

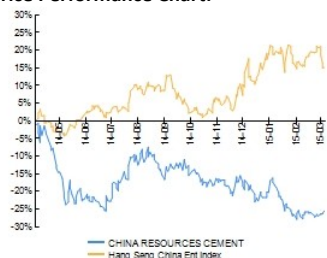
09 March 2015

## Underperform Unchanged

### Market Data: Mar, 06

Closing Price (HK\$)	4.70
Price Target (HK\$)	4.00
HSCEI	11,607
HSCCI	4,578
52-week High/Low (HK\$)	6.35/4.53
Market Cap (US\$m)	3,529
Market Cap (HK\$m)	27,381
Shares Outstanding (m)	6,533
Exchange Rate (Rmb-HK\$)	1.26

### Price Performance Chart:



Source: Bloomberg

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### Related Reports

"China ResourcesCement (1313: HK)  
Setting south" 26 November 2014

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## 2014 净利低于预期，盈利有进一步下行风险

### 中国华润水泥 (1313:HK)

#### Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (HK\$m)	29,341	32,669	32,340	34,092	34,260
YoY (%)	15.8	11.3	(1.0)	5.4	0.5
Net income (HK\$m)	3,338	4,206	3,090	3,390	3,610
YoY (%)	43.6	26.0	(26.5)	9.7	6.5
EPS (HK\$)	0.51	0.64	0.47	0.52	0.55
Diluted EPS (HK\$)	0.51	0.64	0.47	0.52	0.55
ROE (%)	13.4	14.9	10.1	10.2	10.0
Debt/asset (%)	71.2	57.4	51.2	46.3	38.7
Dividend Yield (%)	1.5	1.5	2.0	2.2	2.4
PE (x)	9.2	7.3	9.9	9.0	8.5
PB (x)	1.2	1.1	1.0	0.9	0.8
EV/Ebitda (x)	5.4	5.8	6.8	6.1	8.4

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

**2014 净利润低于预期。**华润水泥 (1313:HK) 公布了 2014 财报，其中净利润为港币 42 亿元，同比增长 26% (2013 年为港币 33 亿元)，低于彭博预期约 5.5%

**吨毛利在第四季度减弱。**在传统旺季的第四季度，华润水泥销售了约为 22.7 百万吨的水泥和熟料 (同比增长 8%)，4.3 百万立方米 (同比减少 8%) 混凝土。水泥熟料的吨毛利为港币 110 元，比 14 年三季度增加了港币 15 元，同比 13 年第四季度减少 36 港币。混凝土的第四季度单位毛利为港币 107 元，环比减少了 6 元，同比高于去年第四季度 18 港币。2014 年华润的每季度水泥熟料的吨毛利为港币 124/116/95/110 元，从而再次验证了我们此前对公司毛利走势的判断：吨毛利在 2014 年第一季度为顶点，此后走弱。

**去杠杆化持续。**公司净负债由 2014 年底三季度的港币 172.6 亿元减少到了第四季度的 161.1 亿元，从而导致净财务杠杆率降低到了目前的 57.2% (2014 年三季度为 64%)，而 2013 年底为 71%。该组数据证明华润水泥的去杠杆过程依然在持续，在我们看来，对于处于区域行业下行周期水泥生产商而言，是一个合理的策略。

**华南吨毛利将继续下行。**我们在去年 11 月的报告中将华润水泥降为了减持评级。最近的渠道调查发现 2015 年年初至今的华南水泥熟料价格在广东减少人民币约 30 元/吨，在广西减少人民币 40-50 元/吨。随着 4 月雨季的降临和中国建材的崇左南方的 4500 百万吨的新生产线 3 月投产，我们认为华南的水泥价格还将持续下降。由于华润 70% 的销售份额来自华南，我们相信公司的吨毛利将在 15 年继续下行。我们预计 15 年的水泥和混凝土的吨毛利分别为港币 89 元/吨和港币 90 元/吨

**调低目标价，维持减持评级。**基于华南的水泥价格下行趋势，我们将 2015 年的每股净利润由港币 0.55 元调低至港币 0.47 元 (同比减少 27%)，将 2016 年的每股净利润由港币 0.57 元调至 0.52 (同比增长 10%) 以显示未来的较低吨毛利的负面展望。我们将目标价由原来的港币 4.2 元调至港币 4.0 元，反映了 15 年吨企业价值为人民币 336 元/吨，对比目前交易价格隐含的 373 元/吨。基于 18% 的下行空间，我们维持减持评级。

**Net profit miss.** China Resources Cement (CRC) announced FY14 results with net profit up from HK\$3.3bn in 2013 to HK\$4.2bn (+26% YoY), 5.5% lower than Bloomberg consensus.

**Cement margin softness in 4Q14.** In the peak season of 4Q14, CRC delivered 22.7m tonnes (+8% YoY) worth of cement and clinker and 4.3mm<sup>3</sup> (-8% YoY) worth of concrete. The unit gross margin for cement and clinker is HK\$110/t, HK\$15 higher vs HK\$95/t in 3Q14 and HK\$36 lower YoY vs 4Q13. Unit margin for concrete reached HK\$107/cm (cubic meter) in 4Q14, HK\$6 lower QoQ and HK\$18 higher YoY. Quarterly unit margin for cement and clinker was HK\$124/t in 1Q14, HK\$116/t in 2Q14, HK\$95/t in 3Q14 and HK\$110/t in 4Q14, reconfirming our view that CRC's margin had peaked in 1Q14 and the margin was trending down.

**Deleverage continued.** Net debt continued to decrease from HK\$17.26bn in 3Q14 to HK\$16.11bn in 4Q14, leading to a lower net gearing of 57.2% (64% in 3Q14), comparing to 71% in 4Q13. This reaffirmed our view that CRC's deleverage process continued, a rational practice during the downcycle for cement producers.

**Further margin downside in southern China.** We downgraded CRC to Underperform in November 2014. Our recent channel check suggests that 2015 YTD cement/clinker price has further declined by Rmb30/t in Guangdong and Rmb40-50/t in Guangxi. With a rainy season due in April and new 4,500 million tonne per annum (MTPA) production line of China National Building Material Company (3323:HK, CNBM) to commence production in March. In our view, China's southern region should expect further cement price downside. Since CRC has c.70% exposure to the south region, we continue to believe the firm's margin will contract in 2015. We expect the unit margin of cement to be HK\$89/t and concrete to be HK\$90/cm in 15E.

**Lower target price, maintain Underperform.** Given the negative price trend in southern China, we revise down our EPS forecasts by 13.4% from HK\$0.55 to HK\$0.47 in FY15E (-27% YoY) and by 13.5% from HK\$0.57 to HK\$0.52 in FY16E (+10%) to reflect lower unit margin outlook. We lower our target price from HK\$4.2 to HK\$4.0, reflecting 15E EV/capacity of Rmb336/t vs current EV/capacity of Rmb373/t. With 18% downside, we maintain our Underperform rating.

**Fig 1: 2014 CRC unit data forecasts**

mt, HK\$/t	2012	2013	2014	2015E	2016E	2017E
<b>Volume</b>						
Cement	65	75	78	80	84	84
Concrete	13	15	16	18	18	18
<b>ASP</b>						
Cement	315	314	333	312	318	320
Concrete	371	371	423	410	410	410
<b>ACP</b>						
Cement	241	221	222	223	223	224
Concrete	274	274	320	320	320	320
<b>GP/T</b>						
Cement	74	93	110	89	95	96
Concrete	97	97	102	90	90	90
GP/T mix	78	93	109	89	94	95
Other	5	9	4	4	4	4
Sg&A	-39	-48	-45	-45	-45	-39
Finance	-11	-8	-9	-9	-9	0
Expenses	-50	-56	-54	-54	-54	-48
Associate	3	2	3	3	3	3
Earning before tax	37	48	62	42	47	54
% tax	0	0	0	0	0	0
<b>Taxes</b>	7	11	16	11	12	14
Earnings	30	36	47	32	35	41
Minorities	0	-1	0	0	0	1
NP/T	30	37	46	32	35	39
NP total, HK\$ M	2,319	3,338	4,206	3,090	3,390	3,610

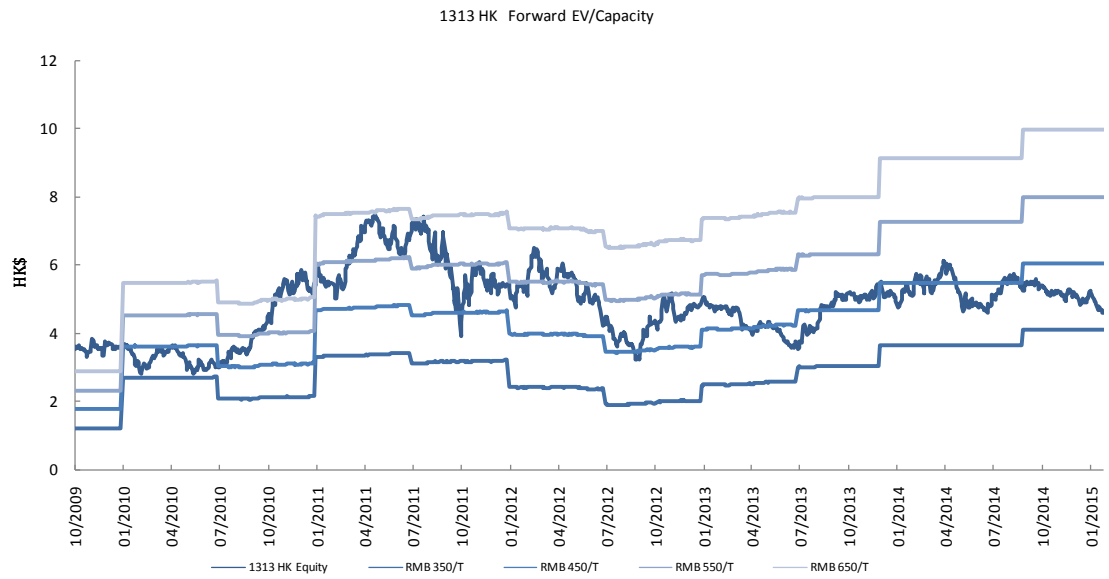
Source: Company, SWS Research

**Fig 2: We revise down our earnings forecasts**

P&L	New		Old		Change	
Year to Dec, HK\$	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Cement volume, M T	80	84	80	84	0.0%	0.0%
Cement Unit gross profit	89	95	97	97	-8.2%	-2.1%
Overall unit net profit	32	35	36	36	-13.4%	-3.4%
Net profit, HK\$ M	3,090	3,390	3,570	3,720	-13.4%	-8.9%
EPS	0.47	0.52	0.55	0.57	-13.4%	-8.7%

Source: Company, SWS Research

**Fig 3: CRC EV/capacity**



Source: Bloomberg, SWS Research

## APPENDIX

### Consolidated Income Statement

HK\$m	2013	2014	2015E	2016E	2017E
Revenue	29,341	32,669	32,340	34,092	34,260
Cost of Sales	20,981	22,444	23,607	24,499	24,583
Gross Profit	8,360	10,225	8,733	9,593	9,677
Other Income	822	596	392	408	408
Distribution expenses	1,633	1,899	1,960	2,040	1,938
Administrative expenses	2,727	2,594	2,450	2,550	2,550
EBITDA	6,847	8,444	7,206	8,055	5,903
EBIT	5,019	6,409	5,009	5,717	5,903
Finance Costs	704	655	862	898	898
Profit before tax	4,314	5,754	4,146	4,819	5,005
Income tax expense	1,036	1,631	1,037	1,205	1,251
Minority interests	(60)	(83)	20	224	144
Profit for the year	3,338	4,206	3,090	3,390	3,610

Source: Company data, SWS Research

### Consolidated Cash Flow

HK\$m	2013	2014	2015E	2016E	2017E
Profit before taxation	6,442	5,754	4,146	4,819	5,005
Plus: Depr. and amortisation	1,828	2,035	2,198	2,339	2,480
Finance cost	763	608	801	834	834
Losses from investments	0	0	0	0	0
Increase in working capital	445	(350)	(157)	39	71
Others	(2,432)	(2,285)	(1,899)	(2,102)	(2,149)
CF from operating activities	6,156	6,462	5,404	5,850	6,098
CAPEX	(5,621)	(5,150)	(3,971)	(3,967)	(4,011)
Other CF from investing activities	50	46	61	0	0
CF from investing activities	(5,571)	(5,104)	(3,910)	(3,967)	(4,011)
Equity financing	0	0	0	0	0
Net borrowing	1,000	1,283	1,868	2,148	2,470
Dividend and interest paid	(456)	(457)	(457)	(618)	(678)
Other CF from financing activities	0	0	0	0	0
CF from financing activities	544	825	1,411	1,530	1,792
Net cash flow	1,129	2,184	2,904	3,413	3,879
FCFF	2,462	3,347	4,239	5,260	3,191
FCFE	3,018	4,980	6,264	7,370	5,590

Source: Company data, SWS Research

### Consolidated Balance Sheet

HK\$m	2013	2014	2015E	2016E	2017E
Current Assets					
Bank balances and cash	2,825	4,151	9,781	13,194	17,073
Trade and other receivables	4,747	4,226	5,228	5,511	5,538
Inventories	2,132	2,162	2,846	2,953	3,031

Long-term investment	4,197	4,970	5,214	5,470	5,739
PP&E	32,527	33,272	37,277	37,776	38,097
Intangible and other assets	4,953	5,060	5,981	6,392	6,818
<b>Total Assets</b>	<b>54,180</b>	<b>57,537</b>	<b>67,398</b>	<b>73,786</b>	<b>79,368</b>
Current Liabilities	14,398	13,130	18,333	19,782	19,923
Borrowings	6,226	4,784	8,056	9,057	9,058
Trade and other payables	7,612	7,471	9,314	9,665	9,699
Other current liabilities	560	876	963	1,060	1,166
Long-term liabilities	14,420	15,691	17,563	19,714	22,188
<b>Total Liabilities</b>	<b>28,818</b>	<b>28,822</b>	<b>35,896</b>	<b>39,496</b>	<b>42,110</b>
Minority Interests	541	535	851	926	1,006
Shareholder Equity	24,821	28,180	30,652	33,364	36,252
Share Capital	653	653	653	653	653
Reserves	24,168	27,527	29,999	32,711	35,599
<b>Total Liabilities and equity</b>	<b>54,180</b>	<b>57,537</b>	<b>67,398</b>	<b>73,786</b>	<b>79,368</b>

Source: Company data, SWS Research

### Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (HK\$)					
Earnings per share	0.51	0.64	0.47	0.52	0.55
Diluted EPS	0.51	0.64	0.47	0.52	0.55
Operating CF per share	0.9	1.0	0.8	0.9	0.0
Dividend per share	0.1	0.1	0.1	0.1	0.1
Net assets per share	3.8	4.3	4.7	5.1	5.5
Key Operating Ratios(%)					
ROIC	11.0	9.3	7.6	8.7	9.0
ROE	13.4	14.9	10.1	10.2	10.0
Gross profit margin	28.5	31.3	27.0	28.1	28.2
EBITDA Margin	31.0	25.8	22.3	23.6	17.2
EBIT Margin	24.8	19.6	15.5	16.8	17.2
Growth rate of Revenue(YoY)	15.8	1.6	(1.0)	5.4	0.5
Growth rate of Profit(YoY)	43.6	(12.6)	(26.5)	9.7	6.5
Net gearing	71.2	57.4	51.2	46.3	38.7
Turnover rate of net assets	115.7	113.8	95.8	96.1	89.6
Turnover rate of total assets	54.2	56.8	48.0	46.2	43.2
Effective tax rate (%)	24.0	28.3	25.0	25.0	25.0
Dividend yield (%)	1.5	1.5	2.0	2.2	2.4
Valuation Ratios (X)					
P/E	9.2	7.3	9.9	9.0	8.5
P/B	1.2	1.09	1.0	0.9	0.8
EV/Sales	1.7	1.5	1.5	1.4	1.4
EV/EBITDA	5.4	5.8	6.8	6.1	8.4

Source: Company data, SWS Research

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Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

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