

China Water Affairs (855 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$5.61

Target Price: HK\$6.80 (+21.2%)

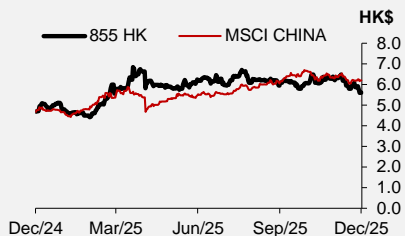
Previous TP: HK\$6.90

Key Data

HKEx code	855 HK
12 Months High (HK\$)	7.05
12 Month Low (HK\$)	4.37
3M Avg Dail Vol. (mn)	1.73
Issue Share (mn)	1,626.71
Market Cap (HK\$mn)	9,125.86
Fiscal Year	03/2025
Major shareholder (s)	Mr. Duan (27.4%)

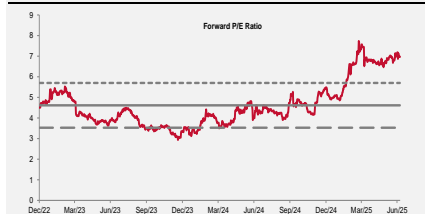
Sources: Company data, Bloomberg, OP Research
Closing price are as of 5 Dec 2025

Price Chart



	1mth	3mth	6mth
Absolute %	-9.7	-7.7	-9.4
Rel. MSCI CHINA %	-8.0	-8.6	-22.1

PE



Company Profile

China Water Affairs Group ("CWA") is a cross region city water supply operator in China. As at Sept 2025, CWA's daily water supply capacity reached ~10.18 mn tons, covering ~8.23mn households across 13 provinces. It also engaged in fields like sewage treatment, pipeline direct drinking water and real estate.

FY26H1: more city water projects raised water tariff

- Profit attributable to shareholders down 24.4% yoy to HK\$ 571.3mn. This is partly due to a one-off deemed loss of HK\$64.2mn on Kangda Environment. Revenue down 12.9% yoy to HK\$5.183bn.
- The Company maintained interim DPS of HK\$0.13. The represents a dividend payout ratio of 37%.
- During FY26H1, there were 8 water supply projects that raised water tariff. We anticipate a recovery in CWA's earnings from the city water supply operations business under the water tariff upswing cycle .
- Maintain BUY with a new TP of HK\$6.80, representing FY26E PER of 10.0x.

Earnings remained weak in FY26H1. We think it is partly due to CWA's planned slowdown in the construction of city water projects, which aims to boost the free cash flow. The company reduced CAPEX (HK\$1.24bn, - 31.8% yoy) and it witnessed a decline in demand for city water installation. Consequently, it resulted an overall decrease in installation and maintenance and construction works in the city water supply and the pipeline direct drinking water supply segments. Meanwhile, CWA negatively impacted by a one-off deemed loss (HK\$64.2mn) on disposal of partial shareholding in Kangda Intl. CWA curbs CAPEX, trims interest-bearing loans (-2.9% from Mar to Sep 2025), and reduces net gearing ratio (82.2%, -8.0p.p. from Mar to Sep 2025) to strengthen the balance sheet. It is said that the total CAPEX for the year will be approximately HK\$2.0 bn (FY25: HK\$3.4 bn), and the CAPEX will decline further in FY27E. Finance costs declined by 17.6% yoy to HK\$351.9mn. This reduction is mainly thanks to the declining borrowing cost under an interest rate down cycle. CWA maintained DPS even with the earnings decline.

More water supply projects increased the water tariff. In FY26H1, revenue from the city water business declined 13.1% yoy to HK\$3.27 bn. In particular, revenue from the city water supply grew 4.5% yoy to HK\$1.80bn, which was driven by the increase in water sold(+5.0% yoy). Local governments accelerate the water tariff adjustment process. The increase in the water tariff is a major earnings catalyst for CWA. 8 projects were approved to raise the water tariff. CWA said there has one city water project increased the tariff after FY26H1, and there are 2 projects in the hearing phase. Meanwhile, the water supply project in more than 20 cities started the process of water tariff adjustment. For the other part of the city water business, revenue from installation and maintenance services slid 28.6% to HK\$556.3mn. CWA anticipates weak installation activity in 2H under the headwinds in the property market. Revenue from city water construction services declined 28.2% to HK\$1.16bn in FY26H1.

Environmental business. In FY26H1, revenue from the segment rose 8.7% yoy to HK\$832.4mn. In particular, revenue from operational services increased 14.5% yoy to HK\$360.6mn. The increase in sewage treatment operation services, including the ExxonMobil project in Huizhou, is the major growth driver.

Pipeline direct water loses luster. The segmental revenue decreased by 28.3% yoy to HK\$263.2mn because of a significant decline in the installation and the construction activities. This is partly due to the company's adoption of an asset-light model for the business. Meanwhile, revenue from pipeline operations for direct drinking water supply declined 5.6% yoy. The population served slightly increased to 11.3mn in Sept from 11mn in Mar 2025. CWA is deliberately reorganising the direct water business pipeline, particularly for projects outside of its city water business area, according to the management.

Earnings revisions. For FY26E/FY27E, we cut our EPS projection for CWA by 16.1%/16.5% to HK\$0.68/HK\$0.75. At a lower CAPEX and a weak property market, we conservatively predict lower revenue from the construction and installation businesses. On the other hand, we are increasingly optimistic about the outlook of the city's water supply as more city water supply projects raise the water tariff. We anticipate an earnings recovery in FY27E.

Maintain BUY and trim TP to HK\$6.80, from HK\$6.90. Our new TP is based on a PER of 10x for FY26E. We assign a higher target price multiple mostly to reflect an improvement in free cash flow and a better outlook for city water supply business.

Exhibit 1.: Forecast and Valuation

Fiscal year to Mar (HK\$ mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Revenue	14,195	12,859	11,656	9,998	9,931
Growth (%)	+9.6	-9.4	-9.4	-14.2	-0.7
Net profit	1,857	1,534	1,075	1,104	1,221
Growth (%)	-1.9	-17.4	-29.9	+2.7	+10.6
Diluted EPS (HK\$)	1.14	0.94	0.66	0.68	0.75
EPS growth (%)	-1.9	-17.5	-29.8	+2.7	+10.7
Change to previous EPS (%)				-16.1	-16.5
Consensus EPS (HK\$)				0.703	0.740
ROE (%)	14.3	11.9	8.3	8.2	8.8
P/E (x)	4.9	6.0	8.5	8.3	7.5
P/B (x)	0.7	0.7	0.7	0.7	0.7
Yield (%)	6.1	5.0	5.0	5.0	5.0
DPS (HK\$)	0.34	0.28	0.28	0.28	0.28

Sources: Bloomberg, OP Research

Exhibit 2.: FY26 H1 results (ended Sep 2025) review

	FY25H1	FY26H1	Yoy % change	Remarks
Profitability Data (in HK\$ mn)				
Revenue	5,952.6	5,183.3	-12.9%	
City water supply	3,765.2	3,270.8	-13.1%	This is mainly dragged by a decline in revenue from construction services (-28.2% yoy) and a decline in revenue from installation and maintenance services (-28.6% yoy). This is partly offset by a 4.5% yoy increase in the city water supply business.
Pipeline direct drinking water	367.1	263.2	-28.3%	All three major segments declined (supply operations: -5.6% yoy; installation and maintenance services: -67.6% yoy; construction services: -60.2% yoy).
Environmental protection	765.6	832.4	+8.7%	By segment, revenue in both construction services and operation services grew 18.6% yoy and 14.5% yoy, respectively.
Gross profit	2,286.2	1,827.0	-20.1%	
Profit attributable to shareholders	755.6	571.3	-24.4%	This decline is partly due to a one-off deemed loss of HK\$64.2mn on Kangda Environment.
Dividend				
DPS (HK\$)	0.13	0.13	-	
Profitability ratio (%)				
Gross Margin	38.4%	35.2%	-3.2p.p.	This is partly due to the decline in revenue from the installation services, which has higher GPM.
Operating ratio (%)				
Selling and distribution costs to rev.	1.4%	1.4%	-	
Admin expenses to revenue	6.7%	7.0%	+0.3 p.p.	
Effective tax rate	24.4%	21.5%	-2.9 p.p.	

Source: The Company, OP research

Exhibit 3.: Earnings revision

(Fiscal year ended March)	FY26E			FY27E			OP Comments
(HK\$ mn)	New	Old	% Chg	New	Old	% Chg	
Revenue	9,998	10,139	-1.4%	9,931	10,741	-7.5%	
City water supply	6,376	6,533	-2.4%	6,297	6,968	-9.6%	
Pipeline direct drinking water	527	737	-28.5%	651	799	-18.5%	We anticipate a lower revenue from the installation services.
Environmental protection	1,475	1,519	-2.8%	1,422	1,602	-11.2%	We anticipate a lower revenue from construction services from FY27E.
Gross margin	36.9%	40.5%	-3.5p.p.	37.4%	40.8%	-3.4 p.p.	Mainly due to the anticipation that there will be lower revenue from installation and maintenance services.
Profit attributable to shareholders	1,104	1,315	-16.1%	1,221	1,463	-16.5%	
Diluted EPS (HK\$)	0.68	0.81	-16.1%	0.75	0.90	-16.5%	

Source: OP Research

Risk: (1) weak water supply installation services under a sluggish property market; (2) delay in the approval of tariff adjustment, (3) increase in receivable, (4) FX impacts.

Exhibit 4.: 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	5.61	1,172	1.4	8.5	8.3	7.5	8.4	1.0	5.0	5.0	0.7	0.7	8.3	8.2	-9.7	-7.7
HSI		26,085.1			12.1	12.4	11.3	6.1	2.0	3.0	3.0	1.4	1.3	11.5	10.8	0.6	2.6
HSCEI		9,198.30			11.3	11.4	10.4	6.8	1.7	2.8	2.8	1.3	1.3	11.6	11.0	0.4	1.6
CSI300		4,584.54			17.3	15.9	13.9	11.7	1.4	2.4	2.5	1.8	1.7	10.3	10.7	-0.9	2.8
Peers					10.4	11.0	10.4	8.8	1.5	5.3	5.9	0.7	0.8	5.9	N/A	-1.7	-1.8
Guangdong Invest	270 HK	7.38	6,199	9.4	15.4	10.9	10.6	14.1	0.8	4.6	5.8	1.1	1.1	8.0	N/A	-1.2	0.3
Bj Ent Water	371 HK	2.54	3,278	10.1	14.8	14.3	13.3	5.6	2.6	6.5	6.9	0.8	0.8	5.2	N/A	-	-5.6
China Everbright	257 HK	4.90	3,867	12.1	8.9	7.8	7.3	6.8	1.2	4.9	5.1	0.5	0.6	5.5	N/A	0.6	7.7
Kunming Dianch-H	3768 HK	0.74	98	0.0	2.6	N/A	N/A	N/A	N/A	N/A	N/A	0.1	N/A	4.7	N/A	-10.8	4.2
Yunnan Water I-H	6839 HK	0.18	27	0.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.9	-15.4

Sources: Bloomberg, OP research

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

Financial Summary

Fiscal year to Mar	FY23A	FY24A	FY25A	FY26E	FY27E
Income Statement (HK\$ mn)					
City water supply	8,729	8,276	7,498	6,376	6,297
Pipeline direct drinking water	1,310	1,722	657	527	651
Environmental protection	1,401	1,072	1,523	1,475	1,422
others	2,755	1,789	1,977	1,619	1,561
Turnover	14,195	12,859	11,656	9,998	9,931
YoY%	+9.6	-9.4	-9.4	-14.2	-0.7
COGS	-8,849	-8,083	-7,251	-6,304	-6,221
Gross profit	5,346	4,776	4,405	3,693	3,710
Gross margin	37.7%	37.1%	37.8%	36.9%	37.4%
Other income	218	171	-139	186	186
Selling & distribution	-283	-266	-222	-180	-179
Admin	-956	-823	-702	-600	-596
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-1,239	-1,089	-924	-780	-775
Operating profit (EBIT)	4,326	3,858	3,342	3,100	3,122
Operating margin	30.5%	30.0%	28.7%	31.0%	31.4%
Provisions	0	0	0	0	0
Interest Income	164	192	185	198	198
Finance costs	-633	-725	-847	-679	-590
Profit after financing costs	3,857	3,326	2,680	2,619	2,730
Associated companies & JVs	163	44	70	2	73
Pre-tax profit	4,019	3,370	2,750	2,621	2,803
Tax	-931	-778	-722	-629	-673
Minority interests	-1,232	-1,058	-953	-889	-909
Net profit	1,857	1,534	1,075	1,104	1,221
YoY%	-1.9	-17.4	-29.9	+2.7	+10.6
Net profit margin	13.1%	11.9%	9.2%	11.0%	12.3%
EBITDA	5,185	4,873	4,893	4,232	4,202
EBITDA margin	36.5%	37.9%	42.0%	42.3%	42.3%
EPS(HK\$), Diluted	1.14	0.94	0.66	0.68	0.75
YoY%	-1.9	-17.4	-29.8	+2.7	+10.7
DPS(HK\$)	0.34	0.28	0.28	0.28	0.28
Fiscal year to Mar	FY23A	FY24A	FY25A	FY26E	FY27E
Cash Flow (HK\$ mn)					
EBITDA	5,257	4,409	4,466	4,232	4,202
Chg in working cap	-309	-449	-123	-1,373	-56
Others	-379	15	208	0	0
Operating cash	4,569	3,976	4,550	2,858	4,147
Interests paid	-615	-706	-823	-679	-590
Interest paid on lease liabilities	-18	-18	-24	-24	-24
Tax	-469	-474	-309	-722	-629
Net cash from operations	3,466	2,777	3,394	1,433	2,904
Capex and acquisition	-4,630	-4,960	-3,224	-2,000	-1,800
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Interest received	164	192	185	198	198
Others	354	-666	166	0	0
Investing cash	-4,112	-5,434	-2,873	-1,802	-1,602
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Interests paid	0	0	0	0	0
Dividends paid	-294	-555	-460	-458	-457
Net change in bank loans	2,315	1,707	868	-500	-500
Others	-154	-547	-846	1,500	0
Financing cash	1,867	605	-438	542	-957
Net change in cash	1,221	-2,051	82	174	345
Exchange rate or other Adj	-259	-129	-115	0	0
Opening cash	6,023	6,985	4,805	4,772	4,946
Closing cash	6,985	4,805	4,772	4,946	5,291
CFPS (HK\$)	0.589	-1.336	0.050	0.107	0.211

Sources: Company, OP Research

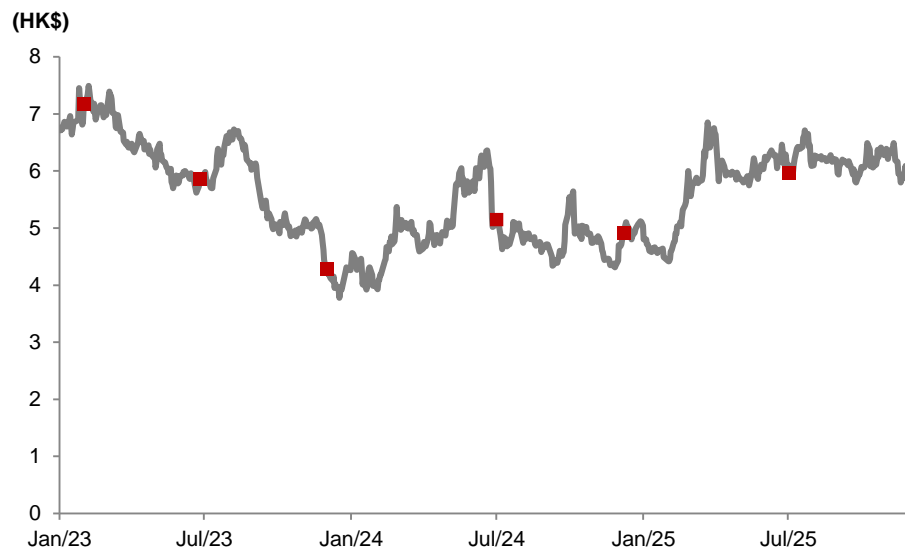
Fiscal year to Mar	FY23A	FY24A	FY25A	FY26E	FY27E
Ratios					
Gross margin (%)	37.7	37.1	37.8	36.9	37.4
Operating margin (%)	30.5	30.0	28.7	31.0	31.4
Net margin (%)	13.1	11.9	9.2	11.0	12.3
Selling & dist'n exp/Sales (%)	2.0	2.1	1.9	1.8	1.8
Admin exp/Sales (%)	6.7	6.4	6.0	6.0	6.0
Payout ratio (%)	30.0	30.0	42.6	41.4	37.4
Effective tax (%)	23.2	23.1	26.3	-24.0	-24.0
Total debt/equity (%) ¹	110.9	111.0	107.2	97.1	91.1
Net debt/equity (%) ³	78.1	89.5	86.9	77.7	71.5
Current ratio (x)	0.8	0.8	0.8	0.9	0.9
Quick ratio (x)	0.8	0.8	0.8	0.9	0.9
Inventory T/O (days)	27	30	34	34	34
AR T/O (days)	50	61	79	110	110
AP T/O (days)	223	309	407	407	407
Cash conversion cycle (days)	-146	-219	-294	-263	-263
Asset turnover (x)	0.2	0.2	0.2	0.2	0.1
Financial leverage (x)	4.6	4.8	5.0	4.9	4.8
EBIT margin (%)	30.5	30.0	28.7	31.0	31.4
Interest burden (x)	0.9	0.9	0.8	0.8	0.9
Tax burden (x)	0.5	0.5	0.4	0.4	0.4
Return on equity (%)	14.3	11.9	8.3	8.2	8.8

Fiscal year to Mar	FY23A	FY24A	FY25A	FY26E	FY27E
Balance Sheet (HK\$ mn)					
Fixed assets	3,338	3,422	2,533	2,630	2,721
Intangible assets	29,123	31,847	34,156	34,940	35,509
Goodwill	1,419	1,371	1,363	1,363	1,363
Financial assets	461	345	361	361	361
Right-of-use assets	1,303	1,388	1,333	1,333	1,333
Other non-current assets	7,633	7,992	8,527	8,529	8,602
Non-current assets	43,278	46,366	48,272	49,155	49,889
Inventories	650	667	673	585	577
AR	1,954	2,136	2,527	3,013	2,993
Contracted assets	1,482	2,221	2,937	2,519	2,502
Prepayments & deposits	2,635	2,831	2,425	2,080	2,066
Other current assets	4,180	4,216	4,287	4,287	4,287
Cash	6,985	4,805	4,772	4,946	5,291
Current assets	17,886	16,876	17,620	17,429	17,716
AP	5,404	6,849	8,087	7,030	6,937
Tax	3,027	2,984	3,447	3,447	3,447
Accruals & other payables	3,132	2,685	2,995	2,569	2,552
Bank loans	8,021	6,972	5,736	5,736	5,736
Leases & other debts	1,402	1,108	901	647	643
Other current liabilities	193	149	243	243	243
Current liabilities	21,178	20,747	21,409	19,671	19,557
Bank loans & leases	15,607	17,879	19,449	18,949	18,849
Deferred tax	1,270	1,567	1,544	1,544	1,544
Other non current liabilities	1,936	1,596	1,616	1,616	1,616
Non-current liabilities	18,814	21,042	22,610	22,110	22,010
Total net assets	21,172	21,453	21,873	24,803	26,039
Shareholder's equity	12,993	12,787	13,172	13,714	14,040
Share capital	16	16	16	16	16
Reserves	12,977	12,770	13,156	13,698	14,023
MI	8,179	8,666	8,701	11,089	11,999
BVPS (HK\$)	7.96	7.83	8.07	8.40	8.60

¹ Based on the total equity, rather than the equity attributable to shareholders.

Historical recommendations and target price: China Water Affairs (855.HK)

(as of 5 Dec 2025)



	Date	Rating	TP	Close
1	5 Feb 2023	BUY	HK\$9.50	HK\$6.85
2	3 Jul 2023	BUY	HK\$8.75	HK\$5.92
3	5 Dec 2023	BUY	HK\$6.70	HK\$4.28
4	5 Jul 2024	BUY	HK\$5.95	HK\$5.14
5	10 Dec 2024	BUY	HK\$6.10	HK\$4.92
6	7 Jul 2025	BUY	HK\$6.90	HK\$5.94
8	5 Dec 2025	BUY	HK\$6.80	HK\$5.61

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

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