

China Resources Cement [1313.HK]

Analyst Briefing Takeaways: 1H to be unexciting; bet on a better 2H

The analyst briefing reaffirms our view that CR Cement's 1H15 results are likely to be unexciting due to a high base in 1H14. The key will be 2H15, depending on the effectiveness of monetary easing measures and fiscal stimulus. Given that Q1 2015 results would be unexciting and an usual non-peak Q2 season for the cement sector, we maintain our view that the share price will remain range-bound until there is a clear sign to show that cement prices pick up in Q3. We maintain our **HOLD** rating with a target price of HK\$5.20, based on 1.1x 2015E PBR (unchanged).

Investment Highlights

- **ASP continued to decline in Q1 but management believes further downside is limited.** Total sales volume in 2M 2015 reached 10.5m tonnes (+30% YoY), while management expects Q1 2015 sales volume to reach 16.5m tonnes (+8% YoY). Blended ASP in February 2015 down around HK\$20 compared to last December, while management reckons that further downside is limited.
- **Full-year sales volume growth target of 3% YoY.** Management expects sales volume (cement & clinker) to grow ~3% this year to 80m tonnes while concrete sales volume would be flat. Overall, management expects flat demand growth nationwide, with south China likely to recorded around 3% demand growth hence supply and demand will be largely balanced.
- **2H15 to be the key to support 2015 results.** We project 1H15 net profit to drop 36% YoY due to a high base last year. Therefore 2H15 operating performance would be critical for the full-year results. Management expects ASP trend in 2015 might be similar to that of 2013, with potential rebound in 3Q15, depending on whether a series of easing measures and stimulus packages through infrastructure investment by central and local government could eventually boost economic growth and lift demand for cement.
- **Market consolidation and coordination moves on.** According to the management, the company is still looking for potential M&A targets in its major operating regions and they expect industry-wide consolidation to move on in 2015. The company is also recruiting talents to prepare for potential overseas expansion in the future.

(More on page 2.)

Y/E Dec 31	2012	2013	2014	2015E	2016E
Turnover (HK\$m)	25,345	29,341	32,669	32,791	34,826
Recurring net profit (HK\$m)	2,329	3,265	4,297	3,617	3,776
Net margin (%)	9	11	13	11	11
Recurring EPS (HK\$)	0.36	0.50	0.66	0.55	0.58
% Change	(39)	40	31	(16)	4
PER (x)	13.1	9.3	7.1	8.4	8.1
PBR (x)	1.4	1.2	1.1	1.0	0.9
EV/EBITDA	9.2	7.3	5.9	6.4	6.2

Sources: Company, CGIHK Research

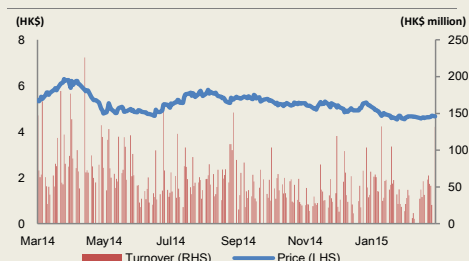
China Cement Sector

HOLD

Close: HK\$4.67 (March 9, 2015)

Target Price: HK\$5.20 (11.3%)

Price Performance



Market Cap	US\$3,932m
Shares Outstanding	6,532.9m
Auditor	Deloitte
Free Float	26.6%
52W range	HK\$4.53-6.35
3M average daily T/O	US\$6.30m
Major Shareholder	China Resources Holdings (73.0%)

Sources: Company, Bloomberg

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Nevin Ning—Support

- **Production cost to be largely stable in 2015.** Management does not see much pressure on production cost this year. A slight decrease is possible as the company projects a mild decline in average coal procurement cost. They also expect relatively stable electricity cost in 2015, stating that minor addition in extra cost related to carbon emission trading and moderate increase in staff costs are largely manageable in 2015, as these only account for a small portion of total production cost.
- **Limited impact caused by removal of PC32.5 standard.** According to the company, the proposed removal of PC32.5 “low grade” cement standard should not have much impact on the company, as currently the company’s grade 32.5 products are mainly 32.5R, a higher standard and not affected by the proposed removal.
- **Commitment to raise dividends.** Dividend payout ratio rose to 26.4% in 2014 from 20.5% in 2013. Management says that the board of directors supports the increase of dividends but the company declined to offer a clear payout ratio guidance for the coming one to two years.

2014 Results of CR Cement

Y/E Dec (HK\$ '000)	YoY change		
	2013	2014	(%)
Turnover	29,340,619	32,668,910	11
Gross Profit	8,359,752	10,225,141	22
<i>Margin</i>	28.5%	31.3%	
Operating expenses	(4,007,400)	(4,295,966)	7
Operating profit	4,352,352	5,929,175	36
Other income and gains	330,193	377,245	14
EBIT	4,682,545	6,306,420	35
Finance costs	(704,459)	(654,675)	-7
Finance income	65,373	58,202	-11
Share of profits of associates	98,406	18,605	-81
Share of profits of JCEs	99,593	97,266	-2
Exceptional items	73,019	(71,722)	n.a.
Profit before tax	4,314,477	5,754,096	33
Taxation	(1,035,808)	(1,630,777)	57
Minority interest	59,704	83,074	39
Net Profit	3,338,373	4,206,393	26
Adjusted net profit	3,265,354	4,296,578	32
EPS (basic) HK\$	0.51	0.64	26
EPS (recurring) HK\$	0.50	0.66	31
DPS (HK\$)	0.105	0.170	62
Total cement and clinker vol ('000 tonnes)	74,917	77,939	4
ASP (HK\$)	314	333	6
GP per tonne (HK\$)	92.8	110.3	19
COGS per tonne (HK\$)	220.9	222.5	1

Sources: Company, CGIHK Research

Q4 2014 Results of CR Cement

Y/E Dec (HK\$ '000)	Q4 2013	Q4 2014	YoYchange
Turnover	9,467,866	9,281,073	-2.0%
Cost of sales	(5,991,794)	(6,328,332)	5.6%
Gross Profit	3,476,072	2,952,741	-15.1%
<i>Margin</i>	36.7%	31.8%	
Operating expenses	(1,599,078)	(1,593,383)	-0.4%
Selling and distribution costs	(533,968)	(572,567)	7.2%
Administrative expenses	(1,065,110)	(1,020,816)	-4.2%
Operating profit	1,876,994	1,359,358	-27.6%
Other income and gains	197,562	150,037	-24.1%
EBIT	2,032,107	1,468,897	-27.7%
Finance costs	(115,587)	(91,935)	-20.5%
Share of profits of associates	(24,858)	(26,883)	8.1%
Share of profits of JCEs	65,420	28,459	-56.5%
Exceptional items	(212,928)	52,237	-124.5%
Profit before tax	1,744,154	1,430,775	-18.0%
Taxation	(616,273)	(538,040)	-12.7%
Minority interest	68,009	57,487	-15.5%
Net Profit	1,195,890	950,222	-20.5%
Adjusted net profit	1,408,818	911,044	-35.3%
Total cement + clinker vol ('000 tonnes)	20,910	22,657	8.4%
Total cement + clinker revenue (HK\$'000)	7,593,907	7,462,656	-1.7%
ASP (HK\$)	363.2	329.4	-9.3%
Blended gross profit per tonne (HK\$)	145.8	110.0	-24.6%
Concrete vol. ('000 m3)	4,647	4,270	-8.1%
Concrete ASP (HK\$)	403	426	5.6%
Concrete gross profit per m3	89	107	20.1%

Sources: Company, CGIHK Research

Key financials

CR Cement (01313.HK)

Income Statement

(HK\$'000, except for per share amount)

Year ended 31 Dec	2013		2014		2015E		2012	2013	2014	2015E	2016E
	1H	2H	1H	2H	1H	2H					
Cement	9,116,962	12,454,705	11,110,857	13,248,646	10,492,355	13,947,163	18,126,000	21,571,667	24,359,503	24,439,518	25,883,715
Clinker	1,143,767	782,043	968,830	611,625	677,500	701,250	2,246,901	1,925,810	1,580,455	1,378,750	1,478,750
Concrete and others	2,597,427	3,245,715	3,081,335	3,647,617	3,182,919	3,790,150	4,972,427	5,843,142	6,728,952	6,973,069	7,463,100
Revenue	12,858,156	16,482,463	15,161,022	17,507,888	14,352,774	18,438,563	25,345,328	29,340,619	32,668,910	32,791,336	34,825,565
COGS	(9,891,880)	(11,088,987)	(10,329,772)	(12,113,997)	(10,619,821)	(12,957,761)	(19,245,807)	(20,980,867)	(22,443,769)	(23,577,582)	(25,273,775)
Gross profit	2,966,276	5,393,476	4,831,250	5,393,891	3,732,953	5,480,801	6,099,521	8,359,752	10,225,141	9,213,755	9,551,790
Operating expenses	(1,556,470)	(2,450,930)	(1,722,174)	(2,573,792)	(1,794,097)	(2,618,276)	(3,016,817)	(4,007,400)	(4,295,966)	(4,412,373)	(4,631,305)
Operating profit	1,409,806	2,942,546	3,109,076	2,820,099	1,938,856	2,862,526	3,082,704	4,352,352	5,929,175	4,801,382	4,920,485
Other gains and losses	110,638	219,555	151,309	225,936	172,233	239,701	353,201	330,193	377,245	411,935	437,465
EBIT	1,520,444	3,162,101	3,260,385	3,046,035	2,111,090	3,102,227	3,435,905	4,682,545	6,306,420	5,213,317	5,357,951
Net finance costs	(351,559)	(287,527)	(331,824)	(264,649)	(295,851)	(267,989)	(775,777)	(639,086)	(596,473)	(563,840)	(512,264)
Profits from associates/JCEs	5,586	192,413	5,155	110,716	49,831	115,915	218,476	197,999	115,871	165,746	181,800
Non-recurrent items	223,775	(150,756)	(145,575)	73,853	-	-	(5,117)	73,019	(71,722)	-	-
Income before tax	1,398,246	2,916,231	2,788,141	2,965,955	1,865,070	2,950,152	2,873,487	4,314,477	5,754,096	4,815,222	5,027,487
Income tax expense	(248,016)	(787,792)	(753,725)	(877,052)	(484,918)	(767,040)	(528,310)	(1,035,808)	(1,630,777)	(1,251,958)	(1,307,147)
Minority interests	(4,591)	64,295	21,551	61,523	20,702	32,747	(20,807)	59,704	83,074	53,449	55,805
Net income	1,145,639	2,192,734	2,055,967	2,150,426	1,400,854	2,215,859	2,324,370	3,338,373	4,206,393	3,616,713	3,776,145
Recurring net income	921,864	2,343,490	2,201,542	2,095,036	1,400,854	2,215,859	2,329,487	3,265,354	4,296,578	3,616,713	3,776,145
EPS (HK\$)	0.176	0.336	0.315	0.329	0.214	0.339	0.357	0.512	0.644	0.554	0.578
Recurring EPS (HK\$)	0.141	0.359	0.337	0.321	0.214	0.339	0.357	0.501	0.658	0.554	0.578
DPS (HK\$)	0.035	0.070	0.070	0.100	0.054	0.085	0.070	0.105	0.170	0.138	0.145
Depreciation and amortization	859,802	900,427	899,538	939,699	1,021,331	1,151,714	1,635,497	1,760,229	1,839,237	2,173,045	2,338,782
EBITDA	2,385,832	4,254,941	4,165,078	4,096,450	3,182,252	4,369,856	5,289,878	6,640,773	8,261,528	7,552,107	7,878,533
Blended cement and clinker ASP (HK\$)	291	333	348	321	308	318	315	314	333	314	316
Cement and clinker vol. ('000 tonnes)	35,218	39,699	34,704	43,235	36,217	46,006	64,640	74,917	77,939	82,223	86,459
Cement and clinker gross profit (HK\$/tonne)	66	117	119	103	84	101	74	93	110	93	93
Concrete ASP (HK\$/tonne)	377	391	418	427	419	425	371	384	423	422	428
Concrete vol. ('000 m3)	6,898	8,307	7,372	8,548	7,601	8,918	13,407	15,205	15,920	16,519	17,422
Concrete gross profit (HK\$/m3)	95	89	94	110	90	94	97	92	102	93	88
Growth Rates:											
Revenue	17%	15%	18%	6%	-5%	5%	9%	16%	11%	0%	6%
EBIT	34%	37%	114%	-4%	-35%	2%	-30%	36%	35%	-17%	3%
EBITDA	20%	29%	75%	-4%	-24%	7%	-18%	26%	24%	-9%	4%
Core net income	34%	43%	139%	-11%	-36%	6%	-39%	40%	32%	-16%	4%
Recurring EPS	34%	43%	138%	-11%	-36%	6%	-39%	40%	31%	-16%	4%
Margins and Ratios:											
Gross margin	23.1%	32.7%	31.9%	30.8%	26.0%	29.7%	24.1%	28.5%	31.3%	28.1%	27.4%
Net margin	7.2%	13.8%	14.4%	11.6%	9.6%	11.8%	9.3%	10.9%	12.9%	10.9%	10.7%
EBIT margin	11.8%	19.2%	21.5%	17.4%	14.7%	16.8%	13.6%	16.0%	19.3%	15.9%	15.4%
EBITDA margin	18.6%	25.8%	27.5%	23.4%	22.2%	23.7%	20.9%	22.6%	25.3%	23.0%	22.6%
Effective tax rate	21.1%	25.7%	25.7%	30.3%	28.0%	26.0%	18.4%	24.4%	28.0%	26.0%	26.0%

Sources: Company data, CGIHK Research estimates

Key financials

CR Cement (01313.HK)

Balance Sheet

(HK\$'000, except for per share amount)

As at 31 Dec	2012	2013	2014	2015E	2016E
Inventories	2,322,153	2,131,961	2,162,359	2,200,000	2,300,000
Trade and other receivables	2,492,210	3,191,885	2,837,619	3,000,000	3,200,000
Others	2,329,112	1,952,331	2,779,059	2,840,907	2,890,907
Bank balances and cash	3,561,863	2,821,782	4,147,804	3,218,244	4,278,343
Total current assets	10,705,338	10,097,959	11,926,841	11,259,151	12,669,250
PPE, net	31,552,919	32,526,564	33,271,505	34,744,866	34,616,084
Prepaid lease payments	2,510,484	2,752,320	2,787,164	2,887,164	2,987,164
Others	7,390,390	8,802,827	9,551,577	9,797,323	10,039,123
Total non-current assets	41,453,793	44,081,711	45,610,246	47,429,353	47,642,371
Total assets	52,159,131	54,179,670	57,537,087	58,688,504	60,311,620
Trade payables	3,386,392	3,246,173	2,800,119	3,000,000	3,200,000
Other payables	4,211,572	4,365,452	4,670,708	4,500,000	4,600,000
Bank and other borrowings	7,607,433	6,171,482	4,728,905	4,000,000	3,500,000
Others	1,572,925	614,997	930,763	680,935	708,529
Total current liabilities	16,778,322	14,398,104	13,130,495	12,180,935	12,008,529
Bank and other borrowings	10,169,739	11,169,690	12,452,307	12,000,000	11,000,000
Others	3,252,870	3,250,125	3,239,137	3,232,664	3,232,664
Total non-current liabilities	13,422,609	14,419,815	15,691,444	15,232,664	14,232,664
Total liabilities	30,200,931	28,817,919	28,821,939	27,413,599	26,241,193
Shareholders' equity	21,375,665	24,820,854	28,179,873	30,793,079	33,644,406
Minority interests	582,535	540,897	535,275	481,826	426,021

Statement of Cash Flow

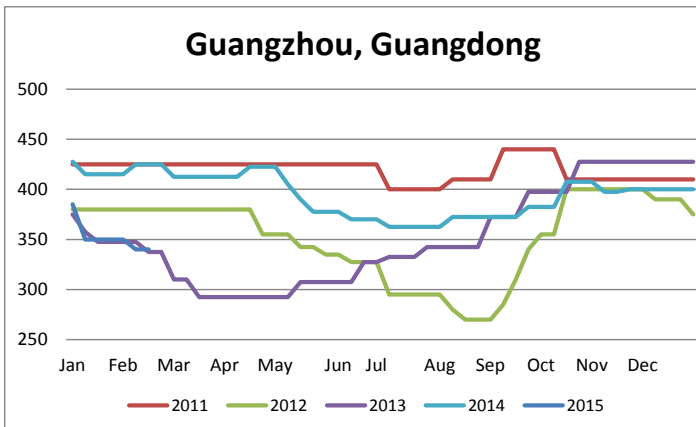
Year ended 31 Dec	2012	2013	2014E	2015E	2016E
Profit before tax	2,873,487	4,314,477	5,754,096	4,815,222	5,027,487
Depreciation & Amortization	1,646,183	1,827,176	2,020,732	2,173,045	2,338,782
Others / adjustments	864,666	(606,791)	(3,326,189)	(613,319)	(1,491,993)
Net operating cash flow	4,304,718	5,121,087	4,768,117	6,142,252	5,824,277
Capex	(3,218,917)	(2,900,435)	(1,563,200)	(4,600,000)	(2,200,000)
Others	(1,280,630)	(416,484)	(106,973)	(180,000)	(160,000)
Net investing cash flow	(4,499,547)	(3,316,919)	(1,670,173)	(4,780,000)	(2,360,000)
Change in debt	(2,267,134)	(1,766,881)	(159,960)	(1,181,212)	(1,500,000)
Dividends	(717,118)	(456,348)	(684,522)	(1,110,599)	(904,178)
Others	3,004,417	(419,272)	(927,440)	-	-
Net financing cash flow	20,165	(2,642,501)	(1,771,922)	(2,291,811)	(2,404,178)
Increase / Decrease in cash	(175,976)	(740,081)	1,326,022	(929,560)	1,060,098
Net cash/(debt)	(18,646,886)	(17,621,230)	(16,136,072)	(15,884,420)	(13,324,321)

Finance Ratios

	2012	2013	2014	2015E	2016E
Valuation					
PE(x)	13.1	9.3	7.1	8.4	8.1
EPS growth (%)	(39.4)	40.2	31.3	(15.8)	4.4
Yield (%)	1.5	2.2	3.6	3.0	3.1
PEG (x)	-0.33	0.23	0.23	-0.53	1.83
EV/EBITDA (x)	9.2	7.3	5.9	6.4	6.2
PB(x)	1.4	1.2	1.1	1.0	0.9
Operational					
Revenue growth (%)	9	16	11	0	6
Gross margin (%)	24.1	28.5	31.3	28.1	27.4
Net profit margin (%)	9.3	10.9	12.9	10.9	10.7
Days receivables	32	35	34	32	32
Days payables	65	58	49	45	45
Days inventories	44	39	35	34	32
Current ratio (x)	0.6	0.7	0.9	0.9	1.1
Quick ratio (x)	0.4	0.4	0.5	0.5	0.6
Asset/Equity (x)	2.4	2.1	2.0	1.9	1.8
Net debt/equity (%)	85	69	56	51	39
EBITDA interest coverage (x)	6.8	10.4	13.9	13.4	15.4
Core ROE (%)	11.5	14.1	16.2	12.3	11.7

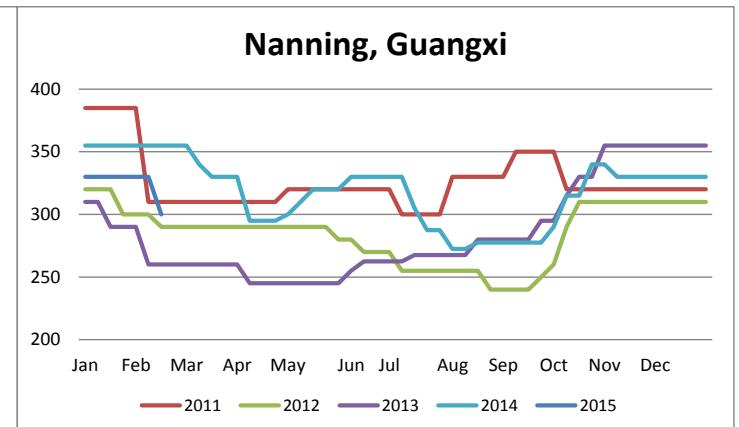
Sources: Company data, CGHK Research estimates

Figure 1: Cement Prices in Guangdong (RMB/tonne)



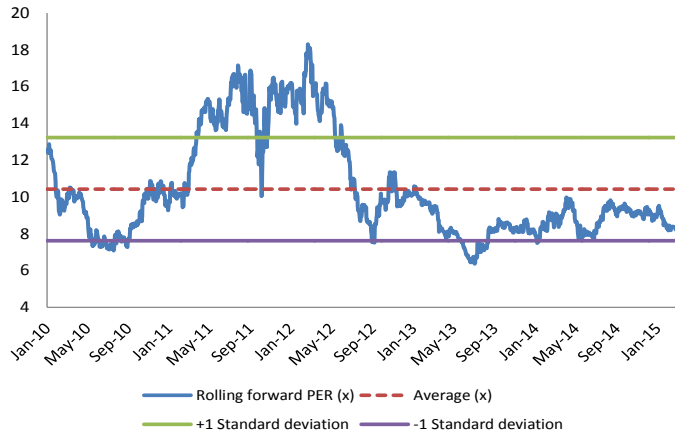
Sources: Digital Cement, CGHK Research

Figure 2: Cement Prices in Guangxi (RMB/tonne)



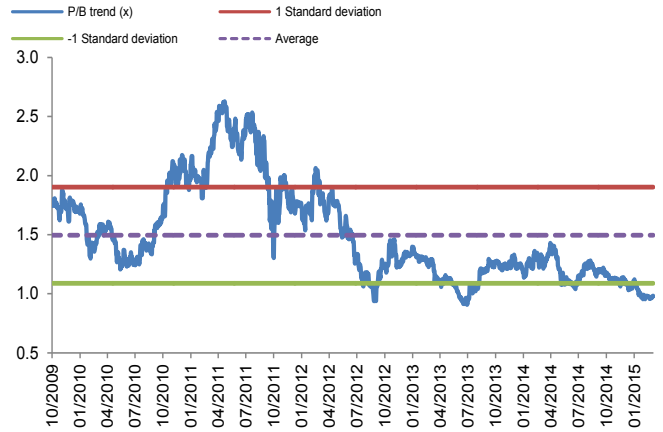
Sources: Digital Cement, CGHK Research

Figure 3: CR Cement Rolling Forward PER Range



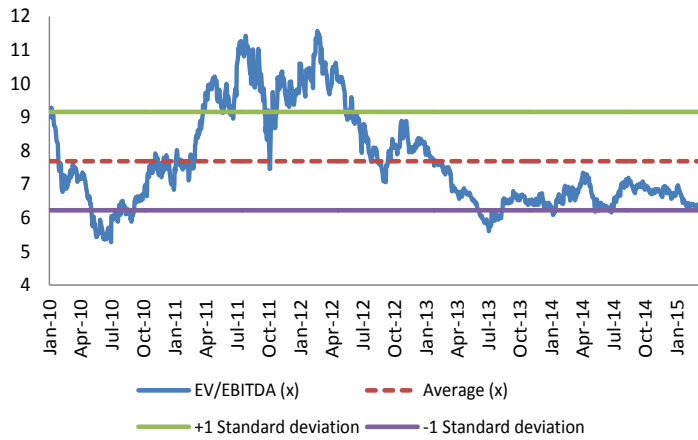
Sources: Bloomberg, CGIHK Research

Figure 4: CR Cement Rolling Forward PBR Range



Sources: Bloomberg, CGIHK Research

Figure 5: CR Cement EV/EBITDA Range



Sources: Bloomberg, CGIHK Research

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Explanation on Equity Ratings

BUY : share price will increase by >20% within 12 months in absolute terms

SELL : share price will decrease by >20% within 12 months in absolute terms

HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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