

2 January 2018

**BUY**  
Unchanged

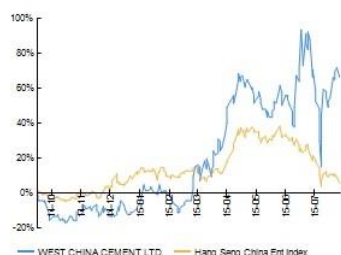
## 毛利超预期

### 西部水泥 (2233:HK)

#### Market Data: 29 Dec

Closing Price (HK\$)	1.17
Price Target (HK\$)	1.65
HSCEI	11709
HSSCI	4426
52-week High/Low (HK\$)	1.16/0.70
Market Cap (US\$m)	818
Market Cap (HK\$m)	6342
Shares Outstanding (m)	4,517
Exchange Rate (Rmb-HK\$)	1.26

#### Price Performance Chart:



Source: Bloomberg

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#### Related Reports

"West China Cement (2233 HK) – Get by with a little help" 15 March 2016

#### Financial summary and valuation

	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	3,501	4,361	4,876	5,054	5,054
YoY (%)	(9.8)	24.6	11.8	3.7	0.0
Net income (Rmbm)	(309)	10	781	831	946
YoY (%)	(961.2)	-	7,469.4	6.4	13.7
EPS (Rmb)	(0.06)	0.00	0.14	0.15	0.17
Diluted EPS (Rmb)	(0.06)	0.00	0.14	0.15	0.17
ROE (%)	(5.2)	0.2	4.0	4.4	5.1
Debt/asset (%)	0.05	0.04	0.04	0.04	0.04
Dividend yield (%)	-	0.04	3.13	3.33	3.79
PE (x)	-	467.1	6.7	6.2	5.4
PB (x)	0.8	0.9	0.4	0.4	0.4
EV/Ebitda (x)	12.1	4.6	4.0	3.5	2.9

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

西部水泥公布盈喜，预计 2H17 的水泥价格涨幅为 28%，较于 2016 年的 7-11 月份，且公司在同时段录入外汇收益约人民币 125.9 百万元，同比去年同期外汇损失 157.7 百万元

**2H17 的较高毛利** 在 17 年下半年，我们预计公司销售水泥 9.54 百万吨（同比增长 1.4%）。由于 10 月开始的陕西水泥价格的上涨，公司的下半年水泥平均售价为 274 元每吨，环比增长 32 元，同比增长 58 元。由于煤价稳定，西部水泥的吨成本预计为 184 元每吨，环比减少 4 元，同比增加 18 元。因此，公司下半年吨毛利为人民币 89 元，同比上半年的 53 元和去年的 49 元。这个毛利增长反应了我们之前对陕西水泥供需关系改善的观点。

**陕西省水泥供需关系明显好转** 受益于错峰生产计划的实施，从 16 年下半年，基建行业的水泥需求开始大幅上升。陕西省水泥价格上涨 80 元至最近的 420 元/吨，这。现在的市场竞争格局保持稳定，并在未来三年内都利好西部水泥。不同于其他地区的是，陕西省的水泥需求很大程度上依赖于基础建设，尤其是铁路和公路建设。由于陕西和新疆都是国家“一带一路”战略和“2020 年脱贫计划”关注的重点地区，因此我们对这两个省份未来三年内的水泥需求都十分有信心。为了达到国家的战略目标，政府批复了非常多的在未来三年内实施的基建项目而不是以往的五年时长。陕西地产投资增速也在回暖，西安市上半年地产投资增速为 22%，下半年和 18 年的新开工有望至 5-8%的水平与此同时，西部水泥也大力发展骨料业务并计划于 2018 增加 1600 万吨的产能。在 17 年第三季度，陕西省骨料的每吨毛利率甚至高于水泥已达到人民币 70-75 元/吨

**维持买入** 我们对于陕西市场的结构变化带来的市场潜力和定价能力十分乐观。我们上调 2017 年的每股净收益将从人民币 0.09 元至 0.134 元（同比增长 7469%）；另外，2018 年每股净收益区间从人民币 0.12 元上调至人民币 0.15 元（同比增长 6%）。从吨企业价值的角度分析，其现价为人民币 256/吨，仍大大低于市场均价人民币 400 元/吨。鉴于 17 年下半年的市场供求明显好转，我们认为，每吨企业价值在人民币 360 元/吨是合理的。我们的目标价维持 1.65 港元。仍具有 41%的空间，维持买入。

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West China Cement released a positive profit alert. According to the company, earnings will increase substantially in 2H17 as cement prices rose 28% compared with July-November 2016. Moreover, the firm recorded foreign exchange gains of c.Rmb125.9m in 2H17, vs a loss of Rmb157.7m in 2H16. As a result, we revise up our EPS forecasts from Rmb0.09 to Rmb0.14 in 17E, from Rmb0.12 to Rmb0.15 in 18E (+7.1% YoY), and from Rmb0.14 to Rmb0.17 in 19E (+13.3% YoY). Our target price is unchanged at HK\$1.65. With 41% upside, we maintain our BUY recommendation.

**Higher margin in 2H17.** We estimate that the company delivered 9.5mt of cement in 2H17 (+1.4% YoY). As cement prices in Shaanxi Province have increased since October, the firm's average selling price in 2H17 reached Rmb274/t, increasing Rmb32/t HoH and Rmb58/t YoY. As coal prices have remained stable, West China Cement's average cost arrived at Rmb184/t, down Rmb4/t HoH and up Rmb18/t YoY. Therefore, its 2H17 unit margin reached Rmb89/t, vs Rmb53/t in 1H17 and Rmb49/t in 2H16. The margin increase confirms our view that supply-demand dynamics have largely improved in Shaanxi Province.

**Positive outlook for 2018.** Cement prices in Shaanxi increased by Rmb80/t to Rmb420/t as government-mandated production cuts have tightened supply and an accelerated pace of infrastructure build-out has driven up demand. We remain confident on the medium-term infrastructure demand outlook in Shaanxi and nearby Xinjiang due to the government's "One Belt, One Road" initiative and its resolve to eradicate poverty in China by 2020. Meanwhile, property investment growth in Shaanxi's capital, Xi'an, grew 22% YoY in 1H17, and we expect new construction starts to rise 5-8% in 2H17E and 2018E. The company plans to add 16mt of aggregates capacity in 2018, and we expect aggregates sales to contribute an additional 10% in revenue in 2018-19E. We note that, as of 3Q17, the unit gross margin of aggregates topped that of cement in Shaanxi at Rmb70-75/t.

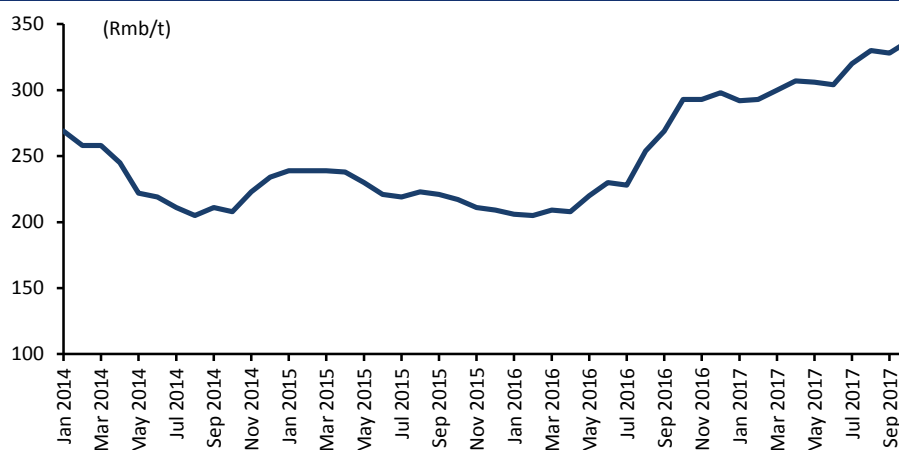
**Maintain BUY.** We remain upbeat on market conditions in Shaanxi. We revise up our EPS forecasts from Rmb0.09 to Rmb0.14 in 17E, from Rmb0.12 to Rmb0.15 in 18E (+7.1% YoY), and from Rmb0.14 to Rmb0.17 in 19E (+13.3% YoY). We see little downside to the stock's current price – on an EV/capacity basis, it is trading at Rmb256/t, vs a market average of Rmb400/t. Given the improving market supply-demand outlook from 2H17 onwards, we believe that an EV/capacity multiple of Rmb360/t is reasonable and thus maintain our target price at HK\$1.65. With 41% upside, we maintain our BUY recommendation.

**Fig 1: WCC unit margin**

Rmb/t	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17
Volume, 000	8,360	8,640	7,950	8,250	8,390	9,410	8,760	9,540
ASP	239	218	213	205	202	215	241	274
ACP	-193	-194	-186	-177	-176	-166	-188	-184
GP	46	25	27	28	18	49	53	89

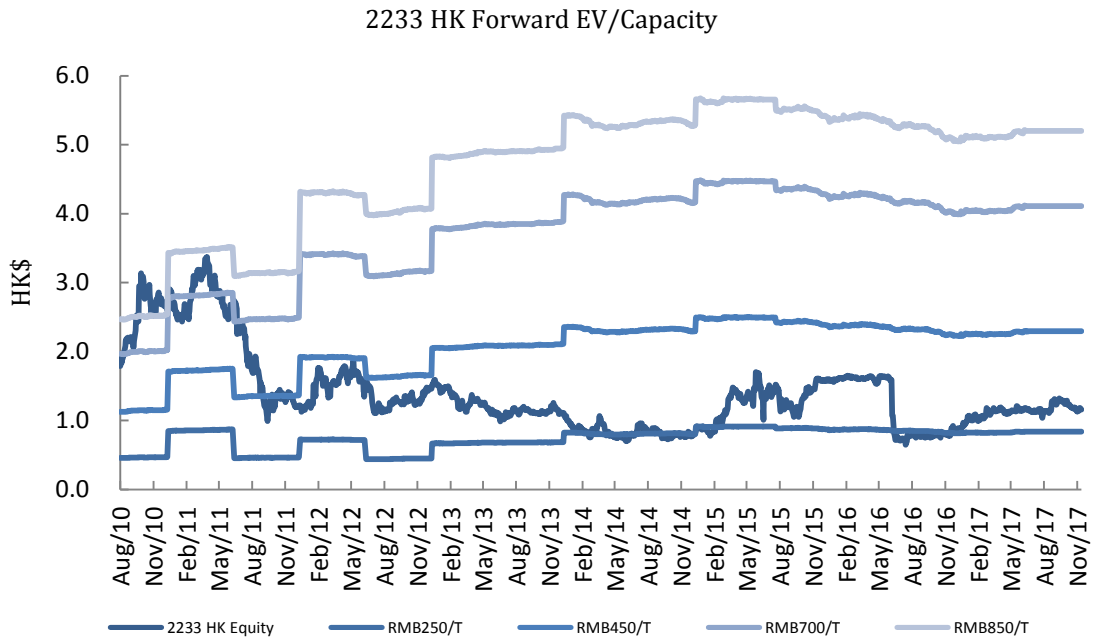
Source: Company, SWS Research

**Fig 2: 42.5-grade Portland cement price in Shaanxi Province**



Source: Wind, SWS Research

Fig 3: WCC EV/capacity



Source: Wind, SWS Research

## APPENDIX: Financial statements

**Table 1: Consolidated Income Statement**

Rmbm	2015	2016E	2017E	2018E	2019E
<b>Revenue</b>	3,501	4,361	4,876	5,054	5,054
<b>Cost of Sales</b>	(3,037)	(3,397)	(3,515)	(3,596)	(3,558)
<b>Gross Profit</b>	463	964	1,361	1,458	1,497
<b>Other Income</b>	(188)	281	284	233	233
Distribution expenses	(43)	(46)	(48)	(50)	(50)
Administrative expenses	(271)	(271)	(284)	(292)	(292)
<b>EBITDA</b>	662	1,692	1,612	1,628	1,658
EBIT	(38)	927	1,312	1,350	1,389
Finance Costs	(218)	(247)	(227)	(156)	(136)
<b>Profit before tax</b>	(257)	119	1,019	1,126	1,185
Income tax expense	(51)	(104)	(234)	(293)	(237)
Minority interests	2	5	4	2	2
<b>Profit for the year</b>	(309)	10	781	831	946

Source: Company, SWS Research

**Table 2: Consolidated Cash Flow Statement**

Rmbm	2015	2016E	2017E	2018E	2019E
<b>Profit before taxation</b>	(257)	119	1,019	1,126	1,185
Plus : Depr. and amortisation	703	0	715	686	658
Finance cost	237	265	227	156	136
Losses from investments	277	159	0	0	0
Change in working capital	(391)	93	291	4	(1)
Others	(81)	(75)	(234)	(293)	(237)
<b>CF from operating activities</b>	474	1,313	1,743	1,396	1,411
CAPEX	(350)	(379)	(341)	(354)	(354)
Other CF from investing activities	154	10	0	0	0
<b>CF from investing activities</b>	(772)	(170)	(341)	(354)	(354)
Equity financing	1,204	0	0	0	0
Net change in liabilities	(287)	(75)	0	0	0
Dividend and interest paid	(272)	(263)	(383)	(322)	(325)
Other CF from financing activities	0	0	(40)	(39)	(41)
<b>CF from financing activities</b>	255	(342)	(423)	(361)	(366)
<b>Net cash flow</b>	(43)	802	1,074	757	774
<b>FCFF</b>	(127)	536	1,484	1,130	1,146
<b>FCFE</b>	(651)	196	1,276	974	1,010

Source: Company, SWS Research

**Table 3: Consolidated Balance Sheet**

Rmbm	2015	2016E	2017E	2018E	2019E
<b>Current Assets</b>	2,042	2,515	3,659	4,443	5,197
Bank balances and cash	455	1,259	2,333	3,090	3,864
Trade and other receivables	685	661	739	766	766
Inventories	576	509	527	539	533
Long-term investment	54	46	50	0	0
PP&E	8,257	7,564	7,127	6,664	6,202
Intangible and other assets	1,157	1,148	1,081	1,009	989
<b>Total Assets</b>	11,382	11,182	11,780	12,029	12,301
<b>Current Liabilities</b>	2,770	2,400	2,787	2,830	2,824
Borrowings	538	465	465	465	465
Trade and other payables	1,411	1,077	1,464	1,508	1,501
Other current liabilities	3,527	3,725	3,725	3,725	3,725
Long-term liabilities	3	2	2	2	2
<b>Total Liabilities</b>	5,479	5,268	5,655	5,699	5,692
Minority Interests	47	51	55	56	56
Shareholder Equity	5,856	5,863	12,192	12,857	12,857
Share Capital	125	125	125	125	125
Reserves	0	0	0	0	0
Equity attributable	5,715	5,721	6,346	7,011	7,011
<b>Total Liabilities and equity</b>	11,382	11,182	11,780	12,029	12,301

Source: Company, SWS Research

**Table 4: Key Financial Ratios**

	2015	2016E	2017E	2018E	2019E
<b>Ratios per share (Rmb)</b>					
Earnings per share	(0.06)	0.0020	0.1395	0.1499	0.1723
Operating CF per share	0.10	0.14	0.32	0.26	0.26
Dividend per share	(0.01)	0.00	0.03	0.03	0.03
Net assets per share	1.18	1.08	2.25	2.37	2.37
<b>Key Operating Ratios(%)</b>					
ROIC	(0.44)	10.32	5.65	5.96	6.58
ROE	(5.24)	0.17	3.98	4.43	5.10
Gross profit margin	13.24	22.11	27.91	28.85	29.62
EBITDA Margin	18.92	38.80	34.67	33.50	33.84
EBIT Margin	(1.09)	21.26	26.92	26.71	27.48
Growth rate of Revenue(YoY)	(9.85)	24.57	11.81	3.65	0.00
Growth rate of Profit(YoY)	(961.25)	(103.34)	7,469.44	6.45	13.74
Debt-to-asset ratio	0.05	0.04	0.04	0.04	0.04
Turnover rate of net assets	0.60	0.74	0.40	0.39	0.39
Turnover rate of total assets	0.31	0.39	0.39	0.40	0.39
Effective tax rate (%)	(19.81)	87.49	23.00	26.00	20.00
Dividend yield (%)	(1.35)	0.04	3.13	3.33	3.79
<b>Valuation Ratios (X)</b>					
P/E	(15.1)	467.1	6.7	6.2	5.4
P/B	0.8	0.9	0.4	0.4	0.4
EV/Sales	2.3	1.8	1.4	1.2	1.0
EV/EBITDA	12.1	4.6	4.0	3.5	2.9

Source: Company, SWS Research

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