



Company Report: China Resources Cement (01313 HK)

公司报告: 华润水泥 (01313 HK)

Angus Chan 陈庆
+852 2509 2665
angus.chan@gtjas.com.hk

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Major Player In Robust South China, Maintain “Accumulate”

稳健的中国南方市场的主要参与者, 维持“收集”

- CR cement posted slightly lower than expected 2014 results. Revenue rose 4.5% YoY to HKD34,140 million, with sales volume of cement & clinker up 4.0% YoY to 77.9 mt and concrete up 4.7% YoY to 15.9 mm³. ASP/t was down 0.8% YoY to HKD330, slightly below our expectation. GP/t was down 8.3% YoY to HKD101 as unit costs rose 3.0% YoY. **Net profit arrived at HKD4,169 million, down 0.9% YoY, 8% lower than market expectation.**
- We slightly increase FY15-16F revenue by 3.0% and 5.8% to reflect modest sales volume growth. We believe new clinker capacity might put downward pressure on ASP in Southern China. We also expect unit cost to slightly increase on material costs increase. **We revise down FY15-16F earnings by 11.6% and 11.0%, respectively.**
- In 2015, there are 6 new lines coming into operation in Guangdong and Guangxi which might put downward pressure on cement ASP. Despite the new cement supply in 2015, we expect the Company's operating efficiency to continue in the next three years. **We maintain our investment rating of “Accumulate” on undemanding valuation, but cut our TP from HK\$6.70 to HK\$5.50 on earnings revision, implying FY15-17F PER of 8.6x, 8.2x and 7.9x, respectively.**
- 华润水泥公布略低于预期的业绩, 收入同比上升 4.5% 至 34,140 百万港元, 水泥及熟料销量同比增长 4.0%, 至 77.9 百万吨, 混凝土销量同比增长 4.7%, 至 15.9 百万立方米。每吨平均销售价格同比下降 0.8%, 至 330 港元, 略低于我们的预期。每吨毛利同比下降 8.3%, 至 101 港元, 因为单位成本同比上涨了 3.0%。 **净利润达 4,169 百万港元, 同比下降 0.9%, 比市场预期低 8%。**
- 我们略为上调 FY15-16F 收入 3.0% 和 5.8%, 以反映温和的销量增长。我们相信, 在中国南方新的熟料产能可能会对每吨平均销售价格有下行压力。我们也预期单位成本小幅增加因材料成本增加。 **我们下调 FY15-16F 盈利 11.6% 和 11.0%。**
- 在 2015 年, 有 6 个新的生产线即将在广东和广西地区的投产可能对每吨平均销售价格有下行压力。尽管有新的水泥供应, 我们预计公司的经营效率在未来三年内可能维持。 **我们维持我们的投资评级“收集”因估值不高, 但下调目标价从 6.70 港元至 5.50 港元因盈利预测下调, 意味着 8.6 倍, 8.2 倍和 7.9 倍 FY15-17F 市盈率。**

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$5.50

Revised from 原目标价:

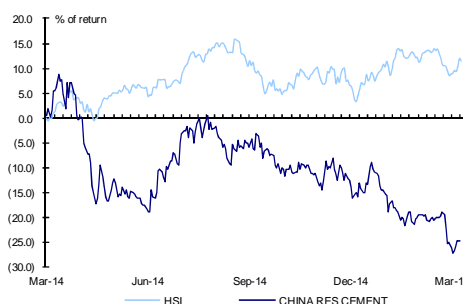
HK\$6.70

Share price 股价:

HK\$4.380

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(6.4)	(11.0)	(25.1)
Rel. % to HS index 相对恒指变动 %	(4.6)	(18.9)	(37.2)
Avg. share price(HK\$) 平均股价 (港元)	4.5	4.7	5.2

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2013A	29,341	3,338	0.512	43.6	8.6	3.805	1.2	0.105	2.4	14.5
2014A	32,669	4,206	0.644	25.8	6.8	4.314	1.0	0.170	3.9	15.9
2015F	34,140	4,169	0.638	(0.9)	6.9	4.779	0.9	0.173	3.9	14.0
2016F	36,875	4,368	0.669	4.8	6.6	5.263	0.8	0.184	4.2	13.3
2017F	39,511	4,520	0.692	8.4	6.3	5.758	0.8	0.197	4.5	12.6
Shares in issue (m) 总股数 (m)					6,532.9	Major shareholder 大股东	CR Limited 73.3%			
Market cap. (HK\$ m) 市值 (HK\$ m)					28,614.3	Free float (%) 自由流通比率 (%)	26.7			
3 month average vol. 3 个月平均成交股数 ('000)					10,113.8	FY15 Net gearing (%) FY15 净负债/股东资金 (%)	48.6			
52 Weeks high/low (HK\$) 52 周高/低					6.210 / 4.200	FY15 Est. NAV (HK\$) FY15 每股估值 (港元)	6.1			

Source: the Company, Guotai Junan International.

FY14 results slightly below market expectation due to lower GP per ton. CR cement posted slightly lower than expected results, revenue rose 4.5% YoY to HKD34,140 million, with sales volume of cement & clinker was up 4.0% YoY to 77.9 mt and concrete rose 4.7% YoY to 15.9 mm³, respectively. ASP/t was down 0.8% YoY to HKD330, slightly below our expectation mainly due to weak cement demand and cement price in 4Q14. GP/t was down 8.3% YoY to HKD101, as unit costs rose 3.0% YoY. Selling expenses largely stayed flat, while admin expenses edged up 5.3% YoY to HKD2,731 million. Net profit arrived at HKD4,169 million, down 0.9% YoY, 8% lower than market expectation.

Table-1: FY14 Results

HKD mn	FY13	FY14	YoY %
Revenue	32,669	34,140	4.5%
Cost of Sales	(22,444)	(23,960)	6.8%
Gross profit	10,225	10,180	-0.4%
Selling expenses	(1,899)	(1,912)	0.7%
Administrative expenses	(2,594)	(2,731)	5.3%
Other income	547	634	15.9%
Operation profit	6,279	6,171	-1.7%
Change in fair value / non recurring	14	0	n.a
Finance costs	(655)	(597)	-8.7%
Share of results of joint ventures	97	117	20.0%
Share of results of associates	19	21	10.0%
Profit before tax	5,754	5,711	-0.8%
Tax	(1,631)	(1,616)	-0.9%
Profit after tax	4,123	4,095	-0.7%
Minority interests	83	75	-10.2%
Net profit	4,206	4,169	-0.9%
EPS	0.64	0.64	-0.9%
Per Ton (HKD) (Cement & Clinker)			
ASP	333	330	-0.8%
Unit cost	222	229	3.0%
GP	110	101	-8.3%
Gross Margin	31.3%	29.8%	-1.5%
Operation Margin	19.2%	18.1%	-1.1%
Net profit Margin	12.9%	12.2%	-0.7%

Source: the Company, Guotai Junan International.

Management expects cement demand outlook to remain stable. CR Cement's management believes cement demand is likely pick up in 2H15, driven by property and infrastructure demand. The Company expects 6 new lines coming in operation in Guangdong and Guangxi region in 2H15, representing an around 7% YoY capacity growth rate. We see negative impact on cement ASP in 2H15, as cement demand is likely to remain low growth while cement supply is likely to outpace cement demand in South China in 2015.

Low capex guidance and we expect organic sales growth. Capex guidance is HKD4,512 million and HKD 2,183 million in FY15F and FY16F. In 2014, we witnessed more consolidation in cement sector within large size players in 2014, either by acquisition or increase stake. While CR Cement is lagging behind on M & A activity compared to other large players. Management stated that the Company will continue to focus on M & A. Moreover, the Company is already studying overseas market opportunities.

Cement price edged down 1% WoW last week. Domestic cement price declined slightly, by 0.98% WoW. Since the cement price decreased a lot last year, it did not decrease dramatically at the beginning of 2015. Cement prices decrease mainly in Zhejiang, Fujian, Hunan, Yunnan and Gansu, down by RMB10-50/t WoW. Despite the downstream market has entering into normal season, the demand is weaker than expected mainly due to sluggish property construction activities. Among the different regions, Haikou's shipment level was around 80% while other regions were only around 30-60%. As it is traditional

slack season from January to February for cement market, many of the cement producers stopped production and began recondition instead. Especially in February, due to the Spring Festival vacation, cement production and sales both halted. The cement demand is likely to pick up in April. Even the coal price remained weak in early 2015; the decreased cost in production material is not enough to offset the decrease in cement price, and the gross profit for cement production companies might shrink after all.

We slightly revise down FY15-16F earnings by 11.6% and 11.0%, respectively. We slightly increase FY15-16F revenue by 3.0% and 5.8% to reflect modest sales volume growth. We believe new clinker capacity might post downward pressure on ASP in Southern China, ASP is expect to reach HK\$330/t, HK\$329/t and HK\$327/t in FY15-17F. We also expect unit cost to slightly increase on material costs increase. As such, GP/t is expected to reach HK\$101/t, HK\$96/t and HK\$93/t in FY15-17F, respectively. We revise down FY15-16F earnings by 11.6% and 11.0%.

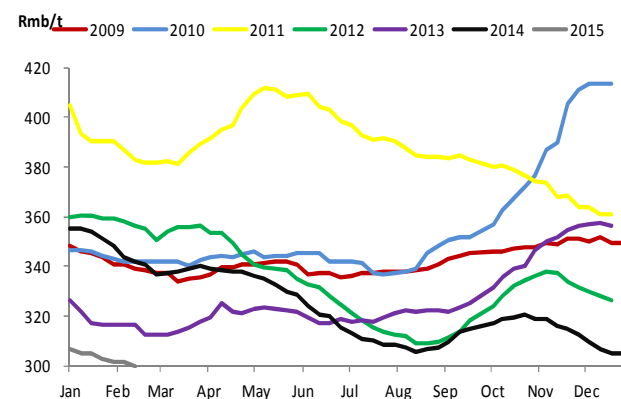
Table-2: Earnings Revision

HK\$ Mn	New			Old			Change		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Revenue	34,140	36,875	39,511	33,140	34,847	n.a	3.0%	5.8%	n.a
Gross profit	10,180	10,691	11,284	10,475	10,532	n.a	-2.8%	1.5%	n.a
Gross margin (%)	29.8%	29.0%	28.6%	31.6%	30.2%	n.a	-1.8 p.p.	-1.2 p.p.	n.a
Net profit	4,169	4,368	4,520	4,388	4,343	n.a	-5.0%	0.6%	n.a
EPS (HK\$)	0.638	0.669	0.692	0.672	0.665	n.a	-5.0%	0.6%	n.a
Cement & Clinker Per ton (HK\$)									
ASP	330	329	327	339	336	n.a	-2.6%	-2.3%	n.a
Unit cost	229	233	234	225	229	n.a	2.0%	1.9%	n.a
GP	101	96	93	114	108	n.a	-11.6%	-11.0%	n.a

Source: the Company, Guotai Junan International.

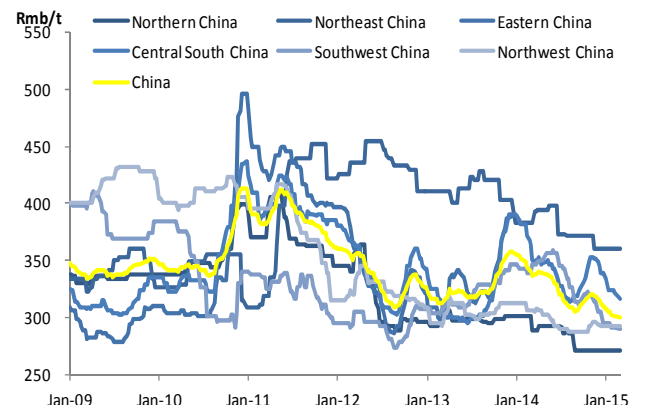
Maintain investment rating of “Accumulate” and cut TP from HK\$6.70 to HK\$5.50. CR Cement is one of the major cement producers in Guangzhou and Guangxi, the cement prices of these regions were benefit from limited new supply and solid demand from downstream in 2014. In 2015, there are 6 new lines coming in operation in Guangdong and Guangxi region which might post downward pressure on cement ASP. Despite the new cement supply in 2015, we expect the Company’s operating efficiency to continue in the next three years. We maintain our investment rating of “Accumulate” on undemanding valuation, but cut our TP from HK\$6.70 to HK\$5.50 on earnings revision, implying FY15-17F PER of 8.6x, 8.2x and 7.9x, respectively.

Figure-1: China Cement Price



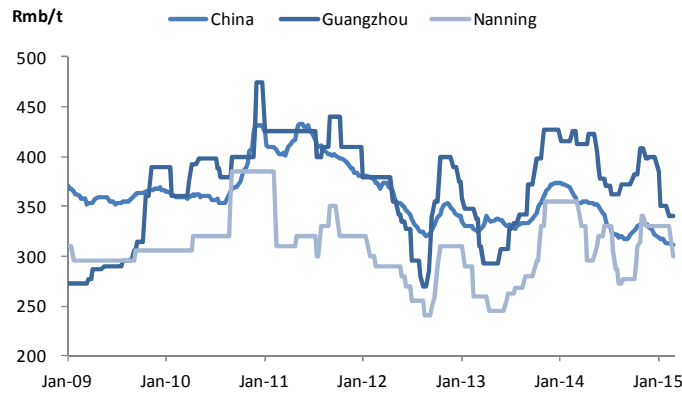
Source: Dcement, Guotai Junan International.

Figure-2: Cement Price Trend in China



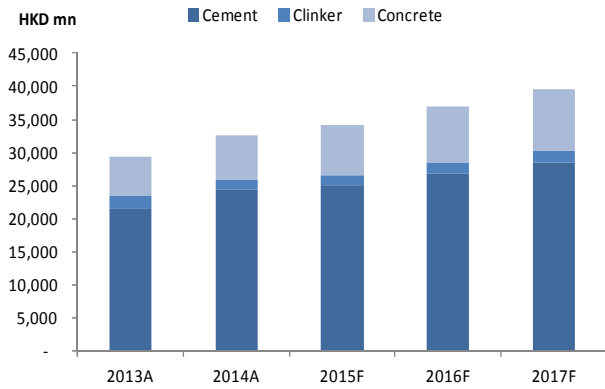
Source: Dcement, Guotai Junan International.

Figure- 3:Cement Price Trend in Southern China

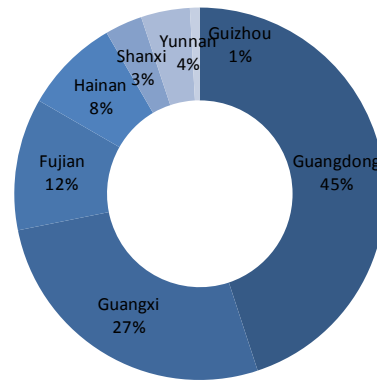


Source: Dcement, Guotai Junan International.

Figure-4: CR Cement's Revenue Breakdown in FY13-17F in Figure-5: CR Cement's Revenue Breakdown by Region in FY14

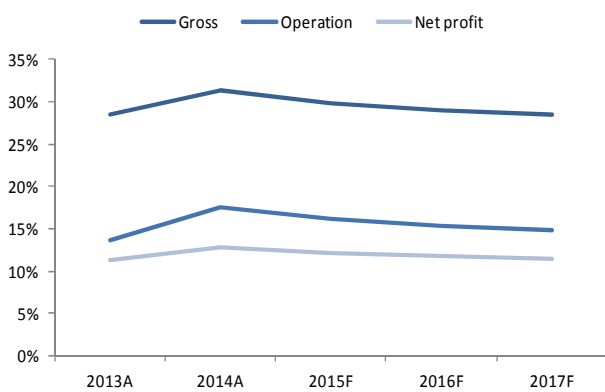


Source: the Company, Guotai Junan International.



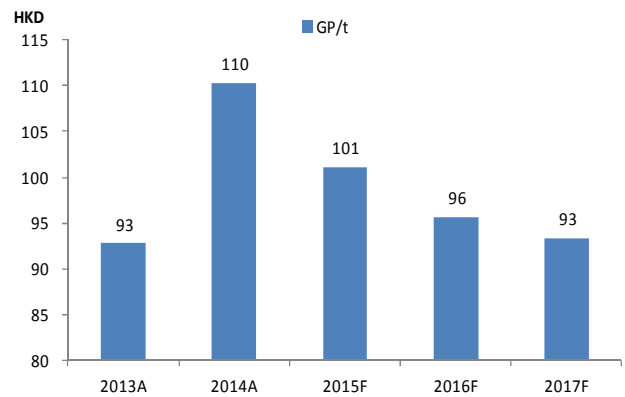
Source: the Company, Guotai Junan International.

Figure-6: CR Cement's Margins in FY13-17F



Source: the Company, Guotai Junan International.

Figure-7: CR Cement's Cement & Clinker GP/t in FY13-17F



Source: the Company, Guotai Junan International.

Financial statements & ratios

Income Statement						Balance Sheet					
Year end Dec (HKD m)	2013A	2014A	2015F	2016F	2017F	Year end Dec (HKD m)	2013A	2014A	2015F	2016F	2017F
Turnover	29,341	32,669	34,140	36,875	39,511	Fixed assets	32,527	33,272	34,096	33,949	33,505
Cost of sales	(20,981)	(22,444)	(23,960)	(26,184)	(28,227)	Goodwill & intangibles	2,200	2,272	2,386	2,505	2,631
Gross profit	8,360	10,225	10,180	10,691	11,284	Lease prepayments	2,752	2,787	2,927	3,073	3,226
Selling expenses	(1,633)	(1,899)	(1,912)	(2,065)	(2,252)	Interest in assoc/Jce	4,120	4,879	5,202	5,550	5,924
Administrative expenses	(2,727)	(2,594)	(2,731)	(2,950)	(3,161)	Others	2,483	2,400	2,551	2,713	2,886
Operating profit	3,999	5,732	5,537	5,676	5,871	Non-current assets	44,082	45,610	47,163	47,790	48,172
Other income	812	547	634	650	644	Inventories	2,132	2,162	2,626	2,941	3,248
Assoc/Jce/others	208	130	137	163	193	Trade and other receivables	4,747	4,226	5,645	6,098	6,642
Financial cost	(704)	(655)	(597)	(506)	(499)	Cash and bank balances	2,822	4,148	4,871	7,089	9,617
Profit before tax	4,314	5,754	5,711	5,983	6,209	Others	397	1,391	1,467	1,551	1,643
Taxation	(1,036)	(1,631)	(1,616)	(1,693)	(1,769)	Current assets	10,098	11,927	14,609	17,679	21,150
Minority interest	60	83	75	78	81	Total Assets	54,180	57,537	61,771	65,470	69,322
Net profit	3,338	4,206	4,169	4,368	4,520	Bank loans	6,171	4,729	4,492	4,268	4,054
EPS (HKD)	0.512	0.644	0.638	0.669	0.692	Trade and other payables	7,612	7,471	8,902	9,656	10,487
DPS (HKD)	0.105	0.170	0.173	0.184	0.197	Others	615	931	980	1,032	1,087
Key assumption						Current liabilities	14,398	13,130	14,374	14,956	15,629
Cement & Clinker (HKD)	2013F	2014F	2015F	2016F	2017F	Bank loans & bonds	14,272	15,555	15,567	15,580	15,592
ASP/t	314	333	330	329	327	Others	148	136	150	165	182
Unit cost/t	221	222	229	233	234	Non-current liabilities	14,420	15,691	15,718	15,745	15,774
GP/t	93	110	101	96	93	Total Liabilities	28,818	28,822	30,092	30,701	31,403
Cash flow Statement						Shareholders' equity	25,362	28,715	31,680	34,768	37,919
Year end Dec (HKD m)	2013F	2014A	2015F	2016F	2017F	Total Liabilities and Equity	54,180	57,537	61,771	65,470	69,322
Profit before tax	4,314	5,754	5,711	5,983	6,209	BPS (HKD)	3.805	4.314	4.779	5.263	5.758
Depreciation & amortisation	1,816	1,918	2,275	2,430	2,544	Financial Ratios					
Net finance cost	639	596	515	421	413	Year end Dec (HKD m)	2013A	2014A	2015F	2016F	2017F
Other items	71	201	0	0	0	Growth (%):					
Working capital change	(346)	376	(583)	(157)	(179)	Revenue	15.8	11.3	4.5	8.0	7.1
Interest & Tax paid	(1,374)	(1,986)	(2,168)	(2,151)	(2,218)	Gross profit	37.1	22.3	(0.4)	5.0	5.5
Cash flow from operation	5,121	6,859	5,750	6,526	6,769	Operating profit	30.3	43.3	(3.4)	2.5	3.4
CAPEX	(2,949)	(4,520)	(3,520)	(2,737)	(2,591)	Net profit	43.6	26.0	(0.9)	4.8	3.5
Others	(368)	(38)	(158)	(162)	(169)	Profitability (%):					
Cash flow from investing	(3,317)	(4,557)	(3,679)	(2,900)	(2,760)	Gross margin	28.5	31.3	29.8	29.0	28.6
Increase in bank loans	(2,018)	(142)	(218)	(206)	(194)	Operating margin	13.6	17.5	16.2	15.4	14.9
Dividends paid	(617)	(915)	(1,130)	(1,201)	(1,288)	Net margin	11.4	12.9	12.2	11.8	11.4
Issuance of unsecured bonds	0	92	0	0	0	ROA	6.2	7.3	6.7	6.7	6.5
Others	(7)	(7)	0	0	0	ROE	14.5	15.9	14.0	13.3	12.6
Cash flow from financing	(2,643)	(972)	(1,348)	(1,407)	(1,482)	Liquidity & Solvency					
Cash balance change	(838)	1,330	723	2,219	2,527	Current Ratio (x)	0.7	0.9	1.0	1.2	1.4
Cash balances at year begin	3,562	2,822	4,148	4,871	7,089	Quick Ratio (x)	0.2	0.3	0.3	0.5	0.6
Effect of FX changes	98	(4)	0	0	0	Net gearing (%)	71.0	57.3	48.6	37.1	26.7
Cash balances at year end	2,822	4,148	4,871	7,089	9,617	Interest coverage (x)	8.5	11.5	13.3	11.8	12.4
<i>Source: the Company, Guotai Junan International.</i>						Dividend payout ratio (x)	20.5%	26.4%	27.1%	27.5%	28.5%

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk