



Rating  
**Hold**

Asia  
Hong Kong

Resources  
Construction Materials

Company  
**China Shanshui  
Cement Alert**

Reuters 0691.HK Bloomberg 691 HK Exchange HSI Ticker 0691  
ADR Ticker CSCGY ISIN US16951P1093

Date  
30 March 2015

**Results**

Price at 27 Mar 2015 (HKD)	5.75
Price target - 12mth (HKD)	5.02
52-week range (HKD)	6.32 - 2.66
HANG SENG INDEX	24,486

Johnson Wan James Kan  
Research Analyst Research Analyst  
(+852) 2203 6163 (+852) 2203 6146  
johnson.wan@db.com james.kan@db.com

## Poor FY14 results; ACC and CNBM invited to board

### Bottom line down 66% YoY, Asia Cement and CNBM invited to board

Shanshui announced its FY14 results with NPAT of RMB348mn or EPS of RMB0.12/sh, down 66% and 67% yoy respectively, missing DBE by 38% and cons by 43%. Shanshui also invited its two large shareholders Asia Cement (21%) and CNBM (16.7%) to the board by appointing them as non-executive directors. Shanshui had previously issued a profit warning flagging that FY14 earnings will decrease by no less than 60% so the weak results do not come as a surprise. The sharp drop in profitability is due to: 1) 13% yoy decline in GP/t; 2) 18% yoy hike in interest expense due likely to issuance of three MTNs in 2014 (totaling RMB2.5bn); 3) a 13% yoy hike in SG&A likely due to its continued expansion in Shanxi; 4) an effective tax rate that ballooned to 55% for FY14; 5) FX swing of RMB90mn (losses of RMB19mn in 2014 vs. gain of RMB64mn in 2013). Although the net gearing ratio improved slightly (down from 152% in 2013 to 131% in 2014), working capital continues to be stretched with AR days up from 80 in 2013 to 89 in 2014.

### Fundamentals to remain weak in 2015

We remain cautious on the 2015 outlook for Shanshui as demand remains lackluster in Shandong, Liaoning and Shanxi. In 1Q15, market prices in Shandong and Liaoning have retreated by c.RMB40/t and c.RMB55/t yoy respectively. Further, 10mt or c.8% of new cement capacity will likely come on stream in 2015 in Shanxi so supply-demand in the region will continue to deteriorate and losses to its Shanxi operations should worsen in 2015. In Northeastern China, local governments are targeting one of the lowest GDP and FAI growth rates (6-6.5% yoy) in the nation so demand may continue to contract in 2015. We expect GP/t for Shanshui to continue contracting in 2015 and will revisit our assumptions post its analyst briefing on March 30.

### Prospect of consolidation? Maintain Hold

Shanshui's share price has rallied 55% YTD, now trading at replacement cost of RMB400+/t. We don't rule out the possibility of further consolidation among equity holders of Shanshui (CNBM currently at 17%, ACC at 21% and Tianrui at 10%). Maintain Hold with TP of HKD5.02.

### Stock data

Market cap (HKDm)	16,192
Market cap (USDm)	2,088
Shares outstanding (m)	2,909.8
Major shareholders	China Shanshui Investment (30.11%)
Free float (%)	70
Avg daily value traded (USDm)	5.2

Source: Deutsche Bank

### Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	16,535	15,873	16,681
Net Profit (CNYm)	1,016.7	564.5	650.1
DB EPS (CNY)	0.36	0.20	0.19
PER (x)	8.7	23.0	24.0
Yield (net) (%)	2.3	0.6	0.6

Source: Deutsche Bank

Figure 1: Operating data for 2013-2014

	FY14	FY13	%YoY	2H14	1H14	%HoH
ASP (RMB/t)	229	242	-5%	224	234	-5%
Sales volume (mt)	63	63	1%	34	29	18%
GP (RMB/t)	53	61	-13%	53	53	0%

Source: Deutsche Bank, Company Data

Deutsche Bank AG/Hong Kong

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Deutsche Bank does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

FOR OTHER IMPORTANT DISCLOSURES PLEASE VISIT  
<http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=0691.HK> MCI (P) 148/04/2014.