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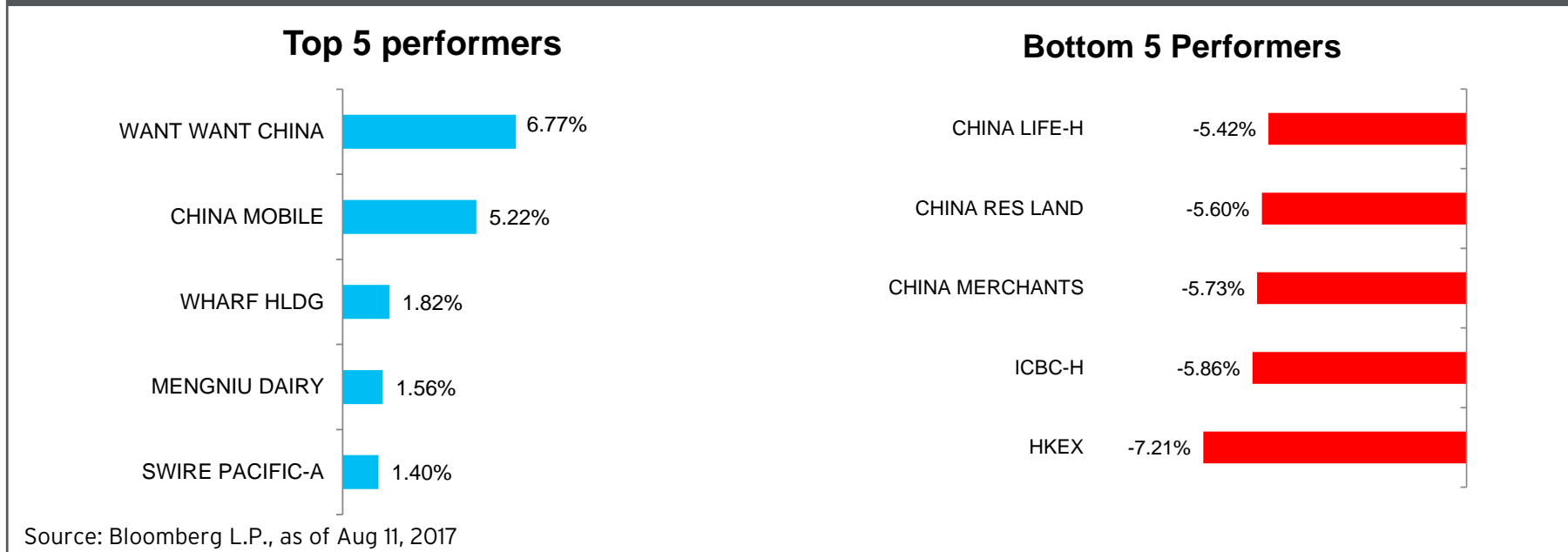
Stock Spotlight

Aug 14, 2017



HSI fell last week

Chart: Weekly HSI Top 5 & Bottom 5 Performers



❖ The Hang Seng Index fell 2.5% last week.

- ▶ Shares in China Mobile (941.HK) rose 5.2% as it surprised the market by announcing a one-off special dividend of HK\$3.20 per share to mark the 20th anniversary of its public listing in Hong Kong.
- ▶ Tencent (700.HK) was the biggest drag on the Hang Seng Index. Investors took profit after a tech stock selloff in the US.

❖ **We are positive on the PRC water sector given**

- ▶ (i) ample new wastewater treatment projects, with capex in the 13th 5-year plan to be 11% above that in the previous plan
- ▶ (ii) water renovation projects to clean up rivers and lakes, which will add 50-100% investment opportunities
- ▶ (iii) industry consolidation - favorable to market leaders.

❖ **New wastewater treatment projects in 13th 5-year period**

- ▶ PRC government plans municipal wastewater treatment capex of Rmb582.9bn in the 13th 5-year plan, 11% above that of the 12th 5-year period. Wastewater companies will grow by
 - ▶ (i) adding new plants in cities for rising urban populations
 - ▶ (ii) upgrading and expanding existing plants and
 - ▶ (iii) lifting utilization of existing plants.

❖ **New growth drivers**

- ▶ PRC gov't aims for >70% of water at 7 major river systems to reach Level III treatment standards by 2020, from 61% in 2016.
- ▶ Industry consolidation expanded the national market share of the big 5 wastewater companies to 22.8% in 2016, from 14.6% in 2012, and we expect the share to exceed 30% by 2020E.

Chart: PRC Wastewater Treatment Ratio in the 13th FYP

Target	2015	2020E	Addition
City	91.9%	95.0%	3.1ppts
Cities at prefecture level and above	n/a	100.0%	n/a
County	85.2%	≥85%	n/a
Counties in eastern regions	n/a	90.0%	n/a
Designated Town	n/a	70.0%	n/a
Designated towns in central and west regions	n/a	50.0%	n/a

Source: NDRC, Citi, as of Aug 9, 2017

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