accounting. We use explicit cashflows to 2051e, with no terminal value, discounted at 6.1% WACC (beta of 0.9, ERP of 5.6%, yielding a CoE of 8.9%, pretax CoD of 3.5%, and a D/E ratio of 45:55).

**Risks:** Key downside risks include: 1) lower-than-expected new project wins; 2) variations on operating assumptions for the WTE and greentech business, given that there is limited transparency for these businesses; 3) delay in the construction progress of new projects; 4) lower-than-expected construction cost savings and government subsidies; and 5) EPS dilution risk from potential share placement.



Figure 24: Summary for CEI

	2015	2016	2017E	2018E	2019E
<b>Year-end operational capacity (consolidated basis)</b>					
Waste-to-Energy (tpd)	18,550	22,400	32,400	40,450	52,800
Water (ktpd)	3,602	3,907	4,057	4,197	4,345
Biomass to Power (MW)	60	145	265	415	751
Hazardous Waste (tpa)	63,650	130,980	140,980	213,980	333,980
<b>Utilisation</b>					
Waste-to-Energy	123%	126%	120%	125%	125%
Wastewater Treatment	96%	89%	91%	94%	94%
Biomass to Power	91%	87%	85%	86%	86%
Hazardous Waste	84%	107%	95%	90%	90%
<b>Tariff (ex-VAT)</b>					
Waste-to-Energy Power (RMB/kWh)	0.56	0.56	0.55	0.54	0.54
Waste-to-Energy Treatment Fee (RMB/t)	75	63	63	62	61
Wastewater Treatment (RMB/t)	1.2	1.1	1.1	1.2	1.2
Biomass to Power (RMB/kWh)	0.64	0.64	0.64	0.64	0.64
Hazardous Waste (RMB/t)	2,172	2,414	2,486	2,511	2,536
<b>Revenue (HKD m)</b>					
Environmental Energy	5,400	7,905	10,611	10,917	13,043
Environmental Water	1,815	2,494	3,484	4,387	4,697
Greentech	1,178	3,026	4,646	7,285	8,956
Envirotech	135	546	534	561	589
Others	6	-	-	-	-
<b>Total</b>	<b>8,535</b>	<b>13,971</b>	<b>19,275</b>	<b>23,151</b>	<b>27,284</b>
<b>EBITDA (HKD m)</b>					
Environmental Energy	2,608	3,300	4,517	5,691	6,286
Environmental Water	796	844	1,105	1,329	1,420
Greentech	458	1,020	1,543	2,174	2,660
Envirotech	521	417	66	69	73
Inter-segment Elimination & Others	(599)	(434)	-	-	-
<b>Total</b>	<b>3,784</b>	<b>5,147</b>	<b>7,230</b>	<b>9,263</b>	<b>10,439</b>
<b>EBITDA margin</b>					
Environmental Energy	48%	42%	43%	52%	48%
Environmental Water	44%	34%	32%	30%	30%
Greentech	39%	34%	33%	30%	30%
Envirotech	n.a.	n.a.	12%	12%	12%
Inter-segment Elimination & Others	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Overall</b>	<b>44%</b>	<b>37%</b>	<b>38%</b>	<b>40%</b>	<b>38%</b>

Source: Deutsche Bank estimates

## Guangdong Investment (GDI) - Recommending Buy

**Stock view:** We like GDI for its defensive water business, growing dividends and strong balance sheet. With more than 50% of earnings from water sales in HKD terms, GDI is the most defensive among its environmental peers in relation to potential RMB depreciation. We expect GDI to deliver a recurring profit CAGR of 4% in 2017-19e and to increase its dividend payout ratio by ~5 percentage points per annum, resulting in a DPS CAGR of 12% in 2017-19e. GDI is in a net cash position (HKD10.8bn or HKD1.65 per share net cash after considering available-for-sale investments by Jun 2017) and is trading at an attractive dividend yield of 5.3% in 2019e. We think the results of the upcoming HK water supply negotiation, GDI's dividend outlook and also the US treasury yield are key for GDI's share price.

### In-line 3Q17 and EPS impact from Yinping project likely small in 2018/19e

Guangdong Investment reported in-line 9M17 results with recurring profit of HKD3.7bn, up 8% yoy. GDI expects capex of RMB2.9bn for the water segment, comprising RMB876m for the projects in Meizhou/Jiangsu/Zhaoqing, RMB381m for the projects in Yunfu and RMB1,639m for the projects in Shantou. Revenue of the Tianjin Teem Shopping Mall reached HKD37.6m in 3Q, after opening in end-June and the mall made profit of HKD2.4m in 3Q. GDI incurred capex of HKD176m for the Buxin project and HKD49m for the Panyu Wanbo project in 3Q17. Management expects the Yinping PPP project to commence soon.



We calculate the earnings impact/IRR of the Yinping PPP project based on the following assumptions:

- Eight sub-projects in total
- 1<sup>st</sup> project commencing construction in early 2018, with the other projects commencing at 0.5 year intervals afterwards
- Average project size of HKD699m
- Construction period of three years and maintenance period of 10 years
- Accrued interest at 8%, management fee at 2.5%, maintenance fee at 1.1%, tax rate at 25%

Under our assumptions, the profit contribution from the Yinping project should be only HKD23m/82m in 2018/19e, representing less than 2% of total earnings of GDI. However, we note that earnings contribution could be more significant beyond 2019e as more sub-projects kick in. We calculate that the project should generate IRR of 6%, higher than the 2.4% return the company is generating from its available-for-sale financial assets and cash.

Figure 25: Dongguan Yinping PPP project

HK'm	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Capex (cash)	233	233	233														
Cumulative capex	233	466	699	699	699	699	699	699	699	699	699	699	699				
Repayment of development costs				70	70	70	70	70	70	70	70	70	70				
Outstanding development costs	233	466	699	629	559	489	419	349	279	210	140	70	-				
Period avg. development costs	116	359	620	751	742	731	720	707	694	680	664	648	630				
Accrued int.	9	29	50	60	59	58	58	57	56	54	53	52	50				
Cumulative int.	9	38	88	148	207	266	323	380	435	490	543	595	645				
Repayments of accrued int.+ principal				(134)	(134)	(134)	(134)	(134)	(134)	(134)	(134)	(134)	(134)				
<b>Income (cash)</b>																	
Accrued int.	-	-	-	134	134	134	134	134	134	134	134	134	134				
Mgt fee	-	-	-	2	2	2	2	2	2	2	2	2	2				
Maintenance fee	-	-	-	1	1	1	1	1	1	1	1	1	1				
Total	(233)	(233)	(233)	137	137	137	137	137	137	137	137	137	137				
After tax	(233)	(233)	(233)	103	103	103	103	103	103	103	103	103	103				
<b>IRR</b>		<b>6%</b>															
<b>Income statement</b>																	
Accrued int.	9	29	50	60	59	58	58	57	56	54	53	52	50				
Mgt fee	6	6	6														
Maintenance fee				1	1	1	1	1	1	1	1	1	1				
Total	15	35	55	61	60	59	58	57	56	55	54	53	51				
<b>Profit contribution from 8 projects</b>	23	82	182	302	399	459	476	472	464	456	448	438	428	343	234	129	26
<b>Cash inflow/(outflow) from 8 projects</b>	(349)	(815)	(1,281)	(1,243)	(689)	(18)	654	821	821	821	821	821	821	719	513	308	103
<b>Total capex on 8 projects</b>	(349)	(815)	(1,281)	(1,397)	(1,048)	(582)	(116)	-									

Source: Company data, Deutsche Bank estimates

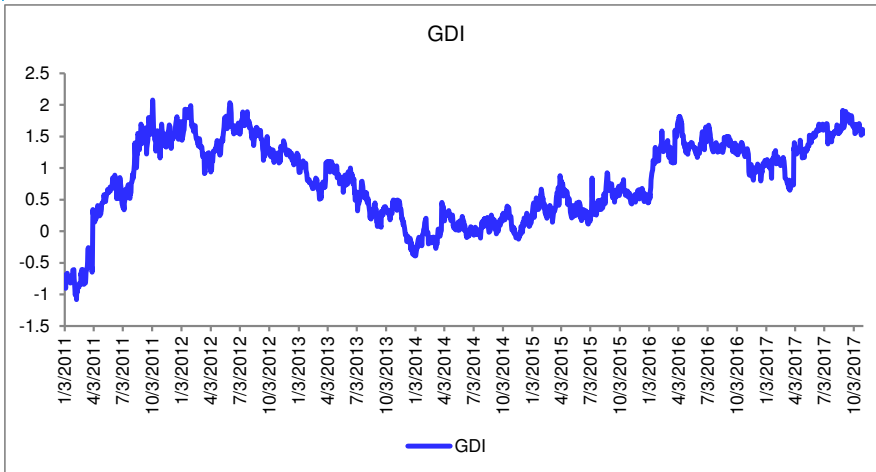
**Valuation:** Our SOTP-derived target price consists of the NAV discount method for the commercial property segment and DCF methodology for the other segments, based on a WACC of 6% for water, and 8% for the other sectors.

**Risk:** Key downside risks include the following: 1) lower-than-expected revenue for raw water sales to Hong Kong in future revenue resets after 2017; 2) acquisition or asset injection at expensive valuations; 3) higher-than-expected tariff cuts and coal costs, or lower-than-expected utilization rates for its thermal plant business; and 4) lower-than-expected rental yields for its commercial property project, especially for new projects under development.





Figure 26: GDI's dividend yield spread vs. 10-year US bond



Source: Bloomberg Finance LP, Deutsche Bank



Figure 27: Summary for GDI

	2015	2016	2017E	2018E	2019E
<b>Year-end capacity</b>					
Water supply					
Water Group HK (RMB/ m3)	145	555	1212	1394	1467
Waste water (RMB/ m3)	142	143	160	160	160
Power plant (Rmb/ kWh)	110	355	600	600	600
<b>Utilization rate</b>					
Water supply					
Water Group HK (RMB/ m3)	60%	50%	52%	54%	56%
Waste water (RMB/ m3)	90%	90%	90%	90%	90%
Power plant (Rmb/ kWh)	68%	62%	48%	50%	52%
<b>Tariff (ex VAT)</b>					
Water supply					
Hong Kong (HK\$/ m3)	5.51	7.14	7.59	7.71	7.82
Shenzhen and Dongguan (RMB/ m3)	0.62	0.83	0.92	0.92	0.92
Water Group HK (RMB/ m3)	2.41	2.21	2.26	2.30	2.35
Waste water (RMB/ m3)	0.93	0.91	0.95	0.95	0.95
Power plant (Rmb/ kWh)	0.49	0.37	0.38	0.38	0.38
<b>Revenue (HK\$ mn)</b>					
- Water distribution	5,896	6,505	7,367	7,686	7,891
- Property investment and dev.	1,171	1,130	1,229	1,526	1,404
- Department stores	813	717	739	728	717
- Electric power generation	471	847	1,093	1,139	1,184
- Toll roads and bridges	150	630	685	733	818
- Hotel O&M	672	634	642	660	679
- Others	-	-	-	-	-
<b>Total</b>	<b>9,172</b>	<b>10,464</b>	<b>11,755</b>	<b>12,471</b>	<b>12,693</b>
<b>EBITDA (excl. interest income)</b>					
Water distribution	3,852	4,471	5,304	5,495	5,602
Electric power generation	189	405	284	410	426
Toll roads and bridges	166	542	557	602	683
Property investment	1,078	1,104	882	1,157	995
Department stores	282	206	298	294	291
Hotel operations and management	226	192	254	261	269
Others	(124)	(219)	72	74	77
<b>Total</b>	<b>5,668</b>	<b>6,701</b>	<b>7,653</b>	<b>8,293</b>	<b>8,342</b>
<b>EBITDA margin (excl. interest income)</b>					
Water distribution	65%	69%	72%	72%	71%
Electric power generation	16%	36%	23%	27%	30%
Toll roads and bridges	20%	76%	75%	83%	95%
Property investment	229%	130%	81%	102%	84%
Department stores	188%	33%	43%	40%	36%
Hotel operations and management	34%	30%	40%	40%	40%
Others	-	-	-	-	-
<b>Total</b>	<b>62%</b>	<b>64%</b>	<b>65%</b>	<b>67%</b>	<b>66%</b>

Source: Deutsche Bank estimates; company data

## Dongjiang Environmental (DJE) - Recommending Buy

**Stock view:** We like Dongjiang on the strong capacity growth outlook for China's hazardous waste treatment market and Dongjiang's leading market position. We expect Dongjiang to deliver recurring EPS CAGR of 17% in 2017-19E. This should be driven by the capacity growth and utilization rate rise in the industrial waste treatment division.

### 3Q17 results in line

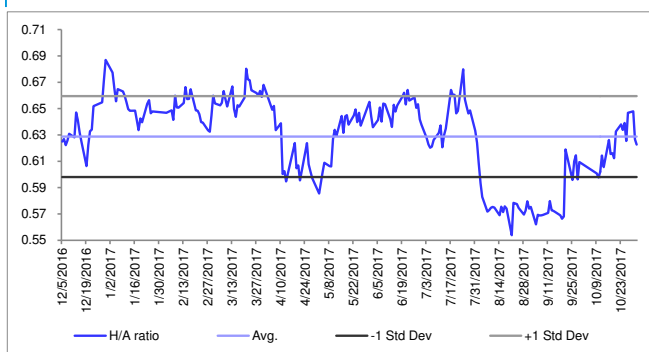
Dongjiang reported in-line 9M17 results with recurring profit up 17% yoy. Management guides for 0% to 25% recurring earnings growth for 2017e and we forecast recurring earnings growth of 17% yoy. We expect Dongjiang's hazardous waste treatment capacities to reach 930/1,089/1,395 ktpa at end-2017/18/19e, implying a CAGR of 22% in 2017-19e.



In September 2017, Dongjiang announced that it has acquired an 80% stake in Wanside (Tangshan Caofeidian) Enviro & Tech Ltd., which has a total hazardous waste treatment capacity of 58.2 ktpa and is expected to complete construction by end-2018. In the same month, Dongjiang announced the acquisition of a 30% stake in Foshan Fulong Enviro & Tech Ltd., which focuses on industrial solid waste treatment in Foshan, and has a total hazardous waste treatment capacity of 49.7 ktpa.

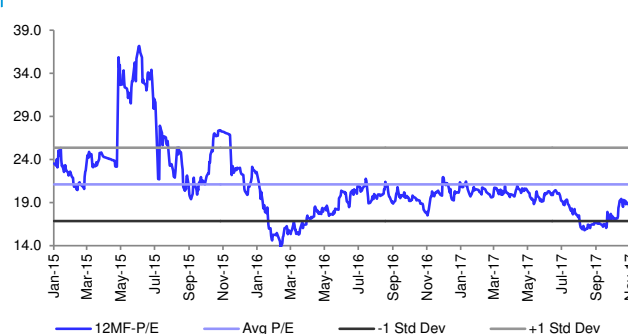
The company recently announced that three members of management (CEO and two Vice Presidents) plan to sell 5.5m shares of Dongjiang, representing 18% of their shareholdings or 0.6% of Dongjiang's total share capital. Management mentioned that they plan to sell the shares for personal financial needs and they will be allowed to sell the shares between November 13, 2017 and May 12, 2018.

Figure 28: Share price DJE-H/DJE-A since Shenzhen Connect



Source: Bloomberg Finance LP, Deutsche Bank

Figure 29: DJE-H 12m forward P/E



Source: Bloomberg Finance LP, Deutsche Bank

**Valuation:** We derive our target price using DCF valuation with explicit cash flows through to 2026e and a terminal value, discounted at a 7.3% WACC (RFR of 3.9%, beta of 1.3, and ERP of 5.6%, yielding a CoE of 11.2%; pre-tax CoD of 4.4%; and a D/E ratio of 50:50).

**Risks:** Downside risks include: 1) fluctuations in China's industrial activity, 2) slower capacity ramp-ups, 3) lower-than-expected metal prices, 4) lower-than-expected margins, as Dongjiang may have to pay higher prices to source raw materials, and 5) possible changes in China's policies on VAT changes.



Figure 30: Summary for DJE

	2014	2015	2016	2017E	2018E	2019E
<b>Year-end operational capacity (ktpa)</b>						
Industrial waste recycling	401	613	711	760	798	838
Industrial waste treatment and disposal	135	578	773	930	1,089	1,395
<b>Total</b>	<b>536</b>	<b>1,190</b>	<b>1,484</b>	<b>1,690</b>	<b>1,887</b>	<b>2,233</b>
<b>Sales volume (kt)</b>						
Industrial waste recycling	69	63	68	82	86	90
Industrial waste treatment and disposal	165	235	327	493	714	912
<b>Revenue (Rmb m)</b>						
Industrial waste recycling	938	773	791	1,156	1,209	1,480
Industrial waste treatment and disposal	396	587	843	1,134	1,659	2,140
Municipal waste treatment and disposal	209	273	306	181	181	181
Renewable energy utilisation	64	89	92	92	92	92
Environmental engineering and services	159	200	245	314	342	342
Trading	61	86	119	119	119	119
Dismantling household appliances	221	395	221	26	8	8
Other emerging business	-	-	-	67	87	113
<b>Total</b>	<b>2,048</b>	<b>2,403</b>	<b>2,617</b>	<b>3,089</b>	<b>3,697</b>	<b>4,475</b>
<b>Cost (Rmb m)</b>						
Industrial waste recycling	(654)	(538)	(531)	(819)	(872)	(1,054)
Industrial waste treatment and disposal	(167)	(284)	(422)	(601)	(879)	(1,134)
Municipal waste treatment and disposal	(175)	(225)	(239)	(156)	(157)	(157)
Renewable energy utilisation	(46)	(66)	(59)	(64)	(64)	(64)
Environmental engineering and services	(120)	(151)	(187)	(238)	(260)	(260)
Trading	(34)	(24)	(29)	(36)	(36)	(36)
Dismantling household appliances	(186)	(337)	(206)	(26)	(8)	(8)
Other emerging business	-	-	-	(53)	(69)	(90)
<b>Total</b>	<b>(1,382)</b>	<b>(1,624)</b>	<b>(1,672)</b>	<b>(1,994)</b>	<b>(2,345)</b>	<b>(2,804)</b>
<b>Gross profit margin</b>						
Industrial waste recycling	30%	30%	33%	29%	28%	29%
Industrial waste treatment and disposal	58%	52%	50%	47%	47%	47%
Municipal waste treatment and disposal	16%	18%	22%	14%	13%	13%
Renewable energy utilisation	28%	26%	36%	30%	30%	30%
Environmental engineering and services	25%	24%	24%	24%	24%	24%
Trading	45%	73%	76%	70%	70%	70%
Dismantling household appliances	16%	15%	7%	0%	0%	0%
Other emerging business	25%	24%	24%	20%	20%	20%
<b>Total</b>	<b>32%</b>	<b>32%</b>	<b>36%</b>	<b>35%</b>	<b>37%</b>	<b>37%</b>

Source: Deutsche Bank estimates; company data

## China Everbright Greentech (CEG) - Buy

**Stock view:** We like China Everbright Greentech (CEG) on its strong project pipeline, excellent project management, decent project returns and potential synergy with its parent company, China Everbright Int'l. We expect CEG's recurring profit to increase by 50% in 17e and register a CAGR of 23% in 17-19e, driven by a strong project pipeline. Kaidi Ecological (000939 CH, not rated), an A-share peer with CEG, announced that the company's power generation from its biomass power plants reached 760 GWh in October, up 33% yoy and up 6% mom. Our conversation with management shows that biomass raw material supplies remain abundant and the prices remain stable.

CEG recently won the Huaiyuan WTE project and the Zhecheng urban-rural integration project, with investment of RMB410m and RMB357m respectively. Management expects to see 20 new projects in total in 2017 and no less than that in FY18, half of which should be from HWT. Management also expects to win soil remediation projects by 1H18.

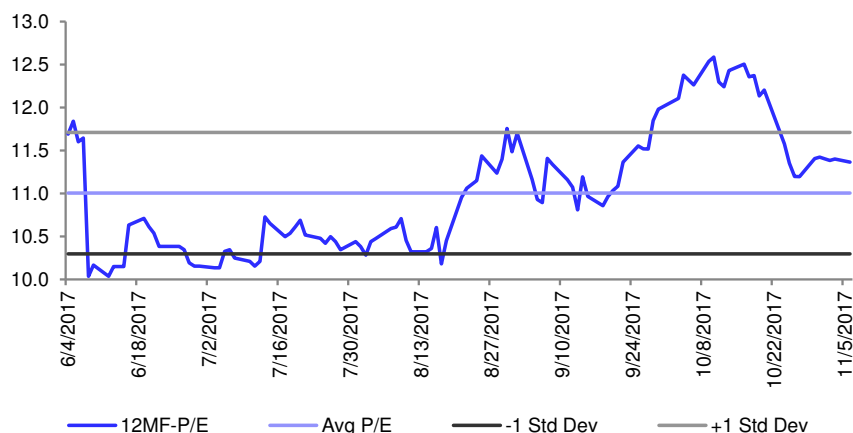


Figure 31: CEG forecast summary

	2015	2016	2017E	2018E	2019E
<b>Year-end operational capacity</b>					
Biomass to power (MW)	60	145	265	415	751
Biomass to heat (tpa)	-	525,600	525,600	963,600	1,011,050
Urban-rural WTE (tpa)	-	146,000	438,000	766,500	1,697,250
Hazardous waste (tpa)	63,650	130,980	140,980	213,980	333,980
<b>Utilization rate</b>					
Biomass to power	91%	87%	85%	86%	86%
Biomass to heat	-	65%	36%	39%	42%
Urban-rural WTE	-	76%	92%	92%	93%
Hazardous waste	84%	107%	95%	90%	90%
<b>Tariff (ex-VAT)</b>					
Biomass to power (Rmb/kWh)	0.64	0.64	0.64	0.64	0.64
Biomass to heat (Rmb/t)	-	205	197	199	201
Urban-rural WTE (Rmb/kWh)	-	0.56	0.56	0.56	0.56
Hazardous waste (Rmb/t)	2,172	2,414	2,486	2,511	2,536
<b>EBITDA profit (HKD m)</b>					
Biomass	301	667	1,163	1,734	2,145
Hazardous waste	82	189	244	344	472
Renewables	78	199	208	210	211
<b>Total</b>	<b>460</b>	<b>1,054</b>	<b>1,615</b>	<b>2,288</b>	<b>2,828</b>
<b>EBITDA profit mix</b>					
Biomass	65%	63%	72%	76%	76%
Hazardous waste	18%	18%	15%	15%	17%
Renewables	17%	19%	13%	9%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Deutsche Bank estimates

Figure 32: CEG 12m forward P/E



Source: Bloomberg Finance LP, Deutsche Bank

**Valuation:** We derive our target price using a DCF valuation with explicit cash flows to 2051e and no terminal value, discounted at a 7.1% WACC (RFR of 3.9%, beta of 1.3, ERP of 5.6%, yielding a CoE of 10.9%, pre-tax CoD of 4.5% and a



D/E ratio of 50:50). The DCF valuation is not affected by the mismatch between reported earnings and cash flows under concession accounting.

**Risks:** The main downside risks include: 1) poor raw material price control; 2) rising competition for new projects; 3) delay in construction progress of new projects; 4) lower-than-expected utilisation rate; and 5) possible changes in China's policies.

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## SIIC Environment (SIIC) - Maintaining Buy

**Stock view:** We maintain our Buy rating on SIIC Environment (SIIC) on its growth prospects and attractive valuation. We expect SIIC to deliver recurring profit growth of 52% in 2017e and a CAGR of 12% in 2017-19e, driven by water capacity addition. SIIC is trading at an attractive valuation of 14.4x in 2018e, if we exclude non-cash construction earnings, much lower than industry average. We expect SIIC to get re-rated if the company completes its Hong Kong dual listing.

SIIC announced in October that it has received approval by the Wuhan Water Bureau to commence commercial operations for the expansion and upgrading project of the Hanxi Waste Water Treatment plant. The daily design capacity of the Hanxi plant has been raised to 600 ktpd from 400 ktpd with a discharge standard of Grade 1B, and the processing fee increased from RMB0.723/t to RMB1.139/t. The guaranteed minimum treatment volume for the first two years is 560,000 t/d and 600,000 t/d from the third year on.

### Key takeaway from 3Q17 results conference call

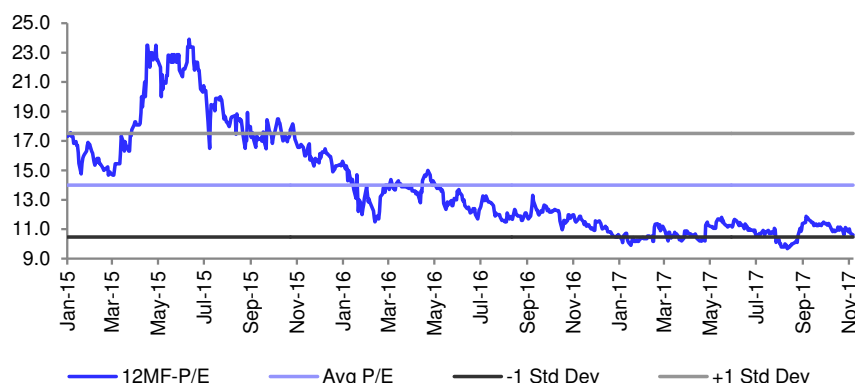
SIIC has been preparing for HK listing by way of introduction, but management no longer gives timeline guidance. The company will hold an extraordinary general meeting after it files listing document in Hong Kong. Finance cost in 3Q17 was 4.7% - the company did not replace high-cost debt of Longjiang during 3Q17. In 3Q17, water supply tariff was RMB2.38/tonne, while WWT tariff reached RMB1.05/tonne, and management expect the tariffs to increase in the future on discharge standard upgrades. Management expects large amount of constructions to be carried out in the near future and expects to achieve its 1-1.5mtpd guidance for each year, including 2017. Operation revenue decreased QoQ in 3Q17 was due to treatment operation disruption as result of discharge standard upgrades but should normalize after the upgrades are done. Management expects FY17 tax rate to be ~27%.

**Valuation:** We derive our target price using a DCF valuation with explicit cash flows to 2050 and no terminal value, discounted at a 6.8% WACC (RFR of 3.9%, beta of 1.0, and ERP of 5.6% yielding a CoE of 9.5%, pre-tax CoD of 4.5%, and D/E ratio of 45:55). The DCF valuation is not affected by the mismatch between reported earnings and cash flows under concession accounting.

**Risk:** The main downside risks include the following: 1) rising competition for new projects; 2) regulatory risks, including delays in implementing cost pass-through for wastewater and water supply projects, especially for the impact of the VAT rule change; 3) credit risk on the receivables from local governments or other customers; 4) lower-than-expected project wins; 5) EPS dilution from potential equity placement; and 6) possible higher share price volatility due to relatively low trading liquidity.



Figure 33: SIIC 12m forward P/E



Source: Bloomberg Finance LP, Deutsche Bank

Figure 34: Summary for SIIC

	2015	2016	2017E	2018E	2019E
<b>Year-end capacity (ktpd, consolidated basis)</b>					
WWT	4,737	8,178	8,978	9,778	10,578
Water supply	1,895	1,895	1,895	1,895	1,895
<b>Utilization</b>					
WWT	100%	86%	75%	76%	77%
Water supply	57%	50%	50%	51%	52%
<b>Tariffs (RMB/t, ex-VAT)</b>					
WWT	0.9	0.8	0.9	0.9	1.0
Water supply	1.6	2.2	2.4	2.4	2.4
<b>Revenue (RMB m)</b>					
Construction	523	1,031	2,045	2,045	1,636
Operation + Finance Income	1,087	1,348	2,334	2,587	2,923
Others	193	269	272	272	272
<b>Total</b>	<b>1,804</b>	<b>2,648</b>	<b>4,652</b>	<b>4,904</b>	<b>4,831</b>
<b>Gross profit (RMB m)</b>					
Construction	65	124	245	245	196
Operation + Finance Income	574	578	1,120	1,239	1,397
Others	73	111	119	119	119
<b>Total</b>	<b>712</b>	<b>812</b>	<b>1,485</b>	<b>1,604</b>	<b>1,713</b>
<b>Gross margins</b>					
Construction	13%	12%	12%	12%	12%
Operation + Finance Income	53%	43%	48%	48%	48%
Others	38%	41%	44%	44%	44%
<b>Overall</b>	<b>39%</b>	<b>31%</b>	<b>32%</b>	<b>33%</b>	<b>35%</b>

Source: Company Data, Deutsche Bank

## CT Environmental (CTEG) - Maintaining Hold

**Stock view:** We maintain our Hold rating on CT Environmental (CTEG). The utilization/ASP/profitability of sludge treatment, hazardous waste treatment and industrial water supply was lower than expected, and we still see uncertainty over the profitability of its upcoming Guangyuan project, which may suffer from insufficient industrial customers.

CTEG plans to spin off its solid waste and hazardous waste business for a separate listing but did not provide much detail on the matter, although we expect little impact from that in the near term. We believe it will be quite some time before



CTEG can regain investor confidence and the profitability uncertainty over its upcoming projects is cleared.

Figure 35: Summary for CT Environmental

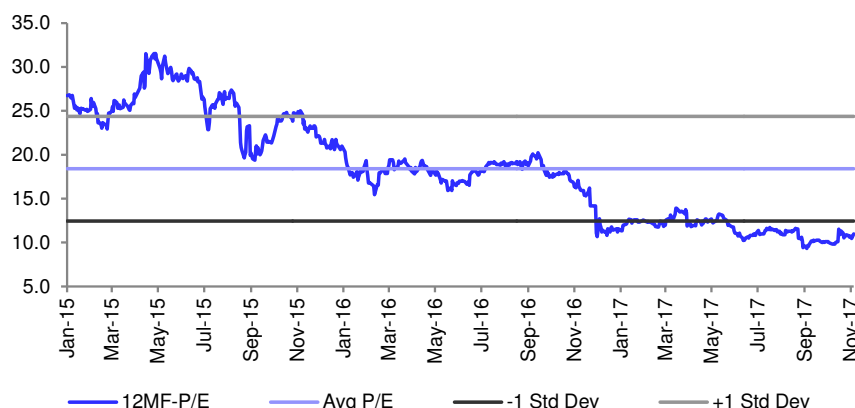
	2016	2017E	2018E	2019E
<b>Average operational capacity (t/d)</b>				
Industrial water supply	280,000	293,333	390,000	390,000
WWT BOO	435,000	565,833	622,500	625,000
WWT BOT	165,000	165,000	165,000	165,000
Industrial waste	274	479	1,575	2,055
Sludge	3,063	3,667	4,242	4,242
Hazardous waste	729,000	781,000	839,000	879,000
WTE	-	300	600	600
<b>Utilization rate</b>				
Industrial water supply	56%	49%	49%	48%
WWT BOO	62%	62%	62%	62%
WWT BOT	95%	95%	95%	95%
Industrial waste	78%	57%	60%	63%
Sludge	120%	90%	95%	95%
Hazardous waste	47%	6%	9%	10%
WTE	-	80%	90%	100%
<b>Volume (mt)</b>				
Industrial water supply	57	52	69	68
WWT BOO	98	128	141	141
WWT BOT	57	57	57	57
Industrial waste	0.1	0.1	0.3	0.5
Sludge	1.3	1.2	1.5	1.5
WTE treatment volume	-	0.1	0.2	0.2
WTE electricity (mn kWh)	-	29	66	73
<b>Tariff (Rmb/t)</b>				
Industrial water supply	1.1	1.1	1.1	1.1
WWT BOO	4.3	3.9	3.9	3.9
WWT BOT	1.0	1.0	1.0	1.0
Industrial waste	586	586	586	586
Sludge	286	334	344	354
WTE treatment fee	245.0	245.0	245.0	245.0
WTE electricity (Rmb/kWh, ex. VAT)	-	0.5	0.5	0.5
<b>Revenue (Rmb m)</b>				
Industrial water supply	58	58	73	73
Wastewater treatment plants operation	470	496	545	547
BOT construction and operation	334	180	109	109
Heating service	121	150	155	159
Sludge & solid waste treatment	440	461	710	800
Entrusted operations	9	0	0	0
Hazardous waste treatment	435	532	585	644
<b>Total</b>	<b>1,866</b>	<b>1,876</b>	<b>2,177</b>	<b>2,332</b>
<b>Adjusted EBITDA (Rmb m)</b>				
Industrial water supply	47	36	45	44
Wastewater treatment plants operation	327	396	428	421
BOT construction and operation	87	46	39	34
Heating service	8	11	11	11
Sludge & solid waste treatment	247	226	341	376
Entrusted operations	9	0	0	0
Hazardous waste treatment	308	356	383	412
Elimination	-5	0	0	0
<b>Total</b>	<b>1,027</b>	<b>1,071</b>	<b>1,247</b>	<b>1,299</b>
<b>Adjusted EBITDA margin</b>				
Industrial water supply	81%	62%	61%	60%
Wastewater treatment plants operation	70%	80%	79%	77%
BOT construction and operation	26%	25%	36%	31%
Heating service	7%	7%	7%	7%
Sludge & solid waste treatment	56%	49%	48%	47%
Entrusted operations	NA	0%	0%	0%
Hazardous waste treatment	71%	67%	66%	64%
Elimination	0%	0%	0%	0%
<b>Total</b>	<b>55%</b>	<b>57%</b>	<b>57%</b>	<b>56%</b>

Source: Deutsche Bank estimates





Figure 36: CTEG 12m forward P/E



Source: Bloomberg Finance LP, Deutsche Bank

**Valuation:** We derive our target price using a DCF valuation, with explicit cash flows to 2026e and a terminal value, discounted at 6.9% WACC (RFR of 3.9%, beta of 1.3, ERP of 5.6%, yielding a CoE of 11.2%, pre-tax CoD of 3.5%, and a D/E ratio of 50:50).

**Risk:** Key downside risks include: 1) closure or relocation of existing industrial customers or lower-than-expected utilization rate due to economic growth slowdown; 2) credit risk on receivables from customers, especially industrial customers; 3) slower-than-expected expansion through winning new projects; 4) failure to meet environmental discharge standards; 5) EPS dilution from potential equity placement; and 6) lower-than-expected return on new projects or unsuccessful expansion into new businesses. Upside risks: 1) faster-than-expected project ramp-ups; and 2) stronger-than-expected new project wins.

## China Everbright Water (CEW) - Maintaining Buy

**Stock view:** We maintain a Buy rating on CEW on its strong growth prospects, synergies with China Everbright Intl. - its parent company, a strong balance sheet and attractive valuation. Management sees benefits in a better regulated PPP market and has won three sizable projects this year. We forecast that CEW's recurring profit should register a CAGR of 12% in 17-19e. We expect CEW to benefit from its parent's strong connections with local governments, strong brand name in fund sourcing, and collaboration in packaged PPP projects. CEW's leverage (net debt/equity) was at only 43% by Jun 2017 and the company's funding sources also include PPP funds, panda bonds, etc., providing sufficient financial resources for future projects.

### Strong projects won and low capital pressure

The industry has now many of the projects packaged into large PPP projects, thus CEW has an advantage over other competitors, as it can collaborate with its parent in project bidding. CEW has won several sizable projects this year. The Suizhou (Hubei) Water environment renovation project and Zhangqiu (Shandong) water supply project were sealed in 1H17 and are now in the preparatory stage. In 2H17, CEW won Nanning (Guangxi) shuitang river integrated restoration PPP project with an investment of RMB1.5bn and started construction at the end of



September. 2H17 construction revenue is expected to be higher than 1H17, as management previously guided.

In the coming 1-2 years, management expects to benefit from tariff hikes from its upgrade projects (from 1B to 1A) in 1H17. Around 70%-80% of CEW projects now are Grade 1A, while the rest are mainly Grade 1B.

CEW may have to rely on its own sources for future project funding, but we believe this will not be a big issue given its low gearing ratio at ~43%, and relatively low finance cost at ~4.3%. The company issued a panda bond of RMB1bn in July (4.55% coupon rate with five-year maturity), and launched a water investment fund in August (RMB 10bn off-balance-sheet) for PPP projects.

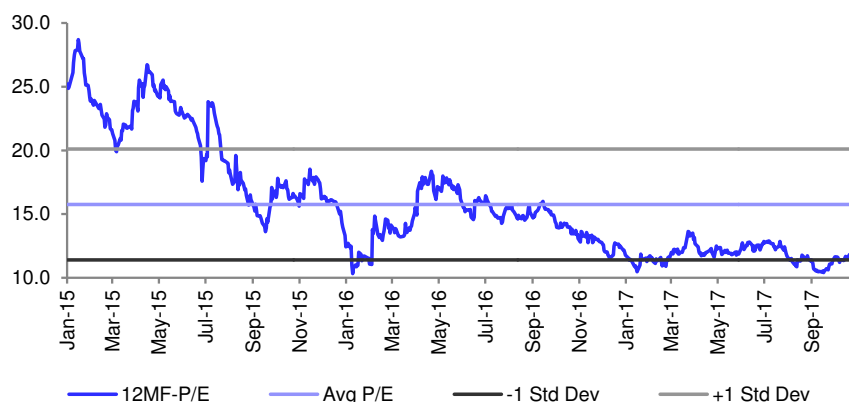
Figure 37: Summary for CEW

	2015	2016	2017E	2018E	2019E
<b>Year-end capacity (ktpd, consolidated basis)</b>					
Design capacity	4,587	5,132	5,132	5,332	5,532
Operational capacity	3,602	3,907	4,057	4,197	4,345
<b>Utilization</b>					
WWT	96%	89%	91%	94%	94%
Reusable water	46%	49%	52%	55%	58%
<b>Tariffs (RMB/t, ex-VAT)</b>					
WWT	1.2	1.1	1.1	1.2	1.2
Reusable water	4.1	3.9	4.0	4.0	4.1
<b>Revenue (HKD m)</b>					
Construction	592	1,143	1,976	2,692	2,917
Operation + Finance Income	1,223	1,351	1,508	1,696	1,780
<b>Total</b>	<b>1,815</b>	<b>2,494</b>	<b>3,484</b>	<b>4,387</b>	<b>4,697</b>
<b>Gross profit (HKD m)</b>					
Construction	135	193	356	484	525
Operation + Finance Income	689	713	784	882	926
<b>Total</b>	<b>824</b>	<b>906</b>	<b>1,140</b>	<b>1,366</b>	<b>1,451</b>
<b>Gross margin</b>					
Construction	23%	17%	18%	18%	18%
Operation + Finance Income	56%	53%	52%	52%	52%
<b>Overall</b>	<b>45%</b>	<b>36%</b>	<b>33%</b>	<b>31%</b>	<b>31%</b>

Source: Deutsche Bank estimates



Figure 38: CEW 12m forward P/E



Source: Bloomberg Finance LP, Deutsche Bank

**Valuation:** We derive our target price using a DCF valuation with explicit cash flows to 2051 and no terminal value, discounted at a WACC of 7.3% (RFR of 3.9%, beta of 1.4, EQR of 5.6%, and therefore a CoE of 11.6%; post tax CoD of 3.0%; and D/E of 50:50). Our DCF valuation is not affected by the mismatch between reported earnings and cash flows under concession accounting.

**Risks:** The main downside risks include: 1) rising competition for new projects; 2) regulatory risks such as delays in implementing cost pass-through for waste water (including the impact from VAT rule changes) and water supply projects; 3) credit risk on the receivables from local governments or other customers; 4) fewer-than-expected project wins; 5) EPS dilution from potential equity placement; and 6) possible higher share price volatility due to relatively low trading liquidity.



Model updated: 03 November 2017

Running the numbers

Asia  
 China  
 Utilities

Dongjiang Environmental

Reuters: 0895.HK Bloomberg: 0895 HK

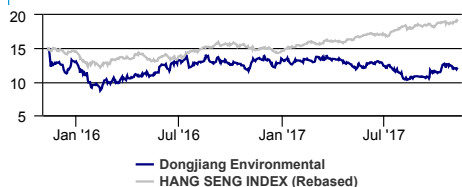
Buy

Price (9 Nov 17) HKD 12.12  
 Target Price HKD 13.60  
 52 Week range HKD 10.30 - 14.00  
 Market cap (m) HKDm 15,273  
 USDm 1,958.1

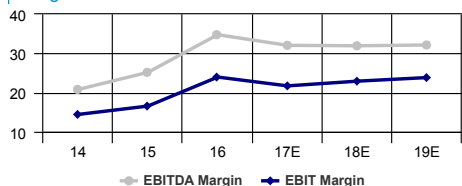
Company Profile

Dongjiang Environmental Company Ltd is primarily focused on industrial waste treatment and recycling, with small business exposure to municipal waste treatment. The company is a leader in industrial hazardous waste treatment in China and holds permits to treat more than 40 different types of hazardous wastes. The company is dual-listed in Hong Kong and mainland China.

Price Performance



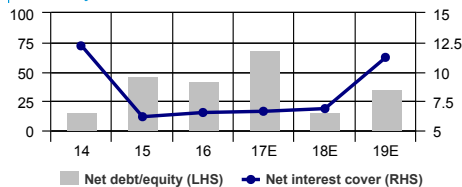
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (CNY)	0.28	0.34	0.43	0.50	0.57	0.69
Reported EPS (CNY)	0.30	0.38	0.61	0.50	0.57	0.69
DPS (CNY)	0.15	0.08	0.13	0.11	0.12	0.15
BVPS (CNY)	2.8	3.2	3.7	4.2	6.6	7.2
Weighted average shares (m)	846	869	878	890	972	1,056
Average market cap (CNYm)	8,758	15,224	14,055	12,990	12,990	12,990
Enterprise value (CNYm)	9,481	17,051	16,108	16,508	14,696	16,492

Valuation Metrics

P/E (DB) (x)	27.0	31.4	23.7	20.5	17.9	14.9
P/E (Reported) (x)	25.7	28.1	16.8	20.5	17.9	14.9
P/BV (x)	3.04	3.34	3.12	2.44	1.57	1.44
FCF Yield (%)	nm	nm	0.1	nm	nm	nm
Dividend Yield (%)	1.9	0.7	1.2	1.0	1.2	1.4
EV/Sales (x)	4.6	7.1	6.2	5.3	4.0	3.7
EV/EBITDA (x)	22.3	28.2	17.7	16.7	12.4	11.5
EV/EBIT (x)	32.1	42.8	25.7	24.6	17.3	15.5

Income Statement (CNYm)

Sales revenue	2,048	2,403	2,617	3,089	3,697	4,475
Gross profit	786	968	1,190	1,380	1,644	1,993
EBITDA	426	605	910	991	1,181	1,439
Depreciation	96	143	175	229	258	301
Amortisation	35	64	108	90	76	71
EBIT	295	398	627	671	847	1,067
Net interest income/(expense)	-24	-65	-96	-101	-124	-95
Associates/affiliates	32	28	16	27	30	31
Exceptionals/extraordinary	-47	-13	-8	0	0	0
Other pre-tax income/(expense)	65	100	134	0	0	0
Profit before tax	322	449	674	597	753	1,002
Income tax expense	39	64	97	68	94	136
Minorities	31	53	43	80	101	134
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	252	333	534	448	559	733
DB adjustments (including dilution)	-13	-35	-155	0	0	0
DB Net profit	239	298	379	448	559	733

Cash Flow (CNYm)

Cash flow from operations	166	228	690	-108	704	879
Net Capex	-978	-925	-681	-1,324	-1,376	-2,478
Free cash flow	-813	-697	9	-1,432	-672	-1,599
Equity raised/(bought back)	132	8	160	146	2,679	64
Dividends paid	-128	-248	-249	-107	-94	-126
Net inc/(dec) in borrowings	903	714	420	883	-434	1,835
Other investing/financing cash flows	-4	14	-16	-22	-40	-53
Net cash flow	89	-208	324	-533	1,439	119
Change in working capital	-296	-432	-119	-956	-289	-360

Balance Sheet (CNYm)

Cash and other liquid assets	1,028	858	1,160	627	2,066	2,185
Tangible fixed assets	790	1,300	1,397	2,462	3,575	4,650
Goodwill/intangible assets	849	1,413	1,947	1,857	1,781	1,710
Associates/investments	101	150	153	153	153	153
Other assets	2,217	2,965	3,532	4,216	4,594	6,166
Total assets	4,985	6,685	8,189	9,315	12,169	14,863
Interest bearing debt	1,455	2,369	2,790	3,673	3,239	5,074
Other liabilities	691	1,097	1,534	1,241	1,325	1,435
Total liabilities	2,147	3,466	4,324	4,915	4,565	6,509
Shareholders' equity	2,442	2,753	3,289	3,775	6,919	7,588
Minorities	396	466	577	625	685	766
Total shareholders' equity	2,839	3,220	3,866	4,400	7,604	8,354
Net debt	428	1,511	1,629	3,046	1,173	2,889

Key Company Metrics

Sales growth (%)	29.3	17.4	8.9	18.0	19.7	21.1
DB EPS growth (%)	29.9	20.3	26.1	16.6	14.1	20.8
EBITDA Margin (%)	20.8	25.2	34.8	32.1	32.0	32.2
EBIT Margin (%)	14.4	16.6	24.0	21.7	22.9	23.8
Payout ratio (%)	50.4	20.9	20.7	20.9	20.9	20.9
ROE (%)	10.7	12.8	17.7	12.7	10.4	10.1
Capex/sales (%)	47.8	44.8	46.5	42.9	37.2	55.4
Capex/depreciation (x)	7.5	5.2	4.3	4.1	4.1	6.7
Net debt/equity (%)	15.1	46.9	42.2	69.2	15.4	34.6
Net interest cover (x)	12.2	6.2	6.5	6.6	6.9	11.2

Source: Company data, Deutsche Securities estimates



Model updated: 03 November 2017

Running the numbers

Asia  
 China  
 Utilities

Dongjiang Environmental

Reuters: 002672.SZ Bloomberg: 002672 CH

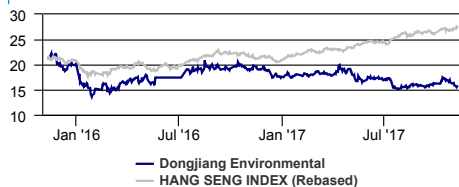
Sell

Price (9 Nov 17) CNY 15.84  
 Target Price CNY 12.00  
 52 Week range CNY 15.13 - 19.94  
 Market cap (m) CNYm 10,282 USDm 1,549.8

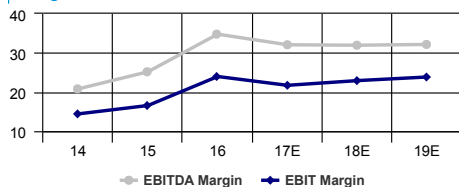
Company Profile

Dongjiang Environmental Company Ltd is primarily focused on industrial waste treatment and recycling, with small business exposure to municipal waste treatment. The company is a leader in industrial hazardous waste treatment in China and holds permits to treat more than 40 different types of hazardous wastes. The company is dual-listed in Hong Kong and mainland China.

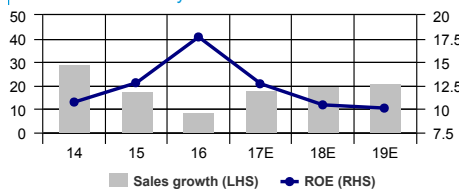
Price Performance



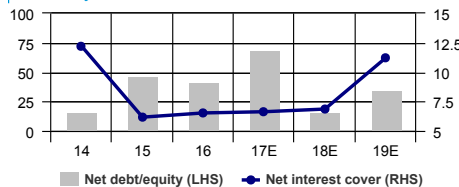
Margin Trends



Growth & Profitability



Solvency



Thomas Zhu, CFA

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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (CNY)	0.28	0.34	0.43	0.50	0.57	0.69
Reported EPS (CNY)	0.30	0.38	0.61	0.50	0.57	0.69
DPS (CNY)	0.15	0.08	0.13	0.11	0.12	0.15
BVPS (CNY)	2.8	3.2	3.7	4.2	6.6	7.2
Weighted average shares (m)	846	869	878	890	972	1,056
Average market cap (CNYm)	7,178	11,098	10,486	10,282	10,282	10,282
Enterprise value (CNYm)	7,900	12,925	12,540	13,800	11,987	13,783

Valuation Metrics

P/E (DB) (x)	39.7	57.1	41.0	31.5	27.6	22.8
P/E (Reported) (x)	37.7	51.1	29.1	31.5	27.6	22.8
P/BV (x)	4.93	6.37	4.75	3.75	2.41	2.21
FCF Yield (%)	nm	nm	0.1	nm	nm	nm
Dividend Yield (%)	1.3	0.4	0.7	0.7	0.8	0.9
EV/Sales (x)	3.9	5.4	4.8	4.5	3.2	3.1
EV/EBITDA (x)	18.5	21.4	13.8	13.9	10.1	9.6
EV/EBIT (x)	26.7	32.5	20.0	20.6	14.1	12.9

Income Statement (CNYm)

Sales revenue	2,048	2,403	2,617	3,089	3,697	4,475
Gross profit	786	968	1,190	1,380	1,644	1,993
EBITDA	426	605	910	991	1,181	1,439
Depreciation	96	143	175	229	258	301
Amortisation	35	64	108	90	76	71
EBIT	295	398	627	671	847	1,067
Net interest income/(expense)	-24	-65	-96	-101	-124	-95
Associates/affiliates	32	28	16	27	30	31
Exceptionals/extraordinary	-47	-13	-8	0	0	0
Other pre-tax income/(expense)	65	100	134	0	0	0
Profit before tax	322	449	674	597	753	1,002
Income tax expense	39	64	97	68	94	136
Minorities	31	53	43	80	101	134
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	252	333	534	448	559	733
DB adjustments (including dilution)	-13	-35	-155	0	0	0
DB Net profit	239	298	379	448	559	733

Cash Flow (CNYm)

Cash flow from operations	166	228	690	-108	704	879
Net Capex	-978	-925	-681	-1,324	-1,376	-2,478
Free cash flow	-813	-697	9	-1,432	-672	-1,599
Equity raised/(bought back)	132	8	160	146	2,679	64
Dividends paid	-128	-248	-249	-107	-94	-126
Net inc/(dec) in borrowings	903	714	420	883	-434	1,835
Other investing/financing cash flows	-4	14	-16	-22	-40	-53
Net cash flow	89	-208	324	-533	1,439	119
Change in working capital	-296	-432	-119	-956	-289	-360

Balance Sheet (CNYm)

Cash and other liquid assets	1,028	858	1,160	627	2,066	2,185
Tangible fixed assets	790	1,300	1,397	2,462	3,575	4,650
Goodwill/intangible assets	849	1,413	1,947	1,857	1,781	1,710
Associates/investments	101	150	153	153	153	153
Other assets	2,217	2,965	3,532	4,216	4,594	6,166
Total assets	4,985	6,685	8,189	9,315	12,169	14,863
Interest bearing debt	1,455	2,369	2,790	3,673	3,239	5,074
Other liabilities	691	1,097	1,534	1,241	1,325	1,435
Total liabilities	2,147	3,466	4,323	4,915	4,565	6,509
Shareholders' equity	2,442	2,753	3,289	3,775	6,919	7,588
Minorities	396	466	577	625	685	766
Total shareholders' equity	2,839	3,220	3,866	4,400	7,604	8,354
Net debt	428	1,511	1,629	3,046	1,173	2,889

Key Company Metrics

Sales growth (%)	29.3	17.4	8.9	18.0	19.7	21.1
DB EPS growth (%)	29.9	20.3	26.1	16.6	14.1	20.8
EBITDA Margin (%)	20.8	25.2	34.8	32.1	32.0	32.2
EBIT Margin (%)	14.4	16.6	24.0	21.7	22.9	23.8
Payout ratio (%)	50.4	20.9	20.7	20.9	20.9	20.9
ROE (%)	10.7	12.8	17.7	12.7	10.4	10.1
Capex/sales (%)	47.8	44.8	46.5	42.9	37.2	55.4
Capex/depreciation (x)	7.5	5.2	4.3	4.1	4.1	6.7
Net debt/equity (%)	15.1	46.9	42.2	69.2	15.4	34.6
Net interest cover (x)	12.2	6.2	6.5	6.6	6.9	11.2

Source: Company data, Deutsche Securities estimates



Model updated: 03 November 2017

Running the numbers

Asia  
 China  
 Utilities

China Everbright Water

Reuters: CEWL.SI      Bloomberg: CEWL SP

Buy

Price (9 Nov 17)      SGD 0.46

Target Price      SGD 0.54

52 Week range      SGD 0.42 - 0.55

Market cap (m)      SGDm 1,199.7  
 USDm 881.8

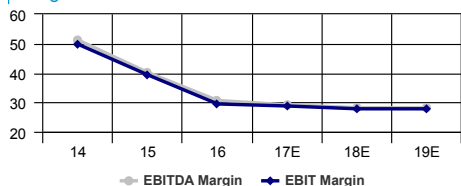
Company Profile

China Everbright Water (CEW), a 74.4 percent-owned subsidiary of China Everbright Intl, is listed in Singapore. CEW is primarily engaged in the environmental water business, such as wastewater treatment, and reusable water, etc.. Upon the completion of reverse takeover of Hankore Environment (previously known as Bio-Treat) on 12 December 2014, CEW has expanded its water business with projects located across

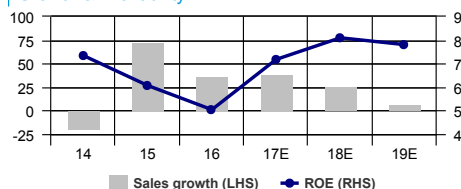
Price Performance



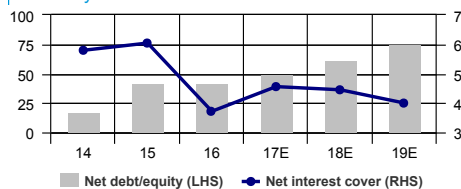
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (HKD)	0.15	0.16	0.15	0.19	0.23	0.24
Reported EPS (HKD)	0.15	0.16	0.13	0.19	0.23	0.24
DPS (HKD)	0.00	0.02	0.02	0.02	0.03	0.03
BVPS (HKD)	2.5	2.7	2.6	2.8	3.0	3.2
Weighted average shares (m)	1,969	2,571	2,609	2,610	2,610	2,610
Average market cap (HKDm)	12,341	12,626	8,256	6,877	6,877	6,877
Enterprise value (HKDm)	13,042	15,018	10,842	10,231	11,448	12,973

Valuation Metrics

P/E (DB) (x)	40.9	30.5	21.7	13.7	11.3	10.9
P/E (Reported) (x)	42.1	31.1	23.6	13.7	11.3	10.9
P/BV (x)	2.41	1.28	1.08	0.95	0.88	0.82
FCF Yield (%)	2.5	0.2	0.1	nm	nm	nm
Dividend Yield (%)	0.0	0.4	0.6	0.9	1.1	1.1
EV/Sales (x)	12.4	8.3	4.3	2.9	2.6	2.8
EV/EBITDA (x)	24.2	20.6	14.2	10.1	9.3	9.8
EV/EBIT (x)	24.9	21.0	14.8	10.2	9.4	9.9

Income Statement (HKDm)

Sales revenue	1,051	1,815	2,494	3,484	4,387	4,697
Gross profit	596	824	906	1,140	1,366	1,451
EBITDA	538	729	765	1,016	1,237	1,322
Depreciation	14	14	15	14	16	16
Amortisation	1	1	15	0	0	0
EBIT	523	714	735	1,002	1,220	1,306
Net interest income/(expense)	-90	-118	-198	-220	-274	-327
Associates/affiliates	0	0	0	2	2	2
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	433	596	537	785	948	982
Income tax expense	119	172	165	212	255	263
Minorities	21	17	23	68	83	86
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	293	406	349	504	610	633
DB adjustments (including dilution)	9	7	32	0	0	0
DB Net profit	302	413	381	504	610	633

Cash Flow (HKDm)

Cash flow from operations	317	33	20	-451	-881	-1,120
Net Capex	-3	-10	-12	-25	0	0
Free cash flow	313	23	8	-476	-881	-1,120
Equity raised/(bought back)	0	659	0	0	0	0
Dividends paid	0	0	-12	-50	-46	-60
Net inc/(dec) in borrowings	-149	2,909	310	797	1,123	1,147
Other investing/financing cash flows	88	-2,787	-366	-317	-413	-478
Net cash flow	252	803	-60	-46	-217	-512
Change in working capital	-173	-635	-642	-1,425	-2,069	-2,403

Balance Sheet (HKDm)

Cash and other liquid assets	681	1,769	1,903	1,857	1,640	1,129
Tangible fixed assets	174	163	148	159	143	127
Goodwill/intangible assets	1,994	2,709	2,445	2,463	2,516	2,575
Associates/investments	667	893	792	936	1,142	1,361
Other assets	6,595	8,405	8,793	10,261	12,449	14,741
Total assets	10,112	13,939	14,080	15,675	17,890	19,932
Interest bearing debt	1,824	4,818	4,887	5,685	6,808	7,955
Other liabilities	1,736	1,824	2,002	2,278	2,724	2,964
Total liabilities	3,560	6,642	6,890	7,963	9,532	10,919
Shareholders' equity	6,325	7,061	6,798	7,252	7,817	8,389
Minorities	226	236	394	462	545	631
Total shareholders' equity	6,551	7,297	7,192	7,714	8,362	9,020
Net debt	1,143	3,049	2,985	3,828	5,168	6,826

Key Company Metrics

Sales growth (%)	-18.6	72.7	37.4	39.7	25.9	7.1
DB EPS growth (%)	11.6	4.8	-9.2	32.3	21.0	3.7
EBITDA Margin (%)	51.2	40.2	30.7	29.2	28.2	28.2
EBIT Margin (%)	49.8	39.4	29.5	28.8	27.8	27.8
Payout ratio (%)	0.0	12.2	13.1	12.0	12.0	12.0
ROE (%)	7.3	6.1	5.0	7.2	8.1	7.8
Capex/sales (%)	0.3	0.6	0.5	0.7	0.0	0.0
Capex/depreciation (x)	0.2	0.7	0.4	1.8	0.0	0.0
Net debt/equity (%)	17.5	41.8	41.5	49.6	61.8	75.7
Net interest cover (x)	5.8	6.0	3.7	4.6	4.5	4.0

Source: Company data, Deutsche Securities estimates



Model updated: 03 November 2017

Running the numbers

Asia

China

Utilities

China Everbright Int'l

Reuters: 0257.HK

Bloomberg: 257 HK

Buy

Price (9 Nov 17) HKD 10.88

Target Price HKD 13.50

52 Week range HKD 8.24 - 11.26

Market cap (m) HKDm 48,772  
 USDm 6,253.1

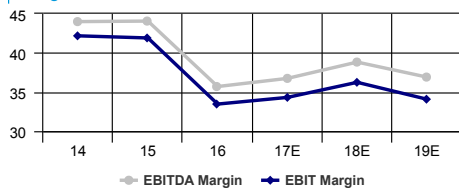
Company Profile

China Everbright International is primarily engaged in environmental protection project investments such as sewage water treatment, waste-to-energy and solid waste disposal. The company also operates a toll bridge in Fuzhou, Fujian province. China Everbright Int'l is controlled by China Everbright Group and has positioned itself as the environmental investment arm of its parent.

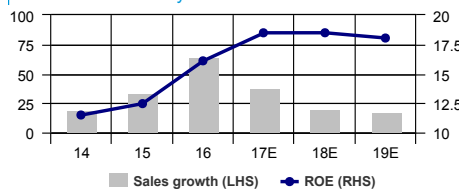
Price Performance



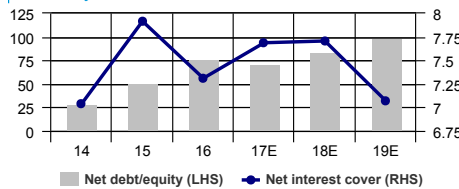
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (HKD)	na	0.45	0.63	0.84	1.03	1.13
Reported EPS (HKD)	0.38	0.46	0.62	0.84	1.03	1.13
DPS (HKD)	0.11	0.19	0.21	0.29	0.36	0.39
BVPS (HKD)	3.6	3.8	3.9	5.2	5.9	6.6
Weighted average shares (m)	4,484	4,484	4,483	4,483	4,483	4,483
Average market cap (HKDm)	48,038	54,702	39,630	48,772	48,772	48,772
Enterprise value (HKDm)	53,325	66,156	56,711	69,580	77,464	86,727

Valuation Metrics

P/E (DB) (x)	0.0	27.0	14.1	12.9	10.6	9.7
P/E (Reported) (x)	28.2	26.2	14.2	12.9	10.6	9.7
P/BV (x)	3.18	2.60	2.27	2.09	1.85	1.65
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	1.0	1.5	2.3	2.7	3.3	3.6
EV/Sales (x)	8.4	7.8	4.1	3.6	3.3	3.2
EV/EBITDA (x)	19.1	17.6	11.4	9.8	8.6	8.6
EV/EBIT (x)	19.9	18.5	12.1	10.5	9.2	9.3

Income Statement (HKDm)

Sales revenue	6,355	8,535	13,971	19,275	23,151	27,284
Gross profit	3,084	4,093	5,623	7,888	10,045	11,600
EBITDA	2,796	3,760	4,988	7,083	8,989	10,071
Depreciation	79	91	163	211	240	268
Amortisation	36	93	150	257	358	502
EBIT	2,680	3,576	4,675	6,614	8,390	9,300
Net interest income/(expense)	-381	-452	-640	-860	-1,089	-1,315
Associates/affiliates	-1	-6	63	41	20	20
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,299	3,119	4,099	5,795	7,322	8,005
Income tax expense	534	783	1,062	1,439	1,847	1,996
Minorities	62	251	252	589	877	957
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,703	2,085	2,785	3,768	4,597	5,052
DB adjustments (including dilution)	-1,703	-61	27	0	0	0
DB Net profit	0	2,024	2,812	3,768	4,597	5,052

Cash Flow (HKDm)

Cash flow from operations	-1,187	-1,538	221	-2,380	-1,365	-846
Net Capex	-216	-1,209	-3,189	-3,014	-4,059	-5,718
Free cash flow	-1,402	-2,747	-2,968	-5,394	-5,424	-6,564
Equity raised/(bought back)	0	660	0	0	0	0
Dividends paid	-448	-560	-874	-1,242	-1,464	-1,689
Net inc/(dec) in borrowings	1,187	7,513	6,220	7,379	6,054	7,282
Other investing/financing cash flows	332	-3,005	-1,780	3,532	6	6
Net cash flow	-332	-1,859	597	4,275	-828	-964
Change in working capital	-3,740	-4,839	-4,330	-7,993	-8,535	-8,620

Balance Sheet (HKDm)

Cash and other liquid assets	4,094	5,953	6,341	10,539	9,566	8,522
Tangible fixed assets	1,684	2,516	3,187	3,567	3,961	5,756
Goodwill/intangible assets	3,406	4,419	7,250	9,420	12,494	15,652
Associates/investments	1,335	638	651	692	712	732
Other assets	20,681	27,096	32,104	39,757	48,767	58,097
Total assets	31,200	40,623	49,532	63,976	75,500	88,759
Interest bearing debt	9,137	15,821	21,616	28,995	35,049	42,331
Other liabilities	4,220	5,382	8,071	8,572	10,177	11,913
Total liabilities	13,357	21,203	29,687	37,567	45,225	54,244
Shareholders' equity	16,263	17,196	17,389	23,364	26,353	29,636
Minorities	1,580	2,224	2,456	3,045	3,922	4,879
Total shareholders' equity	17,843	19,421	19,845	26,409	30,274	34,515
Net debt	5,042	9,867	15,275	18,455	25,483	33,809

Key Company Metrics

Sales growth (%)	19.5	34.3	63.7	38.0	20.1	17.9
DB EPS growth (%)	na	na	39.0	34.0	22.0	9.9
EBITDA Margin (%)	44.0	44.1	35.7	36.7	38.8	36.9
EBIT Margin (%)	42.2	41.9	33.5	34.3	36.2	34.1
Payout ratio (%)	29.0	39.8	33.0	35.0	35.0	35.0
ROE (%)	11.5	12.5	16.1	18.5	18.5	18.0
Capex/sales (%)	3.4	14.2	22.8	15.6	17.5	21.0
Capex/depreciation (x)	1.9	6.6	10.2	6.4	6.8	7.4
Net debt/equity (%)	28.3	50.8	77.0	69.9	84.2	98.0
Net interest cover (x)	7.0	7.9	7.3	7.7	7.7	7.1

Source: Company data, Deutsche Securities estimates





Model updated: 03 November 2017

Running the numbers

Asia  
 China  
 Utilities

Guangdong Investment

Reuters: 0270.HK Bloomberg: 270 HK

Buy

Price (9 Nov 17) HKD 11.46

Target Price HKD 13.20

52 Week range HKD 9.65 - 12.10

Market cap (m) HKDm 71,206  
 USDm 9,129.4

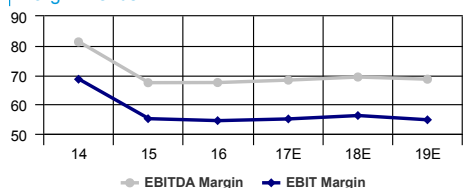
Company Profile

Guangdong Investment's (GDI) primary business is the supply of raw water to Hong Kong and Dongguan/Shenzhen. In addition, the company owns stakes in several power plants and toll roads located in Guangdong. The company also has a property portfolio, which includes office towers, hotels and department stores located in Guangdong, Tianjin and Hong Kong. GDI is controlled by GDH Limited, which is a provincial- owned conglomerate.

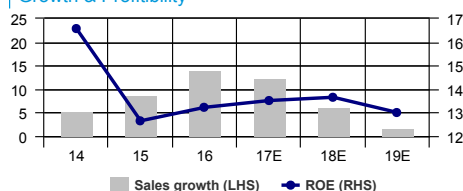
Price Performance



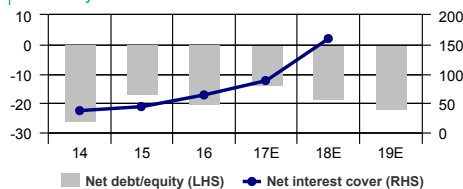
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (HKD)	0.58	0.65	0.69	0.73	0.79	0.79
Reported EPS (HKD)	0.76	0.62	0.67	0.73	0.79	0.79
DPS (HKD)	0.28	0.34	0.42	0.48	0.56	0.60
BVPS (HKD)	4.9	5.0	5.1	5.6	5.9	6.2
Weighted average shares (m)	6,240	6,254	6,263	6,403	6,544	6,547
Average market cap (HKDm)	51,722	64,264	67,815	71,206	71,206	71,206
Enterprise value (HKDm)	46,122	61,894	64,282	69,882	67,796	65,979

Valuation Metrics

P/E (DB) (x)	14.4	15.7	15.8	15.7	14.5	14.6
P/E (Reported) (x)	10.9	16.5	16.1	15.7	14.5	14.6
P/BV (x)	1.98	2.14	1.99	2.03	1.93	1.86
FCF Yield (%)	7.2	2.6	3.5	nm	7.7	8.1
Dividend Yield (%)	3.4	3.3	3.9	4.2	4.9	5.2
EV/Sales (x)	5.5	6.7	6.1	5.9	5.4	5.2
EV/EBITDA (x)	6.7	10.0	9.1	8.7	7.8	7.6
EV/EBIT (x)	8.0	12.2	11.3	10.8	9.7	9.5

Income Statement (HKDm)

Sales revenue	8,426	9,172	10,468	11,755	12,471	12,693
Gross profit	6,848	6,182	7,061	8,026	8,645	8,705
EBITDA	6,848	6,182	7,061	8,026	8,645	8,705
Depreciation	261	275	403	601	643	671
Amortisation	810	850	955	953	992	1,084
EBIT	5,777	5,057	5,703	6,471	7,010	6,950
Net interest income/(expense)	310	-136	-130	-101	-79	-44
Associates/affiliates	312	325	179	36	148	161
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	78	0	0	0	0	0
Profit before tax	6,476	5,246	5,752	6,406	7,078	7,067
Income tax expense	1,138	957	1,100	1,277	1,404	1,412
Minorities	566	384	440	458	497	494
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,773	3,905	4,212	4,671	5,177	5,160
DB adjustments (including dilution)	-1,173	194	84	0	0	0
DB Net profit	3,600	4,099	4,296	4,671	5,177	5,160

Cash Flow (HKDm)

Cash flow from operations	5,105	5,293	5,969	6,524	7,221	7,377
Net Capex	-1,385	-3,591	-3,581	-8,267	-1,430	-1,327
Free cash flow	3,720	1,702	2,388	-1,743	5,791	6,050
Equity raised/(bought back)	2	92	61	2,835	0	0
Dividends paid	-1,498	-2,050	-2,464	-3,066	-3,389	-3,936
Net inc/(dec) in borrowings	1,281	2,855	-2,020	-700	-1,500	-2,093
Other investing/financing cash flows	-3,074	-1,200	350	0	0	0
Net cash flow	432	1,399	-1,684	-2,674	902	21
Change in working capital	397	1,079	-792	-175	-155	-106

Balance Sheet (HKDm)

Cash and other liquid assets	15,210	15,524	14,845	12,172	13,074	13,094
Tangible fixed assets	3,650	7,083	6,692	9,674	10,412	11,017
Goodwill/intangible assets	13,166	15,522	14,442	14,712	13,730	12,657
Associates/investments	1,659	1,893	1,721	1,705	1,639	1,566
Other assets	13,931	14,088	14,430	18,005	18,097	18,151
Total assets	47,615	54,110	52,130	56,267	56,951	56,486
Interest bearing debt	5,872	9,252	7,017	6,317	4,817	2,724
Other liabilities	6,079	7,590	6,875	6,814	6,712	6,621
Total liabilities	11,951	16,843	13,892	13,131	11,529	9,345
Shareholders' equity	30,267	31,472	32,222	36,900	38,937	40,431
Minorities	5,397	5,795	6,017	6,236	6,485	6,710
Total shareholders' equity	35,664	37,267	38,239	43,137	45,422	47,141
Net debt	-9,337	-6,272	-7,829	-5,855	-8,257	-10,370

Key Company Metrics

Sales growth (%)	5.5	8.8	14.1	12.3	6.1	1.8
DB EPS growth (%)	4.5	13.7	4.7	6.4	8.5	-0.4
EBITDA Margin (%)	81.3	67.4	67.5	68.3	69.3	68.6
EBIT Margin (%)	68.6	55.1	54.5	55.1	56.2	54.8
Payout ratio (%)	36.7	54.5	62.4	65.8	70.8	76.1
ROE (%)	16.6	12.7	13.2	13.5	13.7	13.0
Capex/sales (%)	17.4	39.2	34.2	70.3	11.5	10.5
Capex/depreciation (x)	1.4	3.2	2.6	5.3	0.9	0.8
Net debt/equity (%)	-26.2	-16.8	-20.5	-13.6	-18.2	-22.0
Net interest cover (x)	nm	37.2	44.0	63.9	88.4	159.8

Source: Company data, Deutsche Securities estimates





Model updated: 03 November 2017

Running the numbers

Asia

China

Utilities

CT Environmental

Reuters: 1363.HK

Bloomberg: 1363 HK

Hold

Price (9 Nov 17) HKD 1.32

Target Price HKD 1.29

52 Week range HKD 1.08 - 2.14

Market cap (m) HKDm 8,338.2  
 USDm 1,069.1

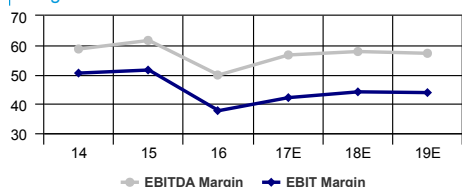
Company Profile

CT Environmental Group Ltd (CTEG), listed in Hong Kong in September 2013, is committed to providing one-stop environmental services, mainly for industrial customers. It started in the industrial wastewater treatment and water supply businesses, and has now expanded into sludge treatment, industrial solid waste and hazardous waste businesses.

Price Performance



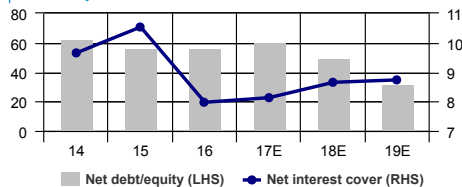
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.06	0.08	0.10	0.08	0.11	0.12
Reported EPS (CNY)	0.06	0.10	0.08	0.09	0.11	0.12
DPS (CNY)	0.01	0.02	0.02	0.02	0.02	0.02
BVPS (CNY)	0.3	0.5	0.5	0.6	0.7	0.8
Weighted average shares (m)	5,626	6,101	6,317	6,317	6,317	6,317
Average market cap (CNYm)	6,709	11,947	11,825	7,092	7,092	7,092
Enterprise value (CNYm)	7,542	13,282	13,336	9,037	8,920	8,362

Valuation Metrics

P/E (DB) (x)	21.1	23.2	19.6	13.5	10.2	9.6
P/E (Reported) (x)	20.0	19.9	22.8	12.2	10.2	9.6
P/BV (x)	6.16	4.51	2.61	1.91	1.65	1.45
FCF Yield (%)	0.8	nm	1.0	nm	4.6	11.3
Dividend Yield (%)	1.2	1.1	0.8	1.5	1.9	2.0
EV/Sales (x)	9.2	9.3	7.1	4.8	4.1	3.6
EV/EBITDA (x)	15.7	15.0	14.3	8.5	7.1	6.3
EV/EBIT (x)	18.3	18.0	19.0	11.4	9.3	8.2

Income Statement (CNYm)

Sales revenue	818	1,435	1,866	1,876	2,177	2,332
Gross profit	528	860	1,079	1,123	1,307	1,363
EBITDA	480	884	930	1,063	1,259	1,334
Depreciation	67	145	226	273	299	312
Amortisation	0	0	0	0	0	0
EBIT	413	739	703	790	960	1,022
Net interest income/(expense)	-43	-70	-88	-97	-111	-117
Associates/affiliates	3	1	2	2	2	2
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	374	671	617	695	851	907
Income tax expense	35	69	102	118	153	172
Minorities	3	2	-5	-6	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	336	599	519	583	698	735
DB adjustments (including dilution)	-18	-85	84	-59	0	0
DB Net profit	319	514	603	524	698	735

Cash Flow (CNYm)

Cash flow from operations	472	352	734	900	987	1,133
Net Capex	-421	-1,243	-616	-1,152	-658	-329
Free cash flow	51	-891	118	-252	329	804
Equity raised/(bought back)	280	920	-20	0	0	0
Dividends paid	-33	-79	-153	-97	-108	-138
Net inc/(dec) in borrowings	303	520	785	591	295	97
Other investing/financing cash flows	-798	-204	-79	-93	-106	-111
Net cash flow	-196	266	651	149	410	653
Change in working capital	95	109	413	-48	-136	-45

Balance Sheet (CNYm)

Cash and other liquid assets	117	383	1,034	1,183	1,592	2,245
Tangible fixed assets	1,249	2,151	2,412	3,197	3,567	3,595
Goodwill/intangible assets	310	1,295	1,461	1,556	1,544	1,533
Associates/investments	115	307	302	304	306	308
Other assets	1,062	1,370	1,663	1,711	1,839	1,872
Total assets	2,852	5,505	6,872	7,950	8,848	9,554
Interest bearing debt	1,041	2,010	2,837	3,428	3,723	3,820
Other liabilities	316	599	800	807	821	831
Total liabilities	1,357	2,608	3,637	4,235	4,544	4,652
Shareholders' equity	1,471	2,883	3,225	3,711	4,301	4,899
Minorities	23	14	9	3	3	3
Total shareholders' equity	1,495	2,897	3,235	3,714	4,305	4,902
Net debt	925	1,627	1,803	2,246	2,131	1,575

Key Company Metrics

Sales growth (%)	111.5	75.4	30.0	0.6	16.1	7.1
DB EPS growth (%)	54.1	48.7	13.4	-13.1	33.2	5.3
EBITDA Margin (%)	58.7	61.6	49.8	56.6	57.8	57.2
EBIT Margin (%)	50.5	51.5	37.7	42.1	44.1	43.8
Payout ratio (%)	23.0	22.8	18.8	18.5	19.8	19.8
ROE (%)	28.5	27.5	17.0	16.8	17.4	16.0
Capex/sales (%)	51.4	86.6	33.3	61.4	30.2	14.1
Capex/depreciation (x)	6.3	8.6	2.7	4.2	2.2	1.1
Net debt/equity (%)	61.9	56.2	55.8	60.5	49.5	32.1
Net interest cover (x)	9.7	10.5	8.0	8.1	8.7	8.7

Source: Company data, Deutsche Securities estimates



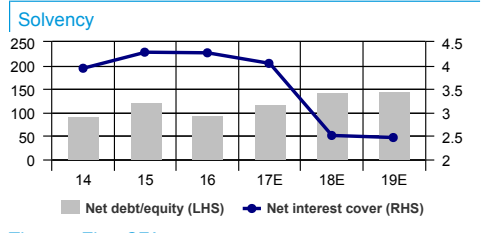
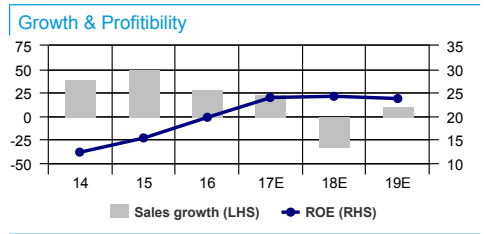
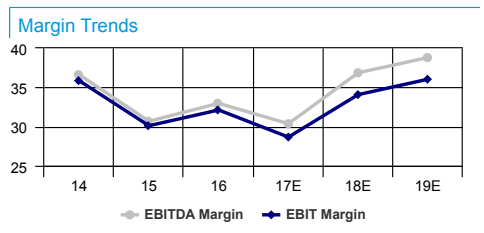
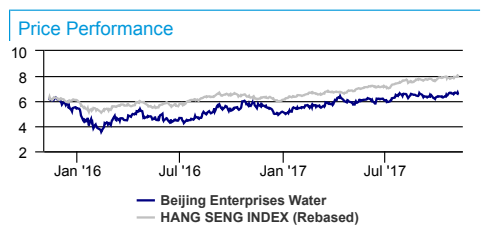
Model updated: 06 November 2017

**Running the numbers**  
 Asia  
 China  
 Utilities

**Beijing Enterprises Water**  
 Reuters: 0371.HK      Bloomberg: 371 HK

**Buy**  
 Price (9 Nov 17)      HKD 6.54  
 Target Price      HKD 7.40  
 52 Week range      HKD 4.91 - 6.70  
 Market cap (m)      HKDm 44,799  
                                  USDm 5,743.8

**Company Profile**  
 Beijing Enterprises Water is a state-owned enterprise that specializes in sewage treatment, water supply, reclaimed water and desalination business. It is currently one of the leading integrated water and sewage treatment provider in China, with its water plants located across 14 provinces and municipalities. Beijing Enterprises Holdings is largest shareholder.



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Fiscal year end 31-Dec	2014	2015	2016	2017E	2018E	2019E
<b>Financial Summary</b>						
DB EPS (HKD)	0.18	0.27	0.33	0.48	0.58	0.67
Reported EPS (HKD)	0.20	0.28	0.36	0.49	0.58	0.67
DPS (HKD)	0.08	0.10	0.12	0.16	0.19	0.22
BVPS (HKD)	1.8	1.9	1.9	2.2	2.6	3.1
Weighted average shares (m)	8,643	8,715	8,712	8,725	8,775	8,826
Average market cap (HKDm)	44,268	50,048	42,809	44,799	44,799	44,799
Enterprise value (HKDm)	61,863	74,247	72,547	81,900	91,173	93,810

Valuation Metrics	2014	2015	2016	2017E	2018E	2019E
P/E (DB) (x)	28.1	21.4	14.8	13.5	11.2	9.7
P/E (Reported) (x)	25.2	20.9	13.5	13.3	11.2	9.7
P/BV (x)	2.92	2.93	2.72	2.95	2.51	2.14
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	1.5	1.7	2.4	2.4	2.9	3.3
EV/Sales (x)	6.9	5.5	4.2	3.8	6.3	5.9
EV/EBITDA (x)	18.9	17.9	12.7	12.6	17.2	15.1
EV/EBIT (x)	19.3	18.3	13.0	13.3	18.6	16.3

Income Statement (HKDm)	2014	2015	2016	2017E	2018E	2019E
Sales revenue	8,926	13,503	17,355	21,430	14,392	16,013
Gross profit	3,564	5,044	5,932	7,343	6,732	7,773
EBITDA	3,270	4,143	5,722	6,509	5,307	6,216
Depreciation	68	77	147	366	401	444
Amortisation	0	0	0	0	0	0
EBIT	3,201	4,066	5,575	6,142	4,906	5,773
Net interest income(expense)	-812	-950	-1,306	-1,519	-1,954	-2,340
Associates/affiliates	278	429	375	1,269	3,248	3,725
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	2,667	3,546	4,644	5,893	6,200	7,157
Income tax expense	594	778	971	1,063	679	789
Minorities	279	312	389	300	163	193
Other post-tax income/(expense)	0	0	-57	-232	-232	-232
Net profit	1,794	2,455	3,227	4,298	5,126	5,943
DB adjustments (including dilution)	-184	-64	-277	-70	0	0
DB Net profit	1,611	2,391	2,950	4,228	5,126	5,943

Cash Flow (HKDm)	2014	2015	2016	2017E	2018E	2019E
Cash flow from operations	0	0	0	0	0	0
Net Capex	-634	-2,094	-378	-127	-160	-190
Free cash flow	-634	-2,094	-378	-127	-160	-190
Equity raised/(bought back)	333	640	6,999	114	114	114
Dividends paid	-495	-802	-1,060	-1,085	-1,428	-1,695
Net inc/(dec) in borrowings	3,343	8,291	5,141	6,244	13,886	4,176
Other investing/financing cash flows	-922	-2,052	-1,809	-3,074	-1,237	-1,422
Net cash flow	0	0	0	0	0	0
Change in working capital	-6,856	-6,913	-3,687	-11,709	-12,138	-6,514

Balance Sheet (HKDm)	2014	2015	2016	2017E	2018E	2019E
Cash and other liquid assets	6,091	6,374	10,921	6,765	7,288	4,104
Tangible fixed assets	1,299	1,380	2,831	2,809	2,776	2,764
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	3,109	4,466	5,685	9,333	13,819	18,966
Other assets	41,142	52,272	61,610	75,280	83,266	90,783
Total assets	51,641	64,492	81,047	94,187	107,149	116,617
Interest bearing debt	23,490	30,933	36,078	42,402	56,288	60,464
Other liabilities	9,062	13,269	18,202	21,618	16,705	17,425
Total liabilities	32,552	44,201	54,280	64,020	72,993	77,888
Shareholders' equity	15,784	16,184	16,501	19,370	22,963	27,111
Minorities	3,304	4,107	10,266	10,798	11,193	11,618
Total shareholders' equity	19,089	20,290	26,767	30,168	34,156	38,729
Net debt	17,400	24,559	25,157	35,637	49,000	56,360

Key Company Metrics	2014	2015	2016	2017E	2018E	2019E
Sales growth (%)	39.3	51.3	28.5	23.5	-32.8	11.3
DB EPS growth (%)	35.4	47.0	23.8	45.7	20.5	15.3
EBITDA Margin (%)	36.6	30.7	33.0	30.4	36.9	38.8
EBIT Margin (%)	35.9	30.1	32.1	28.7	34.1	36.0
Payout ratio (%)	37.6	33.7	32.1	32.0	32.0	32.0
ROE (%)	12.3	15.4	19.7	24.0	24.2	23.7
Capex/sales (%)	7.1	15.5	2.2	0.6	1.1	1.2
Capex/depreciation (x)	9.3	27.2	2.6	0.3	0.4	0.4
Net debt/equity (%)	91.2	121.0	94.0	118.1	143.5	145.5
Net interest cover (x)	3.9	4.3	4.3	4.0	2.5	2.5

Source: Company data, Deutsche Securities estimates



Model updated: 09 November 2017

Running the numbers

Asia  
 China  
 Utilities

SIIC Environment

Reuters: SIIC.SI      Bloomberg: SIIC.SP

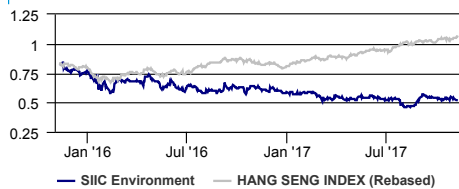
Buy

Price (9 Nov 17)      SGD 0.52  
 Target Price      SGD 0.61  
 52 Week range      SGD 0.46 - 0.63  
 Market cap (m)      SGDm 1,162.1  
                                  USDm 854.2

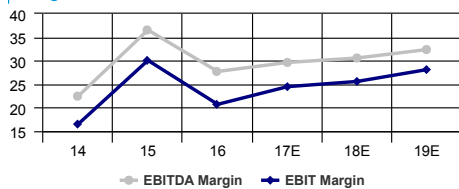
Company Profile

SIIC Environment, formally known as Asia Water Technology (Asia Water), is listed in Singapore. The company's primary business is the operation of the wastewater and water supply business in China through BOT and TOT business models. As of end-2014, SIIC owns about 70 water projects with total designed capacity of 5.4mt/d and three WTE projects with total waste treatment capacity of 3,200t/d, located across 15 provinces and

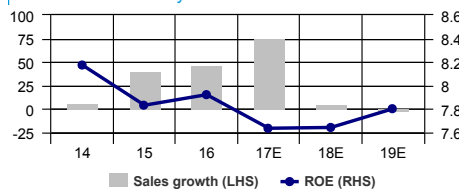
Price Performance



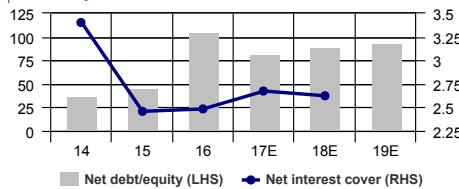
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec      2014      2015      2016      2017E      2018E      2019E

Financial Summary

DB EPS (CNY)	0.12	0.17	0.15	0.21	0.23	0.25
Reported EPS (CNY)	0.14	0.17	0.20	0.21	0.23	0.25
DPS (CNY)	0.00	0.00	0.00	0.03	0.03	0.04
BVPS (CNY)	1.9	2.4	2.6	2.9	3.1	3.3
Weighted average shares (m)	1,812	2,137	2,257	2,490	2,607	2,607
Average market cap (CNYm)	7,402	8,368	6,903	5,667	5,667	5,667
Enterprise value (CNYm)	8,347	10,934	17,363	15,724	17,335	18,711

Valuation Metrics

P/E (DB) (x)	32.7	23.4	20.2	12.1	10.9	10.0
P/E (Reported) (x)	28.6	23.2	15.2	12.1	10.9	10.0
P/BV (x)	1.74	1.43	1.06	0.86	0.81	0.76
FCF Yield (%)	1.1	nm	nm	nm	nm	nm
Dividend Yield (%)	0.0	0.0	0.0	1.2	1.4	1.5
EV/Sales (x)	6.5	6.1	6.6	3.4	3.5	3.9
EV/EBITDA (x)	28.9	16.6	23.7	11.4	11.6	12.0
EV/EBIT (x)	39.3	20.2	31.6	13.8	13.8	13.8

Income Statement (CNYm)

Sales revenue	1,288	1,804	2,648	4,652	4,904	4,831
Gross profit	446	829	998	1,725	1,848	1,919
EBITDA	289	659	734	1,378	1,500	1,564
Depreciation	11	11	24	24	24	24
Amortisation	66	105	161	216	221	182
EBIT	213	542	549	1,139	1,255	1,358
Net interest income/(expense)	114	-159	-223	-458	-469	-518
Associates/affiliates	60	78	71	44	49	51
Exceptionals/extraordinary	4	0	155	0	0	0
Other pre-tax income/(expense)	18	63	113	184	204	231
Profit before tax	410	524	665	909	1,040	1,122
Income tax expense	76	100	124	233	257	268
Minorities	71	64	85	158	183	201
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	262	360	455	517	599	654
DB adjustments (including dilution)	-33	-3	-114	0	0	0
DB Net profit	229	358	341	517	599	654

Cash Flow (CNYm)

Cash flow from operations	236	-72	-93	42	-772	-463
Net Capex	-151	-46	-102	-200	-200	-200
Free cash flow	84	-119	-195	-158	-972	-663
Equity raised/(bought back)	751	0	0	1,087	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	-190	920	3,146	-656	976	832
Other investing/financing cash flows	-1,404	-1,126	-2,111	-365	-466	-513
Net cash flow	-760	-324	839	-92	-462	-344
Change in working capital	-15	-717	-837	-1,348	-2,280	-2,040

Balance Sheet (CNYm)

Cash and other liquid assets	1,119	795	1,635	1,542	1,080	736
Tangible fixed assets	108	105	184	160	136	112
Goodwill/intangible assets	1,530	3,682	6,903	6,842	6,776	6,749
Associates/investments	1,198	1,430	1,009	1,005	1,015	1,017
Other assets	4,211	6,233	13,308	15,484	17,849	19,781
Total assets	8,167	12,245	23,038	25,033	26,856	28,395
Interest bearing debt	2,676	3,724	10,543	9,886	10,862	11,694
Other liabilities	1,214	1,942	3,962	4,851	4,997	4,940
Total liabilities	3,890	5,665	14,505	14,737	15,860	16,634
Shareholders' equity	3,691	5,512	5,973	7,577	8,095	8,659
Minorities	586	1,068	2,560	2,718	2,901	3,102
Total shareholders' equity	4,277	6,579	8,533	10,295	10,996	11,761
Net debt	1,557	2,928	8,908	8,344	9,782	10,959

Key Company Metrics

Sales growth (%)	6.0	40.1	46.8	75.7	5.4	-1.5
DB EPS growth (%)	-10.0	34.0	-9.7	37.5	10.6	9.1
EBITDA Margin (%)	22.5	36.5	27.7	29.6	30.6	32.4
EBIT Margin (%)	16.5	30.1	20.7	24.5	25.6	28.1
Payout ratio (%)	0.0	0.0	0.0	15.0	15.0	15.0
ROE (%)	8.2	7.8	7.9	7.6	7.6	7.8
Capex/sales (%)	11.8	3.5	3.9	4.3	4.1	4.1
Capex/depreciation (x)	2.0	0.5	0.6	0.8	0.8	1.0
Net debt/equity (%)	36.4	44.5	104.4	81.0	89.0	93.2
Net interest cover (x)	nm	3.4	2.5	2.5	2.7	2.6

Source: Company data, Deutsche Securities estimates



Model updated: 03 November 2017

Running the numbers

Asia  
 China  
 Utilities

China Everbright Greentech

Reuters: 1257.HK      Bloomberg: 1257 HK

Buy

Price (9 Nov 17)      HKD 6.81  
 Target Price      HKD 7.90  
 52 Week range      HKD 5.29 - 6.96  
 Market cap (m)      HKDm 14,070  
                                  USDm 1,803.9

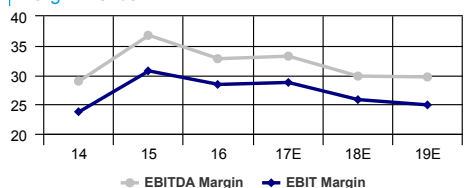
Company Profile

China Everbright Greentech (CEG) is a leading environmental protection service provider in China. It focuses on biomass treatment with exposures also in hazardous waste treatment and wind/solar power. The company successfully completed its spin-off listing from the parentco China Everbright International in 2017. CEG is one of the few companies being able to adopt integrated biomass and WTE business model in China. We

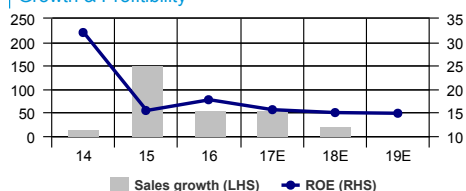
Price Performance



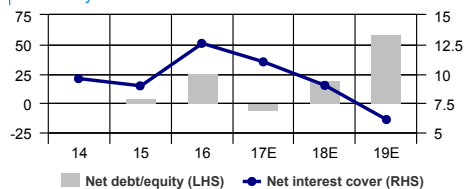
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec      2014      2015      2016      2017E      2018E      2019E

Financial Summary

DB EPS (HKD)	0.10	0.14	0.31	0.47	0.64	0.71
Reported EPS (HKD)	0.10	0.13	0.30	0.47	0.64	0.71
DPS (HKD)	0.00	0.00	0.00	0.09	0.13	0.14
BVPS (HKD)	0.3	1.4	2.0	4.0	4.5	5.1
Weighted average shares (m)	2,066	2,066	2,066	2,066	2,066	2,066
Average market cap (HKDm)	na	na	na	14,070	14,070	14,070
Enterprise value (HKDm)	na	na	na	13,585	15,881	20,214

Valuation Metrics

P/E (DB) (x)	na	na	na	14.5	10.7	9.6
P/E (Reported) (x)	na	na	na	14.5	10.7	9.6
P/BV (x)	0.00	0.00	0.00	1.71	1.51	1.34
FCF Yield (%)	na	na	na	nm	nm	nm
Dividend Yield (%)	na	na	na	1.4	1.9	2.1
EV/Sales (x)	nm	nm	nm	2.9	2.2	2.3
EV/EBITDA (x)	nm	nm	nm	8.8	7.3	7.6
EV/EBIT (x)	nm	nm	nm	10.2	8.4	9.1

Income Statement (HKDm)

Sales revenue	1,058	1,203	3,000	4,646	7,290	8,965
Gross profit	293	435	992	1,481	2,102	2,571
EBITDA	306	442	983	1,543	2,174	2,660
Depreciation	31	40	86	99	126	186
Amortisation	24	33	46	109	166	240
EBIT	251	369	852	1,335	1,882	2,233
Net interest income/(expense)	-26	-41	-68	-121	-209	-366
Associates/affiliates	0	0	-1	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	225	328	783	1,214	1,673	1,867
Income tax expense	25	56	154	238	351	392
Minorities	3	-1	0	5	7	7
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	196	272	629	971	1,315	1,468
DB adjustments (including dilution)	4	9	18	0	0	0
DB Net profit	200	281	647	971	1,315	1,468

Cash Flow (HKDm)

Cash flow from operations	310	-37	495	740	1,308	1,073
Net Capex	-682	-1,090	-1,587	-2,124	-3,196	-4,796
Free cash flow	-372	-1,127	-1,092	-1,384	-1,888	-3,723
Equity raised/(bought back)	0	0	0	3,277	0	0
Dividends paid	0	-172	0	-194	-263	-294
Net inc/(dec) in borrowings	138	611	853	1,317	2,463	4,428
Other investing/financing cash flows	493	1,182	119	-98	-131	-302
Net cash flow	259	494	-121	2,918	181	109
Change in working capital	-9	-456	-440	-698	-728	-1,432

Balance Sheet (HKDm)

Cash and other liquid assets	569	1,044	886	3,804	3,985	4,094
Tangible fixed assets	773	1,600	1,714	2,183	2,690	4,567
Goodwill/intangible assets	1,359	1,662	2,976	4,424	6,821	9,313
Associates/investments	0	14	34	55	55	55
Other assets	859	1,247	1,854	3,210	4,963	7,007
Total assets	3,560	5,567	7,464	13,676	18,514	25,036
Interest bearing debt	572	1,157	1,968	3,352	5,815	10,242
Other liabilities	2,361	1,489	1,295	2,063	3,374	4,279
Total liabilities	2,932	2,646	3,263	5,415	9,188	14,521
Shareholders' equity	613	2,907	4,187	8,238	9,290	10,464
Minorities	15	14	13	23	36	51
Total shareholders' equity	628	2,921	4,201	8,261	9,326	10,515
Net debt	3	112	1,082	-453	1,829	6,148

Key Company Metrics

Sales growth (%)	nm	13.7	149.3	54.9	56.9	23.0
DB EPS growth (%)	na	40.6	130.2	50.0	35.5	11.6
EBITDA Margin (%)	29.0	36.8	32.8	33.2	29.8	29.7
EBIT Margin (%)	23.8	30.7	28.4	28.7	25.8	24.9
Payout ratio (%)	0.0	0.0	0.0	20.0	20.0	20.0
ROE (%)	32.0	15.5	17.7	15.6	15.0	14.9
Capex/sales (%)	64.5	90.8	52.9	45.7	43.8	53.5
Capex/depreciation (x)	12.4	15.0	12.1	10.2	10.9	11.2
Net debt/equity (%)	0.4	3.8	25.8	-5.5	19.6	58.5
Net interest cover (x)	9.6	9.0	12.6	11.0	9.0	6.1

Source: Company data, Deutsche Securities estimates



# Appendix 1

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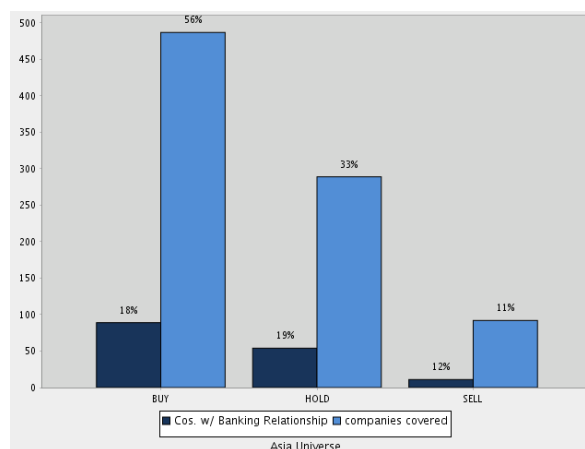
Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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