

Boqi Environmental (2377 HK)

Strategic transformation starts to bear fruit

Boqi Environment announced robust 1H21 results, driven by the recovery of flue gas EPC projects, and the breakthrough of water treatment and solid waste treatment. We believe the Company is on the path of success to transform its role and develop more sustainable and scalable new businesses, which will eventually replace the saturated flue gas treatment EPC market. Trading at 0.6x PBR, we think Boqi is increasingly attractive as the Company successfully carries out its business transformation plan.

- Strategic business structure transformation achieved initial success.** Boqi achieved prominent growth in revenue, gross margin, and net profit in 1H21. Revenue climbed to RMB926.854mn, which was driven by the execution of project orders. During 1H21, the Company obtained RMB530mn orders along with an improved business structure from sustainable industrial waste water treatment business. Gross profit increased 10% YoY to RMB184mn. Given proper management with lower operating expenses, net profit surged 53.1% YoY to RMB163mn.
- Flue gas treatment business resumed normal.** The revenue of flue gas treatment business increased by 26%YoY to RMB771mn, driven by the recovery of EPC projects in China after COVID-19 impact. EPC revenue increased by 94.3% YoY to RMB284.4mn in 1H21. Boqi has been extending flue gas treatment EPC from traditional coal-fired power industry to steel petrochemical, etc. We expect the segment to remain largely stable, and contribute cash flow to sustain new business direction.
- Emerging waste water treatment business.** The Industrial waste water treatment business accounted for 25.3% of new orders obtained during 1H21 (vs. 1.3% in 1H20). The significant increase was primarily driven by: 1) Boqi's industrial wastewater treatment project ("Lubao Sewage Treatment Center") operated smoothly, and it planned to cooperate with more chemical companies in the park; 2) The Group won the bid for its first coking wastewater zero discharge EPC project in the steel industry. In the future, the industrial wastewater treatment business will become one of the vital directions of Boqi's development.
- New business realized continuous breakthrough.** Boqi had realized some breakthrough in hazardous and solid waste treatment. The Tangshan Yandong Cement Kiln in China is under construction and Boqi expects to put phase 1 project of 50k tons into operation in 2022. The Company entered the supplier list of Sinopec, and secured a drilling fluid solid waste treatment project for Sinopec Xinjiang Industrial Zone for the disposal business. As the Tianjin Iron Plant of EMC business proceeded smoothly, the Company has accelerated the strategic deployment into the extensive energy-saving market of the Group's business.

Earnings Summary

(Y.E. 31 Dec)	FY19A	FY20A	1H20	1H21
Revenue (RMB mn)	1,836	1,646	658	927
Net income (RMB)	183	208	106	163
EPS (RMB)	0.18	0.21	0.11	0.16
YoY growth (%)	-58.8	15.5	4.6	55.4
Consensus EPS	n/a	n/a	n/a	n/a
P/E (x)	8.8	7.7	13.8	8.9
P/B (x)	0.7	0.7	0.6	0.6
Yield (%)	1.6	3.8	1.8	4.2
ROE (%)	8.0	8.6	4.7	6.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS

NOT RATED

Current Price

HK\$1.75

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Stock Data

Mkt Cap (HK\$ mn)	2,075
Avg 3 mths t/o (HK\$ mn)	7.01
52w High/Low (HK\$)	2.8/1.0
Total Issued Shares (mn)	1,007

Source: Wind

Shareholding Structure

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

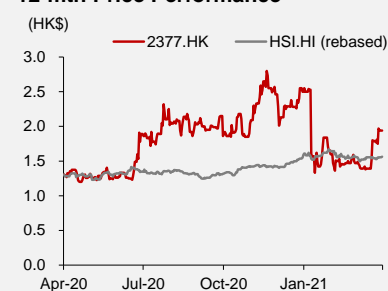
Source: HKEx

Share Performance

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

Source: Wind

12-mth Price Performance

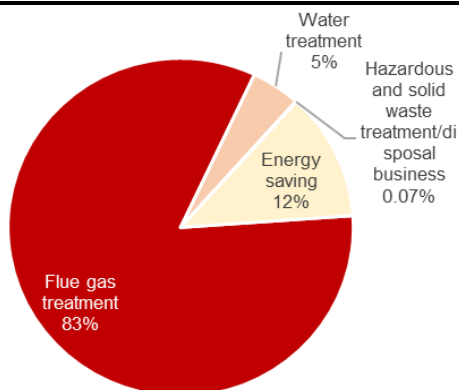


Source: Bloomberg

Auditor: EY

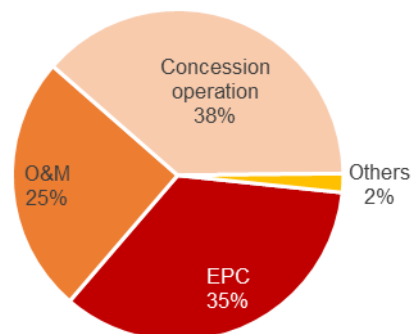
Focus charts

Figure 1: Revenue mix in 1H21



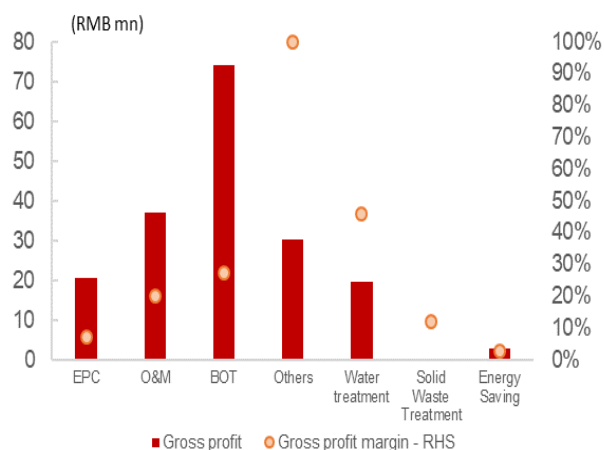
Source: Company data, CMBIS

Figure 2: Revenue mix within the flue gas treatment segment in 1H21



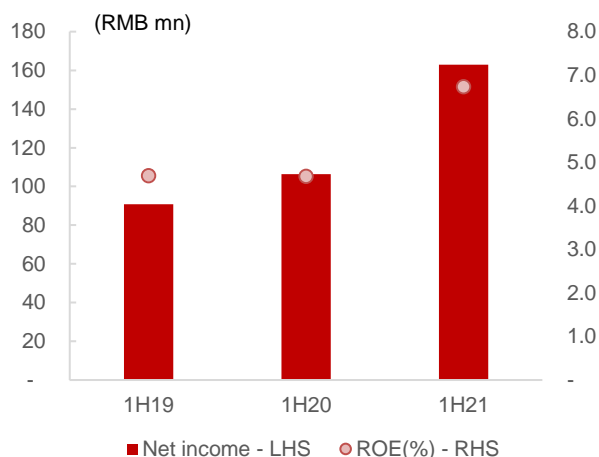
Source: Company data, CMBIS estimates

Figure 3: Boqi's segment G.P. and GPM performance



Source: Company data, CMBIS

Figure 4: Net profit & ROE performance



Source: Company data, CMBIS estimates

Figure 5: 1H2021 results summary

	1H2020	1H2021	YoY
Revenue	658	927	40.8%
Flue gas treatment business	613	771	25.7%
EPC	146	284	94.3%
O&M	187	187	0.0%
Concession operation	269	269	0.0%
Construction	20	7	-62.8%
Operating	249	262	5.0%
Others	11	30	182.9%
Water treatment	45	43	-5.6%
Hazardous and solid waste treat	-	1	na
Energy saving	-	113	na
COGS	-491	-743	51.2%
Gross profit	167	184	10.4%
Other income and gains	13	50	291.5%
Other expenses and losses	0	-4	
Selling and distribution expenses	-9	-9	2.1%
Administration expenses	-31	-35	10.3%
R&D expenses	-17	-23	34.0%
Impairment losses	-1	4	-385.6%
Share of profit of associates	9	24	160.2%
Finance costs	-2	-5	109.8%
Fairvalue change of CB	0	0	n/a
Listing expenses	0	0	n/a
Profit before tax	128	186	46.0%
Income tax expense	-21	-24	10.2%
Profit of the year	106	163	53.3%
Less non controlling interest	0	0	-97.1%
Net profit	106	163	53.1%

Source: Company data, CMBIS

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