

China Everbright International

Water segment reorganization a potential positive - ALERT

Overweight

0257.HK, 257 HK

Price: HK\$10.16

30 December 2013

- **CEI plans to inject water assets into HanKore:** China Everbright Int'l has signed a framework agreement with HanKore Environment Tech Group (BIOT SP, Not Covered) to inject all of its water assets into HanKore in exchange for HanKore's shares. After this transaction, CEI is expected to hold >50% of HanKore shares and HanKore will become a subsidiary of CEI. While an issue price of SGD0.0703 (average of HanKore's 90-day trading price) has been determined, a price for the transaction has not been announced. With the signing of this framework agreement, the two sides will now begin the due diligence process.
- **JPM comments:** We see this transaction as a potential positive because it would allow CEI to gain access to some regions (Beijing, Shaanxi, Henan), where it currently does not have any projects. This would also double CEI's wastewater treatment capacity to ~4MM tons/day. However, we would wait for the price of the transaction to be announced to assess whether this would be a value-accretive exercise. Given the framework agreement is effective for 120 days, we believe further details should be released within the next four months if this transaction were to go ahead.
- **Background on CEI's water business:** CEI's water segment contributes to ~25% of the company's total earnings and has 1.9MM tons/day of wastewater treatment capacity. Based on current market price, we estimate the current market value of CEI's water segment to be US\$1.5B, vs HanKore's market cap of US\$375MM.
- **Background on HanKore:** HanKore has 11 municipal and industrial wastewater treatment projects in Beijing, Jiangsu, Shandong, Shaanxi and Henan. It has wastewater treatment capacity of 1.8MM tons/day.
- **CEI signs agreement in Zhuhai:** CEI said on 29 Dec it has signed a framework agreement with Zhuhai on an environmental protection industry park. CEI plans to invest RMB3B in this park and will start with an industrial solid waste and industrial wastewater treatment project. Future projects may include sludge treatment, household waste treatment, food waste treatment, and solar energy projects.
- **JPM comments:** We see the Zhuhai agreement as a positive because this would immediately add two new projects to CEI's portfolio. If we assume a total investment of RMB800MM for the industrial solid waste and industrial wastewater treatment projects, this could potentially add a 4% upside to CEI's 2014 EPS, on our estimates.

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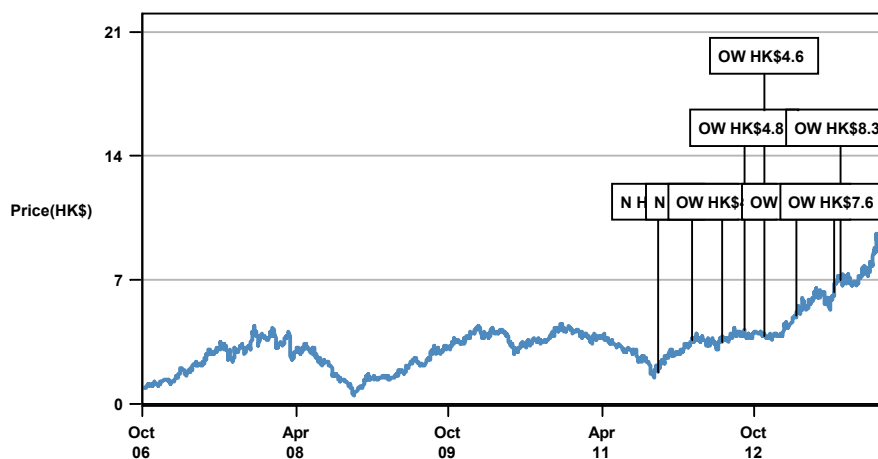
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China Everbright International (0257.HK, 257 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
21-Oct-11	N	1.84	2.30
21-Feb-12	N	3.57	3.90
05-Jun-12	OW	3.46	4.50
23-Aug-12	OW	4.15	4.80
07-Nov-12	OW	3.86	4.60
28-Feb-13	OW	4.99	5.30
11-Jul-13	OW	6.35	7.60
06-Aug-13	OW	7.02	8.30

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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