



Rating
Sell

Asia
China

Industrials
Manufacturing

Company
**Shanghai Electric
Alert**

Reuters 2727.HK	Bloomberg 2727 HK	Exchange HKG	Ticker 2727
ADR Ticker SIELY	ISIN US81943J1088		

Date
12 March 2015

Breaking News

Price at 11 Mar 2015 (HKD)	4.42
Price target - 12mth (HKD)	3.20
52-week range (HKD)	4.93 - 2.70
HANG SENG INDEX	23,718

Limited parentco asset injection upside; Reiterate Sell

Shanghai Electric's shares resumed trading today after issuing a clarification announcement of its parentco's whole group listing plan reported by local news. Although we think the parentco is likely undertaking some restructuring activities as part of SOE reform, the earnings upside from potential asset injection is limited based on our knowledge of financial and operating performance of those assets retained at parentco level. The share price rally today reflects the market ungrounded upbeat expectation on asset injection upside. Hence, we reiterate our Sell rating on the stock, which currently trades at a hefty FY15 PE of 18.5x. Looking to 2015/16, the ramp up in nuclear revenue will be offset by weak performance for coal/gas/heavy machinery/exports and our earnings forecasts are 4.7%/3% below consensus.

According to financial statements of its parentco, the whole group made a profit of Rmb3,165m in 9M14. After stripping out earnings contribution for its 56.7% owned Shanghai Electric (2727 HK, 601727 CH), we conclude other businesses made a loss of Rmb182m in 9M14. Below, we look into each business in more details.

Shanghai Prime Machinery (2345 HK, NR, 49.6% owned as end Jun-14)

The company's core businesses include manufacture and distribution of Blades, Bearing, Cutting tool, Fasterner and General Machinery. Total revenue and net profit in 1H14 were Rmb1,680m and Rmb37.9m respectively.

Shanghai Highly (600619 CH, NR, 33% owned as end Sep-14)

The company's core businesses include manufacture and distribution of refrigeration equipment like home air conditioner compressors, dehumidifier compressors, etc. Total revenue and net profit in 9M14 were Rmb5,153m and Rmb97m respectively.

Shanghai Automation Instrumentation (600848 CH, NR, 26.5% owned as end Sep-14)

The company's core businesses include manufacture and distribution of instruments and actuators (temperature measuring and pressure instruments, etc.), digital control systems, and devices and complete sets. Total revenue and net loss in 9M14 were Rmb789m and Rmb4.5m respectively. In Dec-14, the company announced a preliminary asset restructuring plan to dispose its current business and inject industrial/service park development business owned by Shanghai Lingang Asset Management Co. Also, Shanghai Lingang Asset Management Co. will takeover all the shares held by its parentco now.

Other non listed businesses

Pacific Mechatronic Group (太平洋机电(集团)有限公司): core business include textile machinery and production equipment.

Some property investment companies such as Shanghai Electric (Group) Corporation Property Investment Co. (上海电气集团房地产有限公司)

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Stock data

Market cap (HKDm)	56,680
Market cap (USDm)	7,305
Shares outstanding (m)	12,665.7
Major shareholders	Shanghai Electric Corp (59.2%)
Free float (%)	29
Avg daily value traded (USDm)	21.6

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	78,795	78,808	81,008
Net Profit (CNYm)	2,393.2	2,406.7	2,441.8
DB EPS (CNY)	0.19	0.19	0.19
PER (x)	12.2	18.8	18.5
Yield (net) (%)	3.2	2.1	2.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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<http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=2727.HK> MCI (P) 148/04/2014.