

China National Building Material [3323.HK]

Analyst Briefing Takeaways: Progress on debt control, embrace alliance

CNBM recorded recurring net profit RMB5.48bn (-5% YoY, slightly below our forecast of RMB5.57bn), with clinker and cement blended gross profit per tonne at RMB71/tonne (+RMB7/tonne, slightly above our forecast of RMB68/tonne). We maintain our view that 1H15 results would remain unexciting due to high base effect. During the analyst briefing, the company expected more strategic alliance among large players during the industry down-cycle and more favorable government support for industry consolidation. Maintain **BUY** rating with target price of HK\$8.60 based on 0.83x 2015E PBR, largely due to valuation, as current six-year-low PBR of 0.72x is lower than most of the peers. Potential share price catalysts lie in further achievement in controlling debt level, progress in industry consolidation and more news flow regarding SOE reform schedule.

Investment Highlights

- 2014 annual results highlights.** Recurring net profit RMB5.48bn (-4.7% YoY); revenue RMB122.01bn (+3.7% YoY, slightly below our expectation); clinker and cement sales volume 289.5m tonnes (+2.2%YoY, slightly below our expectation of 292.6m tonnes); clinker and cement blended average selling price (ASP) RMB252/tonne (-0.1% YoY, slightly above our forecast of RMB249/tonne); clinker and cement blended gross profit per tonne RMB71/tonne (+RMB7/tonne, slightly above our forecast of RMB68/tonne). (Note: major non-recurring items include (i) RMB215.7m of discount on acquisition of interests in subsidiaries; (ii) RMB316.7m fair value change of financial assets through P&L)
- Unexciting YoY comparison in Q1 with regional price recovery in late March.** Due to a late Chinese New Year this year, management saw volume decline in March on YoY basis following ~26% growth in January and February. ASP declined about ~RMB30/tonne YoY as a result of high base in 1H14. It reaffirms our view 1H15 results will be unexciting. Meanwhile, management witnessed some regional ASP pick up in late March. On a full-year basis, management expects that a YoY cement price recovery would largely fall on 2H15, in line with market consensus.
- Lower capex budget with more focus on equity stake acquisition.** The company's 2014 capex reached RMB15.4bn (above previous guidance of RMB12.5bn, largely due to its acquisition of Shanshui's equity stake). Management guided 2015 capex of about RMB13bn. A portion of the budget will be used for acquiring equity stakes of other players to facilitate regional cooperation.

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Y/E Dec 31	2012	2013	2014	2015E	2016E
Turnover (RMB m)	87,218	117,688	122,011	128,650	136,309
Recurring net profit (RMB m)	5,413	5,769	5,481	5,354	5,996
Net margin (%)	6	5	4	4	4
Recurring EPS (RMB)	1.00	1.07	1.02	0.99	1.11
% Change	(32)	7	(5)	(2)	12
PER (x)	6.0	5.5	5.7	5.8	5.1
PBR (x)	1.0	0.9	0.8	0.7	0.6
EV/EBITDA (x)	10.4	8.2	7.4	7.6	7.2

Sources: Company, CGIHK Research

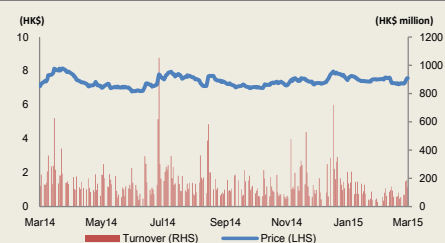
China Cement Sector

BUY

Close: HK\$7.4 (Mar 25, 2015)

Target Price: HK\$8.60 (+16%)

Price Performance



Market Cap	US\$5,274m
Shares Outstanding	2,879.2m
Auditor	Baker Tilly
Free Float	53.3%
52W range	HK\$6.70-8.42
3M average daily T/O	US\$17.9m
Major Shareholder	CNBM Group (44.1%)

Sources: Company, Bloomberg

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- **Strengthening consolidation under “new normal” state.** Management admits the industry has stepped out of previous period with high growth in demand and capacity, and moved into a “new normal” state. Following rapid growth in the past few years, the company expects demand growth to be very limited in the next few years. Management expects a moderate net decline of capacity industry-wide in 2015 to confront with a relatively flat demand growth, and more supportive measures from government for M&A activities, and a forming trend of more strategic alliance among large players through secondary market under “new normal” state.
- **Progress on debt control.** The company’s net debt/equity ratio dropped to 248.9% at end-2014, thanks to its 30% YoY increase in net operating cash flow and its RMB5bn perpetual bond. Average interest rate of borrowings declined to 5.93% from 5.95%. Management see 2014 as the turning point of its gearing status and aims to lower the level to below 200%.

Other key points

- Management guides 2015 cement & clinker sales volumes to reach 310mt (+6.5%YoY), commercial concrete sales volume to reach 100m m³ (+10.5% YoY), Gypsum boards sales volume to reach 1,500m m² ~ 1,600m m² (+4.4% YoY~+11% YoY).

Key financials

CNBM (03323.HK)

Income Statement

(RMB'000, except for per share amount)

Year ended 31 Dec	2013		2014		2015E		2012	2013	2014	2015E	2016E
	1H	2H	1H	2H	1H	2H					
Cement, clinker and concrete	41,311,000	61,588,662	47,626,281	56,160,106	49,194,368	59,065,390	69,125,701	103,489,423	103,771,405	108,259,758	114,396,516
LWBM	3,236,223	3,745,350	3,544,916	4,127,961	3,852,439	4,695,523	6,635,437	6,981,573	7,672,877	8,547,962	9,306,845
Composite materials	833,029	1,444,121	1,046,221	1,555,571	1,211,590	1,817,735	2,195,361	2,277,150	2,601,792	3,029,324	3,352,309
Engineering services	2,277,163	3,510,141	2,062,626	3,771,868	2,165,757	3,960,461	5,199,199	5,787,304	5,834,494	6,126,219	6,432,530
Others	2,873,986	(3,131,835)	1,500,622	615,050	1,375,268	1,311,600	4,061,931	(847,610)	2,130,654	2,686,868	2,821,211
Revenue	50,531,401	67,156,439	55,780,666	66,230,556	57,799,422	70,850,710	87,217,629	117,687,840	122,011,222	128,650,132	136,309,411
COGS	(38,933,655)	(48,616,188)	(40,882,926)	(47,849,302)	(43,444,572)	(51,614,905)	(67,089,167)	(87,549,843)	(88,732,228)	(95,059,477)	(100,852,607)
Gross profit	11,597,746	18,540,251	14,897,740	18,381,254	14,354,850	19,235,805	20,128,462	30,137,997	33,278,994	33,590,655	35,456,804
Operating expenses	(6,084,873)	(8,978,266)	(7,433,116)	(9,376,603)	(7,802,922)	(9,706,547)	(9,242,507)	(15,063,139)	(16,809,719)	(17,509,469)	(18,552,230)
Operating profit	5,512,873	9,561,985	7,464,624	9,004,651	6,551,928	9,529,257	10,885,955	15,074,858	16,469,275	16,081,185	16,904,574
Other gains and losses	1,606,474	2,615,669	1,478,148	2,922,686	1,300,000	2,300,000	4,866,790	4,222,143	4,400,834	3,600,000	3,500,000
EBIT	7,119,347	12,177,654	8,942,772	11,927,337	7,851,928	11,829,257	15,752,745	19,297,001	20,870,109	19,681,185	20,404,574
Net finance costs	(4,318,363)	(4,988,139)	(5,396,957)	(5,459,681)	(5,092,594)	(5,066,425)	(6,507,145)	(9,306,502)	(10,856,638)	(10,159,018)	(9,578,712)
Profits from associates	142,270	488,266	332,339	653,087	392,740	753,045	458,642	630,536	985,426	1,145,785	1,272,396
Non-recurrent items	(78,509)	60,499	174,460	379,654	-	-	219,627	(18,010)	554,114	-	-
Income before tax	2,864,745	7,738,280	4,052,614	7,500,397	3,152,074	7,515,878	9,923,869	10,603,025	11,553,011	10,667,952	12,098,258
Income tax expense	(820,628)	(1,470,527)	(1,174,161)	(1,707,203)	(819,539)	(1,503,176)	(2,186,883)	(2,291,155)	(2,881,364)	(2,322,715)	(2,738,043)
Minority interests	(691,855)	(1,858,161)	(1,080,620)	(1,671,486)	(886,363)	(2,104,446)	(2,157,385)	(2,550,016)	(2,752,106)	(2,990,809)	(3,363,725)
Net income	1,352,262	4,409,592	1,797,833	4,121,708	1,446,172	3,908,257	5,579,601	5,761,854	5,919,541	5,354,428	5,996,490
Recurring net income	1,408,788	4,360,588	1,666,988	3,814,188	1,446,172	3,908,257	5,412,862	5,769,376	5,481,176	5,354,428	5,996,490
EPS (RMB)	0.250	0.817	0.333	0.763	0.268	0.724	1.033	1.067	1.096	0.992	1.111
Recurring EPS (RMB)	0.261	0.808	0.309	0.706	0.268	0.724	1.003	1.069	1.015	0.992	1.111
DPS (RMB)	-	0.160	-	0.165	-	0.149	0.155	0.160	0.165	0.149	0.167
Depreciation and amortization	2,880,126	2,835,112	3,255,371	3,518,047	3,165,694	3,845,848	4,155,383	5,715,238	6,773,418	7,011,542	7,441,742
EBITDA	10,141,743	15,501,032	12,530,482	16,098,471	11,410,362	16,428,151	20,366,770	25,642,775	28,628,953	27,838,513	29,118,712
Cement and clinker ASP (RMB/tonne)	247	257	253	252	235	246	263	253	252	241	243
Cement and clinker vol. ('000 tonnes)	123,436	159,648	133,208	156,250	144,632	164,658	219,885	283,084	289,458	309,290	317,432
Cement and clinker COGS (RMB/tonne)	190	187	183	181	178	177	199	188	182	178	179
Cement and clinker gross profit (RMB/tonne)	57	70	70	71	57	69	65	64	71	63	64
Concrete ASP (RMB/m ³)	300	321	324	335	330	330	300	312	330	330	334
Concrete vol. ('000 m ³)	34,754	50,380	41,410	45,640	45,550	55,660	31,063	85,134	87,050	101,210	109,920
Concrete gross profit (RMB/tonne)	86	90	85	108	87	92	85	88	97	90	88
Growth Rates:											
Revenue	33%	36%	10%	-1%	4%	7%	9%	35%	4%	5%	6%
EBIT	21%	23%	26%	-2%	-12%	-1%	-9%	22%	8%	-6%	4%
EBITDA	29%	24%	24%	4%	-9%	2%	-2%	26%	12%	-3%	5%
Core net income	-22%	21%	18%	-13%	-13%	2%	-32%	7%	-5%	-2%	12%
Recurring EPS	-22%	21%	18%	-13%	-13%	2%	-32%	7%	-5%	-2%	12%
Margins and Ratios:											
Gross margin	23.0%	27.6%	26.7%	27.8%	24.8%	27.1%	23.1%	25.6%	27.3%	26.1%	26.0%
Net margin	4.2%	9.3%	4.9%	8.3%	4.0%	8.5%	8.7%	7.1%	6.7%	6.5%	6.9%
EBIT margin	14.1%	18.1%	16.0%	18.0%	13.6%	16.7%	12.5%	12.8%	13.5%	12.5%	12.4%
EBITDA margin	20.1%	23.1%	22.5%	24.3%	19.7%	23.2%	23.4%	21.8%	23.5%	21.6%	21.4%
Effective tax rate	29%	19%	29%	23%	26%	20%	22%	22%	25%	22%	23%

Sources: Company data, CGIHK Research estimates

Key financials

CNBM (03323.HK)

Balance Sheet

(RMB'000, except for per share amount)

As at 31 Dec	2012	2013	2014	2015E	2016E
Inventories	12,222,221	14,721,004	16,663,437	18,000,000	18,000,000
Trade receivables	20,116,046	23,256,628	27,306,027	24,837,931	26,561,247
Bills receivable	6,134,407	6,111,533	7,718,472	6,000,000	6,000,000
Others	28,816,091	34,187,674	44,721,179	43,773,199	43,773,199
Bank balances and cash	10,222,056	8,979,909	10,290,653	4,470,157	6,573,238
Total current assets	77,510,821	87,256,748	106,699,768	97,081,287	100,907,684
PPE, net	105,413,739	123,486,020	126,019,321	132,230,792	134,689,050
Prepaid lease payments	11,667,731	13,612,734	14,107,910	15,107,910	16,107,910
Others	51,841,256	67,275,673	69,654,827	72,215,623	73,488,020
Total non-current assets	168,922,726	204,374,427	209,782,058	219,554,326	224,284,980
Total assets	246,433,547	291,631,175	316,481,826	316,635,613	325,192,663
Trade payables	17,339,831	19,426,875	18,676,856	21,500,000	21,500,000
Other payables	29,910,777	28,900,190	32,594,925	29,500,000	29,500,000
Bank and other borrowings	90,751,945	113,341,816	139,292,634	112,000,000	112,000,000
Others	5,915,210	7,726,221	8,559,539	9,054,440	9,054,440
Total current liabilities	143,917,763	169,395,102	199,123,954	172,054,440	172,054,440
Bank and other borrowings	51,864,572	56,866,432	37,731,114	57,000,000	57,000,000
Others	6,586,365	11,793,742	12,649,527	13,149,544	13,149,544
Total non-current liabilities	58,450,937	68,660,174	50,380,641	70,149,544	70,149,544
Total liabilities	202,368,700	238,055,276	249,504,595	242,203,984	242,203,984
Shareholders' equity	30,496,098	35,378,423	40,572,901	45,036,489	50,229,815
Minority interests	13,568,749	18,197,476	26,404,330	29,395,139	32,758,864

Statement of Cash Flow

Year ended 31 Dec	2012	2013	2014	2015E	2016E
Profit before tax	9,923,869	10,603,025	11,553,011	10,667,952	12,098,258
Depreciation & Amortization	3,930,337	5,769,492	6,233,686	6,701,542	7,131,742
Change in working capital	(3,781,641)	(8,022,314)	(7,759,007)	3,526,204	(1,723,315)
Others / adjustments	(55,569)	3,306,247	8,026,747	5,426,646	6,539,561
Net operating cash flow	10,016,996	11,656,450	18,054,437	26,322,345	24,046,246
Capex	(11,411,100)	(9,409,805)	(9,000,000)	(7,000,000)	(7,000,000)
Others	(25,256,174)	(19,077,056)	(5,080,061)	(5,415,011)	(4,000,000)
Net investing cash flow	(36,667,274)	(28,486,861)	(14,080,061)	(12,415,011)	(11,000,000)
Change in debt	56,750,291	27,591,731	6,815,500	(8,023,748)	-
Dividends	(1,160,791)	(836,849)	(863,845)	(890,840)	(803,164)
Others	(28,483,931)	(11,116,482)	(8,615,287)	(10,813,242)	(10,140,000)
Net financing cash flow	27,105,569	15,638,400	(2,663,632)	(19,727,830)	(10,943,164)
Increase / Decrease in cash	483,803	(1,242,147)	1,310,744	(5,820,496)	2,103,081
Net cash/(debt)	(132,394,461)	(161,228,339)	(166,733,095)	(164,529,843)	(162,426,762)

Finance Ratios

	2012	2013	2014	2015E	2016E
Valuation					
PE(x)	6.0	5.5	5.7	5.8	5.1
EPS growth (%)	-	32	7	5	2
Yield (%)	2.6	2.7	2.8	2.6	2.9
PEG (x)	-0.19	0.83	-1.15	-2.49	0.43
EV/EBITDA (x)	10.4	8.2	7.4	7.6	7.2
FB(x)	1.0	0.9	0.8	0.7	0.6
Operational					
Revenue growth (%)	9	35	4	5	6
Gross margin (%)	23.1	25.6	27.3	26.1	26.0
Net profit margin (%)	8.7	7.1	6.7	6.5	6.9
Days receivables	82	86	96	93	85
Days payables	86	77	78	77	78
Days inventories	60	56	65	67	65
Current ratio (x)	0.5	0.5	0.5	0.6	0.6
Quick ratio (x)	0.3	0.2	0.2	0.2	0.2
Asset/Equity (x)	5.6	5.4	4.7	4.3	3.9
Net debt/equity (%)	300	301	249	221	196
EBITDA interest coverage (x)	3.1	2.8	2.6	2.7	3.0
Core ROE (%)	19.1	17.5	14.4	12.5	12.6

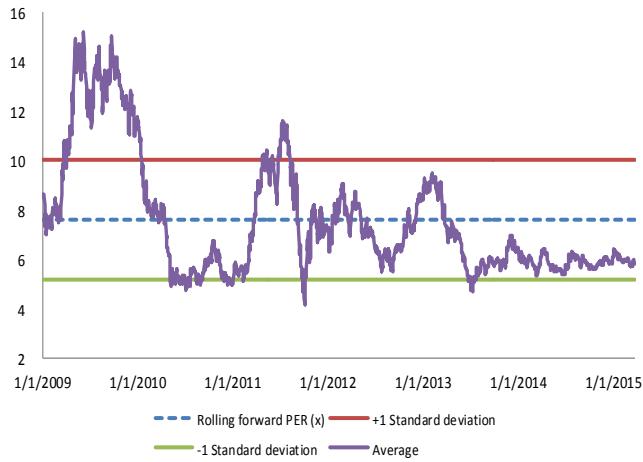
Sources: Company data, CGIHK Research estimates

CNBM Results Highlights

Y/E Dec (Rmb '000)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Turnover	14,318,717	23,619,628	21,521,050	27,758,234	19,696,169	30,835,232	31,097,495	36,058,944	21,997,233	33,783,433	32,131,498	34,099,058
Gross Profit	2,854,842	5,399,271	5,950,181	5,924,168	3,868,411	7,729,335	8,874,356	9,665,895	5,426,934	9,470,806	8,819,725	9,561,529
<i>Margin</i>	19.9%	22.9%	27.6%	21.3%	19.6%	25.1%	28.5%	26.8%	24.7%	28.0%	27.4%	28.0%
Operating expenses	(1,258,227)	(2,447,943)	(2,016,546)	(3,519,791)	(1,795,299)	(4,289,574)	(2,986,953)	(5,991,313)	(2,265,114)	(5,168,002)	(2,804,988)	(6,571,615)
Operating profit	1,596,614	2,951,329	3,933,635	2,404,377	2,073,112	3,439,761	5,887,403	3,674,582	3,161,820	4,302,804	6,014,737	2,989,914
Net finance costs	(996,107)	(1,904,422)	(1,478,600)	(2,802,602)	(1,878,814)	(2,439,549)	(2,621,207)	(2,366,932)	(2,490,595)	(2,906,362)	(2,709,325)	(2,750,356)
Net Profit	601,484	1,299,244	1,689,868	1,989,005	311,739	1,040,523	1,945,258	2,464,334	556,291	1,241,542	1,849,447	2,272,261
Cement & Clinker												
ASP (RMB)	289	267	254	255	242	248	253	260	261	248	245	258
Cost (RMB/tonne)	223	200	197	184	197	185	180	192	191	177	181	180
Gross profit per tonne (RMB)	65.2	66.4	57	71	45	64	73	68	69	71	64	78
Sales vol ('000 tonnes)	35,510	59,921	63,000	61,454	47,400	76,026	73,630	86,018	49,000	84,208	75,392	80,858
Gross margin	22.6%	24.9%	22.70%	27.7%	18.6%	25.7%	28.8%	26.3%	26.4%	29%	26%	30%
ASP per tonne (RMB)												
China United	276	258	256	243	235	239	239	256	258	252	238	249
South Cement	306	255	230	249	238	242	239	252	266	227	234	251
North Cement	323	362	358	323	290	305	324	325	303	303	295	350
Southwest Cement	243	247	240	261	250	247	256	263	253	260	241	256
GP per tonne (RMB)												
China United	60	68	66	50	40	52	69	61	68	74	67	51
South Cement	70	56	41	65	36	56	61	60	70	51	47	79
North Cement	130	137	117	101	71	96	112	108	96	106	97	89
Southwest Cement	30	42	50	90	59	79	78	79	69	87	69	95
COGS per tonne (RMB)												
China United	216	190	190	193	195	187	170	195	190	178	172	197
South Cement	236	199	189	184	202	186	178	192	197	176	187	172
North Cement	193	225	241	222	219	209	212	217	207	197	198	261
Southwest Cement	213	205	190	171	191	169	178	184	184	173	172	161
Sales vol ('000)												
China United	9,820	18,280	16,000	17,640	10,200	20,382	15,810	20,710	10,000	20,987	18,613	18,194
South Cement	17,470	28,052	29,511	23,802	21,200	30,672	30,470	36,237	21,000	34,043	29,657	32,049
North Cement	2,430	6,602	7,000	4,968	1,500	6,570	8,220	4,919	1,000	7,449	8,451	5,852
Southwest Cement	5,790	6,987	10,000	15,533	14,500	18,402	19,130	24,152	17,000	21,729	17,371	26,063

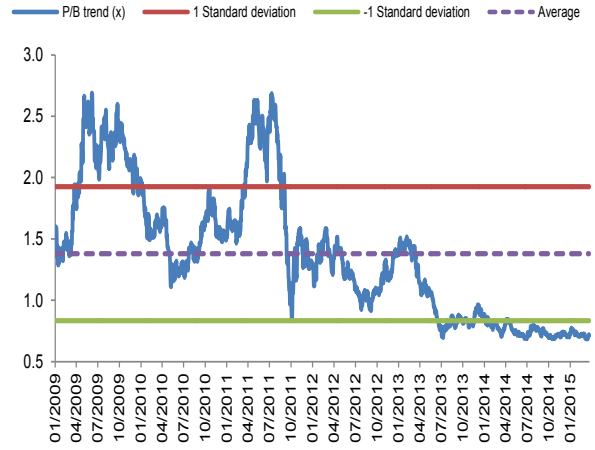
Sources: Company, CGIHK Research

Figure 1: CNBM Rolling Forward PER Range



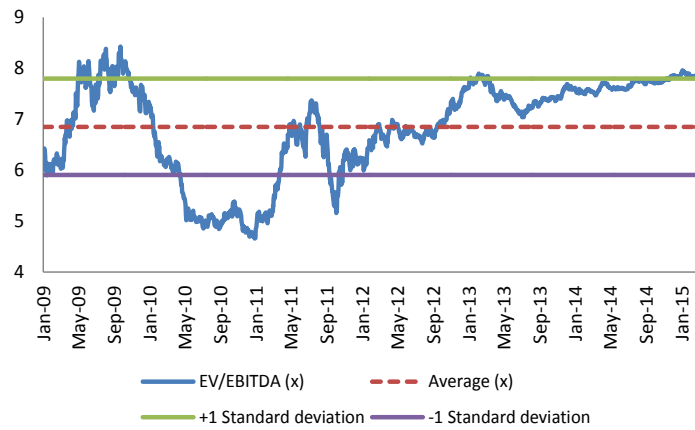
Sources: Bloomberg, CGIHK Research

Figure 2: CNBM Rolling Forward PBR Range



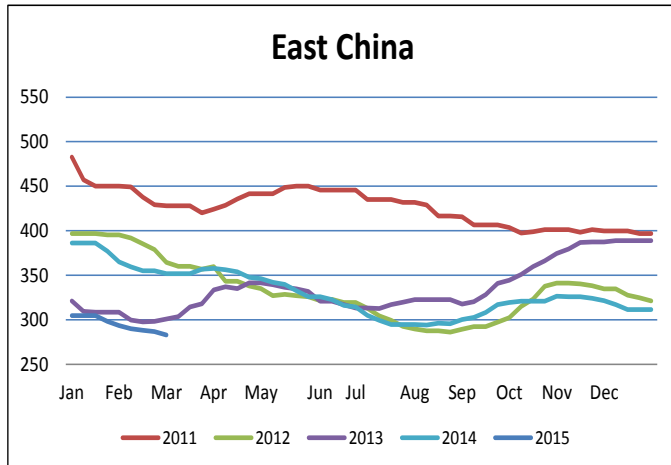
Sources: Bloomberg, CGIHK Research

Figure 3: CNBM EV/EBITDA Range



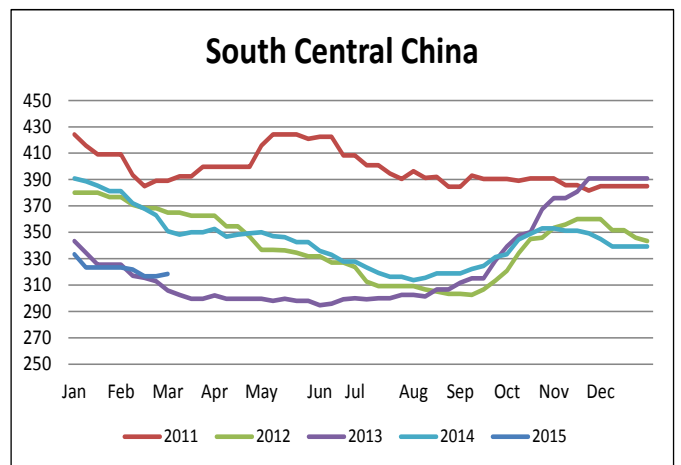
Sources: Bloomberg, CGIHK Research

Figure 4: Cement Prices in East China (RMB/Tonne)



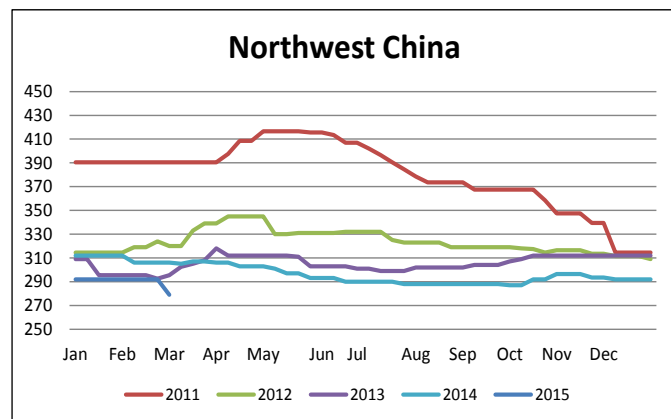
Sources: Digital Cement, CGIHK Research

Figure 5: Cement Prices in South Central China (RMB/Tonne)



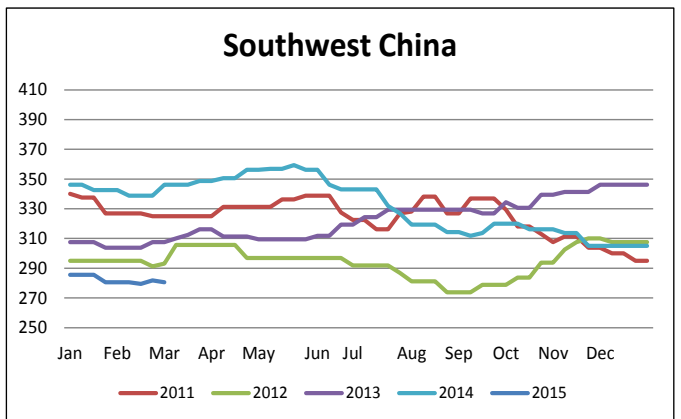
Sources: Digital Cement, CGIHK Research

Figure 6: Cement Prices in Northeast China (RMB/Tonne)



Sources: Digital Cement, CGIHK Research

Figure 7: Cement Prices in Southwest China (RMB/Tonne)



Sources: Digital Cement, CGIHK Research

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