



Rating
Buy

Asia
China

Resources
Metals & Mining

Company
**China Hongqiao
Alert**

Reuters 1378.HK Bloomberg 1378 HK Exchange HSI Ticker 1378

Date
30 March 2015

Results

Price at 27 Mar 2015 (HKD)	4.68
Price target - 12mth (HKD)	8.90
52-week range (HKD)	6.84 - 4.09
HANG SENG INDEX	24,486

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FY14 results slightly ahead; Buy maintained

FY14 results slightly ahead of both DBe and consensus; maintaining Buy

China Hongqiao released its FY14 results on 29 Mar 2015 with NPAT of RMB5.3bn (5%YoY decline), ahead of DBe and Bloomberg consensus by ~2%/~5%, respectively on lower unit cost (RMB8,537/t vs. DBe of RMB8,642/t). The company's top line was RMB36.1bn (+23%YoY) in FY14, in line with consensus but 3% below DBe on slightly lower volume. We envision decent earnings growth on its capacity expansion and higher electricity/alumina self-sufficiency ratio in coming years. Buy maintained.

Capacity expansion continues in 2015

China Hongqiao's aluminium capacity reached c.4mt by 2014 (ranked No.1 in China), mainly a result of its recent acquisition in late 2014 (480kt in 2014 and another 180kt in 2015) as well as its self-built aluminium capacity of ~500kt in 2014. Along with continued capacity growth in 2015, we expect that its output will reach ~4.1mt in 2015, representing +30%YoY, leading to earnings growth amid a mild aluminium price recovery in 2015E.

Cost advantages to be sustained on higher power self-sufficiency ratio

In addition, we expect its cost advantages to be sustained on 1) its recent acquisition of power capacity, including 4x135MW and 2x330MW established in 2014 and 2x330MW under construction; 2) Shandong alumina project (1mt) to start in mid-2015, and its Indonesia alumina project (1mt) to come into commission in late 2015. We expect its self-sufficiency ratio could reach ~80%/88% for power and ~57%/76% for alumina in 2015/2016, respectively.

Clearing-up of delayed results announcement likely a positive catalyst

We believe the clearing-up of the delayed results announcement could help bring about improved market perception regarding the company's corporate governance. A detailed auditing exercise by Hongqiao's auditors prompted the delay of its results announcement. But after detailed scrutiny of its financials by the auditors, it is still able to announce results by the HKEx deadline. This might make investors more comfortable about its financials and trigger a narrowing in Hongqiao's significant valuation discount to its peers.

Undemanding valuation; Buy reiterated

We use DCF (9.5% WACC and a 2% terminal growth rate) to derive our target price. The TP translates into 1.2x/1.0x 2015/16DBe BVPS, with its ROE 20.7% and 23.8% in 2015/2016E, we reiterate Buy. Risks: higher unit cost, lower price.

Figure 1: China Hongqiao FY14 results summary (IFRS)

RMB mn	2014	2013	YoY	2H14	1H14	HoH	14DBe	% of Dbe	14E Cons	% of Cons.
Revenue	36,086	29,404	23%	18,718	17,368	8%	37,297	97%	36,191	100%
GP	9,296	8,143	14%	5,486	3,810	44%	8,756	106%	8,748	106%
SG&A	(705)	(500)	41%	(383)	(323)	19%	(634)	111%	na	na
EBIT	9,076	8,503	7%	5,517	3,560	55%	8,545	106%	7,770	117%
NPAT	5,314	5,593	-5%	3,277	2,037	61%	5,207	102%	5,067	105%

Source: Deutsche Bank, Company data

Stock data

Market cap (HKDm)	28,833
Market cap (USDm)	3,718
Shares outstanding (m)	6,160.9
Major shareholders	-
Avg daily value traded (USDm)	0.0
Free float(%)	15

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	29,404	37,297	50,171
Net Profit (CNYm)	5,592.7	5,206.5	6,909.6
DB EPS (CNY)	0.92	0.84	1.09
PER (x)	3.7	4.5	3.5
Yield (net) (%)	8.0	6.5	8.5

Source: Deutsche Bank

Hongqiao operational data

	FY14	FY13	YoY
SHFE 3M Al price (RMB/t)	13,639	14,507	-6%
ASP (RMB/t)	11,488	12,252	-6%
Aluminium unit cost (RMB/t)	8,537	8,887	-4%
Sales volume (kt)	3,129	2,386	31%
Aluminium Capacity (kt)	4,026	2,956	36%
Power installed capacity (MW)	6,570	4,380	50%
Power self-sufficiency ratio (eop %)	84%	76%	na
Alumina self-sufficiency ratio (eop %)	52%	53%	na

Source: Deutsche Bank, Company data

Deutsche Bank AG/Hong Kong

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