

30 March 2015

Hold
Downgrade

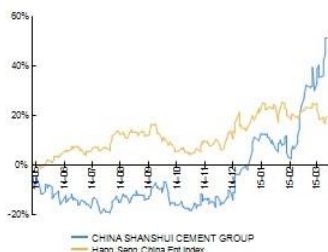
财报低于预期，股权整合效应已显现

中国山水水泥集团 (691:HK)

Market Data: Mar,27

| | |
|--------------------------|-----------|
| Closing Price (HK\$) | 5.75 |
| Price Target (HK\$) | 5.40 |
| HSCEI | 11,898 |
| HSCCI | 4,547 |
| 52-week High/Low (HK\$) | 5.08/2.61 |
| Market Cap (USD Mn) | 2,039 |
| Market Cap (HK\$ Mn) | 15,809 |
| Shares Outstanding (Mn) | 2,816 |
| Exchange Rate (RMB-HK\$) | 1.26 |

Price Performance Chart:



Source: Bloomberg

Analyst

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BDQ227

Related Reports

"China Shanshui Group (691 HK) ——
Shareholding Consolidation" Dec 24,2014

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Financial summary and valuation

| | 2013 | 2014 | 2015E | 2016E | 2017E |
|--------------------------|--------|--------|--------|--------|--------|
| Revenue (RMB million) | 16,535 | 15,596 | 17,095 | 17,358 | 17,424 |
| YOY (%) | 2.3 | (5.7) | 9.6 | 1.5 | 0.4 |
| Net income (RMB million) | 1,041 | 348 | 1,067 | 1,172 | 1,255 |
| YOY (%) | (33) | (67) | 207 | 10 | 7 |
| EPS (RMB) | 0.37 | 0.12 | 0.38 | 0.42 | 0.45 |
| Diluted EPS (RMB) | 0.37 | 0.12 | 0.38 | 0.42 | 0.45 |
| ROE (%) | 11.3 | 3.3 | 9.2 | 9.4 | 9.3 |
| Debt/asset (%) | 1.6 | 1.4 | 1.2 | 1.1 | 1.0 |
| Dividend Yield (%) | 3.41 | 1.33 | 0.57 | 1.74 | 1.91 |
| P/E (x) | 12.2 | 36.4 | 11.9 | 10.8 | 5.7 |
| P/B (x) | 1.4 | 1.2 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (x) | 7.0 | 8.1 | 5.4 | 5.0 | 3.5 |

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

财报低于预期。 山水水泥集团 (691 HK) 2014 年全年净利润为人民币 348 百万元，每股净利人民币 0.12 元（同比下降 65.8%，低于彭博预期的每股净利 0.17 元约 27%。另人失望的净利润主要是由于较低的吨售价导致吨毛利下降所致。

吨毛利大幅度下降。 在2014年，山水销售了64百万吨的水泥和熟料（同比增加0.5%）。吨均价在14年为人民币248元，低于13年的264元约16元。吨毛利下降至2014年的人民币53元，比2013年的吨毛利少了8元。山水的吨费用上涨至46元，对比13年的每吨41元。由于吨费用上涨，山水的吨净利下降至人民币5.5元，比13年的16.2元减少10.7元。

杠杆率减少改善资产负债表。 山水的 2014 净负债为人民币 148 亿元，相对 2013 年的人民币 152 亿元和 14 年中期的 156 亿元已经下降。从而较低的净负债导致杠杆率从 14 年中期的 171% 下降到 14 年 12 月底的 140%（对比 13 年 12 月的 164%）。

股权整合的预期已反映在股价中 自我们看多的反向报告（“价值显现”2014 年 10 月 28 日发布）以来，山水股价上涨了 108%，大幅跑赢恒生中国企业指数约 93%。山水和中建材（拥有山水股权的 17%）拥有山东市场的 50% 以上份额，且山水和天瑞集团（拥有 10% 的山水股权）在辽宁拥有 50% 以上的份额。我们预期股权整合后的协同效应将提升 15 年的吨毛利至人民币 65 元。我们相信这个预期已经反映在公司股价里。

下降至中性评级 我们微调了 15 年的每股净利预测约-0.3%，从之前的 0.39 下降至目前的 0.38（同比+207%）同时上调 16 年预测约 6.5%，从之前的 0.39 至目前的 0.42（同比 10%）。为了反映公司股权整合所带来的市场整合效应导致的估值提升，我们将目标价从原先港币 4 元上调至 5.45 元，反映 15 年吨企业价值为人民币 315 元。基于 5% 的下行空间，我们将公司评级从增持下调至中性。

Results below expectation. Shanshui Cement reported full-year 2014 net profit of Rmb348m with EPS of Rmb0.12 (-65.8% YoY), 27% below the Bloomberg consensus forecast EPS of Rmb0.17. The miss was largely due to lower unit margin as a result of lower selling prices.

Unit margin decreased significantly. In 2014, Shanshui delivered 63m tonnes of cement and clinker (+0.5% YoY). The average selling price (ASP) for cement and clinker was Rmb248/t, Rmb16/t lower than the Rmb264/t in 2013. Unit margin dropped to Rmb53/t in 2014, Rmb8/t lower than in 2013. Shanshui unit SG&A increased to Rmb46/t vs Rmb41/t in 2013. With the higher unit expenses, Shanshui unit net profit decreased to Rmb5.5/t, Rmb10.7/t lower than Rmb16.2/t in 2013.

Deleverage improves balance sheet. Shanshui's net debt by the end of 2014 was Rmb14.8bn, down from Rmb15.6bn in mid-2014 and Rmb15.2bn at end-2013. The lower net debt reduced net gearing from 171% in 1H14 to 140% in December 2014, (164% in 4Q13).

Positive expectation factored in Since our positive contrarian call ("*Value Revealed*", 28 October 2014), Shanshui's share price has risen 108%, outperforming the HSCEI by 93%. As Shanshui and CNBM (3323:HK, holding 17% of Shanshui's shares) have more than 50% market share in Shandong Province, and Shanshui and Tianrui Cement (holding 10% of Shanshui's shares) have more than 50% market share in Liaoning Province, we expect improvements after consolidation will drive up unit gross profit to Rmb65/t in 2015E. With the recent sharp rally in the company's stock, we believe this has already been factored into the share price in our view.

Downgrade to Hold. We revise down our EPS forecasts by -0.3% from Rmb0.39 to Rmb 0.38 in 15E (207% YoY) and revise down by 6.5% from Rmb0.39 to Rmb 0.42 in 16E (+10%). To reflect higher valuation as a result of market consolidation following the company's shareholding consolidation, we raise our target price from HK\$4 to HK\$5.4, reflecting 15E EV/capacity of Rmb315/t. With 5% downside, we downgrade our previous Outperform rating to Hold.

Appendix

Fig1: Shanshui's Unit data

| Unit data, RMB/T | 2013 | 2014 | 2015E | 2016E | 2017E |
|----------------------------|-------------|------------|-------------|-------------|-------------|
| Volumes, M T | 62.6 | 63.0 | 65.0 | 66.0 | 66.0 |
| ASP* | 264 | 248 | 263 | 263 | 264 |
| ACP* | -203 | -195 | -198 | -198 | -198 |
| GP | 61 | 53 | 65 | 65 | 66 |
| Other income | 5 | 4 | 4 | 4 | 4 |
| Sg&A | -25 | -28 | -26 | -25 | -25 |
| Finance | -15 | -18 | -17 | -16 | -16 |
| Expenses | -41 | -46 | -43 | -41 | -41 |
| Earning per ton before tax | 25.8 | 11.0 | 26.0 | 28.0 | 29.0 |
| % taxes | -33% | -55% | -33% | -33% | -31% |
| Taxes | -8.6 | -6.1 | -8.6 | -9.2 | -9.0 |
| Minorities | 0.9 | -0.6 | 1.0 | 1.0 | 1.0 |
| NP/T | 16.2 | 5.5 | 16.4 | 17.8 | 19.0 |
| TOTAL NP, RMB M | 1,017 | 348 | 1,067 | 1,172 | 1,255 |
| EPS (RMB) | 0.36 | 0.12 | 0.38 | 0.42 | 0.45 |

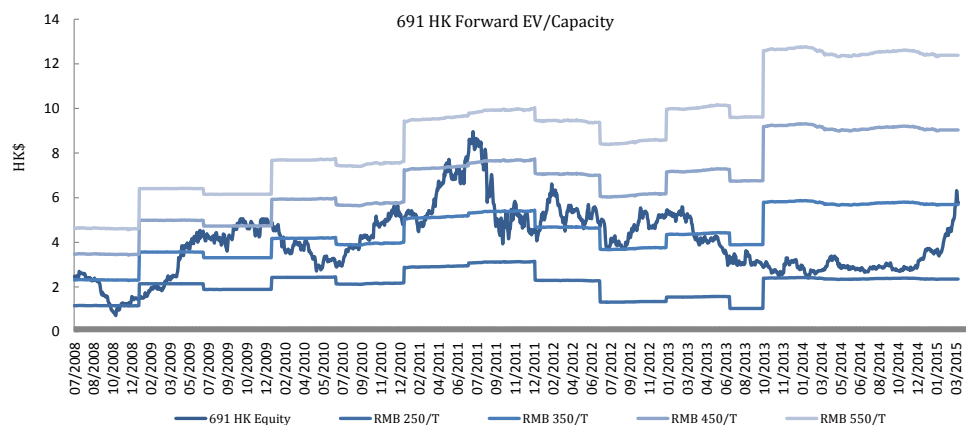
Source: Company, SWS Research

Fig 2: We change our 15-16E earning's forecasts.

| Year to Dec,Rmb | New | | Old | | Change | |
|-------------------------|-------|-------|-------|-------|--------|--------|
| | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E |
| volume, M T | 65 | 66 | 72 | 74 | -9.7% | -10.8% |
| Unit gross profit | 65 | 65 | 60 | 60 | 8.3% | 8.3% |
| Overall unit net profit | 16 | 18 | 15 | 15 | 10.4% | 19.4% |
| Net profit, Rmb\$ M | 1,067 | 1,172 | 1,071 | 1,100 | -0.3% | 6.5% |
| EPS | 0.38 | 0.42 | 0.38 | 0.39 | -0.3% | 6.5% |

Source: Company, SWS Research

Fig 3: Shanshui's EV/Capacity band



Source: Bloomberg, SWS Research

Table 1: Consolidated Income Statement

| RMB Mn | 2013 | 2014 | 2015E | 2016E | 2017E |
|----------------------------|--------|--------|--------|--------|--------|
| Revenue | 16,535 | 15,596 | 17,095 | 17,358 | 17,424 |
| Cost of Sales | 12,706 | 12,250 | 12,870 | 13,068 | 13,068 |
| Gross Profit | 3,829 | 3,347 | 4,225 | 4,290 | 4,356 |
| Other Income | 298 | 240 | 260 | 264 | 264 |
| Distribution expenses | 478 | 527 | 393 | 399 | 348 |
| Administrative expenses | 1,092 | 1,246 | 1,265 | 1,284 | 1,220 |
| EBITDA | 3,823 | 3,275 | 4,456 | 4,750 | 5,001 |
| EBIT | 2,582 | 1,813 | 2,795 | 2,904 | 2,970 |
| Finance Costs | 968 | 1,141 | 1,105 | 1,056 | 1,056 |
| Profit before tax | 1,638 | 690 | 1,690 | 1,848 | 1,914 |
| Income tax expense | 539 | 382 | 558 | 610 | 593 |
| Minority interests | 58 | (39) | 65 | 66 | 66 |
| Profit for the year | 1,041 | 348 | 1,067 | 1,172 | 1,255 |

Source: SWS Research

Table 2: Consolidated Cash Flow Statement

| RMB Mn | 2013 | 2014 | 2015E | 2016E | 2017E |
|-------------------------------------|---------|---------|---------|---------|---------|
| Profit before taxation | 1,614 | 690 | 1,690 | 1,848 | 1,914 |
| Plus : D&A | 1,090 | 1,222 | 1,661 | 1,846 | 2,031 |
| Finance cost | 968 | 1,141 | 1,105 | 1,056 | 1,056 |
| Losses from investments | 36 | 49 | 268 | 87 | 84 |
| Change in working capital | (297) | (248) | 145 | (193) | (311) |
| Others | (1,486) | (1,478) | (558) | (610) | (592) |
| CF from operating activities | 1,925 | 1,376 | 4,311 | 4,034 | 4,182 |
| CAPEX | (3,581) | (2,058) | (3,641) | (3,349) | (3,362) |
| Other CF from investing activities | (814) | (126) | 647 | 691 | 728 |
| CF from investing activities | (4,395) | (2,184) | (2,247) | (2,658) | (2,634) |
| Equity financing | 0 | 0 | 0 | 0 | 0 |
| Net change in liabilities | 3,239 | 3,282 | 0 | 0 | 1 |

| | | | | | |
|-------------------------------------|-------|---------|-------|-------|-------|
| Dividend and interest paid | (573) | (239) | (723) | (903) | (930) |
| Other CF from financing activities | 0 | (2,361) | 0 | 0 | 0 |
| CF from financing activities | 2,666 | 682 | (723) | (903) | (929) |
| Net cash flow | 195 | (126) | 1,341 | 474 | 620 |
| FCFF | (745) | 347 | 402 | 598 | 735 |
| FCFE | 2,791 | 3,877 | 257 | 791 | 1,047 |

Source : SWS Research

Table 3: Consolidated Balance Sheet

| | 2013 | 2014 | 2015E | 2016E | 2017E |
|-------------------------------------|--------|--------|--------|--------|--------|
| Current Assets | 7,244 | 7,050 | 8,671 | 9,238 | 9,909 |
| Bank balances and cash | 1,358 | 1,286 | 2,627 | 3,100 | 3,720 |
| Trade and other receivables | 3,920 | 3,708 | 4,064 | 4,127 | 4,143 |
| Inventories | 1,966 | 2,056 | 1,980 | 2,010 | 2,046 |
| Long-term investment | 800 | 1,256 | 1,256 | 1,256 | 1,256 |
| PP&E | 21,404 | 22,559 | 24,472 | 25,718 | 26,630 |
| Intangible and other assets | 2,824 | 3,021 | 2,999 | 2,999 | 3,000 |
| Total Assets | 32,236 | 33,695 | 37,154 | 38,951 | 40,518 |
| Current Liabilities | 12,047 | 9,845 | 10,548 | 11,104 | 11,617 |
| Borrowings | 16,668 | 16,333 | 16,757 | 17,224 | 17,737 |
| Trade and other payables | 5,027 | 5,501 | 5,780 | 5,869 | 5,869 |
| Other current liabilities | 144 | 100 | 100 | 100 | 100 |
| Long-term liabilities | 590 | 569 | 569 | 569 | 569 |
| Total Liabilities | 22,270 | 22,329 | 23,032 | 23,588 | 24,102 |
| Minority Interests | 721 | 768 | 833 | 899 | 965 |
| Shareholder Equity | 9,246 | 10,826 | 11,893 | 13,065 | 14,320 |
| Share Capital | 193 | 228 | 228 | 228 | 228 |
| Reserves | 9,053 | 10,598 | 11,665 | 12,837 | 14,092 |
| Total Liabilities and equity | 32,236 | 33,695 | 37,154 | 38,951 | 40,518 |

Source: SWS Research

Table 4: Key financial ratios

| | 2013 | 2014 | 2015E | 2016E | 2017E |
|--------------------------------|-------|-------|-------|-------|-------|
| Ratios per share (RMB) | | | | | |
| Earnings per share | 0.37 | 0.12 | 0.38 | 0.42 | 0.45 |
| Operating CF per share | 0.68 | 0.49 | 1.53 | 1.43 | 1.49 |
| Dividend per share | 0.19 | 0.07 | 0.03 | 0.09 | 0.10 |
| Net assets per share | 3.54 | 4.04 | 5.01 | 5.46 | 5.83 |
| Key Operating Ratios(%) | | | | | |
| ROIC | 7.25 | 3.22 | 6.84 | 6.88 | 7.06 |
| ROE | 11.26 | 3.28 | 9.22 | 9.39 | 9.33 |
| Gross profit margin | 23.16 | 21.46 | 24.71 | 24.71 | 25.00 |
| EBITDA Margin | 23.12 | 21.00 | 26.07 | 27.37 | 28.70 |

| | | | | | |
|-------------------------------|---------|---------|--------|--------|--------|
| EBIT Margin | 15.61 | 11.62 | 16.35 | 16.73 | 17.05 |
| Growth rate of Revenue(YoY) | 2.32 | (5.68) | 9.61 | 1.54 | 0.38 |
| Growth rate of Profit(YoY) | (32.82) | (66.61) | 207.00 | 9.82 | 7.04 |
| Debt-to-asset ratio | 1.64 | 1.40 | 1.21 | 1.12 | 1.03 |
| Turnover rate of net assets | 165.90 | 137.22 | 121.06 | 112.99 | 106.14 |
| Turnover rate of total assets | 51.29 | 46.29 | 46.01 | 44.56 | 43.00 |
| Effective tax rate (%) | 32.91 | 55.29 | 33.00 | 33.00 | 31.00 |
| Dividend yield (%) | 3.41 | 1.33 | 0.57 | 1.74 | 1.91 |
| Valuation Ratios (X) | | | | | |
| P/E | 12.2 | 36.4 | 11.9 | 10.8 | 5.7 |
| P/B | 1.4 | 1.2 | 1.1 | 1.0 | 0.9 |
| EV/Sales | 1.6 | 1.7 | 1.4 | 1.4 | 1.0 |
| EV/EBITDA | 7.0 | 8.1 | 5.4 | 5.0 | 3.5 |

Source: SWS Research

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