

Engaged in Leachate Treatment, Optimizing Asset Structure

Huatai Research

Announcement Comment

20 December 2023 | China (Mainland)

Environ Projects & Services

Rating (Maintain): **BUY**Target price (RMB): **6.63**

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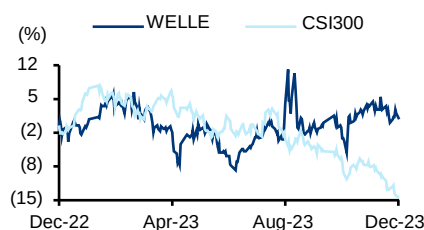
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Key data

Target price (RMB)	6.63
Closing price (RMB as of 18 Dec)	4.27
Potential upside -/+ (%)	55
Mkt cap (RMBmn)	3,337
6m avg daily val (RMBmn)	30.28
52wk price range (RMB)	3.84-4.69
BVPS (RMB)	4.85

Share performance



Source: Wind

Maintain BUY rating with target price of RMB6.63

According to its announcement released on 14 December, WELLE Environmental (WELLE) has won the landfill leachate treatment bids of Changchun Municipal Solid Waste Treatment Center and Daxin landfill project in Shenyang. Specializing in organic waste recycling and industrial energy conservation, the company has accumulated extensive expertise in projects, technological advancements and customer resources. We maintain 2023E/2024E/2025E EPS at RMB0.07/0.17/0.30. Given the company's leading technology, successful operational track record, and our optimism regarding heightened acquisition and execution of engineering orders, as well as its great earnings upside potential, we value the stock at 39.0x 2024E PE, a premium over its peers' Wind consensus-based average of 26.0x. Our target price is RMB6.63 (previous: RMB5.10). Maintain BUY.

Specializing in landfill leachate treatment, major orders secured

The leachate treatment project of Changchun Municipal Solid Waste Treatment Center, which WELLE estimated to worth RMB171mn, involves WELLE providing leachate treatment facilities with a capacity of no less than 1,000 tonnes/day (peak treatment capacity: 1,500 tonnes/day). Furthermore, WELLE will handle the installation, commissioning, operation and post-service facility dismantling. The contract will span three years and be renewed annually, at a bid-winning price of RMB155.98/tonne. Additionally, the concession project for the temporary leachate treatment facilities at the Daxin landfill site, which WELLE value at RMB292mn, tasks WELLE with constructing temporary leachate treatment facilities (capacity: 1,400-tonne/day), with a contract fulfilment period of 4.5 years and bid-winning price of RMB126.98/tonne.

Equity transfer to optimizing asset structure and boost cash flow

According to the announcements of WELLE and Xingrong Environment (Xingrong) released on 18 November, WELLE proposes to transfer 100% stake in WELLE Xi'an to Xingrong, at a price of RMB283mn. WELLE Xi'an is a kitchen-waste concession project. The Phase I project involves kitchen-waste/waste grease treatment capacity of 200/20 tonnes per day, with a concession period of 30 years (2016-2046). The Phase II project involves kitchen-waste treatment capacity of 200 tonnes/day and a concession period of 26 years (2020-2046). With stable operations, WELLE Xi'an posted revenue/net profit of RMB56.75/9.95mn in 10M23, and had net assets of RMB178mn as of 31 October, corresponding to 1.6x PB for the equity transfer. As of 30 September, WELLE holds monetary funds amounting to RMB546mn. We anticipate this equity transfer to optimize its asset structure and boost cash flow.

Risks: slower execution of engineering projects than we expect; slower ramp-up of leachate and kitchen-waste treatment orders than we expect.

Financials

YE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMBmn)	3,153	2,085	2,503	3,008	3,620
+/-%	(1.55)	(33.88)	20.04	20.19	20.33
Net profit (RMBmn)	186.25	(449.60)	52.90	132.40	236.60
+/-%	(47.87)	(341.39)	111.77	150.27	78.70
EPS (diluted, RMB)	0.24	(0.58)	0.07	0.17	0.30
ROE (%)	4.04	(11.73)	1.38	3.36	5.71
PE (x)	18.25	(7.56)	64.27	25.68	14.37
PB (x)	0.78	0.89	0.88	0.86	0.82
EV EBITDA (x)	8.52	40.78	17.27	13.31	10.52

Source: Company announcements, Huatai Research estimates

Fig.1: Peers' valuation comparison

Ticker	Company	Closing price (RMB)	Market cap (RMBmn)	PE (x)			PB (x)		
		14 December 2023	14 December 2023	23E	24E	25E	23E	24E	25E
603200 CH	Shanghai Emperor of Cleaning Hi-Tech	20.48	3,573	65.0	40.6	19.7	3.8	3.6	3.1
300958 CH	BCEG Environmental Remediation	17.88	2,802	24.6	21.6	18.6	2.0	1.8	1.6
688718 CH	Wave Cyber	14.38	2,499	35.7	22.2	17.2	3.2	2.8	2.4
688335 CH	Shanghai CEO Environmental Protection	13.22	1,953	41.2	19.8	15.8	1.6	1.5	1.4
Average				41.6	26.0	17.8	2.6	2.4	2.1
300190 CH	WELLE	4.35	3,400	64.3	25.7	14.4	0.9	0.9	0.8

Note: forecasts for peers are Wind-consensus estimates

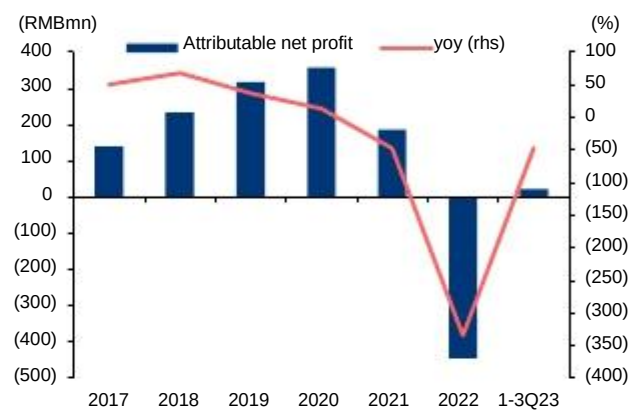
Source: Wind, Huatai Research estimates

Fig.2: WELLE – revenue and yoy growth



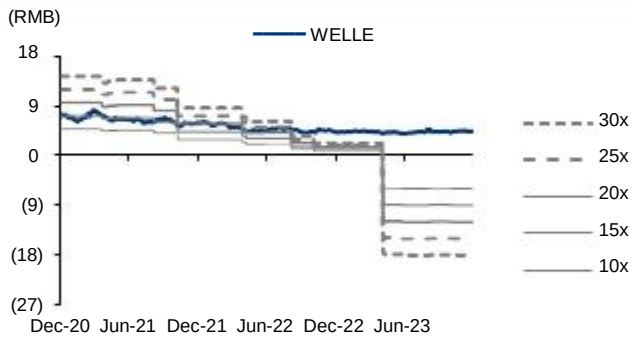
Source: Wind, Huatai Research

Fig.3: WELLE – attributable net profit and yoy growth



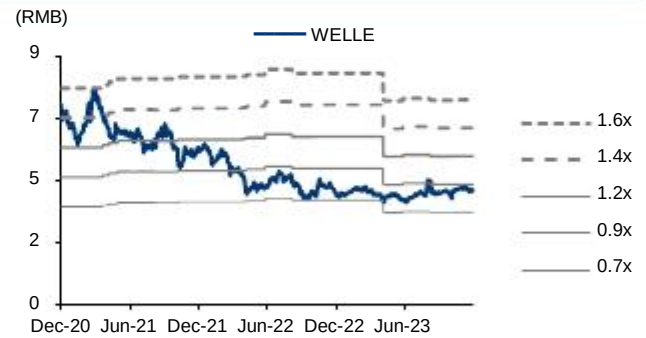
Source: Wind, Huatai Research

Fig.4: WELLE Environmental PE-Bands



Source: Wind, Huatai Research

Fig.5: WELLE Environmental PB-Bands



Source: Wind, Huatai Research

Full financials

Balance sheet

YE 31 Dec (RMBmn)	2021	2022	2023E	2024E	2025E
Current assets	6,001	5,236	6,311	6,964	7,522
Cash & equivalents	1,117	922.54	1,107	1,331	1,602
Account receivables	1,768	1,463	1,317	1,691	722.45
Other receivables	184.64	163.40	254.39	247.74	356.49
Prepayments	112.62	86.21	152.46	134.39	210.79
Inventories	750.59	817.77	960.27	1,122	1,318
Other current assets	2,069	1,783	2,519	2,438	3,313
Non-current assets	4,646	4,670	4,897	5,096	5,331
Long-term investment	400.78	438.55	527.29	620.05	722.59
Fixed investment	444.59	721.00	821.65	921.60	1,029
Intangible assets	1,837	2,134	2,183	2,185	2,186
Other non-curr. assets	1,964	1,376	1,364	1,370	1,393
Total assets	10,647	9,906	11,208	12,060	12,853
Current liabilities	4,232	3,813	5,061	5,789	6,350
Short-term borrowings	1,241	1,416	2,027	2,674	3,344
Account payables	1,526	1,197	1,681	1,690	1,363
Other current liabilities	1,466	1,200	1,353	1,425	1,643
Non-current liabilities	1,899	2,127	2,165	2,191	2,218
Long-term borrowings	705.03	919.84	758.13	584.43	410.98
Other non-curr. liabilities	1,194	1,207	1,407	1,607	1,807
Total liabilities	6,131	5,940	7,227	7,981	8,568
Minority interest	137.09	126.88	128.73	133.36	141.63
Share capital	781.59	781.59	781.59	781.59	781.59
Capital reserves	2,277	2,261	2,261	2,261	2,261
Retained profit	1,321	798.12	857.63	1,007	1,273
Shareholders' equity attr. to parent	4,379	3,839	3,853	3,946	4,144
Equity & liabilities	10,647	9,906	11,208	12,060	12,853

Cash flow statement

YE 31 Dec (RMBmn)	2021	2022	2023E	2024E	2025E
Operating cash flow	325.38	163.06	168.83	186.43	303.35
Net profit	182.57	(465.32)	54.75	137.03	244.87
Depreciation/amortization	299.11	278.38	287.46	325.94	369.25
Financial costs	122.66	133.03	93.30	107.56	122.67
Investment losses	(8.91)	(31.17)	(31.17)	(31.17)	(31.17)
Chg in working capital	(358.58)	(6.59)	(230.36)	(346.77)	(394.89)
Other operating activ's	88.53	254.72	(5.15)	(6.16)	(7.39)
Investing cash flow	(246.80)	(314.37)	(483.12)	(494.03)	(572.33)
Capex	(612.31)	(343.49)	(424.94)	(431.60)	(499.76)
Long-term investment	(92.84)	(58.06)	(88.75)	(92.75)	(102.54)
Other investing activ's	458.36	87.17	30.56	30.32	29.97
Financing cash flow	237.41	(32.18)	(747.95)	40.99	60.34
Short-term borrowings	403.14	174.90	611.23	647.56	669.80
Long-term borrowings	(76.28)	214.81	(161.70)	(173.71)	(173.44)
Increase in common stock	0.00	0.00	0.00	0.00	0.00
Additional paid-in capital	0.96	(15.87)	0.00	0.00	0.00
Other financing activ's	(90.40)	(406.02)	(1,197)	(432.85)	(436.01)
Net change in cash	314.16	(182.55)	(1,062)	(266.60)	(208.64)

Income statement

YE 31 Dec (RMBmn)	2021	2022	2023E	2024E	2025E
Revenue	3,153	2,085	2,503	3,008	3,620
Operating costs	2,289	1,727	1,958	2,293	2,687
Business taxes & surcharges	11.19	8.24	9.89	11.88	14.30
Operating expenses	148.45	154.44	142.66	159.43	188.22
Admin expenses	221.28	233.48	230.25	258.69	289.57
Financial costs	122.66	133.03	93.30	107.56	122.67
Asset impairment losses	(8.18)	(194.19)	(6.49)	(7.80)	(9.39)
P from fair value changes	(3.29)	(23.14)	0.00	0.00	0.00
Investment income	8.91	31.17	31.17	31.17	31.17
Operating profit	185.55	(502.98)	57.91	149.60	269.46
Non-operating income	15.22	7.74	7.74	7.74	7.74
Non-operating expenses	3.59	17.66	5.30	6.30	7.30
Total profit	197.17	(512.90)	60.35	151.04	269.91
Income tax expenses	14.59	(47.58)	5.60	14.01	25.04
Profit after tax	182.57	(465.32)	54.75	137.03	244.87
Minority interest	(3.68)	(15.72)	1.85	4.63	8.27
Net profit attr. to parent	186.25	(449.60)	52.90	132.40	236.60
EBITDA	665.38	148.94	377.59	524.35	705.45
EPS (RMB, basic)	0.24	(0.57)	0.07	0.17	0.30

Performance

YE 31 Dec	2021	2022	2023E	2024E	2025E
Growth (%)					
Revenue	(1.55)	(33.88)	20.04	20.19	20.33
Operating profit	(54.87)	(371.08)	111.51	158.34	80.13
Net profit attr. to parent	(47.87)	(341.39)	111.77	150.27	78.70
Profitability (%)					
Gross profit margin	27.40	17.18	21.79	23.78	25.77
Net profit margin	5.79	(22.32)	2.19	4.56	6.76
ROE	4.04	(11.73)	1.38	3.36	5.71
ROIC	5.55	(1.97)	1.29	2.66	4.18
Solvency					
Liabilities/assets (%)	57.58	59.96	64.48	66.17	66.66
Net gearing ratio (%)	53.05	70.31	81.25	90.44	96.15
Current ratio (x)	1.42	1.37	1.25	1.20	1.18
Quick ratio (x)	1.14	1.07	0.98	0.94	0.91
Operating capability					
Total assets t/o ratio (x)	0.31	0.20	0.24	0.26	0.29
Receivables t/o ratio (x)	1.79	1.29	1.80	2.00	3.00
Payables t/o ratio (x)	1.58	1.27	1.36	1.36	1.76
Per-share data (RMB)					
EPS (diluted)	0.24	(0.58)	0.07	0.17	0.30
OCFPS (diluted)	0.42	0.21	0.22	0.24	0.39
BVPS (diluted)	5.60	4.91	4.93	5.05	5.30
Valuation (x)					
PE	18.25	(7.56)	64.27	25.68	14.37
PB	0.78	0.89	0.88	0.86	0.82
EV EBITDA	8.52	40.78	17.27	13.31	10.52

Source: Company announcements, Huatai Research estimates

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