



Company Report: Anhui Conch (00914 HK)

公司报告: 海螺水泥 (00914 HK)

Angus Chan 陈庆
+852 2509 2665
angus.chan@gtjas.com.hk

26 March 2015

Expect Recovery in 2H15, "Accumulate"

预计在15年下半年恢复增长, "收集"

- Conch's FY14 revenue rose 17.0% YoY to RMB60,759 million, thanks to the volume growth. GP/t reached RMB81, up by RMB2 YoY. **Net profit arrived at RMB10,981 million, up 17.0% YoY, in line with expectations.** The Company declared a higher dividend payout ratio of 31.4% in FY14 (FY13: 19.8%). DPS was RMB0.650.
- We slightly trim down FY15-16F ASP by 5.8 and 7.1%, respectively, to reflect weak cement demand and more modest cement demand outlook in FY15-16F. We also expect unit cost to slightly increase in FY15-17F. As such, we estimate GP/t will reach RMB79/t, RMB77/t and RMB78/t in FY15-17F, respectively. **We revise down FY15-16F EPS forecasts by 8.7% and 10.3%, respectively.**
- We think Conch remains the best pick in the cement sector. **Conch has a strong cash position and very low gearing compared to other cement peers which help to speed up the M&A process.** Moreover, Conch has started expanding into overseas markets and is studying other Southeast Asia markets. We maintain our investment rating of "Accumulate" but lower TP from HK\$36.80 to HK\$34.50, implying FY15-17F PER of 11.3x, 11.0x and 10.6x, respectively.
- 海螺的14年收入同比增长17.0%, 上升至人民币60,759百万元, 多亏了销量增长。吨毛利达到人民币81元, 同比上涨2元。**净利润达人民币10,981百万元, 同比增长17.0%, 符合预期。**该公司宣布提高2014财年派息比率至31.4% (13财年: 19.8%), 每股股息人民币0.650元。
- 我们略为下调FY15-16F平均销售价格5.8%和7.1%, 分别反映了疲软的水泥需求和较为温和的水泥需求前景。我们也认为在FY15-17F单位成本略有增加。因此, 我们估计FY15-17F吨毛利分别达到人民币79元, 人民币77元, 人民币78元。**我们分别下调FY15-16F每股收益8.7%和10.3%。**
- 我们认为海螺仍然是行业中较好的选择。**海螺相比其他水泥的同行拥有雄厚的现金状况和极低的负债率, 这有助于加快并购进程。**此外, 海螺已经开始进军海外市场, 正在研究其他东南亚市场。我们维持我们的投资评级"收集", 但略为下调目标价, 从36.80港元下调至34.50港元, 对应11.3倍, 11.0倍和10.6倍FY15-17F市盈率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$34.50

Revised from 原目标价:

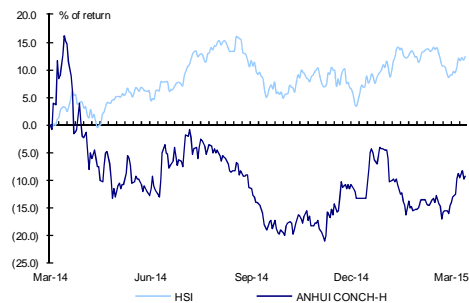
HK\$36.80

Share price 股价:

HK\$27.750

Stock performance

股价表现



| Change in Share Price 股价变动 | 1 M 1 个月 | 3 M 3 个月 | 1 Y 1 年 |
|-------------------------------------|-------------|-------------|------------|
| Abs. % 绝对变动 % | 5.5 | 4.3 | (8.7) |
| Rel. % to HS index 相对恒指变动 % | 7.4 | (3.6) | (20.9) |
| Avg. share price(HK\$) 平均股价 (港元) | 26.4 | 27.0 | 27.6 |

Source: Bloomberg, Guotai Junan International.

| Year End 年结 | Turnover 收入 | Net Profit 股东净利 | EPS 每股净利 | EPS 每股净利变动 | PER 市盈率 | BPS 每股净资产 | PBR 市净率 | DPS 每股股息 | Yield 股息率 | ROE 净资产收益率 |
|----------------|----------------|--------------------|-------------|---------------|------------|--------------|------------|-------------|--------------|---------------|
| 12/31 | (RMB m) | (RMB m) | (RMB) | (%) | (x) | (RMB) | (x) | (RMB) | (%) | (%) |
| 2013A | 55,262 | 9,389 | 1.772 | 48.3 | 12.2 | 10.523 | 2.1 | 0.350 | 1.6 | 18.0 |
| 2014A | 60,759 | 10,981 | 2.072 | 17.0 | 10.6 | 12.426 | 1.8 | 0.650 | 3.0 | 18.1 |
| 2015F | 67,623 | 12,780 | 2.412 | 16.4 | 9.1 | 14.188 | 1.5 | 0.756 | 3.5 | 18.1 |
| 2016F | 69,430 | 13,185 | 2.488 | 3.2 | 8.8 | 15.919 | 1.4 | 0.780 | 3.6 | 16.5 |
| 2017F | 71,605 | 13,666 | 2.579 | 3.7 | 8.5 | 17.718 | 1.2 | 0.809 | 3.7 | 15.3 |

| | | | | |
|---|---------------|--|-------------|-------|
| Shares in issue (m) 总股数 (m) | 5,299.3 | Major shareholder 大股东 | Anhui Conch | 48.0% |
| Market cap. (HK\$ m) 市值 (HK\$ m) | 147,055.7 | Free float (%) 自由流通比率 (%) | | 32.0 |
| 3 month average vol. 3 个月平均成交股数 ('000) | 7,037.1 | FY15 Net gearing (%) FY15 净负债/股东资金 (%) | | 5.3 |
| 52 Weeks high/low (HK\$) 52 周高/低 | 35.700/24.000 | FY15 Est. NAV (HK\$) FY15 每股估值 (港元) | | 35.1 |

Source: the Company, Guotai Junan International.

Net profit rose 17.0% YoY in FY14, in line with expectation, and dividend payout rose to 31%. Conch's revenue rose 17.0% YoY to RMB60,759 million, thanks to the volume growth. Sales volume of cement and clinker rose 9.2% to 249 mt. Blended ASP/t decreased RMB2 YoY to RMB236, while blended unit cost/t decreased RMB3 YoY to RMB155, thanks to the low coal price and effective cost control; GP/t reached RMB81, up by RMB2 YoY. Selling expenses and administrative expenses rose 7.2% YoY. Net profit arrived at RMB10,981 million, up 17.0% YoY, in line with expectations. The Company declared higher dividend payout ratio of 31.4% in FY14 (FY13: 19.8%), DPS was RMB0.650.

Table-1: FY14 Results

| RMB mn | FY13 | FY14 | YoY |
|--|----------|----------|---------|
| Revenue | 55,262 | 60,759 | 9.9% |
| COGS | (37,275) | (40,560) | 8.8% |
| Gross profit | 17,987 | 20,198 | 12.3% |
| Selling expenses | (2,685) | (2,937) | 9.4% |
| G & A expenses | (2,563) | (2,687) | 4.8% |
| Operating profit | 12,739 | 14,575 | 14.4% |
| Other revenue | 1,097 | 1,468 | 33.8% |
| Other net income | 21 | (17) | n.a |
| Share of (losses)/profits of associates | 0 | (55) | n.a |
| Share of (losses)/profits of jointly controlled entity | (26) | (4) | -83.7% |
| Finance costs | (1,161) | (1,039) | -10.5% |
| Profit before tax | 12,671 | 14,927 | 17.8% |
| Income tax | (2,850) | (3,360) | 17.9% |
| Minority interests | (432) | (586) | 35.7% |
| Net profit | 9,389 | 10,981 | 17.0% |
| ASP/t (cement & clinker) | | | |
| ASP/t | 238 | 236 | -0.5% |
| Unit cost | 158 | 155 | -2.1% |
| GP/t | 79 | 81 | 2.6% |
| Margins | | | |
| Gross profit margin | 32.5% | 33.2% | 0.7 ppt |
| Operating margin | 23.1% | 24.0% | 0.9 ppt |
| Net margin | 17.0% | 18.1% | 1.1 ppt |

Source: the Company

1H15 is likely to remain weak due to high base and weak demand, but we expected 2H15 to see gradual recovery.

Domestic cement price declined slightly, by 0.98% WoW. Since the cement price decreased a lot in 4Q14, it did not decrease dramatically at the beginning of 2015. Currently inventory level 75% is also higher compared to same period last year. Conch is likely face challenge in 1H15 due to high base and weak demand. In 1H14, Conch posted a 90% YoY growth on net profit and 10% growth on volume which we believe it is hard to achieve such growth in 1H15. Moreover, we see cement demand is very weak in 1Q15 and demand has not yet pick up. However, we expect cement price to show improvement in 2Q15 and 2H15 driven by demand improvement.

Capex guidance is ~RMB9 billion, excluding M&A. Conch Capex guidance is around RMB9 billion FY15. Conch is actively seeking quality acquisition targets, and the Company believes West China is the right region to look for mainly due to 1) more construction activities and 2) less concentrated market. Conch reiterates that the Company also considers increasing its stakes or further cooperation with other listed companies when appropriate. We see Conch is in the best position to speed up M&A, with its net gearing ratio lower from 20.7% in FY14 to 9.3% in FY15 and cash of ~RMB12.5 billion which is well funded to support brisk M&A activity. With accelerating M&A, we believe Conch will be more dominant in China's cement industry.

Slightly revise down ASP forecast in FY15F-FY16F. We slightly trim down FY15-16F ASP by 5.8 and 7.1%, respectively, to

reflect weak cement demand and more modest cement demand outlook. We believe limited new clinker capacity and modest cement demand in China could Keep ASP at a stable level, ASP is expect to reach RMB234/t, RMB233/t and RMB234/t in FY15-17F. We also expect unit cost slightly increase, in FY15-17F. As such, we estimate GP/t reach RMB79/t, RMB77/t and RMB78/t in FY15-17F, respectively. We revise down FY15-16F EPS assumptions by 8.7% and 10.3%, respectively.

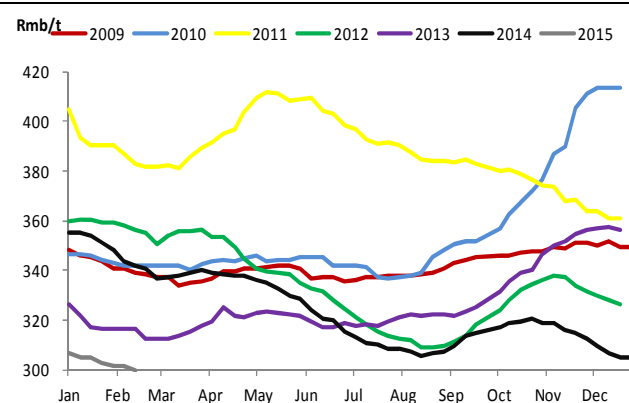
Table-2: Earnings Revision

| RMB mn | New | | | Old | | | Change | | |
|-----------------------|--------|--------|--------|--------|--------|-------|-----------|-----------|-------|
| | 2015F | 2016F | 2017F | 2015F | 2016F | 2017F | 2015F | 2016F | 2017F |
| Revenue | 67,623 | 69,430 | 71,605 | 70,109 | 73,688 | n.a | -3.5% | -5.8% | n.a |
| Gross profit | 21,922 | 21,802 | 22,099 | 24,568 | 25,832 | n.a | -10.8% | -15.6% | n.a |
| Gross margin (%) | 32.4% | 31.4% | 30.9% | 35.0% | 35.1% | n.a | -2.6 p.p. | -3.7 p.p. | n.a |
| Operating profit | 15,663 | 15,616 | 15,805 | 17,881 | 18,758 | n.a | -12.4% | -16.8% | n.a |
| Operating margin (%) | 23.2% | 22.5% | 22.1% | 25.5% | 25.5% | n.a | -2.3 p.p. | -3.0 p.p. | n.a |
| Net profit | 12,780 | 13,185 | 13,666 | 13,996 | 14,705 | n.a | -8.7% | -10.3% | n.a |
| Net profit margin (%) | 18.9% | 19.0% | 19.1% | 20.0% | 20.0% | n.a | -1.1 p.p. | -1.0 p.p. | n.a |
| EPS (RMB) | 2.412 | 2.488 | 2.579 | 2.641 | 2.775 | n.a | -8.7% | -10.3% | n.a |
| RMB | | | | | | | | | |
| ASP/t | 234 | 233 | 234 | 248 | 251 | n.a | -5.8% | -7.1% | n.a |
| Unit cost/t | (155) | (156) | (156) | (158) | (159) | n.a | -2.0% | -2.0% | n.a |
| GP/t | 79 | 77 | 78 | 90 | 92 | n.a | -12.4% | -15.9% | n.a |

Source: the Company, Guotai Junan International.

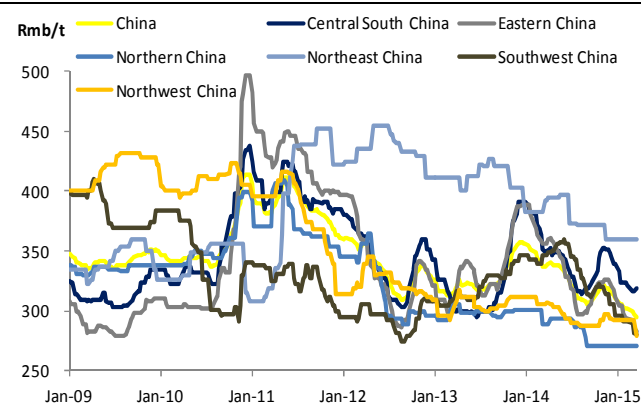
Maintain investment rating of “Accumulate” but lower TP to HK\$34.50. We think Conch remains the best pick in cement sector. Conch has strong cash position and very low gearing compared to other cement peers which help to speed up M&A process. Moreover, Conch has started expanding into overseas market, and is studying other Southeast Asia market. We maintain our investment rating of “Accumulate” but lower TP from HK\$36.80 to HK\$34.50, implying FY15-17F PER of 11.3x, 11.0x and 10.6x, respectively.

Figure-1: China Cement Price



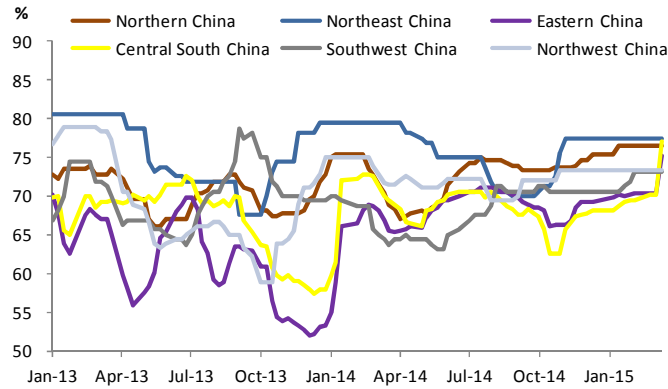
Source: Dcement, Guotai Junan International.

Figure-2: Regional Cement Price Trend in China



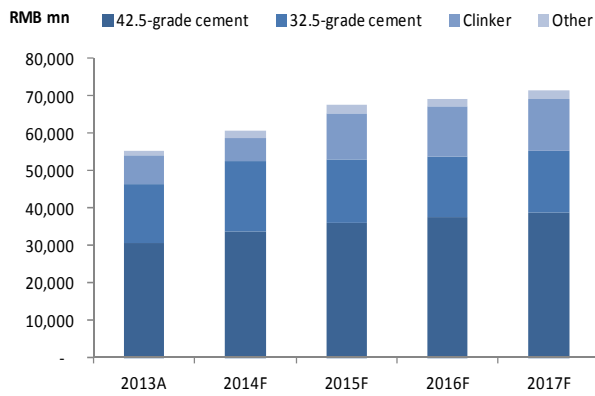
Source: Dcement, Guotai Junan International.

Figure-3: Cement Price & Inventory Level in China



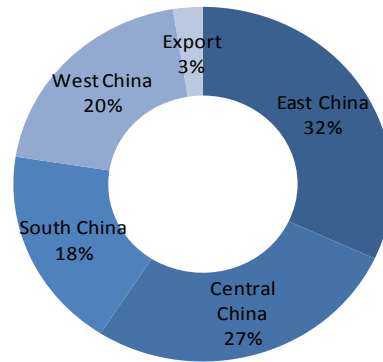
Source: Cement, Guotai Junan International.

Figure-4: Conch's Revenue Breakdown in FY13-17F



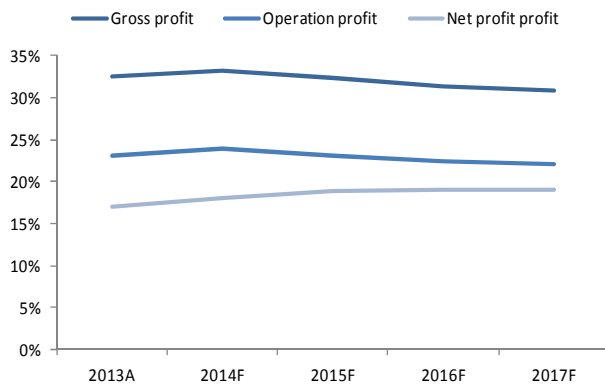
Source: the Company, Guotai Junan International.

Figure-5: Conch's Revenue Breakdown by Region in FY14



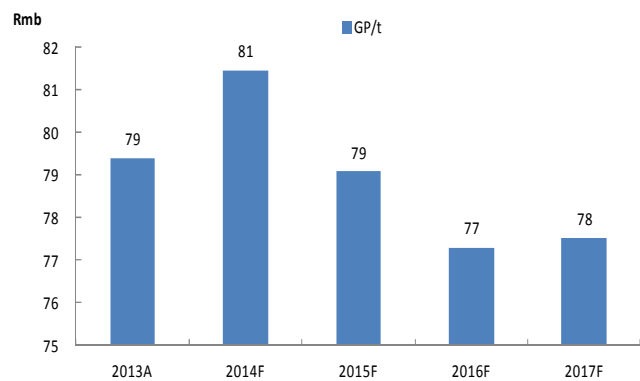
Source: the Company, Guotai Junan International.

Figure-6: Conch's Margins in FY13-17F



Source: the Company, Guotai Junan International.

Figure-7: Conch's Cement & Clinker GP/t in FY13-17F



Source: the Company, Guotai Junan International.

Financial statements & ratios

| Income Statement | | | | | |
|-----------------------------|----------|----------|----------|----------|----------|
| Year end Dec (RMB m) | 2013A | 2014A | 2015F | 2016F | 2017F |
| Turnover | 55,262 | 60,759 | 67,623 | 69,430 | 71,605 |
| Cost of sales | (37,275) | (40,560) | (45,701) | (47,628) | (49,506) |
| Gross profit | 17,987 | 20,198 | 21,922 | 21,802 | 22,099 |
| Selling expenses | (2,685) | (2,937) | (3,269) | (3,201) | (3,215) |
| Administrative expenses | (2,563) | (2,687) | (2,990) | (2,986) | (3,079) |
| Operating profit | 12,739 | 14,575 | 15,663 | 15,616 | 15,805 |
| Other income | 1,118 | 1,451 | 1,743 | 2,095 | 2,411 |
| Share profits of associates | 0 | (55) | (44) | (35) | (28) |
| Share profits of JCE | (26) | (4) | (5) | (5) | (6) |
| Finance costs | (1,161) | (1,039) | (991) | (785) | (680) |
| Profit before tax | 12,671 | 14,927 | 16,367 | 16,886 | 17,502 |
| Taxation | (2,850) | (3,360) | (3,273) | (3,377) | (3,500) |
| Minority interest | (432) | (586) | (314) | (324) | (336) |
| Net profit | 9,389 | 10,981 | 12,780 | 13,185 | 13,666 |
| EPS (RMB) | 1.772 | 2.072 | 2.412 | 2.488 | 2.579 |
| DPS (RMB) | 0.350 | 0.650 | 0.756 | 0.780 | 0.809 |

| Key assumption | | | | | |
|------------------------|-------|-------|-------|-------|-------|
| Cement & Clinker (RMB) | 2013A | 2014F | 2015F | 2016F | 2017F |
| ASP/t | 238 | 236 | 234 | 233 | 234 |
| Unit cost | 158 | 155 | 155 | 156 | 156 |
| GP/t | 79 | 81 | 79 | 77 | 78 |

| Cash flow Statement | | | | | |
|---|----------|----------|----------|----------|----------|
| Year end Dec (RMB m) | 2013A | 2014F | 2015F | 2016F | 2017F |
| Profit before tax | 12,671 | 14,927 | 16,367 | 16,886 | 17,502 |
| Depreciation & amortisation | 3,574 | 3,561 | 4,574 | 5,054 | 5,534 |
| Finance costs | 1,161 | 1,039 | 991 | 785 | 680 |
| Other items | (36) | (678) | (250) | (251) | (252) |
| Working capital change | 504 | 3,247 | (1,845) | 969 | 283 |
| Interest & Tax | (3,919) | (4,441) | (4,215) | (4,109) | (4,124) |
| Cash flow from operation | 13,955 | 17,654 | 15,622 | 19,333 | 19,623 |
| CAPEX | (7,518) | (10,475) | (10,380) | (10,401) | (10,424) |
| bank deposits | 14 | 3,122 | (75) | (79) | (83) |
| Others | (4,973) | 2,502 | 160 | 159 | 157 |
| Cash flow from investing | (12,476) | (4,851) | (10,295) | (10,321) | (10,350) |
| Increase in debts | (1,614) | (2,225) | (199) | (197) | (195) |
| Dividends paid | (1,325) | (1,855) | (3,445) | (4,009) | (4,136) |
| Others | (107) | (2,706) | (7) | (7) | (8) |
| Cash flow from financing | (3,046) | (6,786) | (3,651) | (4,213) | (4,339) |
| Cash balance change | (1,567) | 6,018 | 1,677 | 4,798 | 4,934 |
| Cash balances at year begin | 8,111 | 6,519 | 12,512 | 14,189 | 18,987 |
| Effect of foreign exchange rate changes | (25) | (25) | 0 | 0 | 0 |
| Cash balances at year end | 6,519 | 12,512 | 14,189 | 18,987 | 23,921 |

Source: the Company, Guotai Junan International.

| Balance Sheet | | | | | |
|--------------------------------------|--------|---------|---------|---------|---------|
| Year end Dec (RMB m) | 2013A | 2014A | 2015F | 2016F | 2017F |
| Fixed assets | 56,276 | 62,469 | 67,895 | 72,841 | 77,308 |
| Lease prepayments | 3,656 | 4,044 | 4,246 | 4,458 | 4,681 |
| Intangible assets | 2,545 | 2,805 | 2,945 | 3,093 | 3,247 |
| Available-for-sale equity securities | 2,222 | 3,935 | 4,014 | 4,094 | 4,176 |
| Other non-current assets | 3,418 | 3,729 | 3,806 | 3,891 | 3,984 |
| Non-current assets | 68,117 | 76,983 | 82,906 | 88,377 | 93,396 |
| Inventories | 3,693 | 4,376 | 4,633 | 4,828 | 5,154 |
| Trade & other receivable | 9,501 | 6,371 | 11,839 | 12,156 | 12,536 |
| Bank deposits | 4,622 | 1,500 | 1,575 | 1,654 | 1,736 |
| Cash | 6,519 | 12,512 | 14,189 | 18,987 | 23,921 |
| Other current assets | 643 | 511 | 529 | 547 | 566 |
| Current assets | 24,977 | 25,270 | 32,764 | 38,172 | 43,915 |
| Total Assets | 93,094 | 102,253 | 115,671 | 126,548 | 137,311 |
| Bills & other payable | 10,183 | 11,204 | 15,025 | 16,442 | 17,361 |
| Short term loans | 2,935 | 2,329 | 2,306 | 2,283 | 2,260 |
| Other current liabilities | 1,428 | 864 | 933 | 1,008 | 1,089 |
| Current liabilities | 14,545 | 14,397 | 18,264 | 19,732 | 20,710 |
| Long term loans | 19,207 | 17,587 | 17,411 | 17,237 | 17,065 |
| Other non-current liabilities | 941 | 1,042 | 1,119 | 1,203 | 1,294 |
| Non-current liabilities | 20,147 | 18,629 | 18,531 | 18,441 | 18,359 |
| Total Liabilities | 34,693 | 33,026 | 36,795 | 38,173 | 39,069 |
| Shareholders' equity | 58,402 | 69,227 | 78,876 | 88,376 | 98,242 |
| Total Liabilities and Equity | 93,094 | 102,253 | 115,671 | 126,548 | 137,311 |
| BPS (RMB) | 10.523 | 12.426 | 14.188 | 15.919 | 17.718 |

| Financial Ratios | | | | | |
|---------------------------|-------|-------|-------|----------|----------|
| Year end Dec (RMB m) | 2013A | 2014A | 2015F | 2016F | 2017F |
| Growth (%): | | | | | |
| Revenue | 20.7 | 9.9 | 11.3 | 2.7 | 3.1 |
| Gross profit | 43.9 | 12.3 | 8.5 | (0.5) | 1.4 |
| Operating profit | 58.4 | 14.4 | 7.5 | (0.3) | 1.2 |
| Net profit | 48.3 | 17.0 | 16.4 | 3.2 | 3.7 |
| Profitability (%): | | | | | |
| Gross margin | 32.5 | 33.2 | 32.4 | 31.4 | 30.9 |
| Operating margin | 23.1 | 24.0 | 23.2 | 22.5 | 22.1 |
| Net margin | 17.0 | 18.1 | 18.9 | 19.0 | 19.1 |
| ROA | 10.4 | 11.2 | 11.7 | 10.9 | 10.4 |
| ROE | 18.0 | 18.1 | 18.1 | 16.5 | 15.3 |
| Liquidity & Solvency | | | | | |
| Current Ratio (x) | 1.7 | 1.8 | 1.8 | 1.9 | 2.1 |
| Quick Ratio (x) | 0.8 | 1.0 | 0.9 | 1.1 | 1.2 |
| Net gearing (%) | 20.7 | 9.3 | 5.3 | net cash | net cash |
| Interest coverage (x) | 14.8 | 18.4 | 21.9 | 28.6 | 34.5 |
| Dividend payout ratio (x) | 19.8% | 31.4% | 31.4% | 31.4% | 31.4% |

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | Definition |
|------------|---|
| Buy | Relative Performance >15%; or the fundamental outlook of the company or sector is favorable. |
| Accumulate | Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable. |
| Neutral | Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral. |
| Reduce | Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable. |
| Sell | Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable. |

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | Definition |
|--------------|--|
| Outperform | Relative Performance >5%; or the fundamental outlook of the sector is favorable. |
| Neutral | Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral. |
| Underperform | Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable. |

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for Shandong Chenming Paper Holdings Limited-H shares (01812), China All Access (Holdings) Limited (00633), Guangshen Railway Company Limited-H shares (00525), Guotai Junan International Holdings Limited (01788) and Binhai Investment Company Limited (02886), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services and etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2015 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk