

Green Build Technology

Navigating the Green Story but with Execution Risks

SINGAPORE | MATERIALS | NON-RATED NOTE

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What is the news?

We attended a site visit to Green Build Technology (GBT) in Harbin, Heilongjiang province, China in Oct-15. From the trip, we were able to gain insights through the management's sharing of the new business direction by venturing into energy conservation and sustainable development projects. First-hand opportunities were also given to visit the existing project sites in Harbin, and view the progress of the two ongoing projects.

- ✓ Switch of business direction after the disposal of its packaging business.
- ✓ Visited project sites regarding the heat insulation projects involving the upgrade of existing residential buildings in Harbin city.
- ✓ Visited construction sites of the 12 kilometres-long underground utility tunnel (UUT) project.
- ✓ Revenue inflow after the completion of projects beginning in 31 Dec-15.
- ✓ Pollution remains as one of the utmost priorities for the Chinese Government to tackle amid health hazards and the negative effects on economic growth.

While we note that revenue inflows will begin shortly after the completion of existing projects, however, we are **neutral** on GBT amid the sustainability of future project wins, where time is required for the company to build a credible track record.

Company Background

Formerly known as **Youyue International** (previously Youcan Foods International), the company was subsequently renamed to GBT after acquiring Harbin Promlite Energy Saving Technology Co. Following the disposal of its business in the manufacturing and sale of flexible packaging products in Dec-14, GBT has recalibrated its focus and will primarily focus on project-based activities in energy conservation and sustainable developments.

Removal from Singapore Exchange Securities Trading (SGX-ST) watch-list in Jan-15. Youyue International was placed on the SGX-ST watch-list since 5 Mar-12, for recording three years of consecutive pre-tax losses and having a market capitalisation of less than S\$40 mn over the last 120 trading days. As the company's earnings returned to the black in FY13 and FY14, and having restoring its market capitalisation to in excess of S\$40 mn over the past 120 trading days, the company was subsequently removed from the SGX-ST watch-list with effect from 21 Jan-15.

No contributions of revenue from green technology business in 1H15. In 1H15, revenue gained 7.3% y-o-y to RMB113 mn although there were no contributions from the green technology segment, as no projects had substantial work done or were completed during the time period. However, with a significant growth in administrative expenses at the green technology segment and foreign exchange losses, as well as income taxes which were unable to be offset from losses incurred in the green technology segment, bottom line losses expanded to RMB3.1 mn from RMB0.4 mn in 1H14.

Non-rated

LAST DONE PRICE	SGD 0.295
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

COMPANY DATA

O/S SHARES (MN) :	239
MARKET CAP (USD mn / SGD mn) :	50 / 70
52 - WK HI/LO (SGD) :	0.4 / 0.19
3M Average Daily T/O (mn) :	0.01

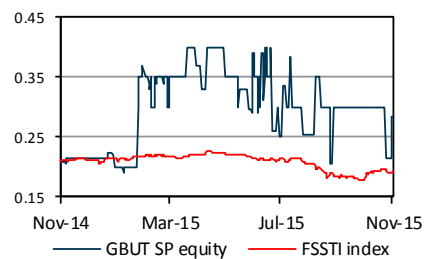
MAJOR SHAREHOLDERS (%)

ZHAO LIZHI	40.8%
LIM INGYANG	18.8%
CHAN MANG GHUON	7.0%
WANG YOUSHEG	4.5%
WU XUEYING	3.5%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(5.0)	118	42.5
STIRETURN	9.0	(4.0)	(4.2)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 13	FY 14	1H15
Gross Rev. (RMB mn)	245.4	289.7	113.0
Gross Profit (RMB mn)	37.8	45.0	17.2
Net Income (RMB mn)	0.8	23.4	(3.1)
P/E (X)	36.2	10.5	N.A.
P/B (X)	13	5.5	7.6

Source: Company Data, PSR est.

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Project 1: Improving Heat Insulation of Existing Residential Buildings

Upgrade of existing housing estates to improve heat insulation. We visited the currently ongoing projects which were awarded in Feb-15, relating to the upgrade of existing housing estates in Harbin city. Expected to be completed in 31 Dec-15, project works involve retrofitting and thickening of building walls, changing windows as well as roofing to improve heat insulation during winter. As heat insulation improves, more heat energy is able to be retained. This leads to warmer temperatures and more importantly, reducing the overall consumption of energy and emission of waste gases through the burning of fuels. According to the management, the materials used for the project are compliant to national standards. The company plays the role of a project manager and has engaged third-party contractors to carry out the construction activities.

Figure 1. Upgrading works on building walls being carried out.



Figure 2. Upgrading works on both walls and roofing of existing buildings.



Figure 3. Walls are scrapped clean before the installation of polystyrene materials.



Figure 4. Polystyrene material used in existing building walls.



Figure 5. Polystyrene material used by GBT to be installed into existing buildings.



Figure 6. Visit to the completed project site at Hebai estate in Harbin city.



Figure 7. The Hebai estate project was completed in 2014, which is similar to the ongoing heat insulation project.



Project 2: Underground Utility Tunnel

Conserving land space by utilising underground space. The UUT is coherent with the Chinese Central Government's aim of modernising China's urban landscape, by conserving land space, achieved through the shifting of overhead cables into underground. Pipelines to transfer and transmit electric power, telecommunications as well as radio and television signals etc., are planned to run through the UUT.

Award of 12 kilometres-long UUT project. The company will be co-investing with the Harbin Municipal Government to fund the project at a total investment cost of approximately RMB947 mn. The company will contribute approximately RMB437 mn and the remaining investment amount will be invested from the Harbin Government. Expected to be completed by 31 Dec-16, the UUT will also be operated and maintained by the company for 25 years upon the completion date, and in return, the company will receive a total government subsidy of approximately RMB883.7 mn over 25 years. This amount excludes the other operating income which the company is expected to receive through the operation and maintenance of the UUT.

Facilitating the construction of the UUT. We visited the construction site of the UUT project which was awarded in Oct-15. Due to the cold climate, construction activities are expected to cease in mid-November till April each year, as such, we note that the company has effectively six months to complete and deliver the project. The management plans to complete the construction of the first 4km of the UUT by 2015 but is expecting slight delays. In order to shorten construction duration, the company has engaged multiple third-party construction companies to simultaneously construct the first 4km of the project, and is expected to do so for the rest of the project.

Figure 8. Four construction firms are simultaneously engaged for the construction of the first 4km of the UUT. The first construction site out of the four that were visited.



Figure 9. Second construction site that was visited.



Figure 10. Third construction that was visited.



Figure 11. Fourth construction site that was visited.



Figure 12. Overhead cable lines that can be lay underground via the UUT



Revenue Inflow following Corporate Restructuring

Disposal of packaging business. The packaging business was disposed based on the segment's net asset value as at 31 Dec-14 to the former management of Youyue International. We view this a positive move given the challenging operating environment of this segment.

Inflow of revenue from green technology business will happen after projects are completed. Revenue inflow from the completed aforementioned projects is expected to begin only after the first project (Upgrading of existing residential estates) is completed in 31 Dec-15, and subsequently in 31 Dec-16 when the UUT project is completed.

China green story remains strong

Air pollution worse in Northern China. Air quality deteriorates as one moves northwards in China. This is due to the need to activate energy-intensive coal-powered heating systems for prolonged periods, in order to weather the freezing climate that could last for as long as six months in a year. In certain regions of Northeast China, temperatures could plummet to as low as -40 degree Celsius. As a result of firing up these heating systems, waste gases are discharged into the air which are one of the main causes of air pollution.

Pollution remains an utmost priority for Chinese Government to tackle. On top of health hazards, pollution in any form has been a bane to economic growth and this has been an utmost priority for the Chinese Government to tackle. Notably, in Oct-13, a large smog was formed as heating systems were powered up in preparation for winter. Effects from air pollution were severe to the extent where infrastructures involving certain major roads and a regional airport were closed in major cities of North-eastern China, due to poor visibility for nine days straight.

Green growth continues to be the Chinese Government's commitment. On 31 October, the Chinese Government has announced plans to roll out its 13th five-year plan to pursue green growth which will run from 2016 to 2020.

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