



Rating
Buy

Asia
China

Resources
Construction Materials

Company
Conch Venture Alert

Reuters 0586.HK Bloomberg 586 HK Exchange HKG Ticker 0586

Date
24 March 2015

Results

Price at 23 Mar 2015 (HKD)	15.24
Price target - 12mth (HKD)	20.83
52-week range (HKD)	20.75 - 14.88
HANG SENG INDEX	24,375

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FY14 in line; Environmental business now trading for free

FY14 in line; Bottom line up 22% yoy, while core NP increased by 127% yoy
Conch Venture reported FY14 results with NPAT of RMB2.2bn, or EPS of RMB1.24/sh, up 22% and 2% yoy, respectively. Conch Cement continues to be the main earnings contributor accounting for 83% of CV's NP with its cement's earnings up 17% yoy. Stripping out its associate income, CV's core environmental business grew rapidly from a low base, up 127% yoy to RMB258m. Most of the increase was driven by growth in its waste incineration business where its revenue grew from RMB0.6mn in FY13 to RMB324mn in FY14. Gross profit of its core business also increased by 1.8ppts to 32.8% due to margin expansion in vertical mills (FY14:28% vs. FY13: 22%) while GPM for its waste incineration business was at 39%. CV also declared a dividend of RMB0.4/sh or a 32% dividend payout ratio. This implies that Conch Cement's proposed dividend payout of RMB0.65/sh has been completely passed through to CV's shareholders and more. (CV owns 36.8% of Conch Cement).

Diversifying client base with less reliance on Conch Cement

CV's top line reached RMB1.7bn, up 10% yoy. Most of the core businesses saw modest top-line improvements except for its residual heat power generation business, which missed and was down 18% yoy. In terms of business breakdown, residual heat-power generation, waste incineration, vertical mills and port logistics contributed to 55%, 19%, 18%, and 8% of sales, respectively. Breaking down CV's client segmentation, the percentage of revenue generated from Conch Cement further declined from 51% in 1H14 to 42% in FY14.

Outlook

CV has signed 22 waste incineration projects uptill today of which 15 of those has started construction and 4 projects have completed. The company expects to sign 10 more projects this year and the majority of those will be BOT projects. We expect CV's environmental business to enjoy fast growth in the next couple of years with more favorable policies to be further rolled out by the government. Potential market size for cement kiln waste incineration project is 200-300 and CV is confident that it will be able to complete 100+ projects by 2020. In addition, we expect CV's green building material business to gradually become a revenue driver, and contribute to c.30% of the top line by 2017 (versus none in 2014). CV continues to expect fast growth in its core business to complement stable income from Conch Cement.

Environmental stub is trading at zero value

CV is significantly undervalued, trading at 8.7x FY15 PER, c.15% discount to Conch Cement. This also implies that CV's environmental business is worth nothing as its associate income is worth HKD15.27/sh, higher than its current share price of HKD15.24. Maintain Buy with TP of HKD20.83/sh on attractive valuation and strong growth from waste incineration business.

Stock data

Market cap (HKDm)	22,860
Market cap (USDm)	2,947
Shares outstanding (m)	1,804.8
Major shareholders	-
Free float (%)	52
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	1,591	1,814	2,704
Net Profit (CNYm)	1,836.8	2,369.2	2,537.5
DB EPS (CNY)	1.22	1.31	1.41
PER (x)	12.4	9.3	8.7
Yield (net) (%)	1.7	2.9	3.0

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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