

中国中车 [1766.HK]

三季度盈利复苏幅度高于市场预期;上调评级至买入

在10月27日收盘后,中国中车发布了2017年三季报,并举行了分析师会议。期内盈利增长强于市场预期。公司第三季收入同比下降1.7%,首九个月收入则同比下降4.3%。第三季净利润同比增长15.2%。在进行合并后,成本上的协同效应提升了利润率。首九个月的净利润同比跌幅收窄至9.4%。我们轻微调整了公司2017-2018年收入预测,但由于利润率高于预期,我们将公司2017-2018年盈利预测上调4-9%。我们预计2017年和2018年的盈利分别同比增长6.1%和12.2%。从2018年开始,铁路改革提速有望进一步推动核心铁路业务的增长复苏。从铁路改革的进展来看,我们2018年的盈利预测颇有可能有进一步上调的空间。我们将中国中车评级由沽出升至买入,目标价由5.75港元上调至9.20港元。由于市场此前预计公司季度盈利增长复苏,公司股价在10月开始反弹。随着业务增长的可见度提升,我们将目标市盈率从12倍提高到17倍,与历史平均动态市盈率相若。另一方面,公司的A/H折让有所扩大,这代表南下资金也有可能在未来几季支持股份的重估。

投资亮点

- **盈利增长从2017年三季度开始恢复;2018年盈利有上涨空间。**在三季度,公司的机车、货车和城轨交通工具业务的收入强劲增长,抵消了动车组和其他业务的收入下滑。期内净利润同比增长15.2%,主要由于利润率上升所致。在合并后,成本协同效应开始浮现,刺激利润率在三季度扩张。中国中车17年首三季收入同比下降4.3%。同期内净利润同比跌幅收窄至9.4%。考虑到利润率扩张幅度高于预期,我们将2017-2018年盈利预测上调了4-9%。我们预计2017年和2018年的盈利分别增长6.1%和12.2%。但是,从铁路改革的进展来看,我们认为2018年的盈利预测颇有可能有进一步上调的空间(图3)。
- **料铁路改革提速将推动中车动车组业务恢复增长。**我们预计,从2018年起新增的线路,将支持公司动车组业务的需求恢复增长。但十三五期间动车组需求增长的幅度也将取决于铁路业务的改革。我们预计,铁路网的快速发展,将迫使中铁总更加专注于业务运营和改革,以提高铁路利润和解决铁路资金问题。预计铁路改革将在以下两方面使铁路设备业务受益:1)解决资金问题,以支持铁路网进一步扩张;2)中铁总的重点将转移到提高高铁列车的班次和扩大货运业务,这将刺激动车组和机车的需求。
- **成本协同效应浮现,有助提高利润率。**从2016年开始,成本协同效应逐步浮现,提振了公司的利润率。我们预计其毛利率将从2016年的20.1%进一步扩大至2017年的21.0%,并在2018年增至21.1%。该合并减少了投资的重迭,并使旗下的城轨交通业务的竞争减少,最终有助于提升该业务的盈利能力。另外,中国中车开始对货运业务进行重组。鉴于货车市场仍供过于求,公司制定了降低产能和精简业务的方案。
- **从沽出升级至买入,目标价由5.75港元上调至9.20港元。**我们的目标价是基于17倍的目标市盈率,与历史平均动态市盈率相若。

Y/E Dec 31	2014	2015	2016	2017E	2018E
收入(百万元人民币)	218,451	237,785	224,138	239,027	257,802
经常性净利润(百万元人民币)	10,815	11,818	11,296	11,987	13,453
净利润率(%)	5.0%	5.0%	5.0%	5.0%	5.2%
经常性每股盈利(人民币)	0.41	0.43	0.41	0.42	0.47
百分比变动					
市盈率(倍)	na	5.9%	-4.4%	1.1%	12.0%
市净率(倍)	15.8	14.9	15.6	15.4	13.7
EV/EBITDA(倍)	1.0	1.8	1.7	1.5	1.4
	4.1	7.2	7.2	6.6	5.8

来源: 公司, 中国银河国际证券研究部预测

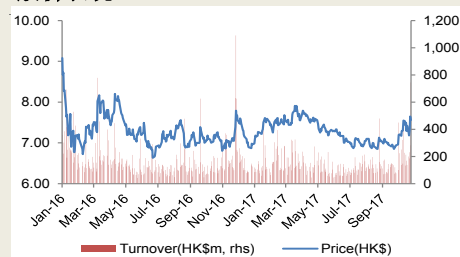
中国铁路业

买入 (此前为沽出)

收盘价: 7.56港元 (2017年10月27日)

目标价: 9.20港元 (+21.7%)

股价表现



市值	433.46亿美元
已发行股数	43.71亿股
核数师	Deloitte
自由流通量	15.19%
52周交易区间	6.66-7.99港元
三个月日均成交量	2,100万美元
主要股东	中国中车集团公司 (54.0%)

来源: 公司, 彭博

邹敏—分析员

(852) 3698-6319

kellyzou@chinastock.com.hk

王志文, CFA—研究部主管

(852) 3698-6317

cmwong@chinastock.com.hk

CRRC [1766.HK]

Earnings growth recovery in Q3 exceeded market expectations; upgrade to BUY

CRRC released its Q3 2017 results and hosted an analyst briefing after market close on October 27, 2017. Earnings growth in Q3 was stronger than market expectations. Total revenue in Q3 fell only 1.7% YoY, for a total revenue decline of 4.3% YoY in 9M17. Net profit rose 15.2% YoY in Q3. The cost synergy after the merger helped improve its margins. The net profit decline narrowed to only 9.4% YoY in 9M17. We fine-tune our revenue forecast for the Company in 2017-2018, but lift our earnings forecast for the Company in 2017-2018 by 4-9% due to higher-than-expected margins. We expect its earnings to grow 6.1% and 12.2% YoY in 2017 and 2018, respectively. Accelerating railway reform is expected to further drive its core railway business growth recovery from 2018 onwards. We are likely to see further upside potential to our earnings forecast for CRRC in 2018, depending on the progress of railway reform. We upgrade our rating for CRRC from SELL to **BUY** and raise our target price (TP) from HK\$5.75 to HK\$9.20. CRRC's share price started to rebound in October on the back of market expectations of its earnings growth recovery in Q3. Given improving business growth visibility, we lift our target PER multiple from 12x to 17x, in line with its historical average trading forward PER. The larger A/H discount also suggests southbound fund inflow might help support its share price rerating in the coming quarters.

Investment Highlights

- Earnings growth recovery started from Q3 2017; profit upside for 2018E.** The strong revenue growth of its locomotive, freight wagon and urban transit vehicle businesses offset the revenue decline in its MU segment and other businesses in Q3. Net profit grew 15.2% YoY in Q3, mainly due to improving margins. Cost synergy from the merger kicked in, helping its margin expansion in Q3. CRRC's revenue in 9M17 fell 4.3% YoY. The net profit decline narrowed to only 9.4% YoY in 9M17. We lift our earnings forecast for CRRC in 2017-2018 by 4-9% due to higher-than-expected margin expansion. We expect its earnings to grow 6.1% and 12.2% in 2017 and 2018, respectively. But we see further upside potential to our earnings forecast in 2018 (Figure 3), depending on the progress of railway reform.
- Accelerating railway reform expected to drive CRRC MU business growth recovery.** We expect increases in new line additions from 2018 onwards to support demand growth recovery in its MU segment. But the magnitude of MU demand growth in the 13th FYP will also rely on railway business reform. We expect the fast development of the railway network to force China Railway Corporation (CRC) to focus more on business operations and reform, which serves the purpose of improving rail profitability to resolve railway funding issues. Railway reform should benefit the railway equipment sector in two ways: 1) resolving funding issues to support further expansion of the railway network, and 2) shifting CRC's focus to increasing high-speed train operation density and expanding its freight business, which will create demand growth upside for MUs and locomotives.
- Cost synergy kicked in to enhance margins.** Cost synergy kicked in to improve CRRC's margins starting in 2016. We forecast that its gross profit margin will further expand from 20.1% in 2016 to 21.0% in 2017 and 21.1% in 2018. The merger reduced its investment redundancies and led to less competition among its urban transit vehicle subsidiaries, which helped enhance the profitability of this product segment. In addition, CRRC started the business restructuring of its freight wagon business. Given the oversupply situation in the freight wagon market, the Company has set a plan to reduce capacity and streamline its business.
- Upgrade from SELL to BUY and raise the TP from HK\$5.75 to HK\$9.20.** Our TP is based on a target PER multiple of 17x, which is in line with its historical average trading forward PER.

Y/E Dec 31	2014	2015	2016	2017E	2018E
Turnover (RMB m)	218,451	237,785	224,138	239,027	257,802
Recurring net profit (RMB m)	10,815	11,818	11,296	11,987	13,453
Net margin (%)	5.0%	5.0%	5.0%	5.0%	5.2%
Recurring EPS (RMB)	0.41	0.43	0.41	0.42	0.47
% change	na	5.9%	-4.4%	1.1%	12.0%
PER(x)	15.8	14.9	15.6	15.4	13.7
PBR(x)	1.0	1.8	1.7	1.5	1.4
EV/EBITDA(x)	4.1	7.2	7.2	6.6	5.8

Source: Company data, CGIS Research

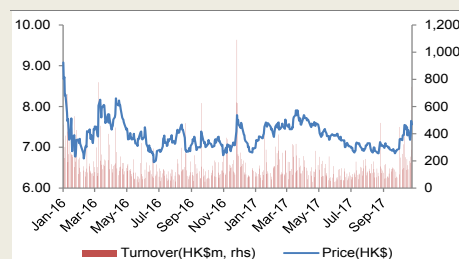
China Railway Sector

BUY (upgrade from SELL)

Close: HK\$7.56 (Oct 27, 2017)

Target Price: HK\$9.20 (+21.7%)

Price Performance



Market Cap	US\$43,346m
Shares Outstanding	4,371m
Auditor	Deloitte
Free Float	15.19%
52W range	HK\$6.66-7.99
3M average daily T/O	US\$21m
Major Shareholding	CRCCG (54.0%)

Sources: Company data, Bloomberg

Kelly Zou—Analyst

(852) 3698-6319

kellyzou@chinastock.com.hk

Wong Chi Man, CFA—Head of Research

(852) 3698-6317

cmwong@chinastock.com.hk

Key financials

CRRC (1766 HK)

P&L statement and key revenue segment forecast

(RMB m, except for per share amount)

Interim	1H15	2H15	1H16	2H16	1H17	2H17E
Sales Revenue	91,816	145,968	92,321	131,817	86,826	152,201
COGS	-72,310	-118,940	-71,679	-107,431	-68,242	-120,697
Gross Profit	19,507	27,028	20,642	24,386	18,584	31,504
Selling and distribution costs	-3,372	-4,581	-3,179	-4,071	-2,816	-4,916
Administrative expenses	-9,533	-12,953	-9,987	-12,439	-10,369	-14,729
Other gains and losses	507	876	202	1,911	432	768
Total EBIT	7,108	10,370	7,678	9,787	5,831	12,627
Depreciation & Amortisation	2,816	3,401	3,079	3,426	3,247	3,791
EBITDA	9,924	13,771	10,757	13,213	9,079	16,418
Net Interest Income	-313	-535	-454	-530	-424	-711
Profit contribution from JV and assoc	209	210	333	120	233	265
Pre-Tax Profit	7,004	10,044	7,557	9,377	5,641	12,181
Tax Expense	-1,329	-1,621	-1,483	-1,542	-1,037	-2,046
Net Profit After Tax	5,675	8,423	6,074	7,836	4,604	10,134
Minority Interest	-976	-1,304	-1,280	-1,335	-931	-1,820
Reported Earnings (attributable)	4,699	7,120	4,795	6,501	3,673	8,315
Adjusted Earnings	4,699	7,120	4,795	6,501	3,673	8,315
EPS (rep)	0.17	0.26	0.18	0.24	0.13	0.29
EPS (adj)	0.17	0.26	0.18	0.24	0.13	0.29
DPS	0.00	0.15	0.00	0.21	0.00	0.21
% YoY growth						
Revenue	6.3%	10.5%	0.5%	-9.7%	-6.0%	15.5%
Gross profit	17.2%	3.2%	5.8%	-9.8%	-10.0%	29.2%
EBIT	7.2%	15.5%	8.0%	-5.6%	-24.1%	29.0%
Net profit	6.9%	10.9%	2.0%	-8.7%	-23.4%	27.9%
Margins and ratios						
Gross profit margin	21.2%	18.5%	22.4%	18.5%	21.4%	20.7%
EBITDA Margin	10.8%	9.4%	11.7%	10.0%	10.5%	10.8%
EBIT Margin	7.7%	7.1%	8.3%	7.4%	6.7%	8.3%
Net Profit Margin	5.1%	4.9%	5.2%	4.9%	4.2%	5.5%

P&L	2014	2015	2016	2017E	2018E
Sales Revenue	218,451	237,785	224,138	239,027	257,802
COGS	-175,620	-191,250	-179,110	-188,939	-203,420
Gross Profit	42,831	46,535	45,028	50,087	54,382
Selling and distribution cos	-7,402	-7,954	-7,250	-7,731	-7,992
Administrative expenses	-19,727	-22,486	-22,427	-25,098	-27,069
Other gains and losses	-90	1,383	2,114	1,200	1,224
Total EBIT	15,612	17,478	17,465	18,458	20,545
Depreciation	5,244	6,217	6,505	7,039	7,205
EBITDA	20,856	23,695	23,970	25,497	27,750
Net Interest Expense	-1,862	-849	-984	-1,135	-1,093
Share of Associate Profit (l)	734	419	453	499	549
Pre-Tax Profit	14,484	17,048	16,935	17,822	20,001
Tax Expense	-2,137	-2,951	-3,025	-3,083	-3,460
Net Profit After Tax	12,346	14,098	13,910	14,738	16,541
Minority Interest	-1,531	-2,279	-2,614	-2,751	-3,088
Reported Earnings	10,815	11,818	11,296	11,987	13,453
Adjusted Earnings	10,815	11,818	11,296	11,987	13,453
EPS (rep)	0.41	0.43	0.41	0.42	0.47
EPS (adj)	0.41	0.43	0.41	0.42	0.47
DPS	0.12	0.15	0.21	0.21	0.24
% YoY growth					
Revenue	126.3%	8.9%	-5.7%	6.6%	7.9%
Gross profit	157.6%	8.6%	-3.2%	11.2%	8.6%
EBIT	161.0%	12.0%	-0.1%	5.7%	11.3%
Net profit	161.2%	9.3%	-4.4%	6.1%	12.2%
Margins and ratios					
Gross profit margin	19.6%	19.6%	20.1%	21.0%	21.1%
EBITDA Margin	9.5%	10.0%	10.7%	10.7%	10.8%
EBIT Margin	7.1%	7.4%	7.8%	7.7%	8.0%
Net Profit Margin	5.0%	5.0%	5.0%	5.0%	5.2%

Revenue breakdown (Rmb m)	2014	2015	2016	2017E	2018E
Locomotives	36,217	32,361	12,339	26,250	27,563
Passenger carriages	11,367	10,227	8,327	5,094	5,094
Freight wagons	14,780	10,138	10,857	31,375	25,100
Multiple units	63,450	76,824	74,652	56,912	66,074
Railway equipment	125,814	129,550	106,175	119,632	123,831
Rapid transit vehicles and urban infras	17,931	24,477	26,978	37,230	44,675
New business	40,984	52,513	57,562	60,440	66,484
Modern service	33,722	31,244	33,424	21,725	22,812
Total revenue	218,451	237,784	224,138	239,027	257,802
% YoY					
Locomotives	na	-10.6%	-61.9%	112.7%	5.0%
Passenger carriages	na	-10.0%	-18.6%	-38.8%	0.0%
Freight wagons	na	-31.4%	7.1%	189.0%	-20.0%
Multiple units	na	21.1%	-2.8%	-23.8%	16.1%
Railway equipment	na	3.0%	-18.0%	12.7%	3.5%
Rapid transit vehicles and urban infras	na	36.5%	10.2%	38.0%	20.0%
New businesses	na	28.1%	9.6%	5.0%	10.0%
Modern service	na	-7.3%	7.0%	-35.0%	5.0%
Total revenue	na	8.9%	-5.7%	6.6%	7.9%
% of total					
Locomotives	17%	14%	6%	11%	11%
Passenger carriages	5%	4%	4%	2%	2%
Freight wagons	7%	4%	5%	13%	10%
Multiple units	29%	32%	33%	24%	26%
Railway equipment	58%	54%	47%	50%	48%
Rapid transit vehicles and urban infras	8%	10%	12%	16%	17%
New businesses	19%	22%	26%	25%	26%
Modern service	15%	13%	15%	9%	9%
Total revenue	100%	100%	100%	100%	100%

Source: Company data, CGIS Research

Key financials

CRRG (1766 HK)

Balance sheet, cash flow statements and ratios

(RMB m, except for per share amount)

Balance sheet	2014	2015	2016E	2017E	2018E	Cash flow statement	2014	2015	2016	2017E	2018E
Inventories	59,628	59,747	54,402	57,387	61,305	EBITDA	20,856	23,695	23,970	25,497	27,750
Trade receivables	58,424	72,514	74,053	78,972	84,757	Tax Paid	-2,878	-3,328	-3,644	-3,083	-3,460
Bills receivables	8,880	10,166	15,100	16,103	16,951	Change in Working Cap	7,995	-7,001	-587	-2,228	-91
Prepayments and other receivables	19,805	18,787	30,501	32,175	33,996	Net interest paid	-2,270	-1,412	-1,264	-1,135	-1,093
Prepaid lease payments	335	348	364	363	362	Others	2,664	1,093	1,209	0	0
Available-for-sale investment	4,400	3,259	52	52	52	Operating Cash Flow	26,367	13,046	19,684	19,051	23,107
Cash and cash equivalent	43,837	34,755	41,034	68,310	78,236	Acquisitions	-8,970	-7,188	-18,139	0	0
Other current assets	42	1,243	747	747	747	Capex	-9,866	-9,207	-10,373	-10,743	-10,743
Tax recoverable	151	92	140	140	140	Asset Sales	345	351	384	0	0
Pledged bank deposits	5,059	4,614	4,561	4,561	4,561	Investment	3,120	5,413	10,136	0	0
Current assets	200,562	205,526	220,953	258,810	281,106	Others	-4,414	5,239	-6,716	0	0
PPE	58,743	62,180	66,364	70,657	74,612	Investing Cashflow	-19,785	-5,392	-24,709	-10,743	-10,743
Investment properties	64	939	970	925	883	Dividend (ordinary)	-3,306	-3,220	-4,064	-5,731	-6,094
Prepaid lease payments	13,548	14,428	14,492	14,456	14,421	Equity Raised	7,822	0	0	12,000	0
Goodwill	792	1,315	1,287	1,287	1,287	Debt Movements	5,107	-11,294	7,427	12,765	3,656
Other intangible assets	1,949	3,260	2,820	2,313	1,975	Others	-281	-237	-754	-66	0
Long-term equity investment	4,814	3,613	8,472	8,971	9,519	Financing Cashflow	9,343	-14,752	2,609	18,968	-2,438
Available-for-sale investment	1,022	3,157	3,819	3,819	3,819	Exchange difference	-83	8	486	0	0
Deferred tax assets	1,928	2,744	3,009	3,009	3,009	Net Chg in Cash/debt	15,842	-7,090	-1,930	27,276	9,926
Other non-current assets	15,393	14,533	16,124	16,124	16,124	FCF	6,583	7,654	-5,025	8,308	12,363
Non-current assets	98,252	106,168	117,357	121,561	125,648		2014	2015	2016	2017E	2018E
Total assets	298,814	311,694	338,311	380,371	406,755	Valuation					
Trade payables	71,390	83,179	91,950	96,996	104,430	PE(x)	15.8	14.9	15.6	15.4	13.7
Bills payables	21,551	22,790	19,797	20,884	22,484	EPS growth(%)	36.3	5.9	-4.4	1.1	12.0
Other payables and accruals	47,539	41,245	38,217	40,315	43,404	Yield(%)	1.9	2.3	3.3	3.3	3.7
Short-term debt	27,375	15,260	27,184	37,996	28,497	PEG(%)	0.4	2.5	-3.5	13.8	1.1
Retirement benefit obligations	391	352	320	320	320	EV/EBITDA(x)	4.1	7.2	7.2	6.6	5.8
Tax payables	1,310	1,534	1,272	1,272	1,272	PB(x)	1.0	1.8	1.7	1.5	1.4
Provision for warranties	1,952	2,280	1,866	1,990	2,146	Operational					
Other current liabilities	1,404	2,451	3,621	3,621	3,621	Revenue growth(%)	126.3	8.9	-5.7	6.6	7.9
Current liabilities	172,913	169,091	184,227	203,393	206,174	EBIT margin(%)	7.1	7.4	7.8	7.7	8.0
Long-term debt	12,216	14,316	10,713	12,665	25,821	Net profit margin(%)	5.0	5.0	5.0	5.0	5.2
Long-term payables	239	276	213	213	213	Days receivables	104	145	180	189	186
Retirement benefit obligations	4,201	4,054	3,516	3,516	3,516	Days payables	162	235	264	259	256
Provision for warranties	1,795	3,741	4,536	4,536	4,536	Days inventories	92	114	116	108	106
Deferred tax liabilities	193	242	236	236	236	Current ratio(x)	1.2	1.2	1.2	1.3	1.4
Other non-current liabilities	5,079	6,398	11,065	11,065	11,065	Quick ratio(x)	0.8	0.9	0.9	1.0	1.1
Non-current liabilities	23,724	29,028	30,279	32,231	45,387	Asset/equity(x)	3.3	3.2	3.2	3.1	3.1
Total liabilities	196,636	198,119	214,506	235,625	251,561	Net debt/equity(%)	-4.8	-5.3	-3.0	-14.3	-18.3
Shareholders Fund	89,295	96,900	104,857	123,047	130,406	EBITDA interest coverage(x)	9.2	16.8	19.0	13.3	12.9
Minority Interest	12,882	16,674	18,948	21,699	24,787	ROE(%)	12.1	12.2	10.8	9.7	10.3
Total S/H Equity	102,177	113,575	123,805	144,747	155,193						
Total Liab & S/H Fund	298,814	311,694	338,311	380,371	406,755						

Source: Company data, CGIS Research

Earnings growth recovery started in Q3 2017

Earnings growth recovered in Q3 2017 and was stronger than market expectations. Total revenue was only 1.7% behind last year's level in Q3. The strong revenue growth of the locomotive, freight wagon and urban transit vehicle business segments (Fig 1) offset the revenue decline in its MU, passenger carriage, new business and modern service business segments. Net profit grew 15.2% YoY in Q3 mainly due to improving margins. Even with negative changes in the product mix, the Company reported gross profit margin expansion of 1.6ppt YoY in Q3. This was attributable to improving margins in its freight wagon and urban transit vehicle business segments. Rising SG&A expenses, however, led to operating profit margin expansion below its gross profit margin expansion in Q3. Net financing cost rose 11.9% YoY in Q3 due to increasing FX losses. With a lower tax rate, the net profit margin expanded by 0.8ppt YoY in Q3.

Figure 1: CRRC 9M17 and Q317 results overview

Rmb m	9M17	9M16	% YoY	3Q17	3Q16	% YoY
Locomotive	15,043	8,488	77.2%	6,821	5,085	34.1%
Passenger carriage	3,339	5,506	-39.4%	1,365	2,432	-43.9%
MU	35,542	54,114	-34.3%	14,840	15,803	-6.1%
Freight wagon	18,611	6,199	200.2%	7,089	3,297	115.0%
Railway equipment	72,535	74,307	-2.4%	30,115	26,617	13.1%
Rapid transit vehicles and urban infras	21,286	15,466	37.6%	7,728	5,442	42.0%
New business	33,489	36,209	-7.5%	12,535	11,399	10.0%
Modern services	13,356	21,077	-36.6%	1,571	9,396	-83.3%
Total revenue	140,666	147,059	-4.3%	51,949	52,854	-1.7%
COGS	-110,330	-114,887	-4.0%	-40,254	-41,780	-3.7%
GP	30,336	32,173	-5.7%	11,695	11,074	5.6%
GPM	21.6%	21.9%	-0.3%	22.5%	21.0%	1.6%
SG&A	-20,271	-20,210	0.3%	-7,534	-7,096	6.2%
Other gains and losses	1,026	587	74.7%	657	529	24.1%
OP	11,091	12,550	-11.6%	4,818	4,507	6.9%
OPM	7.9%	8.5%	-0.6%	9.3%	8.5%	0.7%
Financing cost	-1,107	-914	21.1%	-475	-424	11.9%
Profit contribution from associates	0	0	na	0	0	na
PBT	9,984	11,635	-14.2%	4,343	4,083	6.4%
Tax	-1,732	-2,271	-23.7%	-695	-788	-11.8%
effective tax rate	-17.3%	-19.5%	2.2%	-16.0%	-19.3%	3.3%
PAT	8,252	9,364	-11.9%	3,648	3,295	10.7%
NPM	5.9%	6.4%	-0.5%	7.0%	6.2%	0.8%
Minority interest	-1,443	-1,849	-21.9%	-512	-573	-10.6%
Profit to common shareholder	6,809	7,515	-9.4%	3,137	2,722	15.2%

Source: Company data, CGIS Research

Overall, CRRC's revenue in 9M17 fell 4.3% YoY. The net profit decline narrowed to only 9.4% YoY in 9M17. The 9M17 results were within our and market expectations. Our revenue forecast for the Company in 2017-2018 remains largely unchanged. But we lift our earnings forecast for the Company in 2017-2018 by 4-9% due to better-than-expected margin expansion (Fig 2). We expect its earnings to grow 6.1% and 12.2% in 2017 and 2018, respectively.

Figure 2: Earnings estimates: CGIS new vs. old and consensus earnings estimates

CRRC						
2017E (Rmb m, Rmb)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS old	239,670	17,872	24,911	11,500	0.40	0.40
CGIS new	239,027	18,458	25,497	11,987	0.42	0.42
Consensus	238,477	17,536	24,776	11,667	0.41	0.41
Diff%						
CGIS new vs. consensus	0.2%	5.3%	2.9%	2.7%	1.6%	2.3%
CGIS new vs. old	-0.3%	3.3%	2.4%	4.2%	4.2%	4.2%
2018E (Rmb m, Rmb)	Sales	EBIT	EBITDA	Net profit	EPS Adj	EPS GAAP
CGIS old	257,119	19,081	26,286	12,372	0.43	0.43
CGIS new	257,802	20,545	27,750	13,453	0.47	0.47
Consensus	259,952	19,766	26,801	13,355	0.47	0.49
Diff%						
CGIS new vs. consensus	-0.8%	3.9%	3.5%	0.7%	-0.5%	-3.3%
CGIS new vs. old	0.3%	7.7%	5.6%	8.7%	8.7%	8.7%

Source: Bloomberg, CGIS Research

There might be further upside potential to our earnings forecast for the Company in 2018, depending on the progress of railway reform. Our earnings forecast factors in only MU procurement from the new line additions. As we highlighted in our previous sector report published on 7 July, the speed hike of the high-speed train services should have even higher demand growth potential for MUs from 2018 onwards. Our base-case scenario assumes MU sales volume growth of 12.0% YoY in 2018 for CRRC. Our sensitivity analysis shows that every 5ppt increases in its MU business revenue growth will led to a 1.6% increase in our base-case earnings forecast for the Company in 2018. Our industry analysis (Fig 9) shows that only a 2% increase in existing high-speed train operation density could raise MU procurement volume growth in

Figure 3: Sensitivity analysis for CRRC's 2018E earnings to MU sales volume growth

MU volume growth	2018E net profit (Rmb m)	% Chg from	2017E net profit (Rmb m)	YoY growth
	13,453	Base case	11,987	from 2017E
27.0%	14,099	4.8%		17.6%
22.0%	13,884	3.2%		15.8%
17.0%	13,668	1.6%		14.0%
12.0%	13,453	0.0%		12.2%
7.0%	13,238	-1.6%		10.4%
2.0%	13,023	-3.2%		8.6%
-3.0%	12,808	-4.8%		6.8%

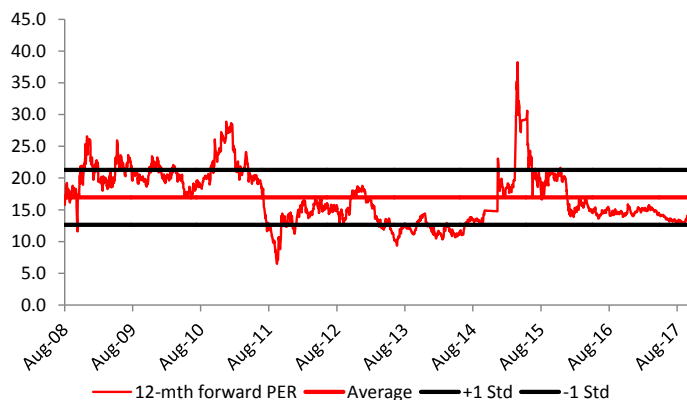
Source: CGIS Research

Re-rating to be driven by improving growth momentum

CRRC's share price has remained on a de-rating trend since 2H15. The low visibility of its earnings growth recovery has kept investors away from the Company. The share price started to recover in October on the back of market expectations of its earnings growth recovery starting in Q3. We upgrade our rating for CRRC from **SELL to BUY** on the Company's improving earnings growth momentum. Its share price should react positively to the stronger-than-expected Q3 earnings growth recovery. Moreover, accelerating railway reform starting in August should help sustain its core business growth in next 2-3 years.

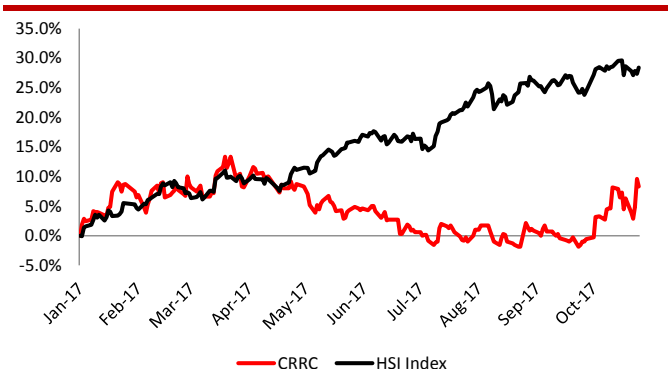
We lift our TP from HK\$5.75 to HK\$9.20. Our TP is based on a target forward PER multiple of 17x, in line with its historical average trading forward PER. Currently, the stock trades at 15.4x 2017E and 13.7x 2018E PER. We apply a higher target PER multiple due to improving earnings growth visibility from accelerating railway reform and margin expansion potential from further business restructuring. The larger A/H discount also suggests potential southbound fund inflow will chase CRRC-H shares in the near term. Currently, CRRC-H shares trade at a c40% discount to its A-shares, while the historical A/H discount is 15.3%.

Figure 4: CRRC H-share 12-mth forward PER



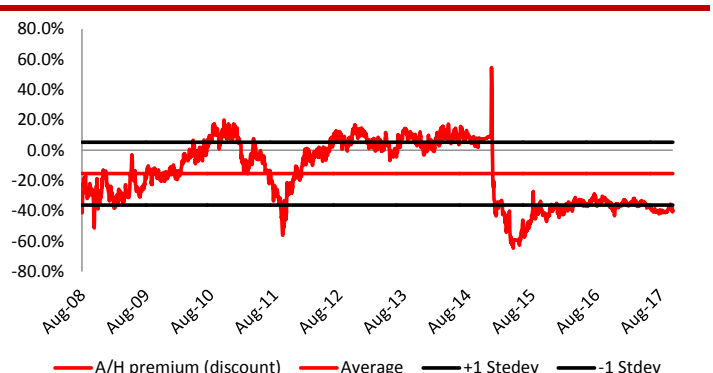
Source: Company data, Bloomberg, CGIS Research

Figure 5: CRRC H-share 2017 CYTD performance



Source: Bloomberg, CGIS Research

Figure 6: CRRC A/H premium (discount) band

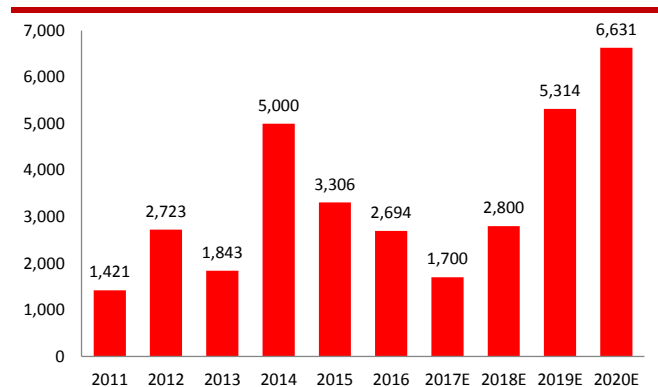


Source: Bloomberg, CGIS Research

MU business growth recovery expected from 2018

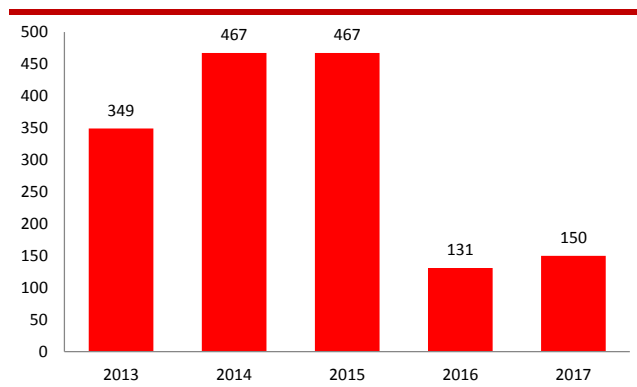
CRC's MU procurement has remained on a downward trend in 2016 and 2017 for two reasons: 1) the CRC faces funding constraints to support its investments in both construction and equipment purchases; and 2) the new line additions in 2016 and 2017 were on a downward trend, led by a reduced number of railway project starts in 2012 and 2013 after the tragic train accident. CRC even broke its normal pattern for MU procurement in 2016, delaying its MU tenders until December. It made tenders for only 131 MUs in December 2016. YTD it has sent out tenders for another 150 MUs, compared to MU tenders of over 460 units p.a. in 2014 and 2015.

Figure 7: New high-speed rail line additions in 2011-2017E (km)



Source: CRC, CGIS Research estimates

Figure 8: CRC MU tenders in 2013-2017 CTYD (units)



Source: CRC, CGIS Research estimates

We expect increases in new line addition from 2018 onwards to support demand growth recovery for the MU segment. But the magnitude of railway equipment demand growth in the 13th FYP will also rely on railway business reform. We expect the fast development of the railway network to force CRC to focus more on business operations and reform, which will improve rail profitability to resolve railway funding issues. Railway reform should benefit the railway equipment sector in two ways: 1) resolving funding issues to support further expansion of the railway network, and 2) shifting CRC's focus to increasing high-speed train operation density and expanding its freight business, which will create demand growth upside for MUs and locomotives.

Our calculation in Fig 9 shows demand growth will come from both the new line additions and increases in high-speed train operation density. Without the increases in operation density of the existing high-speed train services, MU demand growth in 2018 is expected to reach only 7.7% YoY. But if we assume an additional 2% increase in existing high-speed train operation density, MU demand growth in 2018 could reach 28.0% YoY. As the majority of the high-speed railways are running below their designed speed, there should be plenty room for MU demand growth, as long as CRC decides to raise the operation density of most of its existing high-speed train services.

Figure 9: MU demand forecast for 2018 (two scenarios for 2018E)

	2016	2017E	2018E	2018E
High speed railway (km)	22,000	23,700	26,500	26,500
Increment (km)	2,694	1,700	2,800	2,800
MU installment (set)	2,586	2,869	3,174	3,232
Increment (set)	380	283	305	362
Assuming existing line density increase/year		4.0%	0.0%	2.0%
Existing density		0.1222	0.1211	0.1235
Increment density		0.1058	0.1090	0.1090
Year-end density (unit/km)	0.1175	0.1211	0.1198	0.1220
Density increase % YoY	20.5%	3.0%	1.9%	3.7%
MU procurement on existing HSR lines		129	0	72
MU procurement on new HSR lines		225	381	381
Total annual addition (set)	475	354	381	453
% increase		-25.5%	7.7%	28.0%

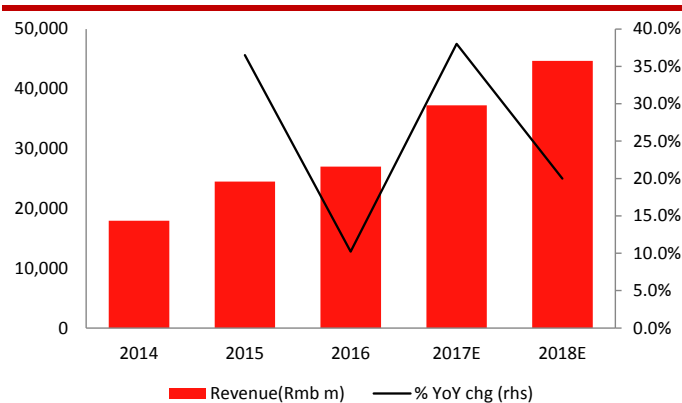
Source: CRC, CGIS Research

Strong urban transit business growth to continue in 2018

CRRC's urban transit vehicle business revenue growth in 9M17 was above market expectations. The business segment revenue grew 37.6% YoY in 9M17, further accelerating from revenue growth of 35.3% YoY in 1H17. The Company's order backlog for its urban transit vehicles stood at RMB120bn as at the end of 9M17, rising 12.4% YoY, and equivalent to 3.2x our forecast for its urban transit vehicle segment revenue in 2017.

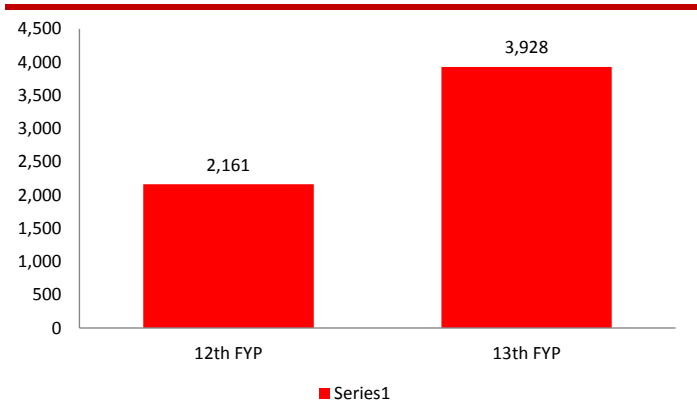
Local governments are promoting the development of urban transit networks, which serve the purpose of 1) reducing air pollution and traffic congestion, and 2) boosting property values, with new lines connecting previously remote areas with city centers. Industry association data suggests total mileage of urban transit networks will reach 7,500km by 2020, suggesting new line addition of more than 700km per annum in the 13th FYP, compared with average new line addition of 400km in the 12th FYP. Overall, we expect new line addition for urban transit networks to grow 81.8% in the 13th FYP, compared with new line addition in the 12th FYP.

Figure 10: CRRC urban transit vehicle business revenue projection



Source: Company data, CGIS Research

Figure 11: The operating mileage of the urban transit rail lines in China by 1H17 (km)



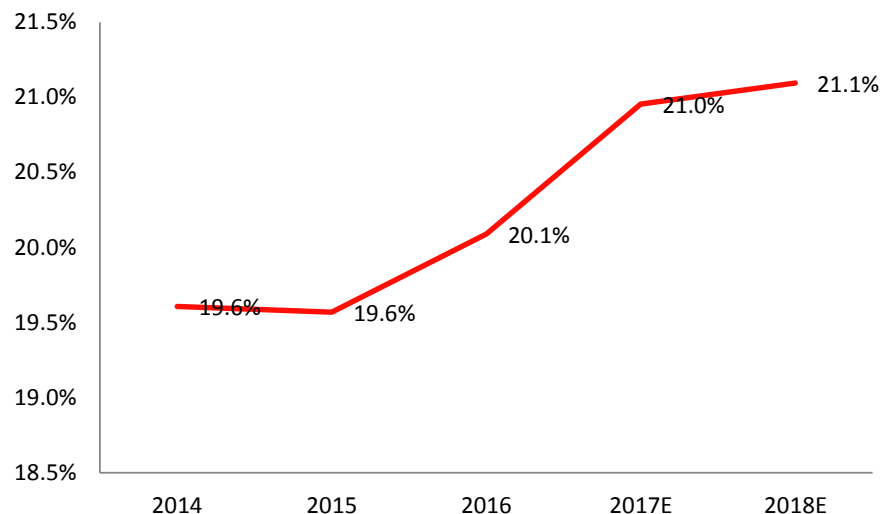
Source: China Association of Metros, CGIS Research

Cost synergy kicked in to improve margins

With improving operating leverage and cost synergy after the merger, the Company reported gross profit margin expansion of 1.6ppt YoY in Q3. Even with changes in product mix, i.e. lower revenue contribution from its higher-margin MU business, the Company is expected to have gross profit margin expansion from 20.1% in 2016 to 21.0% in 2017 and 21.1% in 2018. We expect the margin expansion to come mainly from its freight wagon and urban transit vehicle business.

Cost synergies kicked in to improve CRRC's gross profit margins starting in 2016. The most noticeable gross profit margin expansion was from its urban transit vehicle business segment. The merger reduced investment redundancies and resulted in less competition between its various urban transit vehicle subsidiaries, which originated from the former CSR and CNR. This drove gross profit margin expansion of 2ppt YoY of its urban transit vehicle business segment in 9M17. In addition, the Company started the business restructuring of its freight wagon business. Given the oversupply situation in the freight wagon industry, CRRC developed a plan to reduce capacity and streamline the business. Freight wagon business earnings recovered in 9M17 due to improved operating leverage. Future business restructuring should further help improve its profitability.

Figure 12: CRRC profit margin progression



Source: Company data, CGIS Research

免责声明

此研究报告并非针对或意图被居于或位于某些司法管辖范围之任何人士或市民或实体作派发或使用，而在该等司法管辖范围内分发、发布、提供或使用将会违反当地适用的法律或条例或会导致中国银河国际证券(香港)有限公司(“银河国际证券”)及/或其集团成员需在该司法管辖范围内作出注册或领照之要求。

银河国际证券(中国银河国际金融控股有限公司附属公司之一)发行此报告(包括任何附载资料)予机构客户，并相信其资料来源都是可靠的，但不会对其准确性、正确性或完整性作出(明示或默示)陈述或保证。

此报告不应被视为是一种报价、邀请或邀约购入或出售任何文中引述之证券。过往的表现不应被视为对未来的表现的一种指示或保证，及没有陈述或保证，明示或默示，是为针对未来的表现而作出的。收取此报告之人士应明白及了解其投资目的及相关风险，投资前应咨询其独立的财务顾问。

报告中任何部份之资料、意见、预测只反映负责预备本报告的分析员的个人意见及观点，该观点及意见未必与中国银河国际金融控股有限公司及其附属公司(“中国银河国际”)、董事、行政人员、代理及雇员(“相关人士”)之投资决定相符。

报告中全部的意见和预测均为分析员在报告发表时的判断，日后如有改变，恕不另行通告。中国银河国际及/或相关伙伴特此声明不会就因为本报告及其附件之不准确、不正确及不完整或遗漏负上直接或间接上所产生的任何责任。因此，读者在阅读本报告时，应连同此声明一并考虑，并必须小心留意此声明内容。

利益披露

中国银河证券(6881.HK; 601881.CH)乃中国银河国际及其附属公司之直接或间接控股公司。

中国银河国际可能持有目标公司的财务权益，而本报告所评论的是涉及该目标公司的证券，且该等权益的合计总额相等或高于该目标公司的市场资本值的1%;

一位或多位中国银河国际的董事、行政人员及/或雇员可能是目标公司的董事或高级人员。

中国银河国际及其相关伙伴可能，在法律许可的情况下，不时参与或投资在本报告里提及的证券的金融交易，为该等公司履行服务或兜揽生意及/或对该等证券或期权或其他相关的投资持有重大的利益或影响交易。

中国银河国际可能曾任本报告提及的任何或全部的机构所公开发售证券的经理人或联席经理人，或现正涉及其发行的主要庄家活动，或在过去12个月内，曾向本报告提及的证券发行人提供有关的投资或一种相关的投资或投资银行服务的重要意见或投资服务。

再者，中国银河国际可能在过去12个月内就投资银行服务收取补偿或受委托和可能现正寻求目标公司投资银行委托。

分析员保证

主要负责撰写本报告的分析员确认 (a) 本报告所表达的意见都准确地反映他或他们对任何和全部目标证券或发行人的个人观点; 及 (b) 他或他们过往，现在或将来，直接或间接，所收取之报酬没有任何部份是与他或他们在本报告所表达之特别推荐或观点有关连的。

此外，分析员确认分析员本人及其有联系者(根据香港证监会持牌人操守准则定义)均没有(1) 在研究报告发出前30 日内曾交易报告内所述的股票; (2) 在研究报告发出后3个营业日内交易报告内所述的股票; (3)担任报告内涵盖的上市公司的行政人员; (4)持有报告内涵盖的上市公司的财务权益。

评级指标

买入 : 股价于12个月内将上升 >20%

沽出 : 股价于12个月内将下跌 >20%

持有 : 没有催化因素，由“买入”降级直至出现明确“买入”讯息或再度降级为立刻卖出

版权所有

中文本与英文本如有歧义，概以英文本为准。

本题材的任何部份不可在未经中国银河国际证券(香港)有限公司的书面批准下以任何形式被复制或发布。

中国银河国际证券(香港)有限公司 (中央编号: AXM459)

香港上环皇后大道中183号新纪元广场中远大厦35楼3501-07室 电话: 3698-6888