



Rating
Buy

Asia
China

Resources
Construction Materials

Company
**Anhui Conch
Cement Alert**

Reuters 0914.HK Bloomberg 914 HK Exchange HKG Ticker 0914
ADR Ticker AHCHY ISIN US0352431045

Date
24 March 2015

Results

Price at 23 Mar 2015 (HKD)	28.10
Price target - 12mth (HKD)	30.13
52-week range (HKD)	35.60 - 24.15
HANG SENG INDEX	24,375

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FY14 in line; dividend raised on strong balance sheet

Bottom line up 17% yoy

Conch Cement announced its FY14 results with NPAT of RMB11bn or EPS of HKD2.07/sh, in line with DBE but slightly lower than consensus estimates of HKD2.26/sh. The recovery in 4Q14 ASPs was softer than expected but nevertheless, this was a solid result as Conch continued to strengthen its working capital and balance sheet during a challenging macro environment. AR days fell to 28 days from 39 days in 1H14 while net gearing declined to 11% from 21% in 1H14. Conch also declared a final dividend of RMB0.65/sh, implying a dividend payout ratio of 30% versus 20% in FY13. This is the first hike in Conch's dividend payout since its listing in 1999 and we don't rule out further increases down the road.

Margin contracted in 2H14 due to the slowdown in the property sector

GP/t for Conch rose to RMB82/t in FY14 after a RMB3/t decline in production cost yoy but ASPs remained flat yoy dragged by a weak 2H. GP/t fell from RMB90/t in 1H14 to RMB75/t in 2H14 as a result of the slowdown in the property sector. In Conch's core regions of East and South China, prices for FY14 were up by 1% and 7% yoy respectively but Conch's efforts to consolidate in Central and Western China have caused prices to decline by 4% yoy. Sales volume for Conch also grew by 9.3% yoy to 249mt in FY14 versus the national average of 1.8%, driven by a 29% and 17% yoy increase in Western and Southern China respectively.

Outlook

We expect GP/t for Conch to decline in 2015 as we exited 4Q14 with lower than expected ASPs and the recovery ytd has been slow. However, we believe sluggish demand and tight credit will accelerate consolidation. We think Conch is best positioned among its peers to seize M&A opportunities given its strong balance sheet. The company expects to spend a conservative RMB9bn (60% organic and 40% M&A) in capex for 2015, but we see upside risks to this.

Conch- A continues to be our top pick. We maintain our Buy rating for both Conch A and Conch - H with TP of RMB24.10/sh and HKD30.13/sh respectively.

Conch Cement will host an analyst briefing on March 25 at 4:15pm in JW Marriot, we will revisit our earnings estimate post the briefing.

Figure 1: Conch FY14 operating data

	1Q14	2Q14	3Q14	4Q14	1H14	2H14	% HoH	FY13	FY14	% YoY
Volume (mt)	48	66	66	69	114	135	19%	228	249	9%
ASP (RMB/t)	253	241	219	237	246	228	-7%	237	236	0%
GP/t (RMB/t)	92	89	67	81	90	75	-17%	79	82	3%

Source: Deutsche Bank, Company data

Stock data

Market cap (HKDm)	148,910
Market cap (USDm)	19,195
Shares outstanding (m)	5,299.3
Major shareholders	Conch Holdings (47.3%)
Free float (%)	52
Avg daily value traded (USDm)	32.7

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	55,262	60,260	64,351
Net Profit (CNYm)	9,389.3	11,603.3	11,610.7
DB EPS (CNY)	1.77	2.19	2.19
PER (x)	11.9	10.3	10.2
Yield (net) (%)	1.7	2.9	2.9

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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