

Placement to benefit liquidity; reiterate CL Buy**What's changed**

On Jun 21, Dongpeng announced that one of its substantial shareholders, High Ride, disposed of 30mn shares (2.38% of Dongpeng's outstanding sharecount) to third party investors, at HK\$3.7 per share (a 6% discount to the previous market close). The company announced that its chairman has no intention to sell any of his 31% stake in the near future.

High Ride owned 17.36% of Dongpeng before the placement. High Ride is controlled by Dongpeng's current or former employees, among whom only one individual, who holds c.5.5% of High Ride, is currently in a senior management position (non-executive director) at Dongpeng.

Implications

We estimate the placement will lift Dongpeng's non-employee owned shares by c.7%, improving liquidity. We see limited negative impact from the placement given **1)** no new shares were issued (hence no dilution), **2)** the placement price was at a small discount to current share price (6%), and **3)** senior management had very limited involvement in the sale of the shares. We continue to expect Dongpeng to benefit from the ongoing property recovery and reiterate our CL Buy.

Valuation

Dongpeng currently trades at FY16 P/E of 6.3x, much lower than the average of 18.0x/9.4x for global peers/H share cement coverage, despite similar/much better margins and returns. We maintain our 12-month SOTP target price of HK\$5.0, which suggests 26% upside.

Key risks

Lower-than-expected ASP/volume due to intense market competition.

INVESTMENT LIST MEMBERSHIP

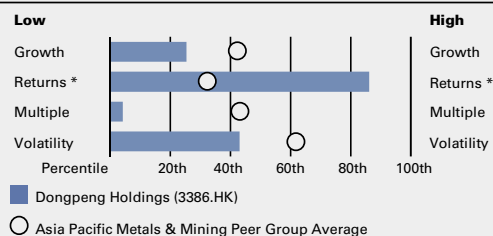
Asia Pacific Buy List
Asia Pacific Conviction Buy List

Coverage View: Neutral

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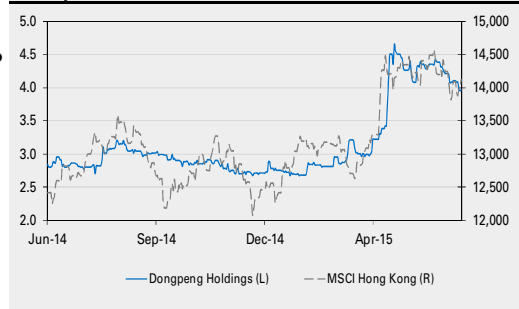
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Investment Profile

* 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\$)	3.96
12 month price target (HK\$)	5.00
Market cap (HK\$ mn / US\$ mn)	5,020.2 / 647.7
Foreign ownership (%)	--

	12/14	12/15E	12/16E	12/17E
EPS (Rmb)	0.45	0.45	0.50	0.53
EPS growth (%)	22.0	0.9	10.9	5.5
EPS (diluted) (Rmb)	0.44	0.45	0.50	0.53
EPS (basic pre-ex) (Rmb)	0.45	0.45	0.50	0.53
P/E (X)	5.2	7.0	6.3	6.0
P/B (X)	1.2	1.4	1.2	1.1
EV/EBITDA (X)	3.2	4.2	3.3	2.7
Dividend yield (%)	5.8	4.3	4.8	5.0
ROE (%)	26.7	22.3	21.3	19.6
CROCI (%)	28.0	22.5	24.6	22.9

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	31.1	46.1	39.4
Rel. to MSCI Hong Kong	19.5	27.4	22.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/19/2015 close.

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Dongpeng Holdings: 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	3,893.1	4,376.5	4,887.3	5,257.6	Cash & equivalents	387.7	321.6	804.1	1,324.3
Cost of goods sold	(2,395.3)	(2,738.8)	(3,076.7)	(3,343.3)	Accounts receivable	648.1	962.8	879.7	946.4
SG&A	(827.3)	(962.8)	(1,075.2)	(1,156.7)	Inventory	984.0	1,150.3	1,384.5	1,504.5
R&D	(53.4)	(43.8)	(48.9)	(52.6)	Other current assets	387.3	387.3	387.3	387.3
Other operating profit/(expense)	127.9	120.1	133.1	141.1	Total current assets	2,407.1	2,822.0	3,455.7	4,162.5
EBITDA	898.7	936.7	1,026.8	1,065.2	Net PP&E	1,345.1	1,568.1	1,519.0	1,457.8
Depreciation & amortization	(153.6)	(185.4)	(207.2)	(219.1)	Net intangibles	374.3	366.0	357.9	349.9
EBIT	745.0	751.3	819.5	846.1	Total investments	0.0	0.0	0.0	0.0
Interest income	38.2	26.4	37.8	63.6	Other long-term assets	75.3	84.7	94.6	101.7
Interest expense	(35.9)	(9.9)	(3.6)	(0.5)	Total assets	4,201.8	4,840.8	5,427.1	6,071.9
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	644.4	958.6	1,076.9	1,170.2
Others	(24.7)	(28.9)	(26.4)	(28.4)	Short-term debt	157.6	64.6	4.6	4.6
Pretax profits	722.6	738.9	827.3	880.9	Other current liabilities	779.2	796.8	892.2	950.0
Income tax	(158.1)	(162.5)	(182.0)	(193.8)	Total current liabilities	1,581.2	1,819.9	1,973.6	2,124.7
Minorities	(0.8)	(0.8)	(0.9)	(0.9)	Long-term debt	50.0	43.0	3.0	3.0
Net income pre-preferred dividends	563.7	575.5	644.4	686.1	Other long-term liabilities	82.0	82.0	82.0	82.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	132.0	125.0	85.0	85.0
Net income (pre-exceptionals)	563.7	575.5	644.4	686.1	Total liabilities	1,713.2	1,945.0	2,058.7	2,209.7
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	563.7	575.5	644.4	686.1	Total common equity	2,380.7	2,787.1	3,258.8	3,751.6
EPS (basic, pre-exception) (Rmb)	0.45	0.45	0.50	0.53	Minority interest	107.9	108.7	109.6	110.6
EPS (basic, post-exception) (Rmb)	0.45	0.45	0.50	0.53	Total liabilities & equity	4,201.8	4,840.8	5,427.1	6,071.9
EPS (diluted, post-exception) (Rmb)	0.44	0.45	0.50	0.53	BVPS (Rmb)	1.89	2.19	2.54	2.90
DPS (Rmb)	0.13	0.14	0.15	0.16					
Dividend payout ratio (%)	30.0	30.0	30.0	30.0					
Free cash flow yield (%)	4.1	4.3	17.2	15.4					
Growth & margins (%)	12/14	12/15E	12/16E	12/17E	Ratios	12/14	12/15E	12/16E	12/17E
Sales growth	15.6	12.4	11.7	7.6	CROCI (%)	28.0	22.5	24.6	22.9
EBITDA growth	26.6	4.2	9.6	3.7	ROE (%)	26.7	22.3	21.3	19.6
EBIT growth	27.7	0.8	9.1	3.2	ROA (%)	14.1	12.7	12.6	11.9
Net income growth	66.0	2.1	12.0	6.5	ROACE (%)	28.9	22.6	23.6	24.9
EPS growth	22.0	0.9	10.9	5.5	Inventory days	141.3	142.2	150.4	157.7
Gross margin	38.5	37.4	37.0	36.4	Receivables days	56.6	67.2	68.8	63.4
EBITDA margin	23.1	21.4	21.0	20.3	Payable days	101.4	106.8	120.7	122.7
EBIT margin	19.1	17.2	16.8	16.1	Net debt/equity (%)	(7.2)	(7.4)	(23.6)	(34.1)
					Interest cover - EBIT (X)	NM	NM	NM	NM
Cash flow statement (Rmb mn)	12/14	12/15E	12/16E	12/17E	Valuation	12/14	12/15E	12/16E	12/17E
Net income pre-preferred dividends	563.7	575.5	644.4	686.1	P/E (analyst) (X)	5.2	7.0	6.3	6.0
D&A add-back	153.6	185.4	207.2	219.1	P/B (X)	1.2	1.4	1.2	1.1
Minorities interests add-back	0.8	0.8	0.9	0.9	EV/EBITDA (X)	3.2	4.2	3.3	2.7
Net (inc)/dec working capital	(283.7)	(166.9)	(32.8)	(93.3)	EV/GCI (X)	1.0	1.1	0.9	0.8
Other operating cash flow	(7.0)	(18.2)	47.7	(13.0)	Dividend yield (%)	5.8	4.3	4.8	5.0
Cash flow from operations	427.4	576.6	867.4	799.8					
Capital expenditures	(303.5)	(400.0)	(150.0)	(150.0)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(299.7)	26.4	37.8	63.6					
Cash flow from investments	(603.2)	(373.6)	(112.2)	(86.4)					
Dividends paid (common & pref)	(87.6)	(169.1)	(172.7)	(193.3)					
Inc/(dec) in debt	(158.5)	(100.0)	(100.0)	0.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	5.4	0.0	0.0	0.0					
Cash flow from financing	(240.7)	(269.1)	(272.7)	(193.3)					
Total cash flow	(415.7)	(66.1)	482.6	520.1					

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

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Exhibit 1: Dongpeng shareholding

	Before placement	After placement
He Xinmin (Chairman)	31.3%	31.3%
High Ride	17.4%	15.0%
Incl. Su Limei (non-Executive Director)	1.0%	0.8%
Chen Kunlie (Executive Director)	12.8%	12.8%
Rich Blossom	3.6%	3.6%
Sen Su (Non-Executive Director)	2.6%	2.6%
Total employee shareholding	67.7%	65.4%
Non-employee shareholding	32.3%	34.7%
Incl. Sequoia	7.8%	7.8%
Others	24.5%	26.9%

Note: High Ride and Rich Blossom are owned by current or former employees of Dongpeng.

Source: Bloomberg, Company data.

Exhibit 2: Valuation comps

Cement	Country	Ticker	Market Cap (US\$ mn)	P/E (x)		P/B (x)		EV/EBITDA (x)		Gross margin		ROE	
				2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Anhui Conch (H)	China	0914.HK	19,347	10.7	9.3	1.6	1.4	6.9	5.8	33%	34%	16%	17%
CNBM	China	3323.HK	5,231	6.3	5.3	0.6	0.6	9.0	8.6	25%	25%	11%	12%
CR Cement	China	1313.HK	3,700	7.4	6.0	0.9	0.8	6.0	4.9	31%	30%	13%	15%
Shanshui Cement	China	0691.HK	2,742	30.5	16.1	1.5	1.4	10.8	8.3	20%	23%	5%	9%
BBMG (H)	China	2009.HK	4,206	11.7	10.0	0.9	0.8	14.3	12.4	23%	23%	8%	8%
Average				13.3	9.4	1.1	1.0	9.4	8.0	26%	27%	11%	12%
Dongpeng	China	3386.HK	648	7.0	6.3	1.4	1.2	4.2	3.3	37%	37%	22%	21%
vs. cement stocks avg				-48%	-33%	29%	23%	-56%	-59%	11.2ppt	10.1ppt	11.8ppt	9.3ppt
Ceramic tiles and other flooring													
PT Arwana Citramulia	Indonesia	ARNA IJ	352	21	15	4.4	3.5	11.8	9.3	29%	30%	23%	26%
Kajaria Ceramics	India	KJC IN	949	29	23	7.0	5.7	15.5	12.6	45%	45%	27%	27%
Saudi Ceramic	Saudi Arabia	SCERCO AB	1,085	15	14	2.1	2.0	10.7	9.9	41%	41%	15%	15%
Dynasty Ceramic	Thailand	DCC TB	741	20	18	9.9	9.2	12.2	10.3	42%	43%	46%	50%
Mohawk Industries	US	MHK US	14,090	20	17	2.8	2.4	12.9	10.5	29%	29%	15%	16%
Armstrong World	US	AWI US	3,026	24	19	3.9	3.2	10.2	8.7	24%	25%	18%	19%
Interface Inc	US	TILE US	1,629	22	19	4.6	3.7	11.7	9.9	36%	36%	22%	22%
Average				21.5	17.9	5.0	4.2	12.1	10.2	35%	36%	24%	25%
Bathroom and kitchen													
Howden Joinery	Britain	HWDN LN	5,253	20	18	8.2	6.8	13.9	12.8	66%	66%	47%	41%
Toto Ltd	Japan	5332 JP	6,284	25	22	2.6	2.4	12.2	10.8	38%	38%	11%	11%
Geberit Ag	Switzerland	GEBN VX	13,073	20	16	6.8	6.6	16.1	13.2	68%	68%	32%	39%
Masco Corp	US	MAS US	9,660	23	18	10.8	10.9	10.7	9.4	29%	30%	45%	56%
Average				22.1	18.6	7.1	6.7	13.2	11.5	50%	50%	34%	37%
Other home decoration and improvement													
Lixil Group Corp	Japan	5938 JP	6,020	20	13	1.1	1.0	9.4	7.7	26%	27%	5%	8%
Nichiha Corp	Japan	7943 JP	546	12	11	1.1	1.0	5.5	4.7	36%	36%	9%	10%
Beacon Roofing	US	BECN US	1,571	22	18	1.7	1.6	10.9	8.7	23%	23%	8%	9%
Fortune Brands	US	FBHS US	7,341	22	18	3.0	2.6	13.1	10.4	34%	35%	14%	16%
Louisiana-Pacific	US	LPX US	2,474		29	2.3	2.2	33.5	8.7	11%	18%	-5%	8%
Average				19.3	17.7	1.8	1.7	14.5	8.1	26%	28%	6%	10%
Average - global home decoration				21.1	18.0	4.5	4.0	13.1	9.9	36%	37%	21%	23%
Dongpeng	China	3386.HK	648	7.0	6.3	1.4	1.2	4.2	3.3	37%	37%	22%	21%
vs. global home decorations peers				-67%	-65%	-68%	-69%	-68%	-67%	1.4ppt	0.1ppt	1.5ppt	-2ppt

Note: 1) Not Covered companies include PT Arwana Citramulia Tbk, Kajaria Ceramics, Dynasty Ceramic, Interface Inc., Toto Ltd, Lixil Group Corp, Nichiha Corp, Beacon Roofing. 2) Coverage Suspended companies include Mohawk Industries, Armstrong World, Masco Corp, Fortune Brands. 3) Estimates for Not Covered and Coverage Suspended companies are based on Bloomberg consensus.

Source: Bloomberg, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

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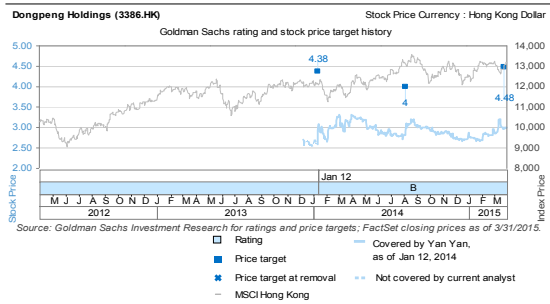
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