

# China Water Affairs Group(855 HK)

**John Siah**

+852 2135 0248

john.siah@oriental-patron.com.hk

## Initial Coverage

**BUY**
**Close price: HK\$6.85**
**Target Price: HK\$9.50 (+38.7%)**

### Key Data

HKEx code	855 HK
12 Months High (HK\$)	10.10
12 Month Low (HK\$)	5.37
3M Avg Dail Vol. (mn)	2.92
Issue Share (mn)	1,632.32
Market Cap (HK\$mn)	11,181.41
Fiscal Year	03/2022
Major shareholder (s)	Mr. Duan (28.9%)

Sources: Company data, Bloomberg, OP Research  
 Closing price are as of 02/01/2023

### Price Chart



	1mth	3mth	6mth
Absolute %	+6.2	+20.4	+5.9
Rel. MSCI CHINA %	-6.1	-23.6	-2.0

### Forward P/E Ratio



### Company Profile

China Water Affairs Group ("CWA") is a cross region city water supply operator in China. As at Sept 2022, CWA's daily water supply capacity reached ~10.3mn tons. It also engaged in fields like sewage treatment, direct drinking water and real estate.

## Tapping into opportunities in the direct drinking water market

- Pipeline direct drinking water business is expected to grow at a CAGR of 65.2% in FY23E-25E
- Better earnings prospects under the new water tariff reform
- Release of value through the spin-off
- Initiate BUY with target price of HK\$9.50

**Direct drinking water business has a compelling outlook.** China Water Affairs Group ("CWA") has accumulated expertise and customer resources to capture the rising opportunities for the direct drinking water market. The market would benefit from the pursuit of clean water and the potential tightening of regulations on single-use items like plastic bottles. The company aims to grow the customer base to 30-50mn in the next 5-8 year, which is an ambitious goal when compared to 4mn customers as in Sep 22. The revenue of the direct drinking water business is expected to grow by ~70%/~100% in FY23E/24E. The business would be the major growth driver for CWA in the next few years.

**Better earnings prospects for the water supply business.** We expect the latest water price reform would enhance the return of CWA's water supply business, mainly driven by the higher asset bases for the calculation of return, and incentives for operators with better operating efficiency. CWA primarily focuses on lower-tier cities near China eastern coast. The company benefits from growing water demand under urbanization and the expansion of the Yangtze River economic zone.

**Releasing value through the spin-off.** CWA plans to spin-off and separately list its water supply and direct drinking water businesses. In addition to releasing the value of its water businesses, we expect the company may use the proceeds to further integrate its waste water treatment and environmental businesses with its associate Kangda(6136 HK).

**Stable earnings outlook.** The strong business fundamentals with organic growth in the double digits would be overshadowed by the drag from Covid outbreak and the recent unfavorable FX impact. We project CWA's net profit to slightly decline this year, and the EPS CAGR in FY23E-25E would be 11.2%.

**Initiate BUY with target price of HK\$9.50.** We reach our target price with the discounted cash flow model. The TP represents P/E ratio of 8.2x/6.9x in FY23E/24E, which has a ~30% discount to Guangdong Investment(270.HK). A breakthrough in the direct drinking water business will act as a catalyst for re-rating.

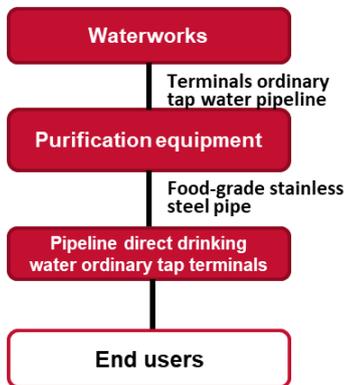
### Exhibit 1: Forecast and Valuation

Year to Mar (HK\$ mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	10,346	12,950	14,020	15,988	17,740
Growth (%)	+19.0	+25.2	+8.3	+14.0	+11.0
Net profit	1,692	1,894	1,891	2,246	2,604
Growth (%)	+3.2	+11.9	-0.2	+18.8	+16.0
Diluted EPS (HK\$)	1.04	1.16	1.16	1.38	1.60
EPS growth (%)	+2.0	+11.5	-0.2	+18.8	+16.0
Change to previous EPS (%)			-	-	-
Consensus EPS (HK\$)			1.193	1.357	1.567
ROE (%)	17.8	16.1	14.1	15.3	15.9
P/E (x)	6.6	5.9	5.9	5.0	4.3
P/B (x)	1.0	0.9	0.8	0.7	0.6
Yield (%)	4.5	5.0	5.1	6.0	7.0
DPS (HK\$)	0.31	0.34	0.35	0.41	0.48

Sources: Bloomberg, OP Research

## Tapping on business opportunities in the direct drinking water market

### Operating model of direct drinking water



CWA has cultivated the direct drinking water market for over 20 years. The company has fully launched the pipeline direct drinking water business in 2019.

### Exhibit 2: CWA's foothold of the direct drinking business



As in Sep 2022, China Water Affairs Group has developed over 4,000 direct drinking water projects (built, under construction) in 165 counties and cities in 21 provinces, serving more than 4mn.

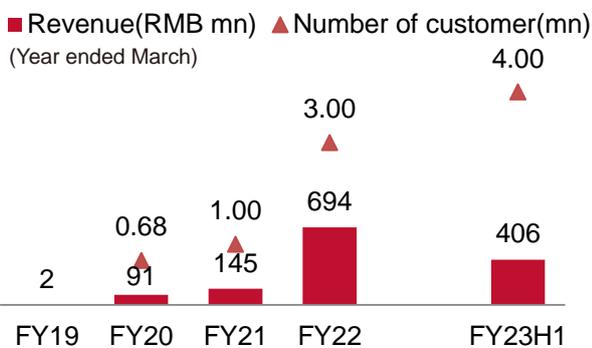
Sources: Company, OP research

**We expect the fast-expanding customer base to be the driver for CWA's direct drinking business over the next few years.** CWA has entered into multiple strategic cooperation agreements in different provinces. These new projects will allow CWA access to ~11mn potential customers. The company aims to grow its customer base to 30-50mn in the next 5-8 years. It will expand its direct drinking water supply beyond its water supply network.

Meanwhile, CWA is proactively seizing M&A opportunities to accelerate the expansion. The company acquired "Acqucap(水杯子)" in Sep 2021. The latter is one of the earliest brands established by the Chinese Academy of Sciences. It is a pioneer in the campus pipeline direct drinking water, and it has over 100 patented technologies.

### Exhibit 3: CWA's pipeline direct drinking business and the newly acquired projects

#### CWAs direct drinking water Business experienced explosive growth over last few years



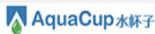
#### Direct drinking water project reserves by provinces

Projects	Newly serviced population
Guizhou	7 mn
Henan	1.9mn
Chongqing	0.3mn
Anhui	0.3mn
Hubei	0.4mn
Hunan	0.6mn

Coupled with the Henan Qixian water project cooperation (which service 0.3mn population), new potential population coverage for the direct drinking water business reached 11mn as in Aug 2022

Sources: Company, OP research

**Exhibit 4: CWA acquired some direct drinking water businesses in last few years**

<p>Nanjing AquaCup</p> 	<ul style="list-style-type: none"> <li>● Acquired 51% equity of Nanjing AquaCup in 2021.</li> <li>● AquaCup is the first water cup brand established by the Chinese Academy of Sciences, the highest honor of the National Second Prize. The company is a pioneer of direct drinking water on campus. It has served more than 40 schools and covered more than 370,000 people.</li> <li>● AquaCup has more than 100 patented technologies for direct drinking water.</li> </ul>
<p>ORIX and China Toray</p> 	<ul style="list-style-type: none"> <li>● Established joint ventures with international partners ORIX China and Toray in 2019.</li> <li>● The company's filtration products have received technical support from research institutions.</li> </ul>
<p>Changsha Water Cup</p> 	<ul style="list-style-type: none"> <li>● Acquired 51% equity of Changsha Water Cup in 2015.</li> <li>● Changsha Water Cup is China's leading supplier of direct drinking water equipment with more than 20 years of experience.</li> </ul>

Sources: Company, OP research

**Exhibit 5: Comparison between CWA's direct drinking water business and water supply business**

	Direct drinking water	Tap water
Sources	Tap water	Raw water(I.e. from water reservoirs)
Price regulation	No	Yes
Business models	<p><u>PPP model in campus/public facilities</u></p> <ul style="list-style-type: none"> <li>● CWA invests in purifiers and pipelines</li> <li>● School or local governments bear water bills, or collect water bills from students by metering</li> </ul> <p><u>Community pipeline direct drinking water</u></p> <ul style="list-style-type: none"> <li>● CWA invests in purifiers and pipelines.</li> <li>● The user or developer bears the branch connection fee.</li> <li>● Charge users according to the metering method.</li> </ul>	<p>Mainly use TOO model</p> <p>The project company mainly responsible to finance, construct, operate and manage the project. CWA has 30-50 years exclusive franchise for the project, with rights of renewal or disposal</p>
Return	Higher	Lower

Sources: Company, OP research

The price of direct water is unregulated. CWA said the ASP of pipeline direct drinking water is 100x more than the sales of water supply.

**Prosperous outlook.** Pipeline drinking water currently accounts for less than 1% of the total drinking water consumption by residents. We see growing adoption of the direct drinking water market, owing to (1) increased awareness of water quality and (2) favorable policies that encourage the use of direct drinking water supply in the public sector.

Pipeline-direct drinking water has several advantages than other sources of direct drinking water. The direct pipeline for drinking water is as convenient as bottled water and a water purifier. Compared with bottle water, pipeline drinking water has a significant price advantage and more environmentally friendly. Comparing with water purifier, drinking water directly from the pipe is more convenient, provides better water quality and taste, and better purification.

**Exhibit 6: Comparison between different sources of direct drinking water**

Indicator	Economy (yuan/tons)	Convenience	Safety	Environmental friendly
Drinking water directly from the pipe	200-400	Good	Good	Yes
Bottled water	1,000-4,000	Good	Good	Poor
Water purifier	800-2,000	Good	Questionable	Questionable
Boiled tap water	70-100	Poor	Better	Yes

Sources: Company, OP research

**Exhibit 7: The direct drinking water is deeply purify and disinfect a small amount of tap water, circulate the water to users through food-grade pipeline**



Source: Company

**Favorable policy to boost the application of pipeline direct drinking water.** In the "Action Plan on Plastic Pollution Control during the 14<sup>th</sup> Five Year Plan period", the government will have a pilot scheme to install direct drinking water facilities and replace the use of bottled water in the receptions and training facilities.

We see that a more stringent policy on the use of bottled water will accelerate the adoption of pipeline direct drinking water.

**Exhibit 8: National favorable policies for direct drinking water industry**

Institutions	Laws and regulations
The National Development and Reform Commission	"Action Plan on Plastic Pollution Control during the 14 <sup>th</sup> Five-year Plan period"
Ministry of Education National Health Commission	"Sanitary Regulations for Drinking Water Facilities in Schools and Nurseries"
China Inspection and Quarantine Research Institute Testing Center	"Healthy Drinking Water Quality Standard"
Ministry of Housing and Urban-Rural Development of China	"Technical Regulations for Pipeline Direct Drinking Water System in Buildings and Residential Districts"
State Council	"Circular of The General Office of the State Council on Strengthening the Work of Ensuring the Safety of Drinking Water (State Affairs Development No. 45, 2005)"

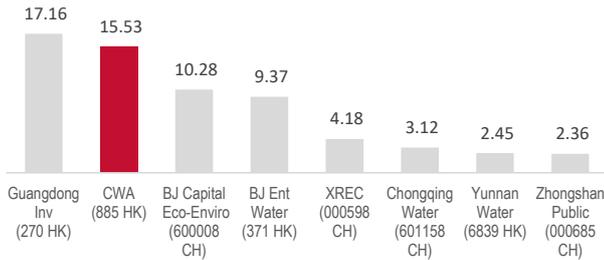
Sources: Open sources, OP research

## Water supply – better earnings prospects under the new water tariff reform

CWA is one of the leading water suppliers in China, with a total daily water processing capacity of 10.3 million tons in operation at the moment.

### Exhibit 9: China Water Affairs Group(855.HK)'s is a leading listed water supplier in China

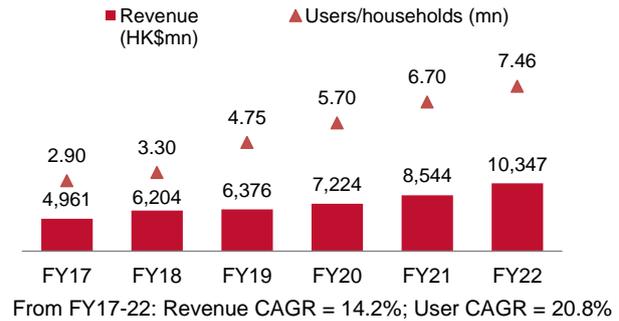
CWA is one of the leading listed water supply companies in term of capacity(Unit:mn/day)



\*We only list companies with daily capacity exceeding 2mn.  
Daily capacity includes projects in planning and/or in construction.  
We excluded capacity for wastewater treatment services

Source: Companies, open sources, OP Research

Revenue and customers for CWA's water businesses (water supply+ direct drinking water businesses) between FY17 and FY22

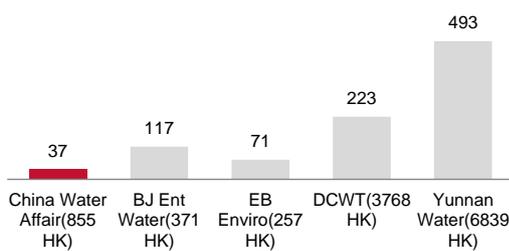


**Better business model.** CWA usually partners with local governments to operate water supply businesses through 60:40 joint ventures. CWA takes charge of daily operations and shares profits with local governments.

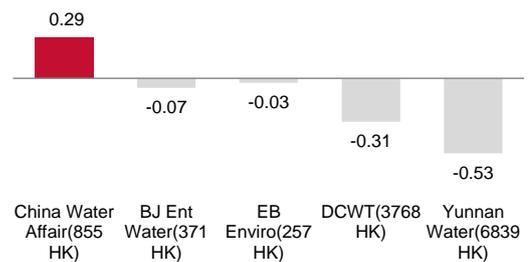
CWA's water supply business model is believed to be better than its peers who focus on wastewater treatment and environmental protection. CWA has better cash flow management than wastewater treatment companies. This is mainly thanks to the right for CWA to collect water tariffs from customers. Wastewater treatment companies have high receivable turnover days and weak operating cash flows since they rely on local governments to collect sewage fees.

### Exhibit 10: CWA has a much healthy cash flow than the HK listed sewage treatment companies

Day of receivable turnover (Latest FY)



Operating cash flow/ Revenue (Latest FY)



Sources: Bloomberg, OP research

CWA's water treatment plants have a larger geographic exclusivity under the "One City, One Water Supply Operator" policy. This is in contrast to the wastewater treatment industry that there may have more than one operators within a city. CWA adopts the TOO model (Transfer-operate-own) where it owns water supply projects with 30–50 years of exclusive franchise and rights of renewal, while wastewater treatment companies have a finite time of operation.

### Exhibit 11: Comparison of the business model

	CWA's water business	Waste water treatment
Geographic exclusivity	Yes	Smaller
Fee collection	By itself	From Government
Cash flow	Stable	Bumpy

Source: OP research

CWA experienced some delay in raising its water tariff in FY23H1 under local governments' focus on pandemic prevention. In FY23H1, only 2 water treatment plants received approval for the water tariffs increase.

The weak property market and the recent China's drought should only have a minor impact on CWA's water supply business.

**Expertise in water supply, benefiting from the urbanization.** CWA has a proven track record of turning around loss-making water businesses and has a high post-acquisition employee retention rate. The strong track record would help the company win trust from local governments to expand the water supply business.

CWA's water supply business is strategically located in lower-tier cities in China's eastern region. The company would benefit from the expansion of the Yangtze economic cluster. The urbanization and industrialization of the lower-tier cities would boost the organic growth of the water supply business.

**Better earnings prospect under the recent price reform.** The new regulation announced in late 2021 will boost the return of water supply operators in a few ways, including (1) the higher asset bases for the calculation of water tariffs; (2) the cost calculation that favors highly efficient operators; and (3) the relaxation of the water tariff surcharge for residential customers with high water consumption.

Under the new regulation, the required return is based on the invested capital (PPE and intangible assets) and working capital. The higher asset base (denominator) would compensate for the lower weighted return ceiling of the business. Based on FY22 financial data, we anticipate a 10% increase in revenue for the water operation business.

**Exhibit 12: Our projection on the return from the water supply operation business based on the new and old regulation**

Items	New regulation	Old regulation
Asset bases	= PPE + Other intangible assets + working capital	= Equity for water supply business
	<p><u>Calculation</u> Assuming a 5% depreciation rate for PPE. The asset bases under the new regulation should be:</p> <p>PPE = ~RMB1.83bn(derived from depreciation on PPE and right of use assets in FY22) Other intangible assets = HK\$26.1bn Working capital = - HK\$2.57bn</p> <p>Total assets base = ~ HK\$25.3bn</p>	<p><u>Calculation</u> In addition to the segmental assets and liabilities, we add back part of the unallocated assets and liabilities based on revenue contribution(~80%) from the water supply business</p> <p>= segmental assets(HK\$33.0bn)+ investment in associate(HK\$595mn) - segmental liabilities(HK\$7.6bn) - estimated net corporate liabilities allocated to city water supply business(HK\$11.9bn)</p> <p>= HK\$14.1bn</p>
Maximum rate of return	<p>The calculation of return is divided into 2 parts,</p> <p>Return rate for equity( "R<sub>Equity</sub>") = average China10 year treasury yield + 400bps</p> <p>Return rate for debt ( "R<sub>debt</sub>") = average 1 year LPR ratio in the last regulatory year</p> <p>Maximum return rate = R<sub>Equity</sub> * (1- debt ratio) + R<sub>debt</sub> * (debt ratio)</p> <p>Calculation: R<sub>Equity</sub> = 2.93% + 4% = 6.93% R<sub>debt</sub> = 3.76% Debt ratio = 64.5%(In corporate level) Maximum return rate = 4.93%</p>	<p>ROE of 8%</p>
Our projected return	=HK\$1.24bn	=HK\$1.13bn

Sources: Open sources, OP Research

The new price regulation rewards operators with better operating efficiency. For example, the government calculates the labor cost based on the average labor headcount (per 10,000 cubic meters in terms of daily production capacity) between the actual and the maximum labor headcount (15). The cost calculation would overstate the labor cost for water supply plants with better operating efficiency. This would allow CWA (it usually uses 2-3 laborers per 10,000 cubic meters of daily production capacity) to enhance the return of the water business.

We understand labor comprises about 20% of the total operation costs of water treatment plants. The cost savings in the new water tariff regulation increase the return of CWA projects.

**Exhibit 13: According to the new water tariff regulation, water suppliers with better operating efficiency would benefit from the labor cost saving**

Number of labor used to operate water supply plant	Eligible labor headcount in the calculation of labor cost of water supply plants	Cost saving(in term of number labor)
2	9	7
4	10	6
6	11	5
8	12	4
10	13	3
12	14	2
14	15	1
16	15	0
18	15	-1
20	15	-2

Sources: open sources, OP Research

The new tariff regulation benefits water suppliers in more ways than just the water tariff and cost calculation.

The water price ladder for residential users has been relaxed under the new regulation. The water tariff is charged based on at least three levels of water consumption (instead of only 3 levels in the old regulation). The water tariff could be 200% (100% in the past) higher than the base price.

The operation and maintenance of secondary pressurization of water supply devices has been transferred to water suppliers. The Capex incurred will be included in the calculation of the water tariff.

## Releasing the value through the business spin-off

In Dec 2021, CWA announced to propose to spin-off its city direct drinking water and water supply operations and construction businesses on the main board of the HK stock exchange. The spin-off is believed to better reflect the value of its water supply business, which has a more stable and visible business model than its peers focusing on sewage treatment and environmental protection.

**Expecting further integration with Kangda Int'l(6136 HK).** As at 30 June 2022, CWA held 44.54% of the total shareholding of Kangda Int'l. We expect that after the spin-off, we think it is possible that the company could use the net proceeds from the spin-off to increase its shareholding in Kangda Int'l. We expect there may be further consolidation in the environmental business.

### Exhibit 14: There is a room for CWA to integrate its environment protection business with Kangda Intl(6136 HK)

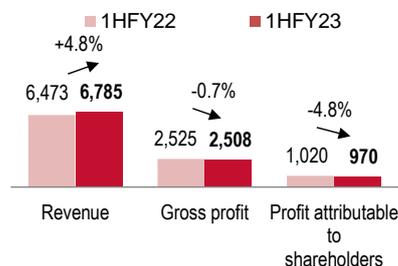
Daily capacity(thousand tons)	Wastewater treatment	Water supply	Reclaimed water treatment	Sludge treatment
<b>China Water Affairs Group (As at 30 Sep 2022)</b>	<b>1,320</b>	<b>15,534</b>	-	
- In operation	721	9,550	-	
- under construction	310	1,872	-	
- under planning	289	4,112	-	
<b>Kangda Intl(As at 30 June 2022)</b>	<b>4,265</b>	<b>30</b>	<b>65</b>	<b>0.55</b>
- In operation	3,989.5	0	65	0.55
- Not yet start operation/ Not yet transferred	275.5	30	0	0

Sources: Open sources, OP Research

## Earnings forecast

### FY1H23 earnings review

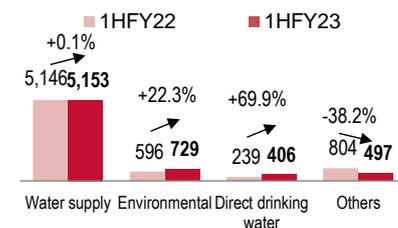
#### Financial performance



Sources: Company, OP research

CWA explained the net profit was dragged by the recent weakness of RMB, and the slowdown of construction services as affected by the pandemic. We expected the easing Covid prevention measure will bring the construction services back to normal.

#### Segment reviews



Sources: Company, OP research

#### Water supply

The decline of revenue was due to (1) the slowdown in construction progress and (2) delay in approval of water tariff increase as affected by the pandemic.

#### Direct drinking water

The segment is the major catalyst of CWA. The business contributed 6% of total revenue in FY1H23 (versus 4% in FY1H22). During FY1H22, total customer rose 1mn to 4mn. The company has strong backlog orders but the covid prevention measures capped the growth of the business.

#### Environmental

The increase in revenue was mainly thanks to increase in construction services (+21.8% yoy) in supply-drainage integration and increase in volume of processed sewage.

### Revenue : 11.1% CAGR in FY23E-25E

We expect CWA's revenue to grow by 8.3%/14.0%/11.0% yoy in FY23E/24E/25E, which is mainly driven by the fast-growing direct drinking water business. Water supply and environmental protection businesses are expected to grow at a high single-digit, driven by the organic increase of customers and the increase in water tariffs. Property business and other businesses are expected to stay at the current level.

#### Revenue forecast by segment

##### Water supply

We expect CWA's water supply business to grow at a CAGR of 6.2% in FY23E-25E. In particular, water operating services is expected to grow at a CAGR of 10.4%. The company is believed to benefit from the growing customers of the existing water supply projects.

We forecast the customers for water supply business to grow at a CAGR of 10.3% in FY23E-25E, which is mainly driven by the growing demand of water under urbanization. The company is able to increase water supply with less additional Capex input given the average utilization rate of its water plants is around 60%.

The average water tariff, on the other hand, is expected to rise in the mid-single digits (4-5% year on year) under the new price regulation.

In addition, CWA is financially capable of acquiring more water supply projects. We expect it to acquire 5-8 water supply projects per year over the next few years.

##### Pipeline direct drinking water

Direct drinking water business is believed to be the main growth driver for CWA in the next few years. As of August 2022, the company had access to 11 million potential customers, ensuring strong revenue growth in the coming years.

We expect customers of direct drinking water business to reach 5.5mn/8.5mn/12.0mn in FY23E/24E/25 on the back of (1) customers' increasing awareness of water quality and (2) the increase in installation of direct drinking water facilities in the public area.

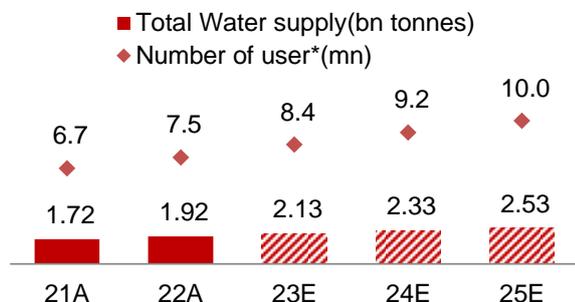
The business is expected to grow at a CAGR of 65.2% in FY23E-25E, and it will account for 17.6% of the overall revenue by FY25E.

##### Environmental

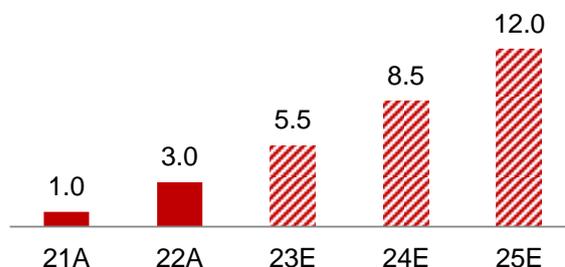
We expect CWA's environmental protection businesses to grow at a CAGR of 7.9%. The company focuses on high-quality environmental protection projects although that is not its main focus. We think CWA may consolidate the business with Kangda(6136.HK) after the spin-off of its water businesses.

**Exhibit 15: Our projection on CWA's water supply and direct drinking water business**

**Our forecast on customer and total water supply of the water business**



**Our forecast on customer of the direct drinking water business**



\* The figure is based on the number of registered water metres

Sources: Company, OP research

**Exhibit 16: China Water Affairs Group(855.HK)'s latest water project**

Location	Province	Daily Capacity
<b>Newly commence water treatment plant in FY23H1</b>		
Ye County, Pingdingshan City	Henan	70,000 tons
Huaiyang District, Zhoukou City	Henan	60,000 tons
Gaoan City	Jiangxi	25,000 tons
Longyao County	Hebei	40,000 tons
<b>Water treatment plant - in Construction</b>		
Baofeng County, Pingdingshan City	Henan	50,000 tons
Gongan County, Jingzhou City	Hubei	90,000 tons
Heyuan City	Guangdong	200,000 tons
Jian City	Jiangxi	200,000 tons
Shenzhen City	Guangdong	150,000 tons
<b>Wastewater treatment project – in construction</b>		
Ningxiang City	Hunan	100,000 tons
Guo town, Baoji City	Shannxi	50,000 tons
Wannian County, Shanrao City	Jiangxi	30,000 tons
Huizhou City	Guangdong	31,000 tons

Source: Company

**Exhibit 17: Our comments on CWA's water supply, direct drinking water and environmental protection businesses**

	Water supply <sup>1</sup>	Pipeline direct drinking water business <sup>1</sup>	Environmental protection																																													
Our forecast on revenue (FY22A-25E)	<p>Legend: Supply (Red), Connection (Light Red), Construction (Lightest Red)</p> <table border="1"> <tr> <th>Year</th> <th>Supply</th> <th>Connection</th> <th>Construction</th> <th>Total</th> </tr> <tr> <td>22A</td> <td>3,361</td> <td>2,055</td> <td>4,036</td> <td>9,452</td> </tr> <tr> <td>23E</td> <td>3,552</td> <td>2,263</td> <td>3,883</td> <td>9,697</td> </tr> <tr> <td>24E</td> <td>4,007</td> <td>2,135</td> <td>4,310</td> <td>10,452</td> </tr> <tr> <td>25E</td> <td>4,519</td> <td>2,156</td> <td>4,655</td> <td>11,330</td> </tr> </table>	Year	Supply	Connection	Construction	Total	22A	3,361	2,055	4,036	9,452	23E	3,552	2,263	3,883	9,697	24E	4,007	2,135	4,310	10,452	25E	4,519	2,156	4,655	11,330	<table border="1"> <tr> <th>Year</th> <th>Revenue</th> </tr> <tr> <td>22A</td> <td>694</td> </tr> <tr> <td>23E</td> <td>1,170</td> </tr> <tr> <td>24E</td> <td>2,320</td> </tr> <tr> <td>25E</td> <td>3,130</td> </tr> </table>	Year	Revenue	22A	694	23E	1,170	24E	2,320	25E	3,130	<table border="1"> <tr> <th>Year</th> <th>Revenue</th> </tr> <tr> <td>22A</td> <td>1,161</td> </tr> <tr> <td>23E</td> <td>1,283</td> </tr> <tr> <td>24E</td> <td>1,396</td> </tr> <tr> <td>25E</td> <td>1,460</td> </tr> </table>	Year	Revenue	22A	1,161	23E	1,283	24E	1,396	25E	1,460
	Year	Supply	Connection	Construction	Total																																											
22A	3,361	2,055	4,036	9,452																																												
23E	3,552	2,263	3,883	9,697																																												
24E	4,007	2,135	4,310	10,452																																												
25E	4,519	2,156	4,655	11,330																																												
Year	Revenue																																															
22A	694																																															
23E	1,170																																															
24E	2,320																																															
25E	3,130																																															
Year	Revenue																																															
22A	1,161																																															
23E	1,283																																															
24E	1,396																																															
25E	1,460																																															
	Revenue CAGR: 6.2%	Revenue CAGR: 65.2%	Revenue CAGR: 7.9%																																													
Our Comments	<ul style="list-style-type: none"> <li>- The recent water price reform will accelerate the growth of the water tariff in the next few years.</li> <li>- The weak property market and the recent water drought should have minor effect on the operation.</li> </ul>	<ul style="list-style-type: none"> <li>- We foresee China will install more direct drinking water facilities in the public area</li> <li>- There will have synergy between the direct drinking water business and the water supply business</li> </ul>	<ul style="list-style-type: none"> <li>- We understand the company will focus on high-quality projects, such as industrial sewage treatment, which has a higher value-add.</li> <li>- We expect the company may increase stake of Kangda Int'l(6136.HK) after spinning off the water supply business.</li> </ul>																																													
Upside risks	<ul style="list-style-type: none"> <li>- Higher water demand thanks to city urbanisation.</li> <li>- More opportunities available to jointly develop water supply projects with local governments</li> </ul>	<ul style="list-style-type: none"> <li>- A more strict regulation on bottled water will boost the demand of direct drinking water facilities.</li> <li>- Growing acceptance of pipeline direct drinking water by the public.</li> </ul>	<ul style="list-style-type: none"> <li>- Possible integration with Kangda's business.</li> </ul>																																													
Downside risks	<ul style="list-style-type: none"> <li>- Policy risk regarding to the water tariff adjustment</li> <li>- Slowdown in growth of customer and city water supply projects</li> <li>- Slowdown in construction activities due to Covid pandemic</li> </ul>	<ul style="list-style-type: none"> <li>- Potential price and quality regulation of direct drinking water.</li> <li>- Major hygiene incidents will erode confidence of pipeline direct drinking water.</li> <li>- Slowdown in construction activities during the pandemic outbreak.</li> </ul>	<ul style="list-style-type: none"> <li>- Lengthen receipt of wastewater treatment fee from the government</li> </ul>																																													

Sources: Company, OP research

<sup>1</sup> We only include revenue from operation, connection, and construction of the water supply business and the direct drinking water business in our earnings model. In FY22, there was HK\$202mn (out of HK\$10.347bn) of revenue in the water business, not specified as revenue from the activities in the water supply and the direct drinking water businesses.

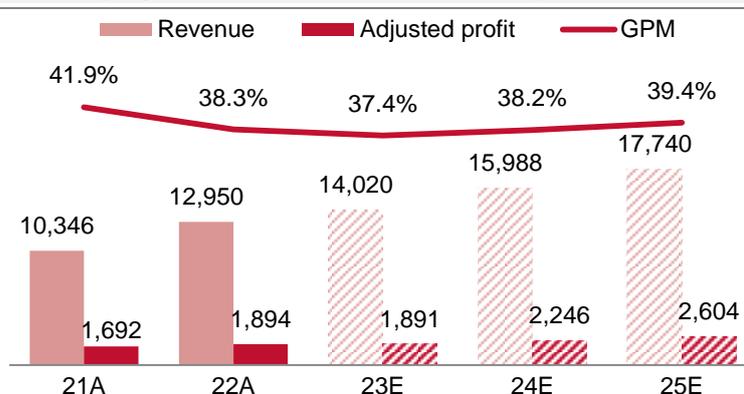
### GPM is expected to be slowly recovering

We foresee CWA's GPM rebounding from FY23H2E. This is based on the belief that the easing of COVID prevention measures will cause less disruption in operation and construction. We project only a moderate improvement in GPM in the future. This is due to the higher revenue from low-margin construction services under the expansion of pipeline direct drinking water, which offset benefits the better economies of scale for the water supply businesses.

### 11.2% EPS CAGR between FY23E and 25E

We project CWA's net profit to change by -0.2%/+18.8%/+16.0% yoy to HK\$1.89n/2.25bn/2.61bn. The growth of the direct drinking water business and the gradual improvement of GPM will be the major earnings drivers of the company in the next few years.

**Exhibit 18: Our projection on CWA's revenue, net profit and GPM**



Sources: Company, OP research

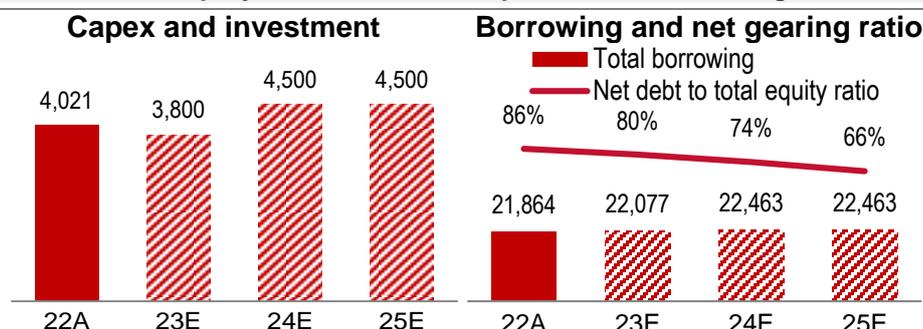
### Continuous investment

The company said it has renewed its USD borrowing. In addition, it will increase the borrowings in domestic currency to reduce the FX impact on the financing burden given the current weakness of RMB.

We think CWA will continue to invest heavily in the direct drinking water business. However, the disruption in construction activities caused by the pandemic may reduce Capex in FY23E.

CWA plans to maintain an annual investment of HK\$4-5bn to develop and earn new water projects. The investment is expected to be mostly funded by the cash flow from operating activities. Meanwhile, we project that it has to increase borrowings for Capex, but the net debt ratio will still be on a downward trend.

**Exhibit 19: Our projection on CWA's Capex and net borrowing ratio**



Sources: Company, OP research

### Dividend

CWA would maintain a 30% dividend payout ratio for the dividend. We project that CWA would announce a DPS of HK\$0.35/0.41/0.48 in FY23E/24E/25E, equivalent to a dividend yield of 5.1%/6.0%/7.0%.

## Initiate BUY with target price of HK\$9.50

We reach the target price of HK\$9.50 for CWA based on free cash flow to equity approach. We expect the company's net profit attributable to shareholders to grow at a CAGR of 12.3% in FY23E-30E.

Our target price represents a P/E ratio of 8.2x/6.9x in FY23E/24E. The TP is sensible given the target represents around a 30% discount to the forward PE of Guangdong Investment(270.HK) (11.8x) and around a 25% discount to China gas utilities companies(11.1x) which have similar business characteristics to CWA.

CWA should deserve a premium over its environment protection peers given: (1) the higher geographic exclusivity of the water projects, (2) the better cash flow, and (3) rooms for expansion along with the city's development.

### Exhibit 20: DCF Valuation

(HK\$ mn)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Net income	1,891	2,246	2,604	2,899	3,209	3,454	3,806	4,151	
Depreciation	1,036	1,128	1,219	1,307	1,392	1,474	1,554	1,632	
Capex	-3,800	-4,500	-4,500	-4,500	-4,500	-4,500	-4,500	-4,500	
Chg in working cap	566	396	322	397	333	418	434	551	
Debt issued	213	386	0	0	0	0	0	0	
FCFE	-95	-344	-355	102	434	846	1,294	1,834	1,870

### Assumption

Risk free rate	4.0%
Market risk premium	13.3%
Raw Beta	0.63
Cost of capital	12.5%
Growth (Terminal, from FY31E)	2.0%
No. of shares (m)	1,632
FV/share (HK\$)	9.50

### Sensitivity Analysis

		WACC				
		11.5%	12.0%	12.5%	13.0%	13.5%
Terminal growth	1.0%	9.55	9.11	8.72	8.35	8.01
	1.5%	10.00	9.52	9.09	8.69	8.33
	2.0%	10.50	9.97	9.50	9.07	8.67
	2.5%	11.05	10.47	9.95	9.48	9.05
	3.0%	11.67	11.03	10.45	9.93	9.46

### Exhibit 21: Peers comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
China Water Affairs	855 HK	6.85	1,426	2.3	5.9	5.9	5.0	11.2	0.53	5.0	5.1	0.9	0.8	16.1	14.1	+6.2	+20.4
HSI		22,072.18			11.9	12.1	10.2	8.5	1.42	3.0	3.0	1.26	1.25	10.6	10.3	+11.6	+42.8
HSCEI		7,560.40			10.3	10.1	8.8	8.7	1.16	3.4	3.2	1.16	1.16	11.3	11.5	+12.8	+45.1
CSI300		4,195.93			14.9	14.4	12.3	11.1	1.30	2.2	2.2	1.85	1.79	12.4	12.4	+8.4	+15.5
<b>Peers</b>																	
<b>Environmental protection peers - HK</b>																	
Guangdong Invest	270 HK	8.58	7,153	9.2	11.9	11.8	11.4	7.4	1.59	7.1	7.3	1.26	1.18	10.9	10.0	+7.4	+54.6
Bj Ent Water	371 HK	2.03	2,601	2.3	4.9	7.2	5.0	1.0	7.03	6.7	6.0	0.57	0.50	6.7	7.0	+1.5	+20.1
China Everbright	257 HK	3.56	2,789	4.7	3.2	3.7	3.5	(1.5)	N/A	8.4	8.5	0.43	0.39	11.5	10.9	+2.0	+30.9
Kunming Dianch-H	3768 HK	1.44	189	0.0	3.8	N/A	N/A	N/A	N/A	8.1	N/A	0.28	N/A	8.0	N/A	+3.6	+16.1
Yunnan Water I-H	6839 HK	0.35	53	0.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.10	N/A	(28.4)	N/A	-1.4	+14.8
<b>China gas utilities - HK</b>																	
Enn Energy	2688 HK	120.90	17,435	37.4	15.1	15.0	13.8	6.9	2.2	2.3	2.4	3.2	2.9	20.5	19.9	+10.3	+48.2
China Gas Holdin	384 HK	12.44	8,630	16.5	8.9	9.8	8.7	4.7	2.1	4.4	3.8	1.2	1.0	11.2	10.4	+9.5	+71.3
China Res Gas	1193 HK	33.20	9,797	14.6	11.8	12.1	10.9	6.4	1.9	3.8	3.8	1.9	1.7	15.9	14.5	+13.3	+54.1
Kunlun Energy	135 HK	6.32	6,978	8.3	2.0	7.6	7.2	(33.7)	N/A	3.9	4.5	0.8	0.8	10.1	10.4	+13.5	+25.4
<b>Environmental protection peers - China</b>																	
Beijing Capita-A	600008 CH	2.94	3,202	17.6	9.4	7.0	7.9	12.2	0.6	3.4	N/A	1.1	0.9	19.7	6.2	+3.9	+5.0
Chengdu Xingro-A	000598 CH	5.03	2,228	8.7	10.1	8.7	7.5	14.9	0.6	2.0	N/A	1.0	1.0	11.8	11.4	+2.9	+3.7
Chongqing Wate-A	601158 CH	5.25	3,739	4.7	12.2	N/A	N/A	N/A	N/A	4.9	N/A	1.5	N/A	10.6	N/A	+2.3	+1.9
Zhongshan Publ-A	000685 CH	7.27	1,591	5.6	7.3	N/A	N/A	N/A	N/A	4.1	N/A	0.7	N/A	6.5	N/A	+3.4	+9.8
Jiangxi Hongch-A	600461 CH	7.12	1,151	4.1	8.2	7.4	6.4	13.6	0.5	7.0	N/A	1.1	1.1	13.8	14.2	+2.4	+0.6
Wuhan Sanzhen-A	600168 CH	6.17	650	1.8	11.0	N/A	N/A	N/A	N/A	2.7	N/A	0.9	N/A	5.1	N/A	+1.5	+3.2

Sources: Bloomberg, OP research

\* Outliners and "N/A" entries are in excl. from the calculation of averages

## Financial Summary

Year to Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Income Statement (HK\$ mn)</b>					
Water Supply <sup>2</sup>	8,279	9,452	9,697	10,452	11,330
Direct drinking water <sup>2</sup>	140	694	1,170	2,320	3,130
Environmental protection others	1,076	1,161	1,283	1,396	1,460
	850	1,644	1,870	1,820	1,820
<b>Turnover</b>	<b>10,346</b>	<b>12,950</b>	<b>14,020</b>	<b>15,988</b>	<b>17,740</b>
YoY%	+19	+25	+8.3	+14.0	+11.0
COGS	-6,007	-7,988	-8,782	-9,875	-10,748
<b>Gross profit</b>	<b>4,339</b>	<b>4,962</b>	<b>5,238</b>	<b>6,113</b>	<b>6,992</b>
Gross margin	41.9%	38.3%	37.4%	38.2%	39.4%
Other income	202	235	226	230	234
Selling & distribution	-237	-290	-308	-320	-355
Admin	-776	-881	-967	-1,055	-1,153
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
<b>Total opex</b>	<b>-1,013</b>	<b>-1,171</b>	<b>-1,276</b>	<b>-1,375</b>	<b>-1,508</b>
<b>Operating profit (EBIT)</b>	<b>3,528</b>	<b>4,026</b>	<b>4,189</b>	<b>4,968</b>	<b>5,717</b>
Operating margin	34.1%	31.1%	29.9%	31.1%	32.2%
Provisions	0	0	0	0	0
Interest Income	159	123	123	123	123
Finance costs	-371	-468	-552	-606	-606
<b>Profit after financing costs</b>	<b>3,316</b>	<b>3,681</b>	<b>3,760</b>	<b>4,485</b>	<b>5,234</b>
Associated companies & JVs	213	235	258	284	313
<b>Pre-tax profit</b>	<b>3,530</b>	<b>3,916</b>	<b>4,019</b>	<b>4,770</b>	<b>5,547</b>
Tax	-868	-939	-1,025	-1,216	-1,414
Minority interests	-970	-1,084	-1,103	-1,308	-1,528
<b>Net profit</b>	<b>1,692</b>	<b>1,894</b>	<b>1,891</b>	<b>2,246</b>	<b>2,604</b>
YoY%	+3.2	+11.9	-0.2	+18.8	+16.0
Net profit margin	16.4%	14.6%	13.5%	14.0%	14.7%
<b>EBITDA</b>	<b>4,257</b>	<b>4,907</b>	<b>4,966</b>	<b>5,813</b>	<b>6,623</b>
EBITDA margin	41.2%	37.9%	35.4%	36.4%	37.3%
<b>EPS(HK\$)</b>	<b>1.04</b>	<b>1.16</b>	<b>1.16</b>	<b>1.38</b>	<b>1.60</b>
YoY%	+2.0	+11.5	-0.2	+18.8	+16.0
<b>DPS(HK\$)</b>	<b>0.31</b>	<b>0.34</b>	<b>0.35</b>	<b>0.41</b>	<b>0.48</b>
<b>Cash Flow (HK\$ mn)</b>					
EBITDA	4,308	4,959	4,966	5,813	6,623
Chg in working cap	-650	-106	566	396	322
Others	-415	-487	0	0	0
<b>Operating cash</b>	<b>3,243</b>	<b>4,365</b>	<b>5,532</b>	<b>6,208</b>	<b>6,945</b>
Interests paid	-352	-449	-552	-606	-606
Interest paid on lease liabilities	-19	-19	-19	-19	-19
Tax	-219	-168	-939	-1,025	-1,216
<b>Net cash from operations</b>	<b>2,654</b>	<b>3,728</b>	<b>4,022</b>	<b>4,558</b>	<b>5,103</b>
Capex and acquisition	-3,850	-4,021	-3,800	-4,500	-4,500
Investments	-1	0	0	0	0
Dividends received	0	0	0	0	0
Interest received	159	123	123	123	123
Others	-292	-319	-3	-	-
<b>Investing cash</b>	<b>-3,983</b>	<b>-4,216</b>	<b>-3,679</b>	<b>-4,377</b>	<b>-4,377</b>
<b>FCF</b>	<b>-3,847</b>	<b>-488</b>	<b>342</b>	<b>181</b>	<b>727</b>
Issue of shares	0	0	0	0	0
Buy-back	-117	0	0	0	0
Interests paid	0	0	0	0	0
Dividends paid	-492	-522	-555	-567	-674
Net change in bank loans	662	2,909	213	386	0
Others	-571	147	0	0	0
<b>Financing cash</b>	<b>-518</b>	<b>2,533</b>	<b>-342</b>	<b>-181</b>	<b>-674</b>
<b>Net change in cash</b>	<b>-4,365</b>	<b>2,045</b>	<b>0</b>	<b>0</b>	<b>53</b>
Exchange rate or other Adj	108	76	0	0	0
Opening cash	5,641	3,901	6,023	6,023	6,023
<b>Closing cash</b>	<b>3,901</b>	<b>6,023</b>	<b>6,023</b>	<b>6,023</b>	<b>6,076</b>
<b>CFPS (HK\$)</b>	<b>-1.098</b>	<b>1.253</b>	<b>0.000</b>	<b>0.000</b>	<b>0.032</b>

Sources: Company, OP Research

Year to Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Ratios</b>					
Gross margin (%)	41.9	38.3	37.4	38.2	39.4
Operating margin (%)	34.1	31.1	29.9	31.1	32.2
Net margin (%)	16.4	14.6	13.5	14.0	14.7
Selling & dist'n exp/Sales (%)	2.3	2.2	2.2	2.0	2.0
Admin exp/Sales (%)	7.5	6.8	6.9	6.6	6.5
Payout ratio (%)	29.8	29.3	30.0	30.0	30.0
Effective tax (%)	-26.2	-25.5	-25.5	-25.5	-25.5
Total debt/equity (%)	117.5	117.4	109.6	99.7	88.9
Net debt/equity (%)	91.5	85.6	80.3	73.7	65.7
Current ratio (x)	0.9	0.9	0.8	0.8	0.8
Quick ratio (x)	0.8	0.8	0.8	0.7	0.7
Inventory T/O (days)	56	38	38	38	38
AR T/O (days)	38	44	42	40	40
AP T/O (days)	228	214	205	200	200
Cash conversion cycle (days)	-135	-132	-125	-122	-122
Asset turnover (x)	0.2	0.2	0.2	0.3	0.3
Financial leverage (x)	4.7	4.4	4.4	4.2	4.1
EBIT margin (%)	34.1	31.1	29.9	31.1	32.2
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.5	0.5	0.5	0.5	0.5
<b>Return on equity (%)</b>	<b>17.8</b>	<b>16.1</b>	<b>14.1</b>	<b>15.3</b>	<b>15.9</b>

Year to Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Balance Sheet (HK\$ mn)</b>					
Fixed assets	2,863	3,373	3,485	3,592	3,694
Intangible assets	21,655	26,504	29,155	32,420	35,600
Goodwill	1,409	1,476	1,419	1,419	1,419
Financial assets	376	397	426	426	426
Right-of-use assets	1,292	1,367	1,367	1,367	1,367
Other non-current assets	6,566	7,450	7,797	8,081	8,394
<b>Non-current assets</b>	<b>34,161</b>	<b>40,566</b>	<b>43,650</b>	<b>47,306</b>	<b>50,900</b>
Inventories	922	832	914	1,028	1,119
AR	1,071	1,562	1,613	1,752	1,944
Contracted assets	479	880	952	1,086	1,205
Prepayments & deposits	1,880	2,384	2,552	2,878	3,193
Other current assets	4,623	4,819	4,402	4,402	4,402
Cash	3,901	6,023	6,023	6,023	6,076
<b>Current assets</b>	<b>12,877</b>	<b>16,499</b>	<b>16,457</b>	<b>17,169</b>	<b>17,940</b>
AP	3,760	4,674	4,932	5,411	5,890
Tax	1,975	2,597	2,597	2,597	2,597
Accruals & other payables	2,148	2,676	2,804	3,198	3,548
Bank loans	5,262	7,692	7,905	8,291	8,291
Leases & other debts	1,099	1,232	1,682	1,919	2,129
Other current liabilities	303	303	303	303	303
<b>Current liabilities</b>	<b>14,547</b>	<b>19,248</b>	<b>20,224</b>	<b>21,719</b>	<b>22,758</b>
Bank loans & leases	13,167	14,171	14,171	14,171	14,171
CB & other debts	1,099	1,314	1,314	1,314	1,314
Deferred tax & others	1,274	1,847	1,847	1,847	1,847
<b>Non-current liabilities</b>	<b>15,541</b>	<b>17,333</b>	<b>17,333</b>	<b>17,333</b>	<b>17,333</b>
<b>Total net assets</b>	<b>16,950</b>	<b>20,483</b>	<b>22,549</b>	<b>25,423</b>	<b>28,748</b>
<b>Shareholder's equity</b>	<b>10,513</b>	<b>12,969</b>	<b>13,932</b>	<b>15,498</b>	<b>17,295</b>
Share capital	16	16	16	16	16
Reserves	10,497	12,953	13,915	15,482	17,279
MI	6,437	7,514	8,617	9,925	11,453
<b>BVPS (HK\$)</b>	<b>6.63</b>	<b>7.95</b>	<b>8.53</b>	<b>9.49</b>	<b>10.60</b>

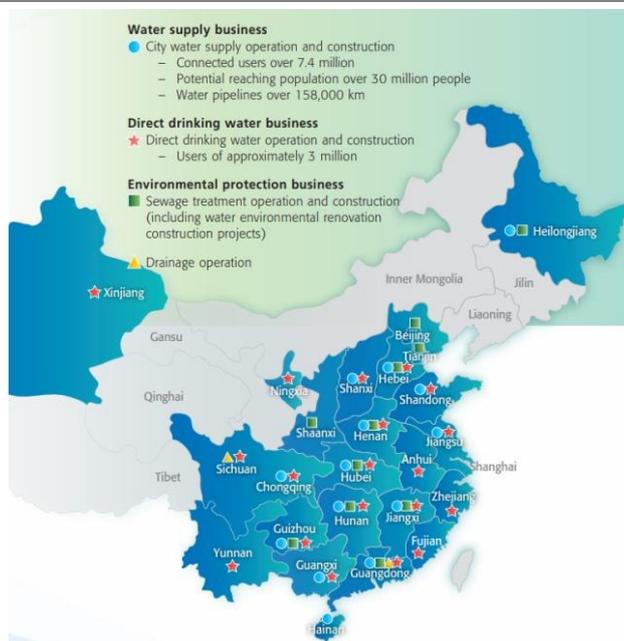
<sup>2</sup> We only includes revenue from operation, connection and construction of the water supply and the direct drinking water business.

## Appendix I: Company info

China Water Affairs Group is one of the largest integrated water affairs operators, providing raw water, tap water, sewage treatment, and related value-added services. Meanwhile, the company operates the pipeline direct drinking water business, the environmental protection business, and drainage operation business across China. With 46.14% of Kangda International (6136.HK) shares currently in hand, CWA is a significant shareholder. The latter primarily focuses on waste water treatment in China, and its daily processing capacity is around 4.36mn.

CWA operates its water supply business through joint ventures with governments. The water projects usually adopt the TOO ("transfer-operate-own") model, and they usually have 30-year exclusive franchises from municipal governments. These projects are believed to yield a long-lasting investment return.

**Exhibit 22: China Water Affairs Group(855.HK)'s business Coverage**

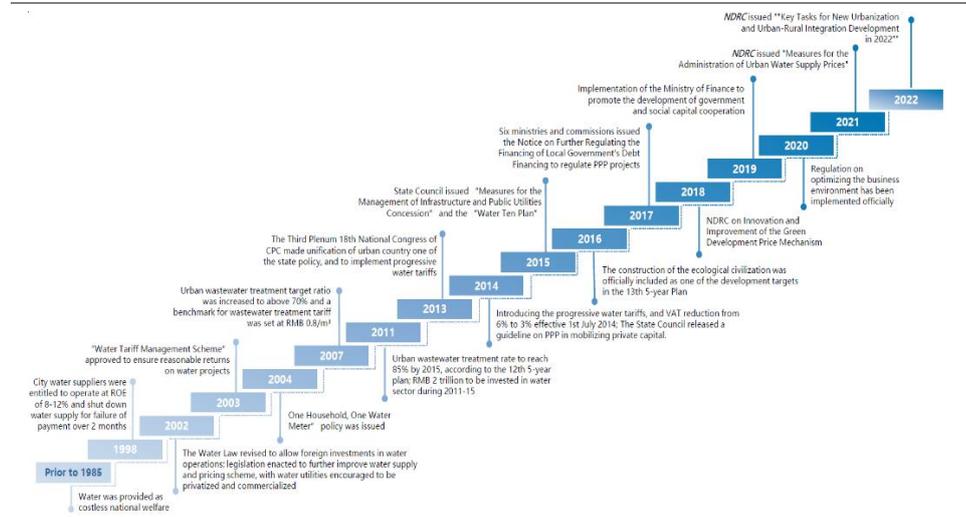


Source: Company

**Exhibit 23: Key Milestones of Chinese Water Industry Reform**

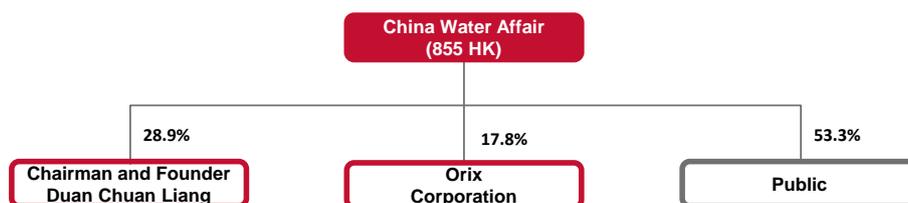
Water supply is a stable utility segment with high entry barriers. The market is highly fragmented, with little private participation. It is understood that the private participation rate is around 20% at the moment.

CWA is a pioneer in bringing mixed ownership reform to the water supply industry, which is encouraged by the government.



Source: Company

**Exhibit 24: Shareholding structure**



Sources: Company, OP Research

**Exhibit 25: Management profile**

Name	Age	Position	Description
Mr. Duan Chuan Liang	59	Chairman	Founder of China Water Affairs Group, and the pioneer to bring mixed ownership reform concept into the water supply industry. Over 30 years of deep and solid experience in the water industry since 1980s, including more than 10 years working experience for the Ministry of Water Resources of the PRC Graduated from the North China College of Water Conservancy and Hydro Power with a bachelor degree
Ms. Ding Bin	46	Executive Director	Over 20 years of experiences in financial management and tax planning. Ms Ding joined the Group in 2007. She is a Certified Public Accountant in the PRC.
Ms. Liu Yu Jie	58	Executive Director	Started career in investment banking and progressed to specialize in corporate management in various industries Former executive director of Shanghai Industrial Investment (Holdings) Co., Ltd and board member of seven environmental resource management companies
Mr. Li Zhong	53	Executive Director	Served in large State-owned enterprises and renowned global enterprises for over 25 years Member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference Graduated from Saint Mary's University of Canada with a master degree in Business Administration and a bachelor degree in Engineering
Mr. Duan Jerry Linnan	53	Executive Director	Mr. Duan joined the company since 2011. He has comprehensive experiences in human resources and corporate management. He is the son of Mr. Duan Chuan Liang, the substantial shareholder, chairman and executive director of the Company.
Mr. Lie Chi Wing , Aston,	44	Company secretary	Mr. Lie joined the company since 2010. He is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Financial Analyst. Mr. Lie has extensive experience in auditing and corporate advisory services with major international accounting firms.

Sources: Company, OP Research

## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	John Siah
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	John Siah
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	John Siah
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	John Siah
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	John Siah
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	John Siah
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	John Siah
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	John Siah
02/09/2022	HK Tech Venture	1137	1H22 results beats amid better costs management	BUY	John Siah
31/08/2022	AAC Tech	2018	Headwinds likely to persist in 2H22E	HOLD	John Siah
31/08/2022	Truly Int'l	732	1H22 earnings decline as expected, negatives priced in	BUY	John Siah
26/08/2022	361 Degrees	1361	1H22 earnings beats, strong growth in e-commerce and kids' wear	BUY	John Siah
03/08/2022	Xinyi Energy	3868	Flat earnings growth in 1H22, slowing M&A pace due to high prices	BUY	John Siah
01/08/2022	Greentown Mgmt	9979	Impressive growth trajectory in 1H22 despite industry headwinds	BUY	John Siah
20/07/2022	361 Degrees	1361	Retail sales in 2Q2022 remained robust, even under COVID lockdown	BUY	John Siah
11/07/2022	Truly Int'l	732	Automotive display missed in 1H22 on weak car sales	BUY	John Siah
07/07/2022	EVA Holdings	838	Kicking off a new growth cycle	BUY	John Siah
04/05/2022	China Edu Group	839	1H22 results showed strong organic growth of higher schools	BUY	John Siah
29/04/2022	Edvantage Group	382	1H22 earnings remains robust despite higher costs	BUY	John Siah
28/04/2022	New Higher Edu	2001	Mixed 1H22 results amid investments to deliver quality education	BUY	John Siah
08/04/2022	Tian Lun Gas	1600	Strong gas sales offsetting by weak dollar margin, more details for rural solar development	BUY	John Siah

## TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

By accepting this report, you represent and warrant that you are entitled to receive such report in accordance with the restrictions set forth below and agree to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law or termination of such services provided to you.

### Disclaimer

Research distributed in Hong Kong is intended only for institutional investors whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an institutional investor must not rely on this communication.

The information and material presented herein are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Oriental Patron Securities Limited ("OPSL") and/or its associated companies and/or its affiliates (collectively "Oriental Patron") to any registration or licensing requirement within such jurisdiction.

The information and material presented herein are provided for information purposes only and are not to be used or considered as an offer or a solicitation to sell or an offer or solicitation to buy or subscribe for securities, investment products or other financial instruments, nor to constitute any advice or recommendation with respect to such securities, investment products or other financial instruments.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not to be relied upon in substitution for the exercise of independent judgment. Oriental Patron may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. You should independently evaluate particular investments and you should consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities mentioned in this report.

Information and opinions presented in this report have been obtained or derived from sources believed by Oriental Patron to be reliable, but Oriental Patron makes no representation as to their accuracy or completeness and Oriental Patron accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. Further, opinions expressed in this report are subject to change without notice. Oriental Patron does not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report.

The research analyst(s) primarily responsible for the preparation of this report confirm(s) that (a) all of the views expressed in this report accurately reflects his or their personal views about any and all of the subject securities or issuers; and (b) that no part of his or their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views he or they expressed in this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Oriental Patron, its directors, officers and employees may have investments in securities or derivatives of any companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

### General Disclosure

Oriental Patron, its directors, officers and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. Oriental Patron may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of Oriental Patron may be a director of the issuers of the securities mentioned in this report. Oriental Patron may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking service to the issuers of the securities mentioned in this report.

### Regulatory Disclosures as required by the Hong Kong Securities and Futures Commission

Oriental Patron (inclusive of OPSL) which are carrying on a business in Hong Kong in investment banking, proprietary trading or market making or agency broking are not a market maker in the securities of the subject companies mentioned in this report. Unless otherwise specified, Oriental Patron does not have any investment banking relationship with the companies mentioned in this report within the last 12 months. As at the date of this report, Oriental Patron do not have any interests in the subject company(ies) aggregating to an amount equal to or more than 1% of the subject company(ies) market capitalization.

### Analyst Certification:

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

### Rating and Related Definitions

<b>Buy (B)</b>	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
<b>Hold (H)</b>	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
<b>Sell (S)</b>	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
<b>Relevant Benchmark</b>	Represents the stock closing price as at the date quoted in this report.

### Copyright © 2015 Oriental Patron Financial Group. All Rights Reserved

This report is being supplied to you strictly on the basis that it will remain confidential. Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Oriental Patron. Oriental Patron accepts no liability whatsoever for the actions of third parties in this respect.

## CONTACT

Suites 2704-8, 27/F, Two Exchange Square, | www.oriental-patron.com.hk

8 Connaught Place, Central, Hong Kong | john.siah@oriental-patron.com.hk

Tel: (852) 2135 0248

Fax: (852) 2135 0295