

March 8, 2015

China Resources Cement Holdings Ltd.

2014 Results Miss – Lower ASP; Remain UW

Industry View

Cautious

Stock Rating

Underweight

Quick comment: CR Cement reported FY2014 net profit of HK\$4.2bn, +26% YoY, 4% lower than our estimate and consensus. This implies 4Q14 EPS of HK\$0.14/share, missing our expectation by 16%, mainly because lower ASP led to lower GP/t for cement and clinker products. 4Q14 core earnings excluding FX gain of HK\$89mn (full-year FX loss of HK\$35mn) are HK\$843mn, 24% below our estimate. Management proposed a final dividend of HK\$0.10/share.

4Q14 results – details:

- **Sales volume:** Grew 8% YoY to 22.7mnt, in line with our expectation of 22.9mnt
- **ASP:** HK\$329/t, -9% YoY and 3% below our estimate of HK\$341/t.
- **GP/t:** HK\$110/t, -25% YoY and 11% below our estimate of HK\$123/t. Unit cost rose marginally, 1% YoY.
- **Concrete GP/m3:** +20% YoY to HK\$107. Concrete makes up 16% of the company's gross profit.
- **Capacity:** The company's clinker capacity grew 7%, to 54.8mnt by Dec 14, and it expects further expansion to 56.3mnt by end of 2015, assuming no M&A.

Outlook: Cement prices in Guangdong and Guangxi region showed weakness during January and February 2015, down 12% and 14%YoY respectively, according to data from Digital Cement. Cement producers in Guangdong are lowering prices to compete for market share, which is likely to result in pressure on 1Q15 performance. Meanwhile, the medium-term outlook remains subdued because of capacity expansion – we are forecasting 5% capacity growth in the Guangdong and Guangxi region in 2015, vs. 2% in 2014. We expect the company may announce overseas expansion plan in the results briefing. It is hiring a general manager for its overseas operations, as seen in a job advertisement on one of the cement online portal websites in China.

Results briefing: March 9, 10:15am @ 50/F, China Resources Building.

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China Resources Cement Holdings Ltd. (1313.HK , 1313 HK)

China Cement / China

Stock Rating**Industry View**

Shr price, close (Feb 24, 2015)

52-Week Range

Sh out, dil, curr (mn)

Mkt cap, curr (mn)

EV, curr (mn)

Avg daily trading value (mn)

Underweight**Cautious**

HK\$4.58

HK\$6.35-4.53

6,519

HK\$29,858

HK\$43,487

HK\$59.50

Fiscal Year Ending	12/13	12/14e	12/15e	12/16e
ModelWare EPS (HK\$)	0.51	0.67	0.61	0.60
Prior ModelWare EPS (HK\$)	-	-	-	-
Consensus EPS (HK\$)	0.49	0.68	0.69	0.72
Revenue, net (HK\$ mn)	29,341	33,215	34,613	36,793
EBITDA (HK\$ mn)	6,558	8,351	8,084	8,151
ModelWare net inc (HK\$ mn)	3,329	4,362	4,010	3,944
P/E	10.2	7.5	7.5	7.6
P/BV	1.4	1.1	0.9	0.9
RNOA (%)	10.1	12.4	10.6	10.0
ROE (%)	15.6	17.6	13.9	12.3
EV/EBITDA	7.3	5.5	5.1	4.9
Div yld (%)	2.0	1.4	2.9	2.7
FCF yld ratio (%)	7.2	2.9	8.5	6.6
Leverage (EOP) (%)	71.2	59.4	48.0	40.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
 \$ = Consensus data is provided by Thomson Reuters Estimates
 e = Morgan Stanley Research estimates

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Exhibit 1: CR Cement 4Q14 Results – Details

Operational (HK\$)	4Q14	Mse	Diff	YoY%	QoQ
Sales vol					
Cement & clinker (mn tons)	22.7	22.9	-1%	8%	10%
Concrete (mn m ³)	4.3	5.1	-16%	-8%	0%
ASP					
Cement & clinker (HK\$/ton)	329	341	-3%	-9%	6%
Concrete (HK\$/m ³)	426	400	6%	6%	0%
Unit cost					
Cement & clinker (HK\$/ton)	219	217	1%	1%	2%
Concrete (HK\$/m ³)	319	317	1%	2%	2%
GP/ton					
Cement & clinker (HK\$/ton)	110	123	-11%	-25%	15%
Concrete (HK\$/m ³)	107	83	28%	20%	-6%
Financials: (HK\$ mn)					
Total Revenue	9,281	9,827	-6%	-2%	13%
Gross Profit	2,953	3,252	-9%	-15%	21%
GP Margin	32%	33%	-1.3ppt	-4.9ppt	2.1ppt
SG&A	(1,790)	(1,815)	-1%	-8%	83%
SG&A/sales ratio	19.3%	18.5%	0.8ppt	-1.3ppt	7.4ppt
Unit SG&A per cement & concrete (HK\$)	66	65	2%	-13%	69%
Other income	375	259	45%	15%	172%
EBIT	1,517	1,685	-10%	-17%	-4%
Interest expense	(112)	(141)	-21%	-29%	-26%
PTP(reporting)	1,413	1,544	-9%	-19%	-8%
Income tax	(538)	(374)	44%	-13%	59%
Tax rate	38%	24%	13.9ppt	2.8ppt	14.5ppt
Reported net income	932	1,106	-16%	-22%	-23%
Reported EPS (HK\$/shr)	0.14	0.17	-16%	-22%	-23%
Core earnings (excl FX. gain/loss)	843	1,106	-24%	-21%	-29%

Source: Company data, Morgan Stanley Research

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(as of February 28, 2015)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL	% OF RATING IBC CATEGORY
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Underweight/Sell	609	18%	88	11%	14%
TOTAL	3,330		789		

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China Resources Cement Holdings Ltd. (1313.HK) - As of 3/8/15 in HKD
Industry : China Cement



Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target --- No Price Target Assigned (NA)
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COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/06/2015)
Lam CFA, John		
Anhui Conch Cement Co. Ltd (0914.HK)	U (05/02/2014)	HK\$25.75
Anhui Conch Cement Co. Ltd (600585.SS)	E (07/28/2014)	Rmb19.64
BBMG Corporation (601992.SS)	U (08/29/2014)	Rmb9.10
BBMG Corporation (2009.HK)	E (01/24/2013)	HK\$6.24
China National Building Material Company (3323.HK)	E (08/26/2013)	HK\$7.30
China National Materials (Sinoma) (1893.HK)	U (09/03/2013)	HK\$1.91
China Resources Cement Holdings Ltd. (1313.HK)	U (05/02/2014)	HK\$4.70
China Shanshui Cement Group (0691.HK)	U (08/26/2013)	HK\$4.48
Huaxin Cement Co (600801.SS)	O (12/10/2014)	Rmb9.92
West China Cement (2233.HK)	O (05/02/2014)	HK\$0.99

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