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Beijing Enterprises Urban Resources Group (3718 HK)

Earnings review: 1H20 results beat; EHS to drive growth; LONG

BEUR (3718 HK) reported 1H20 results with revenue/NP up 20.1%/71.6% yoy, ahead of profit alert of 15%/60%+ yoy announced on 27 Jul 2020. Excluding one-offs including (1) VAT relief, (2) reduction of social welfare and security contributions and (3) FX gains (total: ~HKD62mn), core net profit was HKD156mn (+25% yoy) mainly driven by strong EHS net profit growth posting a 80% core growth yoy and making up ~77% of overall core NP. We expect BEUR to be included in the Stock Connect scheme in the next round and maintain our positive view on the company with a new TP of HKD2.90 based on 20x FY21 P/E.

Figure 1: 1H20 Results

Year-ended Dec (HKDm)	FY 2018	FY 2019	1H19	1H20	Remark
Total revenue	1,863	2,711	1,287	1,546	Driven by EHS segment (+39.6% yoy)
yoy growth	104%	46%	36%	20%	
COGS	(1,308)	(1,928)	(917)	(1,038)	
Gross Profit	554	783	370	508	
yoy growth	128%	41%	40%	37%	
GPM	29.8%	28.9%	28.7%	32.9%	YoY improvement in EHS GPM (+770ppt yoy)
Administrative costs	(291)	(320)	(141)	(138)	Higher labor efficiency in EHS projects
Admin cost to sales ratio	16%	12%	11%	9%	
Core operating profit	308	506	250	387	
Core OPM	17%	19%	19%	25%	
Net finance costs	(44)	(72)	(33)	(36)	
EBT	263	433	215	353	
Tax	(43)	(87)	(49)	(82)	
Tax rate	16%	20%	23%	23%	
MI	(42)	(71)	(40)	(53)	
Reported net profit	430	281	127	218	
Adjustment	250	(14)	3	62	VAT relief and other COVID-19-related subsidy
Core net profit	180	295	124	156	
yoy growth	109%	64%	73%	25%	
Core net margin	9.7%	10.9%	9.6%	10.1%	

Source: Bloomberg and Sunwah Kingsway Research

EHS Segment to drive 1H20 growth

Environmental hygiene services' (EHS) revenue/NP was up 39.6%/145.1% yoy (core: ~+80%) at HKD1.3b/211m, with net addition of 10 EHS projects (total 107 projects with annualized revenue of HKD3.2b). Newly signed projects have contributed ~HKD152mn in 1H20 vs its annualized revenue of HKD805mn which will be fully consolidated in 2H. Excluding COVID-related one-offs, GPM has further improved to 26.3% in 1H20 vs 24.1%/24.9% in 1H19/2H19, thanks to higher labor efficiency in certain mature projects (Labor cost ~70%+ of segment COGS).

HWT's processing volume set to recover in 2H20, but ASP still under pressure

Hazardous waste treatment's (HWT) revenue/NP was down 30.2%/ 39.6% yoy due to weak demand amid out-break of COVID-19. ASP of Hazard-free Waste Disposal Projects (59% of seg. Rev) dropped 21.5% but partially offset by a 22% volume growth. Recycling and Reuse Projects (41% of seg. Rev) saw a double hit with ASP/volume dropping 14.8%/23% yoy, mainly due to lower methanol prices. Management has guided an on-track recovery in 3Q and expects a flat treatment volume for the full year. As of 30-Jun 20, the company had 4 projects under construction and 3 projects planned for future construction.

LONG

Target Price	HKD 2.90
Previous Rating/TP	LONG/HKD1.62
Last price (31 Aug 20)	HKD 1.76
Upside/downside (%)	64.8%
HSI	25,178.9
Mkt cap (HKDb/USDb)	6.3/0.8
52 week range (HKD)	0.56 - 2.22
Avg 6M daily trading volume (USDk)	2,494
Free float (%)	36.06%

Source: Bloomberg

Share Price Performance



Source: Bloomberg

Share Price Performan	1M	3M	12M
Absolute (%)	25	126	N/A
Absolute (USD,%)	25	126	N/A
Rel. to HSI (%)	22	127	N/A

Source: Bloomberg

Company background

BEUR (3718 HK), a leading environmental hygiene service (EHS) provider and hazardous waste treatment (HWT) operator, has 97 EHS projects and 6 HWT projects in operation in China by end-2019. BEUR is #4 largest private EHS provider in terms of revenue and #6 largest HWT operator in terms of designed capacity in China. Its major shareholders are BEWH (371.HK, 28% in total).

Source: Company data, Sunwah Kingsway Research

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Reiterate LONG with a new TP of HK\$2.90

Despite ever greater competition after leading Property Management Services and EHS companies accelerating their footprints in the market, we believe that the market is far from saturated given the ample room for project marketization. We have trimmed our FY20-22 rev/core NP estimate by 6-10%/3-8% based on updated results and stronger EHS segment growth outlook. We have raised our 12M TP to HK\$2.90 (25x/6x target FY21 P/E for EHS/HWT & others), implying 65% upside. Reiterate LONG.

Figure 2: Financial Summary

Year to Dec 31 (HKDm)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,863	2,711	3,875	5,210	6,587
Core net profit	180	295	375	525	683
Core EPS (HKD)	0.067	0.109	0.104	0.146	0.190
Core EPS growth (%)	N/A	63.6	-4.7	40.0	30.1
Book value per share (HKD)	0.576	0.504	0.608	0.717	0.914
Core P/E (x)	26.3	16.1	16.9	12.1	9.3
P/B (x)	3.1	3.5	2.9	2.5	1.9
EV/EBITDA (x)	12.9	7.5	6.7	6.1	4.9
Underlying ROE (%)	15.5	17.5	18.7	22.0	23.3
Net debt (cash)/equity (%)	42	19	38	52	43

Source: Company data and Sunwah Kingsway Research

Key financial statement data (Year-ended Dec 31)

Profit & Loss (HKDm)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,863	2,711	3,875	5,210	6,587
COGS	(1,308)	(1,928)	(2,675)	(3,749)	(4,729)
Gross Profit	554	783	1,201	1,461	1,858
Other income/(expense)	1,360	1,984	2,717	3,783	4,762
Operating expenses	(298)	(334)	(390)	(534)	(676)
Operating profit	308	506	854	960	1,215
Other non-operating inc/(exp)	0	0	0	0	0
Net finance cost	(44)	(72)	(80)	(95)	(109)
Associates & JCE	(1)	0	4	6	8
Profit before tax	263	433	778	871	1,114
Taxation	(43)	(87)	(181)	(203)	(260)
Discontinued business	252	6	0	0	0
Non-controlling interests	(42)	(71)	(119)	(143)	(172)
Net profit	430	281	477	525	683
Adjustments for core earnings	250	(14)	102	0	0
Core net profit	180	295	375	525	683

Source: Company data, Sunwah Kingsway Research

Balance Sheet (HKDm)	FY18A	FY19A	FY20E	FY21E	FY22E
PP&E	1,527	1,749	2,396	3,043	3,504
Intangible asset	1	2	2	2	2
Associates & JCE	34	32	32	33	35
Other investments	0	0	0	0	0
Others	988	917	982	1,052	1,122
Non-current assets	2,551	2,700	3,413	4,131	4,664
Inventories	87	45	62	87	110
Debtors & prepayments	657	775	1,108	1,490	1,884
Bank deposits & cash	734	1,052	829	666	779
Others	873	415	498	569	644
Current assets	2,352	2,287	2,498	2,812	3,416
Bank & other borrowings	341	566	677	812	893
Trade & payables	122	161	223	312	394
Other current liabilities	989	891	969	1,053	1,134
Current liabilities	1,453	1,618	1,868	2,178	2,421
Bank & other borrowings	1,049	826	991	1,189	1,308
Others	256	286	330	434	475
Non-current liabilities	1,305	1,112	1,321	1,623	1,783
Net assets	2,145	2,258	2,721	3,142	3,876
Shareholders' funds	1,555	1,814	2,188	2,582	3,289
Non-controlling interests	589	444	532	559	587
Total equity	2,145	2,258	2,721	3,142	3,876

Source: Company data, Sunwah Kingsway Research

Dupont Analysis	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (%)	163.7	64.9	61.4	60.3	61.3
Interest burden (%)	85.3	85.7	91.1	90.7	91.7
Operating profit margin (%)	16.5	18.7	22.0	18.4	18.4
Asset turnover (x)	0.5	0.5	0.7	0.8	0.9
Leverage ratio (x)	3.2	2.7	2.7	2.7	2.5
Underlying ROA (%)	4.5	6.0	6.9	8.2	9.1
Underlying ROE (%)	15.5	17.5	18.7	22.0	23.3

Source: Company data, Sunwah Kingsway Research

Financial Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue y-o-y growth (%)	104	46	43	34	26
Core net profit y-o-y growth (%)	109	64	27	40	30
Operating profit margin (%)	16.5	18.7	22.0	18.4	18.4
Core net profit margin (%)	9.7	10.9	9.7	10.1	10.4
Net debt (cash)/equity (%)	42.2	18.7	38.3	51.7	43.3
Net debt/total assets (%)	13.4	6.8	14.2	19.2	17.6
Current ratio (%)	1.6	1.4	1.3	1.3	1.4
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	7.0	7.0	10.7	10.1	11.2
Dividend coverage (x)	Nil	Nil	Nil	Nil	Nil
Acct. receivable turnover days	135	128	115	112	111
Acct. payable turnover days	28	27	26	26	27
Inventory turnover days	20	12	7	7	8
Cash cycle days	127	114	96	93	92

Source: Company data, Sunwah Kingsway Research

Cashflow (HKDm)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	263	433	778	871	1,114
Depreciation & amortization	156	237	291	382	482
Net loss/(gain) on asset sales	(320)	(24)	0	0	0
Net income from Asso & JV	1	(0)	(4)	(6)	(8)
Change in working capital	(454)	(11)	(312)	(386)	(369)
Tax paid	(35)	(70)	(146)	(163)	(209)
Interest paid	0	0	0	0	0
Other operating cashflow	335	71	64	79	93
Operating activities	(54)	636	671	777	1,103
Capex	(938)	(958)	(1,074)	(1,163)	(1,065)
Disposal of non-current assets	55	174	0	0	0
Associates & JCE (net)	(16)	0	0	0	0
Interest received	8	8	17	17	17
Dividends received	0	0	0	0	0
Other investing cashflow	134	517	0	0	0
Investing activities	(757)	(258)	(1,058)	(1,146)	(1,049)
New loans raised	1,011	355	842	1,010	1,012
Repayment of loans	(155)	(238)	(564)	(677)	(812)
Dividends paid	0	0	0	0	0
Other financing cashflow	4	(111)	(114)	(127)	(141)
Financing activities	860	7	164	206	59
Inc/(dec) in cash	49	384	(223)	(163)	113
Cash at beginning of year	631	677	1,052	829	666
Foreign exchange effect	(3)	(9)	0	0	0
Cash at end of year	677	1,052	829	666	779

Source: Company data, Sunwah Kingsway Research

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