

17March 2015

BUY
Unchanged

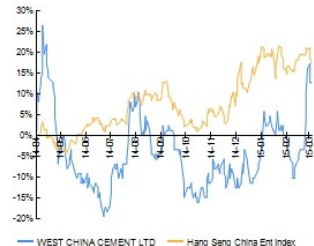
财报低于预期，但应展望未来

中国西部水泥(2233:HK)

Market Data: Mar,16

Closing Price (HK\$)	0.96
Price Target (HK\$)	1.50
HSCEI	11,814
HSCCI	4,403
52-week High/Low (HK\$)	1.16/0.70
Market Cap (US\$m)	563
Market Cap (HK\$m)	4,365
Shares Outstanding (m)	4,517
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"WEST CHINA CEMENT LTD (2233
HK): Turnaround time " Mar 4,2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	4,168	3,883	4,853	5,358	5,490
YoY (%)	18.3	(6.8)	25.0	10.4	2.5
Net income (Rmbm)	378	36	410	605	623
YoY (%)	3.7	(90.5)	1,042.8	47.4	3.0
EPS (Rmb)	0.08	0.01	0.09	0.13	0.14
Diluted EPS (Rmb)	0.08	0.01	0.09	0.13	0.14
ROE (%)	7.4	0.7	7.7	10.3	9.8
Debt/asset (%)	0.1	0.1	0.1	0.1	0.1
Dividend yield (%)	2.65	0.21	2.40	3.53	3.64
PE (x)	9.1	96.7	8.5	5.7	5.6
PB (x)	0.7	0.7	0.7	0.6	0.6
EV/Ebitda (x)	5.4	7.2	5.1	3.9	3.4

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

令人失望的 2014 中国西部水泥(2233:HK) 的 2014 年财报显示其净利润为人民币 35.9 百万元，每股净利润为 0.008 元（同比减少 90%）。剥离关于外汇损失，债务赎回和损失相关的约 1 亿元人民币的一次性损失，其净利润约为人民币 160 百万元，依然大幅度低于彭博和我们的预期。

2H14 较低的吨毛利和高于预期的单位费用与税率 2H14 的销量为 8.6 百万吨，环比增长 3%，同比减少 9%。公司 2H14 的吨售价为人民币 218 元，低于上半年的人民币 239 元每吨约 21 元，从而导致了 2H14 的吨毛利为人民币 25 元（我们此前预计 27 元，1H14 为 46 元），从而导致 14 年全年吨毛利为人民币 35 元。由于一次性的损失，单位其他收入为-2 元每吨，比 1H14 的 8 元每吨减少了 10 元。较低的利息资本化率导致了较高的每吨利息费用为人民币 15 元，环比 1H14 的每吨 11 元增加 4 元。2H14 的单位税费为每吨 5 元，高于我们预期的每吨 2 元。较低的吨毛利，和其他收入的净损失，再加上较高的财务成本一起导致了 2H14 的每吨净损失为人民币 14 元，拉低全年的每吨净收益至人民币 2.1 元

负债率和固定资本支出保持稳定 公司净负债从 1H14 的人民币 33.1 亿略增至 4Q14 的 34.1 亿元，净负债率稳定在 68%（1H14 为 65%），与 2H13 的 67% 相当。西部水泥 2014 年全年固定资本支出为人民币 7.2 亿元，比 13 年的 7.4 亿元略低 2%

最坏的时期已过 目前安徽海螺（914:HK）的陕西中部水泥厂海螺礼泉的高标水泥售价为人民币 245 元每吨，比 14 年十月中旬的底部价格人民币 180 元每吨高了 65 元。尤其海螺礼泉处于当地市场成本曲线最低端，可以当作陕西境内的水泥价格风向标。所以我们认为这是陕西省水泥价格复苏的早期信号。再加上 15-16 年陕西身的供求关系改善，我们认为最坏的时刻已经过去，西部水泥的基本面在改善。

维持买入评级 西部水泥目前正交易在人民币 257 元每吨的 15 年企业吨价值/产能，低于行业平均置换成本的人民币 400 元每吨。股价如果因为业绩下跌将是很好的买入机会。我们维持港币 1.5 元的目标价不变（对应 15 年吨企业价值/产能为人民币 310 元）以显示公司基本面反转的潜力和陕西当地的价格上涨趋势。基于 56% 的上行空间，我们重申买入评级。

Depressed 2014 results. West China Cement (WCC) announced FY14 results with net profit at Rmb35.9m (-90% YoY) and EPS at Rmb 0.008 (-90% YoY). Excluding one-off losses of c.Rmb100m, as the result of Forex losses, bond redemption and impairment, net profit would reach Rmb160m, significantly lower than both Bloomberg consensus and our estimates.

Lower margin, but higher-than-expected expenses and tax rate. In 2H14, sales volume was 8.6m tonnes (+3% HoH and -9% YoY). The company's average selling price (ASP) fell Rmb21/t from Rmb239/t in 1H14 to Rmb218/t in 2H14, resulting in a unit margin drop from Rmb46/t in 1H14 to Rmb25/t in 2H14 (vs our forecast of Rmb27/t) and Rmb35/t for full-year 2014. Due to one-off losses, unit other income declined Rmb10/t from Rmb8/t in 1H14 to Rmb-2/t in 2H14. Lower interest capitalisation rate led to higher unit interest expenses from Rmb11/t in 1H14 to Rmb15/t in 2H14. Unit tax reached Rmb5/t in 2H14, higher than our expectation of Rmb2/t. The combination of lower unit margin, negative other income and higher financing costs will result in a unit net loss of Rmb14/t in 2H14, resulting in declining full-year 2014 unit net profit of Rmb2.1/t.

Net gearing and Capex stabilise. Net debt rose to Rmb331mn in 4Q14, leading to stable net gearing of 68% (65% in 1H14 and 67% in 2H13). WCC's total Capex was Rmb720mn in 2014 (-2% vs Rmb740mn in 2013).

Worst has passed. Currently, Anhui Conch Cement's (914:HK) central Shaanxi Province-based plant, Conch Liquan, is selling P.O.42.5 cement at Rmb245/t, Rmb65/t higher vs the bottom of Rmb180/t in mid-October 2014. We interpret this as an early signal of a price rebound in Shaanxi as this plant operates at the low end of the regional cost curve and can be considered the price setter in the region. Given other signals of improving supply demand dynamics in 2015-16 in the region, we believe the worst is over and WCC's prospects are improving.

Maintain BUY. WCC is trading at 15E EV/capacity of Rmb257/t, 36% below the industry replacement cost of Rmb400/t. Investors should look beyond the results. We maintain our target price at HK\$1.50 (implying a 15E EV/capacity of Rmb310/t) reflecting the turnaround potential and positive price trend in Shaanxi. With 56% upside, we maintain our BUY recommendation.

APPENDIX

Fig 1: WCC's unit data forecasts

Rmb/t	1H 14	2H14	2014	15E	16E	17E
Volume, 000	8,360	8,640	17,000	20,475	21,870	22,410
ASP	239	218	228	237	245	245
ACP	-193	-194	-193	-195	-195	-195
Gross profit	46	25	35	42	50	50
Other Income	8	-2	3	10	10	10
SG&A	-18	-17	-17	-17	-17	-17
Finance cost	-11	-15	-13	-9	-8	-8
Expenses	-29	-32	-31	-27	-25	-25
Earnings before tax	25	-8.9	7.9	25	35	35
Tax (%)	-23%	60%	-71%	-20%	-20%	-20%
Tax/t	-6	-5	-6	5	7	7
Minorities	0.26	0.16	0.21	0.30	0.30	0.30
Net profit/t	19.2	-14.4	2.1	20	28	28
Net profittotal (Rmbm)	160	-124	36	410	605	623

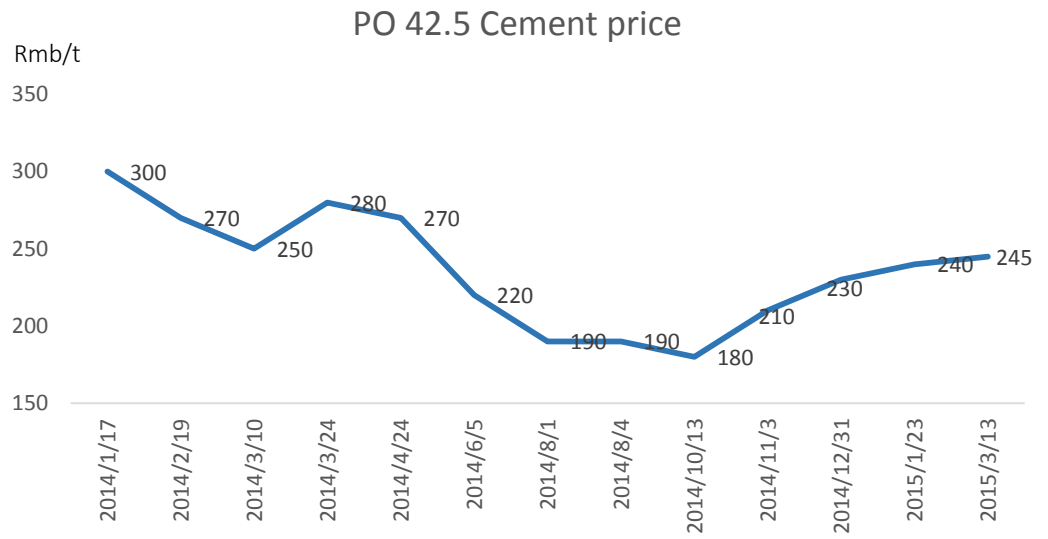
Source: Company, SWS Research

Fig 2: WCC 2H14 results VS. SWS estimates

Rmb/t	1H13	2H13	1H14	2H14	2H14SWS E	% Diff
Volume, 000	8100	9500	8360	8640	9160	-5.7%
ASP	243	232	239	218	217	0.6%
ACP	-200	-191	-193	-194	-190	1.9%
Gross profit	43	40	46	25	27	-8.7%
Other Income	15	12	8	-2	8	-122.9%
SG&A	-18	-14	-18	-17	-18	-3.3%
Finance cost	-13	11	-11	-15	-23	-33.1%
Expenses	-32	-2	-29	-32	-40	-20.2%
Earnings before tax	27	27	25	-9	-5	63.5%
Tax (%)	-21%	-18%	-23%	60%	35%	70.7%
Tax/t	-6	-5	-6	-5	-2	179.1%
Minorities	0.25	0.73	0.26	0.16	-0.01	-1703.0%
Net profit/t	21	22	19	-14	-7	96.2%
Net profit total (Rmbm)	168	205	160	-124	-67	85.0%

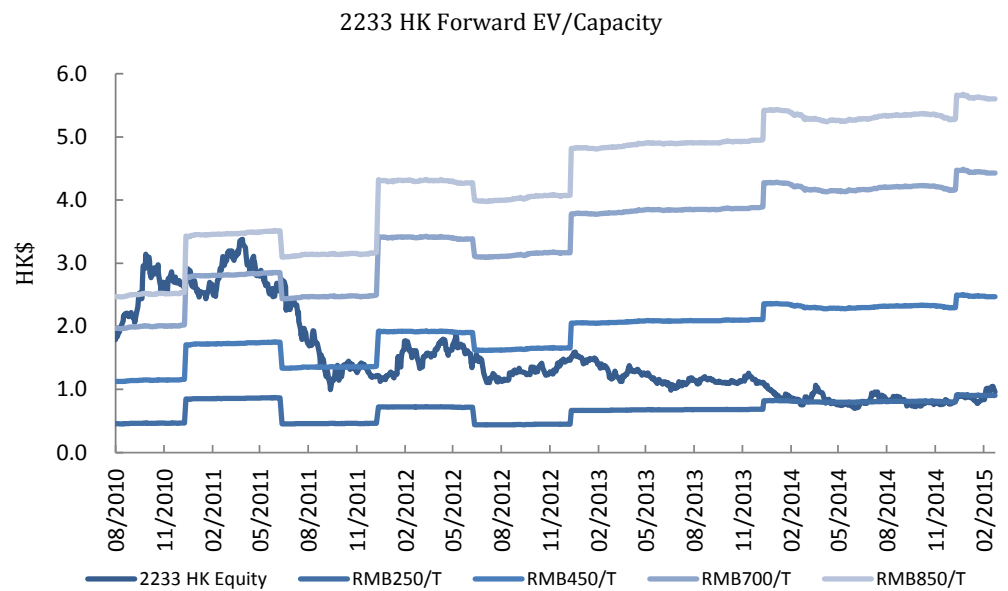
Source: Company, SWS Research

Fig 3: Price change in 2014-15 in Conch Liquean cement plant in central Shaanxi



Source: SCI 99, SWS Research

Fig 4: WCC EV/t band



Source: Bloomberg, SWS Research

Table 1: Consolidated Income Statement

Rmbm	2013	2014	2015E	2016E	2017E
Revenue	4,168	3,883	4,853	5,358	5,490
Cost of Sales	(3,439)	(3,285)	(3,993)	(4,265)	(4,370)
Gross Profit	729	598	860	1,094	1,121
Other Income	237	53	205	219	224
Distribution expenses	(35)	(36)	(61)	(66)	(67)
Administrative expenses	(244)	(258)	(307)	(328)	(336)
EBITDA	1,259	941	1,280	1,495	1,508
EBIT	687	357	696	919	941
Finance Costs	(212)	(222)	(190)	(170)	(170)
Profit before tax	475	135	521	764	787
Income tax expense	(93)	(96)	(104)	(153)	(157)
Minority interests	4	4	6	7	7
Profit for the year	378	36	410	605	623

Source: Company, SWS Research

Consolidated Cash Flow Statement

Rmbm	2013	2014	2015E	2016E	2017E
Profit before taxation	459	135	521	764	787
Plus : Depr. and amortisation	464	584	584	577	566
Finance cost	140	222	190	170	170
Losses from investments	(5)	0	0	0	0
Change in working capital	392	272	(203)	(22)	17
Others	(73)	(96)	(104)	(153)	(157)
CF from operating activities	1,374	1,117	987	1,336	1,383
CAPEX	(563)	(466)	(485)	(375)	(384)
Other CF from investing activities	(838)	0	0	0	0
CF from investing activities	(1,401)	(466)	(485)	(375)	(384)
Equity financing	0	0	0	0	0
Net change in liabilities	259	(0)	0	0	0
Dividend and interest paid	(344)	(229)	(272)	(291)	(295)
Other CF from financing activities	0	96	(309)	4	(40)
CF from financing activities	(136)	(134)	(581)	(287)	(335)
Net cash flow	(163)	518	(79)	674	665
FCFF	887	651	488	945	983
FCFE	1,006	429	298	775	813

Source: Company, SWS Research

Table 3: Consolidated Balance Sheet

Rmbm	2013	2014	2015E	2016E	2017E
Current Assets	1,891	1,857	2,437	3,234	3,937
Bank balances and cash	507	496	808	1,481	2,146
Trade and other receivables	737	601	751	829	850
Inventories	531	548	666	712	729
Long-term investment	29	39	0	0	50
PP&E	8,004	8,071	7,995	7,811	7,641
Intangible and other assets	915	1,052	948	926	955
Total Assets	10,694	10,768	11,168	11,760	12,320
Current Liabilities	2,294	2,362	2,427	2,528	2,584
Borrowings	709	745	745	745	745
Trade and other payables	1,444	1,598	1,663	1,764	1,820
Other current liabilities	3,420	3,326	3,326	3,326	3,326
Long-term liabilities	6	83	83	83	83
Total Liabilities	5,579	5,752	5,817	5,918	5,974
Minority Interests	41	46	52	58	65
Shareholder Equity	5,044	4,971	5,300	5,783	6,282
Share Capital	125	125	125	125	125
Reserves	145	0	0	0	0
Equity attributable	2,638	4,847	5,175	5,659	6,157
Total Liabilities and equity	10,665	10,768	11,168	11,760	12,320

Source: Company, SWS Research

Table 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (Rmb)					
Earnings per share	0.08	0.01	0.09	0.13	0.14
Operating CF per share	0.30	0.25	0.22	0.29	0.31
Dividend per share	0.02	0.00	0.02	0.03	0.03
Net assets per share	1.11	1.10	1.17	1.28	1.39
Key Operating Ratios(%)					
ROIC	7.09	4.08	7.34	9.50	9.92
ROE	7.44	0.72	7.67	10.35	9.81
Gross profit margin	17.50	15.40	17.72	20.41	20.41
EBITDA Margin	30.21	24.23	26.38	27.90	27.46
EBIT Margin	16.49	9.20	14.35	17.14	17.14
Growth rate of Revenue(YoY)	18.27	(6.83)	24.96	10.42	2.47
Growth rate of Profit(YoY)	3.68	(90.51)	1,042.76	47.35	3.02
Debt-to-asset ratio	0.07	0.08	0.07	0.07	0.07
Turnover rate of net assets	0.83	0.78	0.92	0.93	0.87
Turnover rate of total assets	0.39	0.36	0.43	0.46	0.45
Effective tax rate (%)	19.54	70.76	20.00	20.00	20.00
Dividend yield (%)	2.65	0.21	2.40	3.53	3.64
Valuation Ratios (X)					
P/E	9.09	96.69	8.46	5.74	5.57
P/B	0.68	0.70	0.66	0.60	0.55
EV/Sales	1.64	1.75	1.34	1.08	0.94
EV/EBITDA	5.43	7.22	5.07	3.89	3.41

Source: Company, SWS Research

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