



China Everbright International

Share price not reflecting new project wins. Reiterate OW

Overweight

0257.HK, 257 HK

Price: HK\$10.36

Price Target: HK\$13.00

China Everbright Int'l has added ~50% of new waste-to-energy treatment capacity YTD. However, shares have been flat since Jan (vs HSCEI's -5%). We think that's unjustified because the number of project wins exceeded market expectations and we see upside risks to earning estimates. CEI shares are trading at 18x FY15E P/E, more attractive than peers' average of 20x based on Bloomberg consensus. We recommend buying at current levels ahead of the expected closing of the Hankore acquisition in December.

- **Record year in WTE project wins:** CEI has won 12 waste-to-energy projects with total treatment capacity of 11,600 tons/day YTD (vs 2,300 tons/day in 2013), the most in any year. This represents 55% growth in capacity from end-2013. CEI currently has 32,550 tons/day of WTE treatment capacity in its portfolio and is the second-largest WTE operator by capacity in China.
- **New revenue from equipment sales to third parties.** CEI has signed agreements to supply waste-to-energy and leachate treatment equipment to third parties. While contribution to total revenue will likely be small (at <5% in 2015E), this demonstrates CEI's leadership position in the WTE space as a vertically integrated player.
- **Hankore acquisition to be completed by year-end:** We expect CEI to complete its acquisition of water company Hankore before the scheduled deadline of 12 Dec 2014. This could serve as a near term catalyst for the stock, in our view, because the transaction would double CEI's wastewater treatment capacity to ~3.4MM tons/day and potentially add ~10% to CEI's 2015E EPS, on our estimates.
- **Maintain OW.** CEI is our top pick in the China waste sector given its visible 20-35% EPS growth (JPM_e) backed by a strong order book of RMB12B. Our PT of HK\$13 assumes WTE project wins into 2019, but has not factored in the potential upside from the Hankore acquisition.

China Utilities

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Bloomberg JPMA EWU <GO>

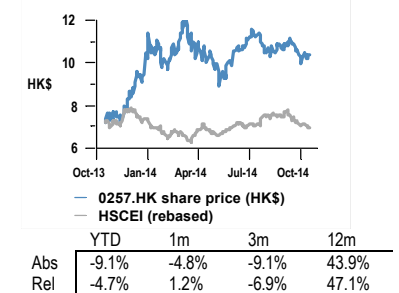
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Price Performance



China Everbright International (Reuters: 0257.HK, Bloomberg: 257 HK)

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (HK\$ mn)	3,410	5,320	7,180	9,830	11,066
Net Profit (HK\$ mn)	881	1,325	1,874	2,561	3,100
EPS (HK\$)	0.23	0.33	0.42	0.57	0.69
DPS (HK\$)	0.06	0.09	0.12	0.16	0.19
Revenue growth (%)	(2.2%)	56.0%	35.0%	36.9%	12.6%
EPS growth (%)	15.7%	40.1%	28.2%	36.6%	21.1%
ROCE	8.9%	9.2%	9.8%	11.6%	12.0%
ROE	12.3%	12.2%	13.3%	16.4%	17.5%
P/E (x)	44.5	31.8	24.8	18.1	15.0
P/BV (x)	4.7	3.1	3.2	2.8	2.5
EV/EBITDA (x)	23.2	15.5	12.3	9.8	8.8
Dividend Yield	0.6%	0.9%	1.1%	1.5%	1.8%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	4,484
Market Cap (HK\$ mn)	46,451
Market Cap (\$ mn)	5,987
Price (HK\$)	10.36
Date Of Price	17 Oct 14
Free Float(%)	50.0%
3M - Avg daily vol (mn)	9.15
3M - Avg daily val (HK\$ mn)	97.42
3M - Avg daily val (\$ mn)	12.6
HSCEI	1,0185.55
Exchange Rate	7.76
Price Target End Date	30-Jun-15

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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China Everbright Int'l

Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
<ul style="list-style-type: none"> Announcement of new waste-to-energy projects Positive new government policies in environmental protection 	<ul style="list-style-type: none"> Better-than-expected operating and construction margins Lower-than-expected finance cost 	<ul style="list-style-type: none"> Delays in construction of projects in the pipeline Lower-than-expected operating and construction margins Dilution from potential acquisitions or share placements

Key financial metrics	FY13	FY14E	FY15E	FY16E
Revenues (LC mn)	5,320	7,180	9,830	11,066
Revenue growth (%)	56.0%	35.0%	36.9%	12.6%
EBITDA (LC mn)	2,218	2,992	4,066	4,855
EBITDA margin (%)	41.7%	41.7%	41.4%	43.9%
Tax rate (%)	25%	25%	25%	25%
Net profit (LC mn)	1,325	1,874	2,561	3,100
EPS (LC)	0.326	0.418	0.571	0.691
EPS growth (%)	40.1%	28.2%	36.6%	21.1%

DPS (LC)	0.09	0.12	0.16	0.19
BVPS (LC)	3.29	3.29	3.70	4.20
Operating cash flow (LC mn)	(364)	(1,415)	(1,819)	(1,213)
Free cash flow (LC mn)	(420)	(1,552)	(1,964)	(1,364)
Interest cover (x)	8	11	10	10
Net margin (%)	24.9%	26.1%	26.0%	28.0%
Sales/assets (X)	0.27	0.28	0.33	0.32
Debt/equity (%)	50.2%	63.5%	62.1%	70.4%
Net debt/equity (%)	18.7%	32.8%	47.7%	56.3%
ROE (%)	12%	13%	16%	18%

Key model assumptions	FY13	FY14E	FY15E	FY16E
Interest cost (%)	-4.9%	-4.9%	-4.9%	-4.9%
Gross margin	45%	45%	46%	49%

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY14E	FY15E	FY14E	FY15E
100bps chg in interest cost	-3%	-2%	-4%	-3%
WTE capacity add of 1,000 tons	3%	2%	4%	3%

Source: J.P. Morgan estimates.

Comparative metrics

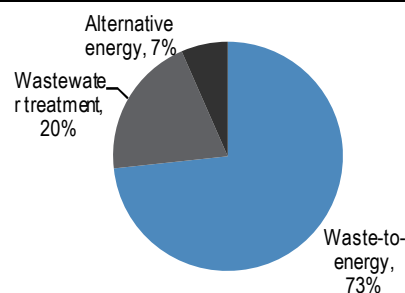
	Ticker	Mkt Cap \$Mn	P/E (x)		EV/EBITDA (x)		P/BV (x)		YTD Stock perf.	
			FY14E	FY15E	FY14E	FY15E	FY14E	FY15E		
	BJE Water	371 HK	5,834	26.0	20.4	15.6	10.4	3.1	2.9	8%
	China Everbright Int'l	257 HK	5,987	24.8	18.1	17.1	11.4	3.2	2.8	1%
	Guangdong Investment	270 HK	7,553	13.8	13.0	7.8	7.3	2.0	1.9	28%
	Sound Global	967 HK	1,672	17.2	13.4	10.0	8.5	2.3	2.1	98%
	China Water Affairs	855 HK*	671	15.5	14.3	NA	NA	NA	NA	30%
	CT Environmental	1363 HK*	1,294	26.2	19.9	20.3	NA	NA	NA	78%
	Tianjin Capital	1065 HK*	1,791	21.7	19.3	16.2	15.1	1.5	1.4	45%
	Hankore Environment	BIOT SP*	335	16.1	19.1	13.6	6.6	1.1	1.0	-24%
	SIIC Environment	SIIC SP*	1,220	25.1	21.1	28.4	24.8	1.9	1.8	-12%
	United Envirotech	UENV SP*	897	37.9	29.8	21.7	15.2	3.7	3.0	39%

Source: Bloomberg, JPM estimates for covered companies, consensus estimates for not covered companies. *Not covered. Prices are as of last closing

Valuation and price target basis

Our Jun-15 PT for CEI is determined based on a sum-of-the-parts valuation, using DCF (WACC of 8.3%, terminal growth rate of 2.3%) to value each of CEI's business segments. Our PT implies FY15E PER of 23x.

CEI 2014E revenue breakdown



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS (LC)	FY14E	FY15E
JPM old	0.42	0.57
JPM new	0.42	0.57
% chg	0%	0%
Consensus	0.39	0.52

Source: Bloomberg, J.P. Morgan estimates.

Record year in WTE project wins

CEI has won 12 waste-to-energy projects with total treatment capacity of 11,600 tons/day YTD, the most in any year since 2003. This represents a ~50% growth in capacity from end-2013. CEI currently has 32,550 tons/day of WTE treatment capacity in its portfolio and is the second largest WTE operator by capacity in China.

RMB1.8B Hangzhou WTE project win

CEI has signed a concession agreement with Hangzhou city government to invest RMB1.8B in a waste-to-energy project with daily treatment capacity of 3,000 tons. CEI will take a 70% stake in the project company, while its Hangzhou partners will take a 30% stake.

Awarded WTE, biomass project in Anhui

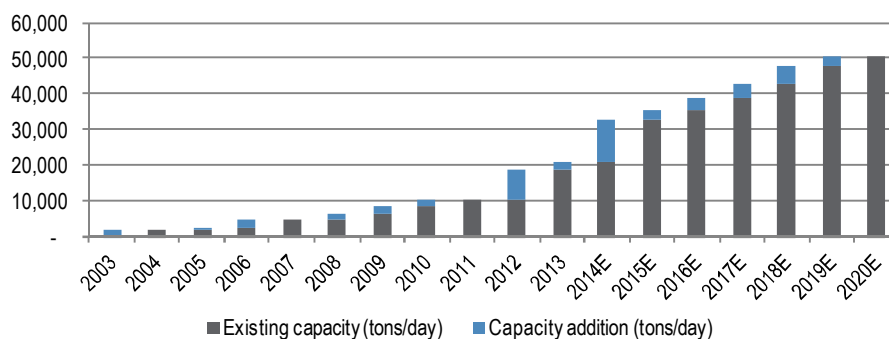
CEI has been awarded a waste-to-energy project in Anhui's Lingbi County for RMB420MM, with total treatment capacity of 800 tons/day. The first phase of this project will be 500 tons at an investment of RMB250MM. In addition, CEI also won a biomass project in Lingbi for RMB320MM.

Table 1: CEI waste-to-energy project win track record

Year	No of projects won	Capacity (tons/day)	Investment (RMB MM)
2003	2	2,050	939
2004	0	-	-
2005	1	500	238
2006	3	2,000	1,006
2007	0	-	-
2008	1	2,000	901
2009	3	2,200	1,072
2010	1	1,500	750
2011	0	-	-
2012	9	8,400	4,727
2013	4	2,300	1,260
2014 YTD	12	11,600	6,319
Total*	36	32,550	17,213

Source: Company reports and J.P. Morgan. *Does not include Phase II expansion projects where BOT contracts have yet to be signed

Figure 1: CEI added the largest amount of waste-to-energy treatment capacity in 2014



Source: Company reports and J.P. Morgan estimates.

Selling equipment to third parties

CEI has signed an agreement with DP CleanTech to supply waste-to-energy equipment to its Ethiopian waste-to-energy project. The two companies will also jointly develop solid waste treatment projects in Asia, Africa, Latin America and other parts of the world. DP CleanTech is a biomass and WTE treatment company that is responsible for >30% of the biomass power plants operating in China, according to the company.

Supplying leachate equipment in Jiangsu and Anhui: CEI has begun supplying equipment for leachate treatment to third parties with total investment of RMB25MM. Leachate is wastewater from landfill sites.

JV with Sichuan government. CEI has established a joint venture with SOE Sichuan Energy Industry Investment Group to jointly develop WTE and other environmental projects in the province. We see this as a positive because a joint venture with a provincial SOE could help CEI leverage off the other's government contacts.

Investment Thesis, Valuation and Risks

China Everbright International *(Overweight; Price Target: HK\$13.00)*

Investment Thesis

China Everbright Int'l (CEI) is the environmental energy arm of China Everbright Holdings, a state-owned enterprise under the State Council. CEI constructs and operates waste-to-energy (WTE), wastewater treatment and alternative energy (wind, solar, biomass, methane-to-energy) projects. The company also manufactures its own WTE equipment in China.

Valuation

Our Jun-15 PT of HK\$13.00 for CEI is determined based on a sum-of-the-parts valuation, using DCF (WACC of 8.3%, terminal growth rate of 2.3%) to value each of CEI's business segments. Our PT implies FY15E PER of 23x.

Risks to Rating and Price Target

1) Project delays could result in lower construction and operation revenue and net earnings; 2) Higher interest rates would result in lower net earnings. 3) Low utilization rates at projects would result in lower operating earnings; 4) Delays in payments from customers would put a strain on cash flow and potentially increase the need for additional borrowing; 5) Risks of a potential share placement may increase as CEI's net gearing rises. This may dilute EPS.

China Everbright International: Summary of Financials

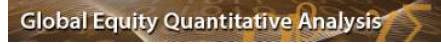
Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	HK\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenues	3,410	5,320	7,180	9,830	11,066	Pre-tax profit	1,171	1,812	2,563	3,502	4,240
% change Y/Y	(2.2%)	56.0%	35.0%	36.9%	12.6%	Depr. & amortization	72	91	91	93	96
EBITDA	1,555	2,218	2,992	4,066	4,855	Change in working capital	(1,766)	(2,424)	(3,707)	(4,948)	(4,980)
% change Y/Y	18.0%	42.7%	34.9%	35.9%	19.4%	Taxes	(143)	(156)	(633)	(865)	(1,047)
EBIT	1,483	2,127	2,901	3,973	4,759	Others	234	157	(362)	(467)	(569)
% change Y/Y	17.7%	43.4%	36.4%	36.9%	19.8%	Cash flow from operations	(290)	(364)	(1,415)	(1,819)	(1,213)
EBIT Margin	43.5%	40.0%	40.4%	40.4%	43.0%	Capex	(621)	(56)	(137)	(144)	(151)
Net Interest	(288)	(288)	(271)	(398)	(478)	Disposal/(purchase)	-	-	-	-	-
Associates	0	0	0	0	0	Free cash flow	(911)	(420)	(1,552)	(1,964)	(1,364)
Other Income	-	-	-	-	-	Other	(442)	(894)	67	73	41
Earnings before tax	1,171	1,812	2,563	3,502	4,240	Cash flow from investing	(1,063)	(950)	(70)	(71)	(110)
% change Y/Y	14.8%	54.8%	41.5%	36.6%	21.1%	Equity raised/(repaid)	1,245	3,617	0	0	0
Tax	(267)	(447)	(633)	(865)	(1,047)	Debt raised/(repaid)	829	807	2,724	989	3,063
as % of EBT	22.8%	24.7%	24.7%	24.7%	24.7%	Other	(369)	(266)	(338)	(471)	(519)
Exceptional items	-	-	-	-	-	Dividends paid	(246)	(263)	(518)	(708)	(857)
Net income (reported)	881	1,325	1,874	2,561	3,100	Cash flow from financing	1,458	3,894	1,868	(190)	1,687
% change Y/Y	19.6%	50.3%	41.5%	36.6%	21.1%	Beginning cash	1,684	1,807	4,426	4,809	2,728
Shares outstanding	4,038	4,484	4,484	4,484	4,484	Ending cash	1,807	4,426	4,809	2,728	3,092
EPS (reported)	0.23	0.33	0.42	0.57	0.69	DPS	0.06	0.09	0.12	0.16	0.19
% change Y/Y	15.7%	40.1%	28.2%	36.6%	21.1%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	HK\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	1,807	4,426	4,809	2,728	3,092	EBITDA margin	45.6%	41.7%	41.7%	41.4%	43.9%
Accounts receivable	0	0	0	0	0	Net profit margin	26.1%	24.9%	26.1%	26.0%	28.0%
Inventories	65	76	102	140	157	Sales per share growth	(5.3%)	45.5%	22.3%	36.9%	12.6%
Others	2,867	3,743	4,142	4,611	4,830	Sales growth	(2.2%)	56.0%	35.0%	36.9%	12.6%
Current assets	4,739	8,244	9,053	7,479	8,079	Net profit growth	19.6%	50.3%	41.5%	36.6%	21.1%
LT investments	9,493	12,059	15,946	21,251	26,397	EPS growth	15.7%	40.1%	28.2%	36.6%	21.1%
Net fixed assets	1,471	1,587	1,655	1,726	1,801	Interest coverage (x)	5.4	7.7	11.0	10.2	10.2
Others	880	1,581	1,560	1,540	1,520	Net debt to equity	50.3%	18.7%	32.8%	47.7%	56.3%
Total Assets	16,583	23,471	28,214	31,995	37,796	Sales/assets	0.2	0.3	0.3	0.3	0.3
Liabilities						Assets/equity	2.1	1.8	1.8	1.9	2.0
Short-term loans	1,635	1,780	2,480	2,735	3,522	ROE	12.3%	12.2%	13.3%	16.4%	17.5%
Payables	1,191	1,734	2,340	3,204	3,606	ROCE	8.9%	9.2%	9.8%	11.6%	12.0%
Others	58	58	58	58	58	ROA	5.9%	6.6%	7.3%	8.5%	8.9%
Total current liabilities	2,884	3,572	4,879	5,997	7,187						
Long-term debt	4,369	5,141	7,165	7,899	10,174						
Other liabilities	659	979	979	979	979						
Total Liabilities	7,913	9,692	13,022	14,875	18,340						
Shareholder's equity	8,350	13,374	14,731	16,584	18,827						
BVPS	2.20	3.29	3.29	3.70	4.20						

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

China Everbright International Limited (HONG KONG / Industrials)

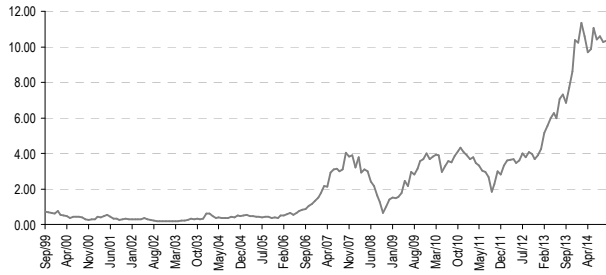
As Of: 17-Oct-2014



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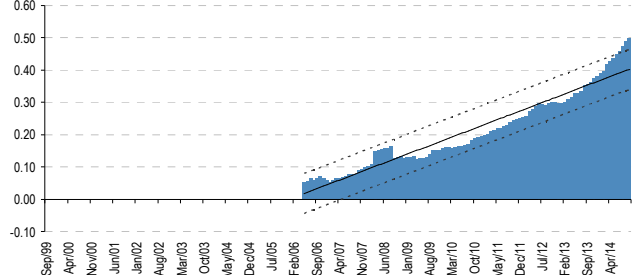
Local Share Price

Current: **10.34**



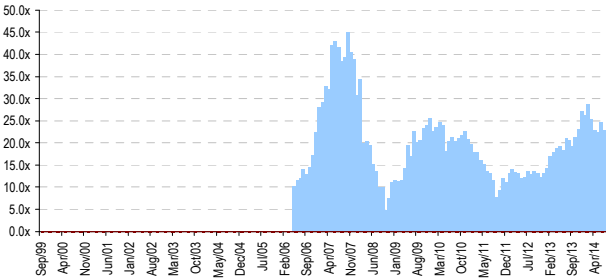
12 Mth Forward EPS

Current: **0.50**



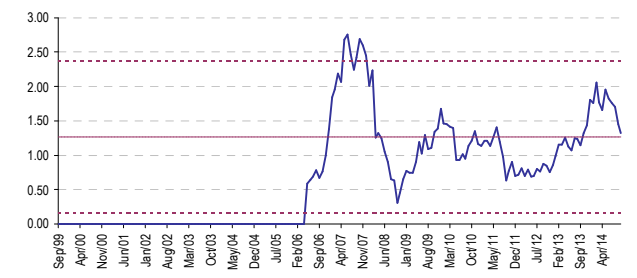
PE (1Yr Forward)

Current: **20.7x**



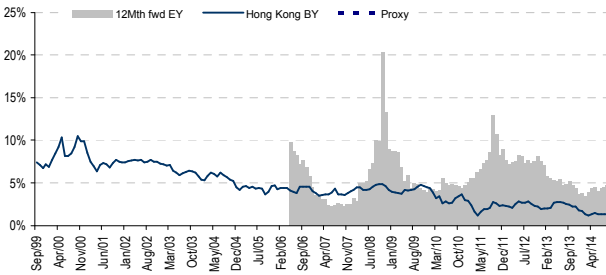
P/E Relative to Hong Kong Index

Current: **1.32**



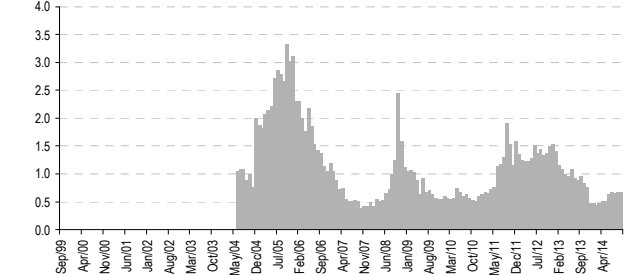
Earnings Yield (& Local Bond Yield)

Current: **5%**



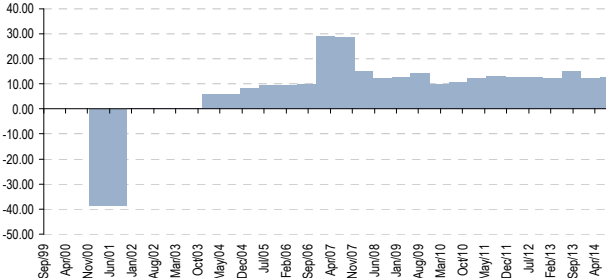
Dividend Yield (Trailing)

Current: **0.68**



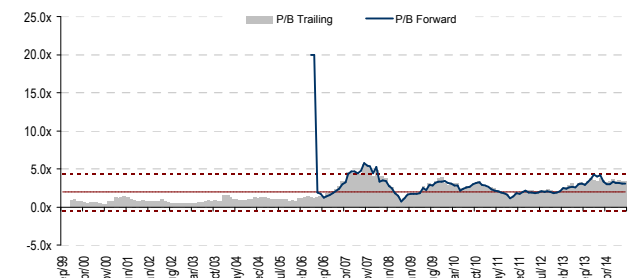
ROE (Trailing)

Current: **12.98**



Price/Book (Value)

Current: **3.4x**



Summary

China Everbright International Limited		TICKER 257 HK		As Of: 17-Oct-14							
HONG KONG				Local Price: 10.34							
Industrials				EPS: 0.50							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	20.71x										
P/BV (Trailing)	3.39	0.38	5.67	1.67	1.96	4.38	-0.45	-89%	67%	-51%	-42%
Dividend Yield (Trailing)	0.68x	0.00	3.33	0.65	0.79	2.30	-0.73	-100%	390%	-4%	15%
ROE (Trailing)	12.98	-38.56	29.01	10.79	7.44	36.39	-21.51	-397%	123%	-17%	-43%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

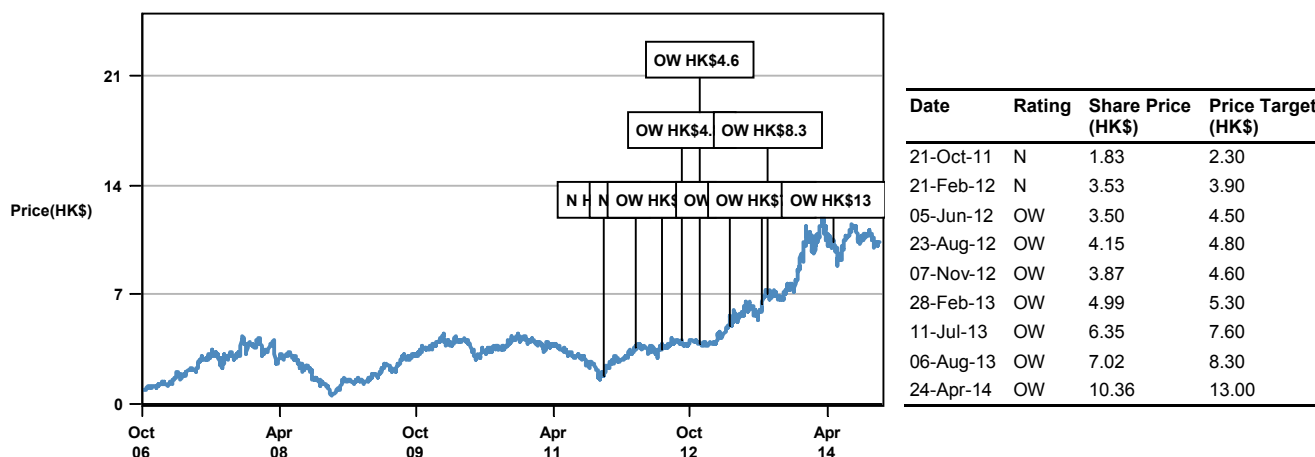
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China Everbright International (0257.HK, 257 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Oct 21, 2011.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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