



Rating  
**Buy**

Asia  
China

Utilities  
Utilities

Company  
**Guangdong  
Investment**

Reuters 0270.HK    Bloomberg 270 HK    Exchange HSI    Ticker 0270

Date  
21 November 2017

**Breaking News**

Price at 21 Nov 2017 (HKD)	10.96
Price target - 12mth (HKD)	13.20
52-week range (HKD)	12.10 - 9.65
HANG SENG INDEX	29,260

## Minimal impact from HK water supply agreement for 2018-2020; Buy

### HK water supply terms announced for 2018-2020

Guangdong Investment (GDI) announced (after market close on 21 Nov) that HK and Guangdong governments have reached agreement on GDI water supply revenue to HK for 2018-2020. HK water supply revenue for GDI will be hiked by 0.3% p.a. to HKD4.79/4.87/4.82bn for 2018/19/20. While the hike is close to the low end of Street expectations of 0-3% (our expectation of 1.5%), we see minimal impact on our earnings/target price for GDI. We calculate our earnings would be impacted by only 0.6-1.2% in 2018/19e if we put in the number in the agreement and our target price should only be impacted by 0.8%, all else equal.

### Maintain Buy

We like GDI on its defensive water business, growing dividends and strong balance sheet. With more than 50% of earnings from water sales in HKD terms, GDI is the most defensive among its environmental peers from potential RMB depreciation. We expect GDI to deliver a recurring profit CAGR of 5% in 2017-19e and to increase its dividend payout ratio by ~5 percentage points per annum, resulting in a DPS CAGR of 12% in 2017-19e. GDI is in a net cash position (HKD10.8bn or HKD1.65 per share net cash after considering available-for-sale investments by Jun 2017) and we note it is trading at an attractive dividend yield of 5.5% in 2019e. Buy.

### Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (HKDm)	9,172	10,468	11,755	12,471	12,693
EBITDA (HKDm)	6,182	7,061	8,026	8,645	8,705
Reported NPAT (HKDm)	3,905	4,212	4,671	5,177	5,160
Reported EPS FD(HKD)	0.624	0.672	0.729	0.791	0.788
DB EPS FD (HKD)	0.655	0.685	0.729	0.791	0.788
DB EPS growth (%)	13.7	4.7	6.4	8.5	-0.4
PER (x)	15.7	15.8	15.0	13.9	13.9
Price/BV (x)	2.1	2.0	1.9	1.8	1.8
EV/EBITDA (x)	10.0	9.1	8.3	7.5	7.2
DPS (net) (HKD)	0.340	0.420	0.480	0.560	0.600
Yield (net) (%)	3.3	3.9	4.4	5.1	5.5
ROE (%)	12.7	13.2	13.5	13.7	13.0

Source: Deutsche Bank estimates, company data

### Valuation & Risks

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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.0	-0.9	-2.7
HANG SENG INDEX	2.7	7.8	30.9

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	13.5
Net debt/equity (%)	-13.6
Book value/share (HKD)	5.64
Price/book (x)	1.9
Net interest cover (x)	63.9
Operating profit margin (%)	55.1

Source: Deutsche Bank



Model updated: 21 November 2017

Running the numbers

Asia  
 China  
 Utilities

Guangdong Investment

Reuters: 0270.HK Bloomberg: 270 HK

Buy

Price (21 Nov 17) HKD 10.96

Target Price HKD 13.20

52 Week range HKD 9.65 - 12.10

Market cap (m) HKDm 68,099  
 USDm 8,717.2

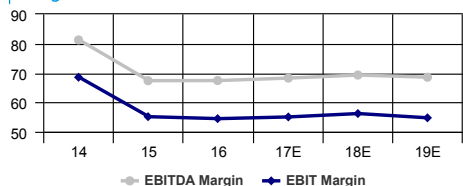
Company Profile

Guangdong Investment's (GDI) primary business is the supply of raw water to Hong Kong and Dongguan/Shenzhen. In addition, the company owns stakes in several power plants and toll roads located in Guangdong. The company also has a property portfolio, which includes office towers, hotels and department stores located in Guangdong, Tianjin and Hong Kong. GDI is controlled by GDH Limited, which is a provincial- owned conglomerate.

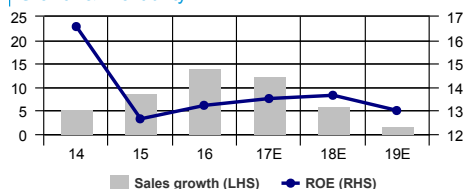
Price Performance



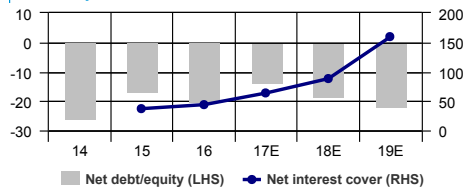
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (HKD)	0.58	0.65	0.69	0.73	0.79	0.79
Reported EPS (HKD)	0.76	0.62	0.67	0.73	0.79	0.79
DPS (HKD)	0.28	0.34	0.42	0.48	0.56	0.60
BVPS (HKD)	4.9	5.0	5.1	5.6	5.9	6.2
Weighted average shares (m)	6,240	6,254	6,263	6,403	6,544	6,547
Average market cap (HKDm)	51,722	64,264	67,815	68,099	68,099	68,099
Enterprise value (HKDm)	46,122	61,894	64,282	66,776	64,689	62,872

Valuation Metrics

P/E (DB) (x)	14.4	15.7	15.8	15.0	13.9	13.9
P/E (Reported) (x)	10.9	16.5	16.1	15.0	13.9	13.9
P/BV (x)	1.98	2.14	1.99	1.94	1.84	1.77
FCF Yield (%)	7.2	2.6	3.5	nm	8.1	8.4
Dividend Yield (%)	3.4	3.3	3.9	4.4	5.1	5.5
EV/Sales (x)	5.5	6.7	6.1	5.7	5.2	5.0
EV/EBITDA (x)	6.7	10.0	9.1	8.3	7.5	7.2
EV/EBIT (x)	8.0	12.2	11.3	10.3	9.2	9.0

Income Statement (HKDm)

Sales revenue	8,426	9,172	10,468	11,755	12,471	12,693
Gross profit	6,848	6,182	7,061	8,026	8,645	8,705
EBITDA	6,848	6,182	7,061	8,026	8,645	8,705
Depreciation	261	275	403	601	643	671
Amortisation	810	850	955	953	992	1,084
EBIT	5,777	5,057	5,703	6,471	7,010	6,950
Net interest income(expense)	310	-136	-130	-101	-79	-44
Associates/affiliates	312	325	179	36	148	161
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	78	0	0	0	0	0
Profit before tax	6,476	5,246	5,752	6,406	7,078	7,067
Income tax expense	1,138	957	1,100	1,277	1,404	1,412
Minorities	566	384	440	458	497	494
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	4,773	3,905	4,212	4,671	5,177	5,160
DB adjustments (including dilution)	-1,173	194	84	0	0	0
DB Net profit	3,600	4,099	4,296	4,671	5,177	5,160

Cash Flow (HKDm)

Cash flow from operations	5,105	5,293	5,969	6,524	7,221	7,377
Net Capex	-1,385	-3,591	-3,581	-8,267	-1,430	-1,327
Free cash flow	3,720	1,702	2,388	-1,743	5,791	6,050
Equity raised/(bought back)	2	92	61	2,835	0	0
Dividends paid	-1,498	-2,050	-2,464	-3,066	-3,389	-3,936
Net inc/(dec) in borrowings	1,281	2,855	-2,020	-700	-1,500	-2,093
Other investing/financing cash flows	-3,074	-1,200	350	0	0	0
Net cash flow	432	1,399	-1,684	-2,674	902	21
Change in working capital	397	1,079	-792	-175	-155	-106

Balance Sheet (HKDm)

Cash and other liquid assets	15,210	15,524	14,845	12,172	13,074	13,094
Tangible fixed assets	3,650	7,083	6,692	9,674	10,412	11,017
Goodwill/intangible assets	13,166	15,522	14,442	14,712	13,730	12,657
Associates/investments	1,659	1,893	1,721	1,705	1,639	1,566
Other assets	13,931	14,088	14,430	18,005	18,097	18,151
Total assets	47,615	54,110	52,130	56,267	56,951	56,486
Interest bearing debt	5,872	9,252	7,017	6,317	4,817	2,724
Other liabilities	6,079	7,590	6,875	6,814	6,712	6,621
Total liabilities	11,951	16,843	13,892	13,131	11,529	9,345
Shareholders' equity	30,267	31,472	32,222	36,900	38,937	40,431
Minorities	5,397	5,795	6,017	6,236	6,485	6,710
Total shareholders' equity	35,664	37,267	38,239	43,137	45,422	47,141
Net debt	-9,337	-6,272	-7,829	-5,855	-8,257	-10,370

Key Company Metrics

Sales growth (%)	5.5	8.8	14.1	12.3	6.1	1.8
DB EPS growth (%)	4.5	13.7	4.7	6.4	8.5	-0.4
EBITDA Margin (%)	81.3	67.4	67.5	68.3	69.3	68.6
EBIT Margin (%)	68.6	55.1	54.5	55.1	56.2	54.8
Payout ratio (%)	36.7	54.5	62.4	65.8	70.8	76.1
ROE (%)	16.6	12.7	13.2	13.5	13.7	13.0
Capex/sales (%)	17.4	39.2	34.2	70.3	11.5	10.5
Capex/depreciation (x)	1.4	3.2	2.6	5.3	0.9	0.8
Net debt/equity (%)	-26.2	-16.8	-20.5	-13.6	-18.2	-22.0
Net interest cover (x)	nm	37.2	44.0	63.9	88.4	159.8

Source: Company data, Deutsche Securities estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Guangdong Investment	0270.HK	10.96 (HKD) 21 Nov 2017	7, 14, 15

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Historical recommendations and target price. Guangdong Investment (0270.HK)

(as of 11/21/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

- |  |   |
|--|---|
| <p>1. 01/30/2016 Buy, Target Price Change HKD 12,70 Kristy Liu**</p> <p>2. 09/18/2016 Buy, Target Price Change HKD 13,00 Thomas Zhu, CFA</p> <p>3. 05/08/2017 Buy, Target Price Change HKD 13,30 Thomas Zhu, CFA</p> | <p>4. 08/02/2017 Buy, Target Price Change HKD 13,50 Thomas Zhu, CFA</p> <p>5. 11/12/2017 Buy, Target Price Change HKD 13,20 Thomas Zhu, CFA</p> |
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Equity Rating Key

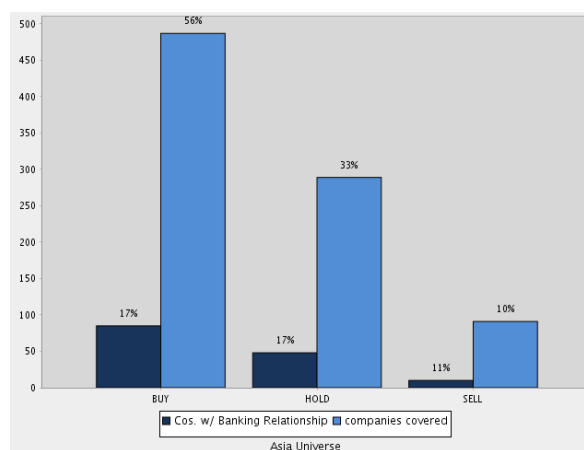
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships





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