

24 March 2015

Outperform  
Unchanged

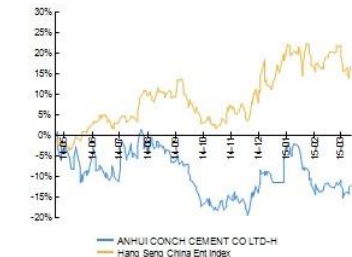
## 业绩符合预期，分红率提高带来估值提升

安徽海螺水泥 (914:HK)

### Market Data: Mar 23

Closing Price (HK\$)	28.1
Price Target (HK\$)	33
HSCEI	12,177
HSCCI	4,484
52-week High/Low (HK\$)	35.70/24.00
Market Cap (USD Mn)	19,195
Market Cap (HK\$ Mn)	148,910
Shares Outstanding (Mn)	5,299
Exchange Rate (RMB-HK\$)	1.26

### Price Performance Chart:



Source: Bloomberg

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### Related Reports

"Anhui conch cement (914 HK):

Shelling out " Jan 15,2015

### Financial summary and valuation

	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Revenue (Rmbm)	55,262	60,759	63,142	67,480	67,721
YOY (%)	20.7	9.9	3.9	6.9	0.4
Net income (Rmbm)	9,389	10,981	11,399	12,183	12,670
YOY (%)	48	17	4	7	4
EPS (Rmb)	1.77	2.07	2.15	2.30	2.39
Diluted EPS (Rmb)	1.77	2.07	2.15	2.30	2.39
ROE (%)	16.84	16.68	15.45	14.65	13.66
Debt/asset (%)	24.7	20.6	18.7	18.0	16.5
Dividend yield (%)	1.11	1.55	2.89	2.39	2.55
PE (x)	12.7	10.9	10.5	9.8	9.5
PB (x)	2.1	1.8	1.6	1.4	1.3
EV/Ebitda (x)	6.8	5.6	5.5	4.9	5.5

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

**业绩符合预期** 安徽海螺 (914HK) 的 2014 年财报公布，净利润为 109.8 亿元且每股净利润为 2.07 元（同比增长 17%）。该业绩完全与申万的预期一致，比彭博的预期每股净利润 2.173 略低 4.6%。

**分红率提高是关键** 在 2014 年，海螺水泥与熟料的销量为 249 百万（同比 9.29%）吨。水泥与数量的吨售价为人民币 244 元，对比 2013 年的 242 元略高 2 元。吨毛利在 2014 年达到了人民币 82 元每吨，比 2013 年的 79 元多出 3 元。海螺将过去 5 年平均分红率的 19% 提高至目前的 31%。再次确认了我们 2015 年 1 月 15 日报告所指出的海螺将增加其分红的观点

**杠杆持续减少，资产负债表进一步增强** 净负债在 2014 年为人民币 57.6 亿元，对比 2014 年 6 月的 100 亿元和 2013 年年末的 108 亿元。14 年末的净负债率为 9%（14 年上半年为 17%），对比 13 年年末的 20%。这验证了我们此前所认为的在水泥行业需求减弱和市场逐步整合成熟的背景下，公司会持续的去杠杆的判断。

**改革红利提升估值** 我们看到了海螺正在进行的国企改革带来的积极效果。随着海螺水泥直接由海螺创业持股，我们认为员工持股计划将会通过进一步提高海螺的分红率得到体现。参照湾水泥市场的经验，长期看，我们认为分红率将会由现在的 31% 持续提高到未来的 45%，同时带动公司的估值提升。

**重申增持评级** 海螺目前交易在人民币 468 元吨企业价值，低于历史平均水平约 20%。我们维持现有目标价港币 33 元，反映了人民币 538 元的吨企业价值。基于 15.4% 的上浮空间，我们重申增持评级

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**Results in line.** Conch reported full-year 2014 net profit of Rmb10.98bn and EPS of Rmb2.07 (+17% YoY), vs SWS's EPS forecast of Rmb2.08 but 4.6% below the Bloomberg consensus forecast EPS of Rmb2.17.

**Higher payout ratio as a key positive.** In 2014, Conch delivered 249m tonnes of cement and clinker (+9.29% YoY). The average selling price (ASP) for cement and clinker was Rmb244/t, Rmb2 higher than the Rmb242/t average in 2013. Unit margin reached Rmb82/t in 2014, up Rmb3 over 2013. Conch increased its dividend payout ratio to 31%, which compares with a five-year average of 19%. This underscores our expectation, as noted in our previous report, *Shelling out* (published 15 January 2015), that the company may increase its payout ratio, following its streamlining of its shareholder structure.

**Ongoing deleveraging strengthens balance sheet.** Conch's net debt by the end of 2014 was Rmb5.76bn, down from Rmb10.0bn in mid-2014 and Rmb10.8bn at end-2013. The lower levels of net debt over the year reduced net gearing from 17% in 1H14 to 9% for the full year, (and compares with a net gearing in 4Q13 of 20%). We see Conch's continued efforts to deleverage as a prudent approach during the current period of decelerating demand for cement.

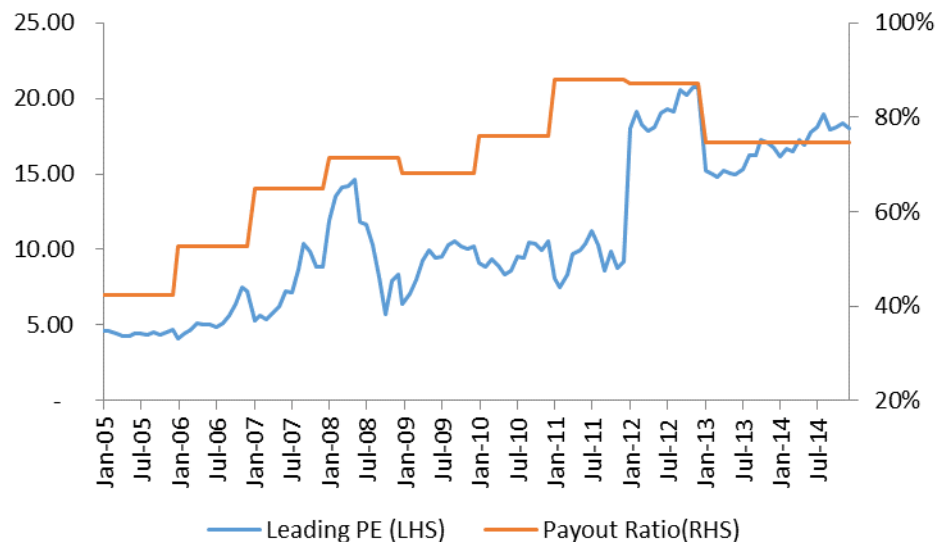
**Reform to drive re-rating.** We see positive results from the Anhui local government's efforts to reform the state-owned enterprise (SOE) structure of Conch Cement, through a more effective employee incentive scheme that will likely push overall dividend payouts higher. We expect the company to continue to raise its dividend payout ratio over the long-term from the current level of 31% towards 45%. We expect this to result in a re-rating of the stock, as per the experience of the Taiwanese cement market.

**Maintain Outperform.** Anhui Conch is currently trading at an EV/capacity of Rmb468/t, representing a c.20% discount to its historical average. We maintain our current target price of HK\$33, reflecting an EV/capacity of Rmb538/t. With 17.4% upside, we maintain our Outperform recommendation.

**Fig 1: Unit data of Conch**

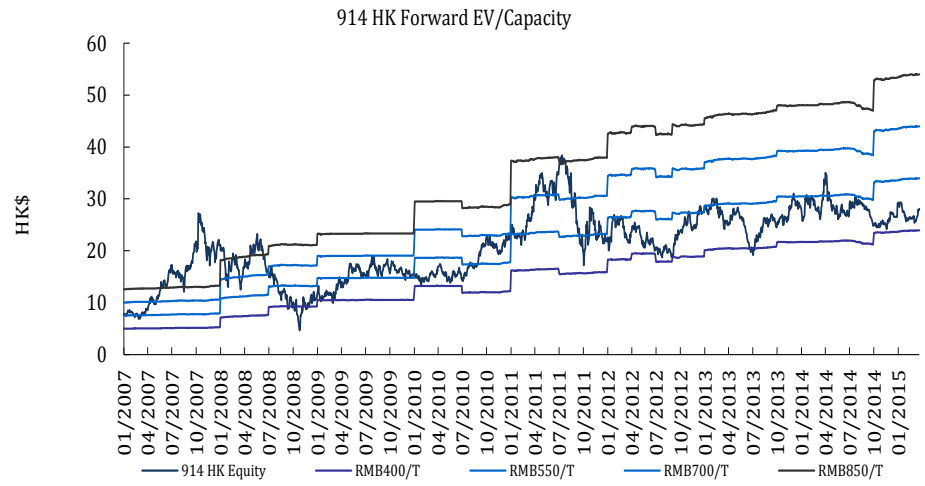
(Rmb/t)	2013	2014	2015E	2016E	2017E
Volume (mt)	228	248	262	280	281
ASP	242	245	241	241	241
ACP	-163	-164	-161	-161	-161
Gross profit	79	82	80	80	80
Other	4.9	5.9	2.5	2.5	2.5
Selling and marketing	-11.8	-11.9	-11	-11	-11
Admin expenses	-11.2	-10.9	-11	-11	-11
<b>SG&amp;A</b>	<b>-23.0</b>	<b>-22.7</b>	<b>-22.0</b>	<b>-22.0</b>	<b>-22.0</b>
Finance costs	-5.1	-4.2	-3.6	-3.6	-2.6
<b>Expenses</b>	<b>-28.1</b>	<b>-26.9</b>	<b>-25.6</b>	<b>-25.6</b>	<b>-24.6</b>
Associates/Entities	-0.1	-0.2	0.2	0.2	1.2
<b>Profit before taxation</b>	<b>56</b>	<b>60</b>	<b>57</b>	<b>57</b>	<b>59</b>
Tax rate	22%	23%	21%	21%	21%
Tax/t	-12.5	-13.6	-12.0	-12.0	-12.4
Minority interests	1.89	2.37	1.60	1.60	1.60
<b>Net profit/t</b>	<b>41</b>	<b>44</b>	<b>44</b>	<b>44</b>	<b>45</b>

Source: Company, SWS Research

**Fig 2: Asia Cement (1102:TT) dividend payout ratio and valuation multiple, 2005-14**


Source: Company, SWS Research

Fig 3: Conch EV/capacity



Source: Bloomberg, SWS Research

## APPENDIX

### Consolidated Income Statement

(Rmbm)	2013	2014	2015E	2016E	2017E
<b>Revenue</b>	55,262	60,759	63,142	67,480	67,721
<b>Cost of Sales</b>	(37,275)	(40,560)	(42,182)	(45,080)	(45,241)
<b>Gross Profit</b>	17,987	20,198	20,960	22,400	22,480
<b>Other Income</b>	3,313	1,652	655	700	703
Distribution expenses	(2,685)	(2,937)	(2,882)	(3,080)	(3,091)
Administrative expenses	(2,563)	(2,687)	(2,882)	(3,080)	(3,091)
EBITDA	17,430	19,997	20,197	21,546	0
EBIT	13,857	16,025	15,851	16,940	17,001
Finance Costs	(1,161)	(1,039)	(943)	(1,008)	(731)
<b>Profit before tax</b>	12,671	14,927	14,960	15,988	16,607
Income tax expense	(2,850)	(3,360)	(3,142)	(3,357)	(3,487)
Minority interests	432	586	419	448	450
<b>Profit for the year</b>	9,389	10,981	11,399	12,183	12,670

Source: SWS Research

### Consolidated Cash Flow Statement

(Rmbm)	2013	2014	2015E	2016E	2017E
<b>Profit before taxation</b>	12,671	14,927	14,960	15,988	16,607
Plus : D&A	3,386	3,972	4,346	4,606	4,970
Finance cost	1,161	1,039	943	1,008	731
Losses from investments	152	84	104	123	69
Change in working capital	504	2,922	(3,590)	(215)	(197)
Others	(3,919)	(3,360)	(4,692)	(4,877)	(3,487)
<b>CF from operating activities</b>	13,955	19,584	12,072	16,633	18,692
CAPEX	(7,518)	(9,418)	(10,734)	(11,472)	(23,025)
Other CF from investing activities	(4,959)	2,051	200	200	0
<b>CF from investing activities</b>	(12,476)	(7,366)	(10,534)	(11,272)	(23,025)
Equity financing	164	0	0	0	135
Net change in liabilities	(1,614)	0	0	(435)	1
Dividend and interest paid	(1,481)	(1,855)	(3,445)	(2,850)	(3,046)
Other CF from financing activities	(115)	(4,200)	0	16	(460)
<b>CF from financing activities</b>	(3,046)	(6,055)	(3,445)	(3,269)	(3,369)
<b>Net cash flow</b>	(1,567)	6,162	(1,907)	2,093	(7,703)
FCFF	13,080	16,861	9,014	13,217	2,235
FCFE	10,962	13,940	12,604	12,997	2,434

Source: SWS Research

**Consolidated Balance Sheet**

(Rmbm)	2013	2014	2015E	2016E	2017E
<b>Current Assets</b>	24,977	25,270	30,769	33,884	26,424
Bank balances and cash	11,256	14,152	15,511	17,604	9,901
Trade and other receivables	9,501	6,371	10,725	11,462	11,689
Inventories	3,693	4,376	4,160	4,446	4,462
Long-term investment	2,750	4,307	4,307	4,307	4,307
PP&E	62,687	69,584	72,880	78,375	83,555
Intangible and other assets	3,208	3,463	4,615	5,483	17,883
<b>Total Assets</b>	93,094	102,253	112,199	121,677	131,797
<b>Current Liabilities</b>	14,545	14,397	15,551	15,924	15,970
Borrowings	22,141	19,916	22,141	21,707	21,708
Trade and other payables	10,183	11,204	11,752	12,560	12,604
Other current liabilities	1,428	864	864	864	864
Long-term liabilities	941	1,042	1,042	1,042	1,042
<b>Total Liabilities</b>	34,693	33,026	35,800	36,172	36,218
Minority Interests	2,638	3,377	3,796	4,244	4,694
Shareholder Equity	55,764	65,850	73,805	83,137	92,762
Share Capital	5,299	5,299	5,299	5,299	5,299
Reserves	50,464	60,551	68,505	77,838	87,463
Equity attributable	8,064	9,126	7,955	9,333	9,624
<b>Total Liabilities and equity</b>	93,094	102,253	112,199	121,677	131,797

Source: SWS Research

**Table 4: Key Financial Ratios**

	2013	2014	2015E	2016E	2017E
<b>Ratios per share (Rmb)</b>					
Earnings per share	1.77	2.07	2.15	2.30	2.39
Operating CF per share	2.63	3.70	2.28	3.14	3.53
Dividend per share	0.25	0.35	0.65	0.54	0.57
Net assets per share	11.02	13.06	14.42	16.14	18.04
<b>Key Operating Ratios (%)</b>					
ROIC	15.29	16.33	14.89	14.76	12.39
ROE	16.84	16.68	15.45	14.65	13.66
Gross profit margin	32.55	33.24	33.20	33.20	33.20
Ebitda margin	31.54	32.91	31.99	31.93	0.00
Ebit margin	25.08	26.38	25.10	25.10	25.10
Revenue growth (YoY)	20.75	9.95	3.92	6.87	0.36
Profit growth (YoY)	48.30	16.95	3.81	6.87	4.00
Debt-to-asset ratio	24.67	20.57	18.74	18.02	16.47
Turnover rate of net assets	94.62	87.77	82.65	78.92	70.85
Turnover rate of total assets	59.36	59.42	56.28	55.46	51.38
Effective tax rate (%)	22.49	22.51	21.00	21.00	21.00
Dividend yield (%)	1.11	1.55	2.89	2.39	2.55
<b>Valuation Ratios (X)</b>					
PE	12.7	10.9	10.5	9.8	9.5
PB	2.1	1.8	1.6	1.4	1.3
EV/Sales	2.2	1.8	1.8	1.6	1.8
EV/Ebitda	6.8	5.6	5.5	4.9	5.5

Source: SWS Research

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