



Rating  
**Buy**

Asia  
China

Industrials  
Manufacturing

Company  
**CIMC Enric Alert**

Reuters 3899.HK    Bloomberg 3899 HK    Exchange HKG    Ticker 3899

Date  
22 March 2015

## Results

Price at 20 Mar 2015 (HKD)	6.00
Price target - 12mth (HKD)	7.30
52-week range (HKD)	11.78 - 5.25
HANG SENG INDEX	24,375

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## Results in-line; payout rose to 29%; M&A potential with Rmb1.6b net cash

CIMC Enric reported in-line 2014 results with net profit up by 4.5% yoy. Despite the weak earnings growth, Enric declared HKD0.195/share dividend (+63% yoy) with payout ratio rose to 29.5% (from 18% in 2013) – which might be explained by its Rmb1.6bn net cash as of end-2014. With good operating cashflow (Rmb1.1bn in 2014) & limited capex of Rmb300-400m p.a. guided earlier, we see an increasing chance of the company being in an acquisition mode in 2015 in view of limited parentco asset injection upside currently. Enric will hold an analyst briefing 10am, 23 Mar (35/F Central Plaza) & the focus will be the energy segment growth guidance after the recent incremental gas tariff cut.

### Net profit up 4.5% yoy; 2H14 saw slight recovery in energy

CIMC Enric's revenue was up by 12% yoy to Rmb11.2bn driven by the 62% yoy increase in liquid food revenue (or 31% if stripping out the acquisition of NCLS in 2H14). Energy revenue was flat yoy, but growth picked up in 2H (8% yoy vs. a 7% yoy decline in 1H14) along with the industry-wide fuel tank sales recovery. Chemical revenue was up 7% yoy. Gross margin retreated by 1.5ppt to 18.8% in 2014 (Energy down 1.7ppt, Chemical down 2.7ppt and liquid food up 0.7ppt). As a result, gross profit was largely flat yoy. Nevertheless, thanks to the Rmb59m tax reversal recorded in 1H14, net profit was still up 5.2% yoy to Rmb1,023m – in line with our forecast of Rmb978m.

We show the segment breakdown in sidebar & results summary in Figure 1.

Stock data	
Market cap (HKDm)	11,583
Market cap (USDm)	1,493
Shares outstanding (m)	1,930.4
Major shareholders	–
Free float (%)	25
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

Key data			
FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	9,981	10,518	10,610
Net Profit (CNYm)	972.5	977.6	862.2
DB EPS (CNY)	0.50	0.50	0.44
PER (x)	15.4	9.7	11.0
Yield (net) (%)	1.2	2.4	2.1

Source: Deutsche Bank

Figure 1: 2014 results summary

RMBm	1H13	2H13	2013	1H14	2H14	2014
<b>Turnover</b>	<b>4,829</b>	<b>5,153</b>	<b>9,981</b>	<b>4,813</b>	<b>6,385</b>	<b>11,198</b>
Cost of sales	(3,853)	(4,104)	(7,956)	(3,918)	(5,224)	(9,152)
<b>Gross profit</b>	<b>976</b>	<b>1,049</b>	<b>2,025</b>	<b>895</b>	<b>1,160</b>	<b>2,046</b>
<b>GPM %</b>	<b>20.2%</b>	<b>20.4%</b>	<b>20.3%</b>	<b>18.6%</b>	<b>18.2%</b>	<b>18.8%</b>
Chg. in fair value of derivatives	1	(0)	1	(3)	1	(2)
Other revenue	83	137	220	108	137	245
Other net income/(expenses)	(0)	(7)	(7)	6	(2)	4
Selling expenses	(142)	(130)	(273)	(141)	(185)	(325)
Administrative expenses	(329)	(435)	(764)	(331)	(474)	(805)
<b>Profit from operations</b>	<b>590</b>	<b>613</b>	<b>1,203</b>	<b>534</b>	<b>628</b>	<b>1,162</b>
Finance costs	(11)	(9)	(20)	(8)	(25)	(33)
<b>Profit before taxation</b>	<b>579</b>	<b>604</b>	<b>1,183</b>	<b>526</b>	<b>602</b>	<b>1,129</b>
Income tax	(107)	(95)	(202)	(12)	(135)	(147)
<b>Effective tax rate</b>	<b>18.6%</b>	<b>15.7%</b>	<b>17.1%</b>	<b>2.3%</b>	<b>22.4%</b>	<b>12.4%</b>
Profit after tax	471	510	981	514	521	1,035
Minority	(4)	(4)	(8)	(6)	(5)	(12)
<b>Net profit</b>	<b>467</b>	<b>505</b>	<b>973</b>	<b>508</b>	<b>515</b>	<b>1,023</b>

Source: company data, Deutsche Bank; note: Enric has restated its FY13 results due to NCLS acquisition in 2H14; the figures above are before restatement to reflect semi-annual data

Segment revenue and margin			
RMBm	2013	2014	yoy
<b>Turnover</b>	<b>9,981</b>	<b>11,198</b>	<b>12%</b>
Energy	5,372	5,422	1%
Chemical	3,094	3,314	7%
Liquid food	1,516	2,462	62%
<b>Gross profit</b>	<b>2,025</b>	<b>2,046</b>	<b>1%</b>
<b>GPM %</b>	<b>20.3%</b>	<b>18.8%</b>	<b>-1.5ppt</b>
Energy	21.5%	19.8%	-1.7ppt
Chemical	18.9%	16.2%	-2.7ppt
Liquid food	19.1%	19.8%	0.7ppt
Energy	1,155	1,074	(7%)
Chemical	584	537	(8%)
Liquid food	290	487	68%

Source: company data, Deutsche Bank

Deutsche Bank AG/Hong Kong

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