

Boqi Environmental (2377 HK)

Transforming to environmental butler

Boqi Environmental (Boqi) is a leading enterprise in the ecological and environmental governance in China. The Company used to have primary business focus on air pollution control in traditional electricity and non-electricity sectors, and is now transforming to environmental butler, providing comprehensive environmental services for industrial wastewater and solid waste treatment. Given Boqi's healthy balance sheet and ample cash position, we expect the Company to accelerate business expansion through project M&A, which would likely to boost earnings performance in the coming few years.

- **Resilient FY20 results.** Boqi suffered significant impacts from COVID-19 due to lockdown measures that caused flue gas treatment project delay. Revenue declined by 10.4% YoY to RMB1,646mn mainly on EPC and concession construction revenue decline. Gross profit performance was compensated by increasing BOT operating revenue, new business lines from industrial waste water treatment and a newly developed energy saving business. Major expenses maintained in well control while Boqi increased R&D expenses by 39.4% YoY. Boqi delivered resilient net profit of RMB208mn, up 13.7% YoY, and declared HK\$7.4cents final dividend, representing 29.4% pay-out ratio.
- **Accelerating expansion in wastewater treatment.** Boqi is actively looking for business transformation into the wastewater treatment as 1) flue gas treatment is approaching the end of business cycle with penetration rate getting close to 100%; and 2) new business opportunities are emerging with increasing requirements for zero discharge of wastewater in industrial parks. The Company acquired a sewage treatment centre in Shanxi Lubao Industrial Park for a consideration of RMB300mn in 2019, and the coking wastewater project had contributed RMB44mn gross profit with 48.4% GPM in 2020. Looking ahead, mgmt. intends to accelerate wastewater treatment expansion through active M&A targeting niche industrial sewage market.
- **Developing new leads.** Boqi developed a new energy saving project through EMC agreement for a total investment of RMB278mn in 2020. The project utilizes the waste heat from coke dry quenching for generating power and sale back to Tianjin Iron Plant. Other than the EMC contract, Boqi is also actively looking for business opportunities in several niche markets such as solid waste treatment in oil field and cement kiln. We expect the Company to obtain new projects in those specialized segments and continue to expand.
- **Ample room to gear up for future development.** Boqi has prudent financial management with net cash position and positive free cash flow in 2020. We think the Company has ample room to gear up leverage to support its project M&A strategy. Moreover, in Apr 2021, the Company granted share options of 3.12mn to qualified employees exercise terms in the next four years. We think potential new project acquisitions and employee incentive scheme will boost Boqi's earnings performance.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A
Revenue (RMB mn)	1,745	1,836	1,646
Net income (RMB mn)	395	183	208
EPS (RMB)	0.44	0.18	0.21
YoY growth (%)	n/a	-58.8	15.5
Consensus EPS (RMB)	n/a	n/a	n/a
P/E (x)	3.6	8.8	7.7
P/B (x)	0.7	0.7	0.7
Yield (%)	4.7	1.6	3.8
ROE (%)	20.4	8.0	8.6
Net gearing (%)	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS

NOT RATED

Current Price

HK\$1.93

China Environmental

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Stock Data

Mkt Cap (HK\$ mn)	1,954
Avg 3 mths t/o (HK\$ mn)	7.01
52w High/Low (HK\$)	2.8/1.0
Total Issued Shares (mn)	1,007

Source: Wind

Shareholding Structure

Zeng Zhijun	21.57%
Cheng Liquan	16.73%
New Asia Ltd	15.11%
Free float	28.10%

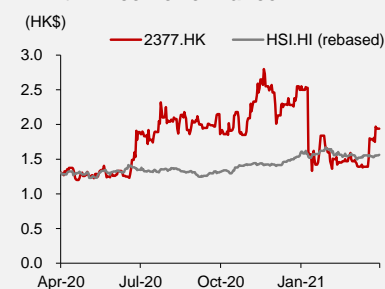
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	32.0%	31.5%
3-mth	-22.4%	-21.0%
6-mth	4.3%	-12.1%
12-mth	48.5%	24.4%

Source: Wind

12-mth Price Performance

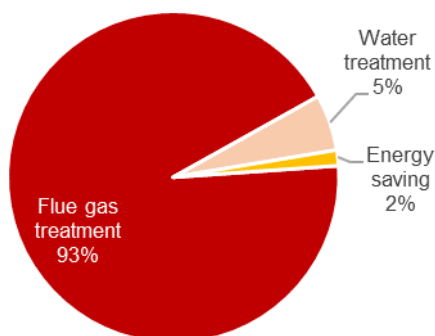


Source: Bloomberg

Auditor: Deloitte

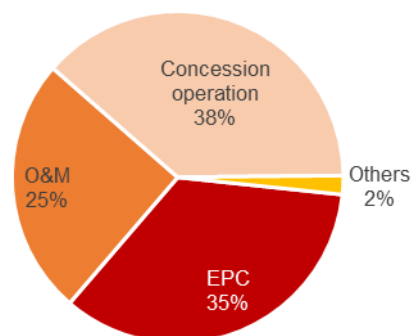
Focus charts

Figure 1: Revenue mix in 2020



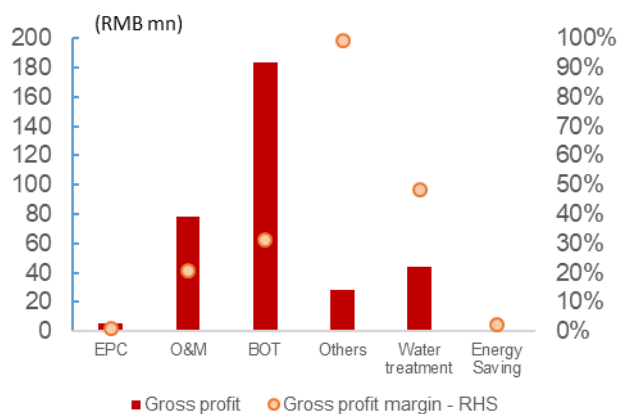
Source: Company data, CMBIS

Figure 2: Revenue mix within the flue gas treatment segment



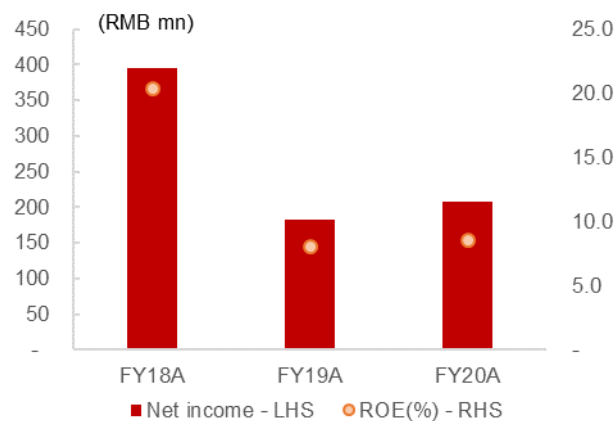
Source: Company data, CMBIS estimates

Figure 3: Boqi's segment GP and GPM performance



Source: Company data, CMBIS

Figure 4: Net profit & ROE performance



Source: Company data, CMBIS estimates

Figure 5: FY20 results summary

	2019	2020	YoY
Revenue	1,836	1,646	-10.4%
Flue gas treatment business	1,836	1,530	-16.7%
EPC	731	530	-27.4%
O&M	380	384	1.0%
Concession operation	700	588	-16.1%
Construction	176	24	-86.4%
Operating	524	564	7.6%
Others	25	28	11.9%
Water treatment	-	90	n/a
Energy saving	-	25	n/a
COGS	-1530	-1306	-14.6%
Gross profit	307	340	10.9%
Other income and gains	25	34	31.8%
Selling and distribution expenses	-29	-22	-23.7%
Administration expenses	-89	-80	-10.4%
R&D expenses	-24	-34	39.4%
Impairment losses	-11	-12	6.5%
Share of profit of associates	35	19	-44.0%
Finance costs	-4	-10	137.3%
Fairvalue change of CB	0	0	n/a
Listing expenses	0	0	n/a
Profit before tax	209	236	12.7%
Income tax expense	-26	-28	7.0%
Profit of the year	183	207	13.6%
Less non controlling interest	0	0	-379.2%
Net profit	183	208	13.7%

Source: Company data, CMBIS

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