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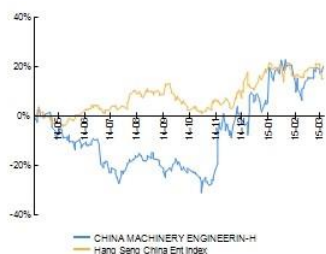
一带一路愿景与行动文件或刺激股价上行

中国机械工程 (1829:HK)

Market Data: Mar,27

Closing Price (HK\$)	6.94
Price Target (HK\$)	6.80
HSCEI	11,898
HSCCI	4,547
52-week High/Low (HK\$)	7.38/3.87
Market Cap (US\$)	3,817
Market Cap (HK\$)	28,634
Shares Outstanding (m)	4,126
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Mar 18, 2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	21,426.30	23,007.75	28,623.87	34,276.12	38,350.11
YoY (%)	0.61	7.38	24.41	19.75	11.89
Net income (Rmbm)	1,960.28	2,095.89	2,452.28	2,818.34	3,063.34
YoY (%)	1.69	6.92	17.00	14.93	8.69
EPS (Rmb)	0.48	0.51	0.59	0.68	0.74
Diluted EPS (Rmb)	0.48	0.51	0.59	0.68	0.74
ROE (%)	16.67	16.06	16.75	17.11	16.53
Debt/asset (%)	63.21	64.93	64.85	66.21	66.06
Dividend yield (%)	3.45	3.69	3.78	4.34	4.72
PE (x)	11.59	10.84	9.27	8.06	7.42
PB (x)	1.93	1.74	1.55	1.38	1.23
EV/Ebitda (x)	4.78	4.63	2.56	1.19	0.09

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

投资要点:

业绩基本符合预期。中国机械工程(1829.HK)2014 年收入 230.1 亿元人民币,同比增长 7.4%。毛利人民币 37.5 亿元,同比上升 0.2%。股东应占溢利 21.0 亿元人民币,同比上涨 7.0%,较我们之前的预期高出 3%。主要的差异来自于公司成本和费用管控好于预期。公司宣告提请派发每股 0.203 元人民币的股息,股息分派比率约为 40%。

已生效未完成合同量保持稳定,然而高毛利的电力工程项目占比下滑。中国机械工程 2014 年末的已生效未完成合同量为 81.2 亿美元,同比下滑 1.1%。其中高毛利(2014 年毛利率为 23.4%)的电力工程项目同比下滑 30.3%达 40.9 亿美元,低毛利(2014 年毛利率为 12.8%)的交通运输项目同比上涨 168.54%达 26.2 亿美元,这主要得益于 2014 年末阿根廷铁路项目最终生效。由于该合同包含部分贸易类项目,利润率低于基建类,我们预计该项目的毛利率约为 10%。

资产收购将增厚收入和盈利。公司在其 2012 年的招股书中公布公司控股股东有意于 2015 年年底前将从事国际工程承包的中国电工,中成套和中自控注入中国机械工程。由于目前该交易还未完成,我们没有在模型中将三家公司考虑进入收入中,但是我们认为这三家公司共计将使中国机械工程的收入增加约 20-40%,利润影响可能较低。

耐心等待政策利好。国家发展改革委、外交部、商务部 28 日联合发布了《推动共建丝绸之路经济带和 21 世纪海上丝绸之路的愿景与行动》短期内可能刺激股价上扬。然而自去年低点以来,公司股价已上升约 76%。由于国际工程承包领域商务洽谈的时间较长,政策出台到公司利润表的改善可能有两到三年的时间差,我们建议投资者耐心等待。

稍事休息。我们重申公司的“持有”评级,维持 2015 年 EPS 人民币 0.59 元,2016 年 EPS 人民币 0.68 元,同时推出 2017 年 EPS 人民币 0.74 元。目标价 6.80 港币不变,我们建议投资者等待更好的买入时机。

Investment Highlights :

Results roughly in line. China Machinery Engineering Cooperation (CMEC) reported a 7.4% YoY increase in revenue to Rmb23.01bn. Gross profit improved 0.2% YoY to Rmb3.74bn and net profit rose 7.0% YoY to Rmb2.10bn, 3% higher than our expectation. The major difference comes from better cost and expense controls. The company proposed a final dividend of Rmb0.0203/share for 2014, representing a 40% payout ratio.

Stable backlog with lower margin. CMEC's backlog by end-2014 decreased 1.1% YoY to US\$8.12bn, of which power projects (carrying a gross margin of 23.4% in 2014) decreased by 30.3% YoY to US\$4.09bn, and transportation projects (carrying a gross margin of 12.8% in 2014) increased 168.54% YoY to US\$2.62bn as its Argentine railway project (US\$2.47bn) started to contribute in 2014. We forecast a c.10% margin for the project, a relatively low level compared with its typical margins.

Acquisition ahead will enlarge revenue and profit. The company stated in its 2012 pre-IPO prospectus that central state-owned parent China National Machinery Industry Corp (Sinomach) intended to inject assets from three unlisted subsidiaries into CMEC by end-2015. As the deals have yet to be completed, we do not factor in additional revenues that may accrue as a result, but note that the three firms' combined revenue may enlarge CMEC revenue by 20-40%, and lower impact in profit given the poorer profitability of these assets to be injected.

Policy benefits some way down the road. The central government announced a blueprint for its "One Belt, One Road" initiative on 28 March 2015. We expect CMEC to benefit in the long run. We caution that benefits are unlikely within the next two-to-three years given the political agreements necessary before works can start. The company's stock has gained c.76% since the "One Belt, One Road" concept began featuring in key officials' speeches starting November last year.

Maintain "Hold". We maintain our EPS forecasts of Rmb0.59 (+17.31% YoY) in 15E and Rmb0.68 (+15.12% YoY) in 16E, and introduce our EPS forecast of Rmb0.74 in 17E. We maintain our target price at HK\$6.80, representing 9.1x 15E PE and 1.5x 15E PB. With 2% downside, we maintain our Hold rating on CMEC. We expect a stock price boost from the release of the "One Belt, One Road" blueprint and recommend investors wait for better entrance points.

APPENDIX

Consolidated Income Statement

(Rmbm)	2013	2014	2015E	2016E	2017E
Revenue	21,426	23,008	28,624	34,276	38,350
CostofSales	17,684	19,257	24,031	28,899	32,398
GrossProfit	3,743	3,750	4,593	5,377	5,952
OtherIncome	353	(93)	353	353	353
SG&AExpenses	1,715	1,649	2,004	2,399	2,685
Ebitda	2,432	2,203	2,793	3,168	3,371
Ebit	2,328	2,071	2,661	3,032	3,231
FinanceCosts	336	667	667	792	925
ProfitBeforeTax	2,664	2,738	3,327	3,824	4,156
IncomeTaxExpense	704	642	875	1,005	1,093
MinorityInterests	1	(1)	0	0	0
ProfitfortheYear	1,960	2,096	2,452	2,818	3,063

Consolidated Cash Flow Statement

(Rmbm)	2013	2014	2015E	2016E	2017E
ProfitBeforeTaxation	2,664	2,738	3,327	3,824	4,156
DeprAndAmortisation	104	132	132	137	140
FinancingCost	336	667	667	792	925
LossesFromInvestments	0	0	0	0	0
ChangeInWorkingCapital	1,886	300	2,271	2,133	1,531
Others	(1,327)	6,333	6,773	6,847	6,553
CFFFromOperatingActivities	(2,195)	3,931	5,945	5,425	4,964
Capex	(217)	164	(31)	(27)	(13)
OtherCFFFromInvestingActivities	777	761	376	822	955
CFFFromInvestingActivities	560	924	345	795	942
EquityFinancing	0	0	0	0	0
NetChangeInLiabilities	100	(29)	0	0	0
DividendAndInterestPaid	(795)	(850)	(869)	(998)	(1,083)
OtherCFFFromFinancingActivities	0	0	0	0	0
CFFFromFinancingActivities	(694)	(878)	(869)	(998)	(1,083)
NetCashFlow	(2,329)	3,977	5,420	5,223	4,823
FCFF	3,397	2,024	4,159	4,269	3,797
FCFE	3,162	1,329	3,492	3,477	2,872

Consolidated Balance Sheet

(Rmbm)	2013	2014	2015E	2016E	2017E
CurrentAssets	25,904	31,447	34,463	41,511	47,306
BankBalancesAndCash	14,550	17,793	21,389	26,612	31,435
TradeAndOtherReceivables	4,895	6,179	6,539	7,830	8,761
Inventories	213	260	289	348	390
OtherCurrentAssets	6,246	7,216	6,246	6,721	6,721
LongTermInvestment	0	50	0	0	0
PP&E	485	702	538	569	596
IntangibleAndOtherAssets	5,564	5,024	6,644	6,668	6,691
TotalAssets	31,953	37,223	41,646	48,747	54,527
CurrentLiabilities	19,790	23,480	26,604	31,873	35,662
Borrowings	234	206	234	234	234
TradeAndOtherPayables	12,227	13,764	16,615	19,981	22,401
OtherCurrentLiabilities	7,329	9,510	9,754	11,658	13,027
LongTermLiabilities	407	690	401	401	401
TotalLiabilities	20,197	24,170	27,005	32,275	36,064
MinorityInterests	16	18	(12)	(12)	(12)
ShareholderEquity	11,740	13,035	14,653	16,484	18,475
ShareCapital	4,126	4,126	4,126	4,126	4,126
Reserves	7,614	8,910	10,527	12,358	14,349
EquityAttributable	11,740	13,035	14,653	16,484	18,475
TotalLiabilitiesAndEquity	31,953	37,223	41,646	48,747	54,527

Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Per share ratios (Rmb)					
Earnings per share	0.48	0.51	0.59	0.68	0.74
OperatingCFPerShare	(0.53)	0.95	1.44	1.31	1.20
DividendPerShare	0.19	0.20	0.21	0.24	0.26
NetAssetsPerShare	2.85	3.16	3.55	3.99	4.49
Key Operating Ratios(%)					
ROIC	14.19	11.64	13.11	13.31	12.68
ROE	16.67	16.06	16.75	17.11	16.53
GrossMargin	17.47	16.30	16.05	15.69	15.52
EbitdaMargin	11.35	9.57	9.76	9.24	8.79
Ebit Margin	10.87	9.00	9.29	8.84	8.43
GrowthRateOfRevenue	0.61	7.38	24.41	19.75	11.89
GrowthRateOfProfit	1.67	6.92	17.00	14.93	8.69
DebtToAssetRatio	63.21	64.93	64.85	66.21	66.06
TurnoverRateOfNetAssets	1.82	1.76	1.96	2.08	2.08
TurnoverRateOfTotalAssets	0.67	0.62	0.69	0.70	0.70
EffectiveTaxRate	26.42	23.45	26.29	26.29	26.29
DividendYield	3.45	3.69	3.78	4.34	4.72
Valuation Ratios (x)					
PE	11.59	10.84	9.27	8.06	7.42
PB	1.93	1.74	1.55	1.38	1.23
EV/Sale	0.54	0.44	0.25	0.11	0.01
EV/Ebitda	4.78	4.63	2.56	1.19	0.09

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BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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