

**CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LTD. (中國建築國際)**

Sector	: Capital goods	Chairman and CEO	: ZHOU Yong
HKSE Code	: 03311		
Market Price	: HK\$10.80 (23/03/2015)		
HSI	: 24,494.51 (23/03/2015)		
Shares Issued	: 4,012 million		
Market Cap.	: HK\$43,334 million		
52 weeks Hi/ Lo	: HK\$14.16 / HK\$10.52		

**SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014**
**Final Results Highlights**

	<b>FY2014</b>	<b>FY2013</b>	<i>Change</i>
	<u>HK\$ million</u>	<u>HK\$ million</u>	
• Revenue	34,440	27,286	+26.2%
• Gross profit	4,743	3,746	+26.6%
• Operating profit	4,185	3,140	+33.3%
• Share of profits of joint ventures & associates	318	452	-29.6%
• <b>Attributable profit to shareholders</b>	<b>3,457</b>	<b>2,750</b>	<b>+25.7%</b>
	<u>HK\$</u>	<u>HK\$</u>	
• EPS – basic	0.8875	0.7071	+25.5%
• DPS – interim	0.1100	0.0900	+22.2%
• DPS – final	0.1500	0.1200	+25.0%
• DPS – total	0.2600	0.2100	+23.8%

- China State Construction International ('CSCI' or the 'Group') reported net profit of HK\$3.46 billion for the year ended 31<sup>st</sup> December 2014, up 25.7% from a year earlier. The Group's bottom line was in line with consensus forecast, mainly supported by good returns from its affordable housing BT (build-transfer) projects as well as its construction operation in Hong Kong.
- Revenue grew 26.2% y-o-y to HK\$34.4 billion in FY14, driven by the Group's construction operation in HK as well as strong top-line growth in Macau.
- Cost of sales rose 26.2% y-o-y to HK\$12.3 billion in FY14, in line with the Group's revenue growth. As a result, the Group's gross profit rose 26.6% y-o-y to HK\$4.7 billion, while gross profit margin remained stable at 13.8% in FY14 (FY13: 13.7%).
- EPS for FY14 was HK\$0.8875 (FY13: HK\$0.7071). A final dividend of HK\$0.15 per share was proposed, representing a full-year payout ratio of 29% (FY13: 30%).
- As of 31<sup>st</sup> Dec 2014, the Group had total debts of HK\$11.0 billion (31<sup>st</sup> Dec 2013: HK\$8.9 billion). With cash on hand of HK\$7.5 billion, the Group's net debt-to-shareholders' equity rose to 17.7% by end of 2014, compared with 4.7% a year earlier.

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## Business highlights

- Breakdown of revenue by business segments:

	FY2014		FY2013		Change
	HK\$ million	%	HK\$ million	%	
Infrastructure	15,050.1	43.7%	12,769.7	46.8%	+17.9%
Cash construction	18,011.9	52.3%	13,151.7	48.2%	+37.0%
Far East Global Group (00830)	1,377.6	4.0%	1,364.3	5.0%	+1.0%
<b>Total</b>	<b>34,439.6</b>	<b>100.0%</b>	<b>27,285.6</b>	<b>100.0%</b>	<b>+26.2%</b>

- Breakdown of revenue in geographical terms:

	FY2014		FY2013		Change
	HK\$ million	%	HK\$ million	%	
Hong Kong	15,284.7	44.4%	11,134.1	40.8%	+37.3%
Mainland China	15,516.9	45.1%	13,958.2	51.2%	+11.2%
Macau	2,255.9	6.6%	836.5	3.1%	+169.7%
Overseas	-	0.0%	16.0	0.1%	-100.0%
Far East Global Group (00830)	1,382.0	4.0%	1,340.8	4.9%	+3.1%
<b>Total</b>	<b>34,439.6</b>	<b>100.0%</b>	<b>27,285.6</b>	<b>100.0%</b>	<b>+26.2%</b>

- The Group's **cash construction** segment reported revenue of HK\$18.0 billion in FY14, up by a solid 37.0% from a year earlier, supported by various large-scaled construction projects in Hong Kong as well as the booming construction market in Macau on building of new casino and hotel complexes. Gross profit of the segment rose 18% y-o-y to HK\$1.37 billion (28.8% of the Group's total vs. 30.9% in FY13), while gross profit margin dropped to 7.6% in FY14 from 8.8% a year earlier. The segment reported reduced profit margin, as the Group booked a jump in revenue from its Macau projects but not yet recognised any profit at their respective initial construction stage (less than 30% of work completed).
- Revenue of the **infrastructure** segment grew 17.9% y-o-y to HK\$15.0 billion in FY14. The top-line growth was supported by the Group's affordable housing BT projects, of which revenue surged 32.9% y-o-y to HK\$8.7 billion in FY14. Other BT/BOT (build-operate-transfer) infrastructure projects on the Mainland generated revenue of HK\$6.3 billion, up 2.0% y-o-y. Gross profit of the segment amounted to HK\$3.3 billion in FY14, up strongly by 27.9% y-o-y, while its gross profit margin stood at 21.8% in FY14, up from 20.1% a year earlier.
- Thanks to effective cost control, the Group's 74.06%-owned **Far East Global Group** (00830) (FEG) saw its gross profit rebounded by 3.8-folds y-o-y to HK\$90.1 million in FY14, while gross profit margin revived to 6.5% in FY14 from 1.4% a year earlier.
- In geographical terms, the Group saw solid business momentum in its various key markets in 2014. The Group reported lower gross profit margin in Macau amid lower earnings recognised during the early stage of its projects, while it reported a loss in overseas market on settlement of onerous contracts in United Arab Emirates.



**Outlook & Prospects**

- **New contract value** signed in FY2014 & **backlog contract value** as of 31/12/2014:

(HK\$ billion)	New contracts	y-o-y chg	Backlog contracts	y-o-y chg
<b>Infrastructure Investment</b>	<b>37.83</b>	<b>+68.6%</b>	<b>50.84</b>	<b>+41.7%</b>
- Affordable housing	27.26	+80.8%	35.23	+35.6%
- Infrastructure	10.57	+43.6%	15.61	+57.8%
<b>Cash Construction and Related</b>	<b>20.45</b>	<b>-3.8%</b>	<b>39.68</b>	<b>+3.9%</b>
- Hong Kong	9.14	-48.9%	28.31	-17.8%
- Macau	10.48	+275.6%	10.80	+222.4%
- PRC	0.83	+38.3%	0.57	+39.0%
- International	-	-	-	-
<b>Far East Global</b>	<b>1.96</b>	<b>+7.1%</b>	<b>2.58</b>	<b>+10.7%</b>
<b>Total</b>	<b>60.24</b>	<b>+32.3%</b>	<b>93.10</b>	<b>+21.8%</b>

New contract growth (+32.3% y-o-y) of CSCl was mainly supported by Infrastructure Investment projects on the Mainland as well as construction contracts in Macau in 2014. Construction contract growth in HK saw a sharp slowdown of 48.9% y-o-y to HK\$9.1 billion in FY14, which was partly dragged by slow approval of project funding by the HKSAR government amid the Occupy Central protests. Nevertheless, the Group secured new cash construction contracts of HK\$4.6 billion from the HK market in Jan-Feb 2015, which came up with more than half the new contracts added in FY14.

- **2015 business guidance**

	2015 Target	FY2014 Actual	% chg
New contracts	> HK\$68 billion	HK\$60.24 billion	+12.9%
Capital spending	HK\$8.0 billion	HK\$8.12 billion	-1.5%
Net profit growth	Not less than +20% y-o-y	+25.7% y-o-y (guidance: +20% y-o-y)	N/A

Management set out business targets for 2015, which expects business momentum to stay robust this year. Recovery in the HK construction market as well as rising infrastructure construction on the Mainland are expected to lend support to the Group's contract growth this year.

- **Stable as usual** Earnings momentum in CSCl remained resilient and stable, despite economic slowdown on the Mainland and political instability in HK. The counter should remain a good defensive play, as its hefty backlog contract book of more than HK\$93 billion (2.7x to FY14 revenue) should help it weather well economic cycles on the Mainland and HK. Trading at inexpensive valuation of 9.8x FY2015E P/E, we keep a 'HOLD' rating on the counter accordingly.

**Recommendation: HOLD**

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