

1395.HK ELL ENV

Unrated

## Indonesia Acquisition, New Business Area

July 12th 2016

## Market Data

Date	2016-07-08
Closing Price (HKD)	0.445
Total Shares (Mn)	952.00
Market Cap (HKD/Mn)	423.64
Net Assets (HKD/Mn)	487.54
Total Assets (HKD/Mn)	610.44
BVPS(HKD)	0.51
Source: Wind	

## Related Report

## Overseas Research-

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## Key Financial Indicators

FY	2012A	2013A	2014A	2015A
Revenue (Mn/HKD)	46.90	65.09	85.18	145.46
YoY (%)	5.3%	38.8%	30.9%	70.8%
Net Profit (Mn/HKD)	25.49	32.26	9.27	39.51
YoY (%)	6.3%	26.6%	-71.3%	326.3%
Gross Margin(%)	77.9%	75.8%	56.3%	34.7%
Net Profit Margin (%)	57.5%	52.0%	13.2%	27.5%
ROE (%)	17.2%	17.1%	2.8%	8.1%
EPS (HKD)	-	-	0.01	0.04
OCFPS (HKD)	-	-	0.01	-0.03

Source: Company Disclosure, Industrial Securities Research Institute

## Investment Highlight

- **Key points:** The main business of The Company is municipal and industrial wastewater treatment. It operates three sewage treatment projects (designed capacity 83,500tpd) of BOT model in Jiangsu Province of China. Sewage treatment business as such are pretty stable, anti-inflation and of good cash flow. Besides, sustainable growth is realizable by increasing water price or by enlarging the amount of wastewater processed. Recently The Company is planning the acquisition of an Indonesia palm kernel oil plant to carry out its biomass power generation business. Indonesia's biomass resources is so rich that the acquisition is believed to be a probable growth engine of ELL ENV.
- **Our view:** The Company's existing sewage treatment business is stable and strongly anti-risk with PE10.2 for FY2015 and 12.36% premium of planned new share issue price relative to the current price, a certain margin of safety. Whereas the Indonesia planned biomass power generation business is quite attractive and of good prospects. We suggest that investors remain concerned about the progress of its follow-up.
- **Risks:** Acquisition not approved by SFC; Overestimation of biomass power generation business development in Indonesia; the continuous depreciation of RMB against Indonesian Rupiah.

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**Content**

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- **Sewage treatment business is pretty stable, anti-inflation and of good cash flow.** ELL ENV is operating three sewage treatment projects designed capacity 83,500tpd. Until now Hai’an Hengfa and Rugao Hengfa project have completed upgrading to meet standard first grade A, whereas Rugao Honghao project also obtained emission permits last year. Excluding impact of upgrading construction on project utilization, the total operating revenue were steadily increasing, HKD 51.51m/54.01m/48.95m for FY2013-2015. Under BOT model, the existing projects are expected to benefit from increases of water price and real process amount, therefore to be stable, anti-inflation and of good cash flow and prospect.
- **Indonesia power plant acquisition, probable new growth engine of ELL ENV.** Indonesia is extremely rich in biomass resources. It is estimated that the total potential of biomass power generation capacity of Indonesia is up to 50GW, equivalent to more than 1,600 standard power plant of 30MW, currently under low level of utilization. However, for fast growing economy as Indonesia, there is a big power gap, meaning promising potential for development of biomass energy market. ELL ENV is planning to acquire a palm kernel oil plant (including a biomass power plant of capacity 2 \* 15MW), acquisition amount USD22.26m (approximately HKD174m). The project is expected to put into production and achieve profitability. If this business goes well, we believe that the company will further expand biomass power generation business in Indonesia, starting a new growth engine of the company’s business.
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- Overweight: Industry performs better than that of the whole market;
- Neutral: Industry performs about the same as that of the whole market;
- Underweight: Industry performs worse than that of the whole market

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- Buy: With a markup more than 15% better than that of the market;
- Outperform: With a markup 5% to 15% better than that of the market;
- Neutral: With a markup less than 5% better or worse than that of the market;
- Underperform: With a markup more than 5% worse than that of the market

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