Deutsche Bank
Markets Research

Rating
Buy

Asia
China

Industrials
Manufacturing

Company
CIMC Enric Alert

Reuters	Bloomberg	Exchange	Ticker
3899.HK	3899 HK	HKG	3899

Date
23 March 2015

Company Update

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

Analyst briefing takeaways

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We attended Enric's analyst briefing this morning and provide key takeaways below. Overall, management admits a challenging environment for Energy Equipment due to uncertainty in oil price but aims for some growth with more EPC revenues and potential acquisitions. In our view, the risk on Energy Division has been reflected by significant share price decline as Chemical/Liquid food now account for 55% of EBIT and EPC projects gradually ramp up. With an increasing chance of the company being in an acquisition mode in 2015, we maintain Buy rating on the stock which trades at 11.0x FY15 PE with 3.3% dividend yield and net cash representing 17% market cap, despite a sharp recovery not in sight.

Energy Equipment - EPC is the silver line

Management believe Energy Equipment will continue to face challenges in 2015 due to slump in oil price, in particular 1H15, but still hopes for some growth for full year with revenue mix shifting from products to more EPC projects. Product market share in 2014 was largely maintained (LNG trailer: 70%; CNG trailer: 60%; LNG/CNG refilling station: 25%; LNG cylinder: 20%). Within the Energy Equipment, management remains upbeat on the long term potential of LNG vessel application and guided a c.Rmb400m revenue contribution from LNG vessels in 2015 from very small amount in 2014. LNG EPC projects will be another growth driver. The two LNG terminals (Shenzhen Gas and ENN Zhoushan) will be the major contracts to execute in 2015.

Order at hand at end 2014 was similar to a year ago at c.Rmb6bn (Energy: 3bn, Chemical: 1bn) but with higher mix of EPC projects. With gas price cut effective from 1 April, the outlook for energy equipment could fare better in 2H15 than 1H but still depends on oil price trend. The margin decline in 2014 was due to product mix change as high-margin CNG products declined. In management view, EPC margin should go up to high-teens once the company solidifies its competitive position from low-teen level currently. In addition, the company is exploring several new business areas including E&P equipment, nuclear vessel products and environment protection equipment.

Chemical/Liquid Food - stable 2015 outlook; Capex and dividend payout

Chemical volume increased 10% in 2014 with slight price decline. Standard container will likely see decline in 2015 and the company endeavors to raise special container sales to achieve a flat revenue trend. Margin should maintain stable with potential upside as special containers have higher margin. For Liquid Food, management expects no decline in revenue even factoring Euro weakness. The acquired liquid food business made a profit contribution of Rmb10m in 2014. Liquid food margin should be stable in 2015. Capex planned is Rmb460m for 2015, up from Rmb389m in 2014 and will be mainly invested in LNG equipment for vessels and cryogenic tank container production lines. Regarding dividend payout, management is content with maintaining a payout of 30 %, after the increase from 18 % last year.

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