

Stake in WCC likely to cement leadership in Northwest China**What's changed**

Anhui Conch Cement announced that its wholly-owned subsidiary Conch International will acquire 16.7% of the enlarged equity of West China Cement (2233 HK, Not Covered) for a consideration of HK\$1,527mn. The implied EV/t is Rmb355/t, compared with Conch's 2015E EV/t of Rmb492/t.

Implications**We see strategic merit for both West China Cement and Anhui Conch.**

West China Cement is Shaanxi's biggest cement producer, with dominant market position in South Shaanxi (75% market share), while Conch is its major competitor in Central Shaanxi. After the acquisition, Conch and West China Cement could control 46% of Central and South Shaanxi capacity, and we note that better market cooperation should enhance profitability in the region.

Ytd Shaanxi cement price is down 5% due to weak demand. We think any potential improvement in the market structure post the proposed deal could help stabilize pricing in the region, and note that WCC and Conch's Shaanxi plants are well positioned to benefit from any demand uptick. We do not incorporate the impact of this stake into our estimates, pending approval of the Stock Exchange.

Valuation

Our 12-m target prices for Anhui Conch H/A are unchanged at HK\$35.8/Rmb28, and we maintain Buy on both stocks. Our target price for H implies 1.8x FY16E P/B, lower than the 2.0x cycle average while the company's FY16E ROE of 17% is in line with the cycle average (2000-2014). We believe its solid balance sheet will enable it to continue to gain market share in a lackluster market.

Key risks

1) Higher-than-expected raw material/coal cost or tariff; (2) Lower-than-expected cement price/volume.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List

Coverage View: Neutral

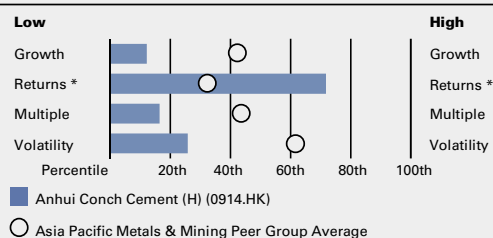
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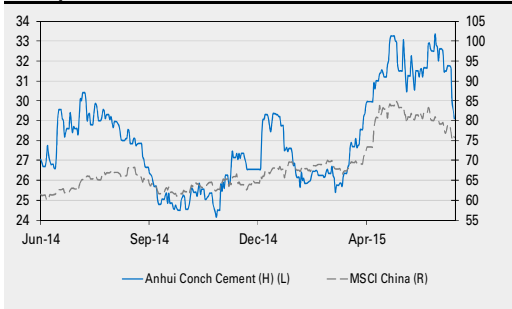
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Investment Profile

* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (HK\$)	29.10
12 month price target (HK\$)	35.80
600585.SS Price (Rmb)	24.88
600585.SS 12 month price target (Rmb)	28.00
Market cap (HK\$ mn / US\$ mn)	154,209.7 / 19,891.4
Foreign ownership (%)	--

	12/14	12/15E	12/16E	12/17E
EPS (Rmb)	2.07	2.11	2.44	2.54
EPS growth (%)	17.0	1.9	15.8	4.0
EPS (diluted) (Rmb)	2.07	2.11	2.44	2.54
EPS (basic pre-ex) (Rmb)	2.07	2.11	2.44	2.54
P/E (X)	10.8	11.0	9.5	9.2
P/B (X)	1.8	1.7	1.5	1.3
EV/EBITDA (X)	7.0	7.1	6.0	5.5
Dividend yield (%)	2.9	2.8	3.3	3.4
ROE (%)	18.1	16.0	16.5	15.4
CROCI (%)	14.6	15.7	17.1	15.5

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	5.4	9.6	7.6
Rel. to MSCI China	(4.2)	(8.2)	(12.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/18/2015 close.

Anhui Conch Cement (H): Summary Financials

Profit model (Rmb mn)	12/14	12/15E	12/16E	12/17E	Balance sheet (Rmb mn)	12/14	12/15E	12/16E	12/17E
Total revenue	60,758.5	63,754.5	70,102.6	71,504.7	Cash & equivalents	12,512.1	10,997.1	10,244.4	10,159.6
Cost of goods sold	(40,560.1)	(42,858.0)	(46,600.2)	(47,540.6)	Accounts receivable	4,218.8	6,375.4	4,907.2	7,150.5
SG&A	(5,623.7)	(6,336.1)	(6,856.0)	(6,922.7)	Inventory	4,376.0	5,143.0	5,126.0	4,754.1
R&D	--	--	--	--	Other current assets	4,163.6	4,368.9	4,803.9	4,900.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	25,270.5	26,884.4	25,081.5	26,964.1
EBITDA	18,401.4	18,836.8	21,348.3	22,146.2	Net PP&E	62,501.2	67,482.4	73,038.1	76,190.9
Depreciation & amortization	(3,826.7)	(4,276.5)	(4,701.9)	(5,104.9)	Net intangibles	6,848.9	6,591.3	6,333.7	6,076.1
EBIT	14,574.7	14,560.3	16,646.5	17,041.4	Total investments	6,579.5	6,575.1	6,570.2	6,565.2
Interest income	420.0	518.8	468.8	450.3	Other long-term assets	1,052.9	1,591.1	1,224.7	1,784.6
Interest expense	(1,038.9)	(949.4)	(691.7)	(382.4)	Total assets	102,253.1	109,124.3	112,248.2	117,580.8
Income/(loss) from uncons. subs.	(55.2)	0.0	0.0	0.0	Accounts payable	4,014.9	5,143.0	4,660.0	4,754.1
Others	1,026.5	1,077.1	1,184.3	1,208.0	Short-term debt	2,331.1	2,114.8	1,239.8	819.7
Pretax profits	14,927.0	15,206.8	17,607.9	18,317.3	Other current liabilities	8,051.0	8,692.7	9,408.3	9,814.4
Income tax	(3,360.2)	(3,423.2)	(3,963.6)	(4,123.3)	Total current liabilities	14,397.0	15,950.4	15,308.1	15,388.2
Minorities	(585.9)	(596.9)	(691.2)	(719.0)	Long-term debt	17,587.1	14,803.4	8,678.4	4,098.5
Net income pre-preferred dividends	10,980.9	11,186.7	12,953.1	13,475.0	Other long-term liabilities	1,041.9	1,143.0	1,244.1	1,345.2
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	18,629.0	15,946.4	9,922.5	5,443.7
Net income (pre-exceptionals)	10,980.9	11,186.7	12,953.1	13,475.0	Total liabilities	33,026.0	31,896.8	25,230.6	20,831.9
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	10,980.9	11,186.7	12,953.1	13,475.0	Total common equity	65,850.0	73,592.1	83,036.1	92,447.9
EPS (basic, pre-exception) (Rmb)	2.07	2.11	2.44	2.54	Minority interest	3,377.1	3,635.3	3,981.5	4,301.0
EPS (basic, post-exception) (Rmb)	2.07	2.11	2.44	2.54	Total liabilities & equity	102,253.1	109,124.3	112,248.2	117,580.8
EPS (diluted, post-exception) (Rmb)	2.07	2.11	2.44	2.54	BVPS (Rmb)	12.43	13.89	15.67	17.45
DPS (Rmb)	0.65	0.66	0.77	0.80	Ratios	12/14	12/15E	12/16E	12/17E
Dividend payout ratio (%)	31.4	31.4	31.4	31.4	CROCI (%)	14.6	15.7	17.1	15.5
Free cash flow yield (%)	5.5	4.3	8.3	7.4	ROE (%)	18.1	16.0	16.5	15.4
Growth & margins (%)	12/14	12/15E	12/16E	12/17E	ROA (%)	11.2	10.6	11.7	11.7
Sales growth	9.9	4.9	10.0	2.0	ROACE (%)	16.0	15.2	16.3	15.9
EBITDA growth	12.8	2.4	13.3	3.7	Inventory days	36.3	40.5	40.2	37.9
EBIT growth	14.4	(0.1)	14.3	2.4	Receivables days	35.3	30.3	29.4	30.8
Net income growth	17.0	1.9	15.8	4.0	Payable days	35.1	39.0	38.4	36.1
EPS growth	17.0	1.9	15.8	4.0	Net debt/equity (%)	10.7	7.7	(0.4)	(5.4)
Gross margin	33.2	32.8	33.5	33.5	Interest cover - EBIT (X)	23.5	33.8	74.7	NM
EBITDA margin	30.3	29.5	30.5	31.0	Valuation	12/14	12/15E	12/16E	12/17E
EBIT margin	24.0	22.8	23.7	23.8	P/E (analyst) (X)	10.8	11.0	9.5	9.2
Cash flow statement (Rmb mn)	12/14	12/15E	12/16E	12/17E	P/B (X)	1.8	1.7	1.5	1.3
Net income pre-preferred dividends	10,980.9	11,186.7	12,953.1	13,475.0	EV/EBITDA (X)	7.0	7.1	6.0	5.5
D&A add-back	3,826.7	4,276.5	4,701.9	5,104.9	EV/GCI (X)	1.3	1.2	1.1	1.0
Minorities interests add-back	585.9	596.9	691.2	719.0	Dividend yield (%)	2.9	2.8	3.3	3.4
Net (inc)/dec working capital	2,847.1	(1,795.5)	1,002.3	(1,777.3)					
Other operating cash flow	(1,715.8)	208.9	1,188.1	(47.7)					
Cash flow from operations	16,524.8	14,473.5	20,536.5	17,473.9					
Capital expenditures	(9,789.8)	(9,000.0)	(10,000.0)	(8,000.0)					
Acquisitions	(707.3)	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	5,646.0	(205.3)	(435.0)	(96.1)					
Cash flow from investments	(4,851.1)	(9,205.3)	(10,435.0)	(8,096.1)					
Dividends paid (common & pref)	(1,854.8)	(3,444.5)	(3,509.1)	(4,063.2)					
Inc/(dec) in debt	(3,013.2)	(3,000.0)	(7,000.0)	(5,000.0)					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	(788.0)	(338.7)	(345.0)	(399.5)					
Cash flow from financing	(5,656.0)	(6,783.2)	(10,854.1)	(9,462.7)					
Total cash flow	6,017.7	(1,515.0)	(752.7)	(84.9)					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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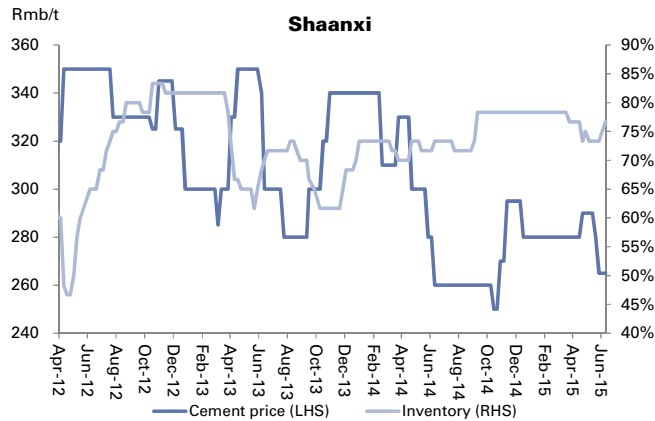
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Exhibit 1: Shaanxi cement prices and inventory



Source: Digital Cement.

Exhibit 2: West China Cement capacity by region As of end 1Q15

Region	Capacity (mtpa)
Shaanxi	21.1
South	9.7
Central	11.4
Xinjiang	4.1
Gansu	1.8
Total	27

Source: West China Cement 2014 Annual Results Presentation.

Exhibit 3: Anhui Conch's quarterly results

Anhui Conch													
Rmb mn	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Revenue	8,859	11,700	11,688	13,519	9,906	13,681	13,421	18,254	12,630	16,155	14,890	17,084	11,229
Gross profit	2,358	3,175	2,690	4,481	2,478	4,185	4,451	7,130	4,498	5,814	4,447	5,735	3,289
Gross margin	26.6%	27.1%	23.0%	33.1%	25.0%	30.6%	33.2%	39.1%	35.6%	36.0%	29.9%	33.6%	29.3%
Net profit	1,249	1,668	1,018	2,373	972	2,088	2,324	3,996	2,473	3,348	2,352	2,820	1,714
Cement and clinker ASP (Rmb/t)	268	241	214	251	214	235	227	266	250	241	219	238	216
Gross profit per tonne (Rmb/t)	71	66	50	84	52	74	76	107	90	89	66	83	63
Sales volume (mt)	33	48	53	53	46	57	59	66	48	66	66	70	51
Unit cost (Rmb/t)	197	175	164	167	162	161	151	159	160	153	153	155	153
Net profit (Rmb/t)	38	35	19	45	21	37	40	60	52	51	36	40	34

Source: Company data

Disclosure Appendix

Reg AC

We, Julian Zhu, Yan Yan, Christina He and Jefferson Zhang, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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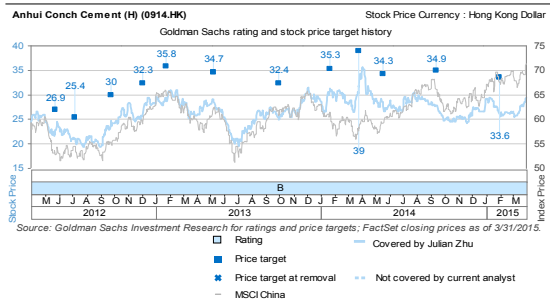
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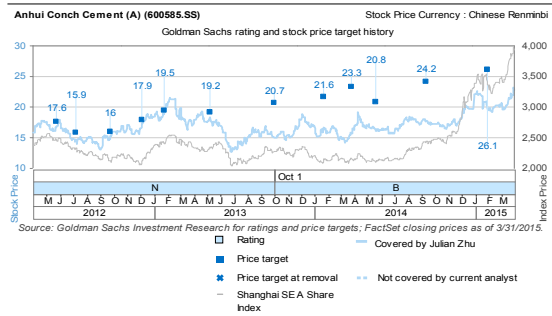
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