



Company Report: China Zhongwang (01333 HK)

公司报告: 中国忠旺 (01333 HK)

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2017 Annual Results Beat Expectations, Maintain "Buy"

2017年年度业绩超过市场预期, 维持“买入”评级

- The 2017 annual results of the Company was 11.7% higher than market consensus and our expectation, mainly due to positive product mix change. Total revenue of the Company increased 16.6% yoy to RMB 19,458.8 million, net profit attributable to shareholders increased 23.1% yoy to RMB 3,533.4 million.
- The Company expects the output of aluminum alloy formwork to continue to grow in 2018 and the aluminum flat-rolled production line is expected to contribute about 200,000 tons in output of aluminum plates. The Company continues to install more advanced and high-pressure extrusion machines, which will further expand its production capacity.
- We expect processing fee of each type of aluminum product to be stable in 2018. The Company holds great competitive advantages in the production of aluminum extrusion and flat-rolled products and confronts limited competition.
- Revise up TP to HK\$ 6.00 and maintain "Buy".
- 由于有利的产品结构调整, 公司 2017 年年度业绩比市场一致预期和我们的估计高 11.7%。公司收入同比增长 16.6% 至人民币 194.588 亿元, 股东净利同比增加 23.1% 至人民币 35.334 亿元。
- 公司预计建筑铝合金模板的产量在 2018 年继续增长, 铝压延生产线预计将贡献 20 万吨的铝板产量。公司继续安装更多先进和大压力的挤压机, 这将进一步扩大它的产能。
- 我们预计每种类型铝材的加工费在 2018 年将保持稳定。公司在铝挤压和铝压延产品的生产上拥有巨大的竞争优势且面临的竞争有限。
- 上调公司目标价至 6.00 港元, 维持“买入”评级。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

HK\$6.00

Revised from 原目标价:

HK\$5.60

Share price 股价:

HK\$4.520

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	7.6	9.2	32.6
Rel. % to HS Index 相对恒指变动 %	9.1	5.1	5.3
Avg. Share price(HK\$) 平均股价 (港元)	4.2	4.3	3.8

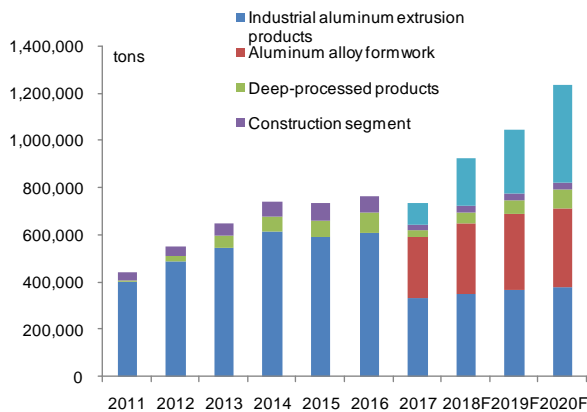
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	16,696	2,871	0.411	3.5	9.8	4.811	0.8	0.170	4.2	9.6
2017A	19,459	3,533	0.500	21.7	7.3	4.313	0.8	0.200	5.5	10.0
2018F	23,308	3,868	0.601	20.2	6.1	4.734	0.8	0.180	4.9	10.2
2019F	26,341	4,303	0.669	11.3	5.5	5.202	0.7	0.201	5.5	10.5
2020F	30,668	4,841	0.753	12.6	4.9	5.729	0.6	0.226	6.2	10.8
Shares in issue (m) 总股数 (m)			7,068.6		Major shareholder 大股东				Liu Zhongtian 74.2%	
Market cap. (HK\$ m) 市值 (HK\$ m)			31,950.1		Free float (%) 自由流通比率 (%)				25.8%	
3 month average vol. 3 个月平均成交股数 ('000)			5,033.4		FY18 Net gearing (%) FY18 净负债/股东资金 (%)				83.3	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)			4.900 / 3.260		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				8.1	

Source: the Company, Guotai Junan International.

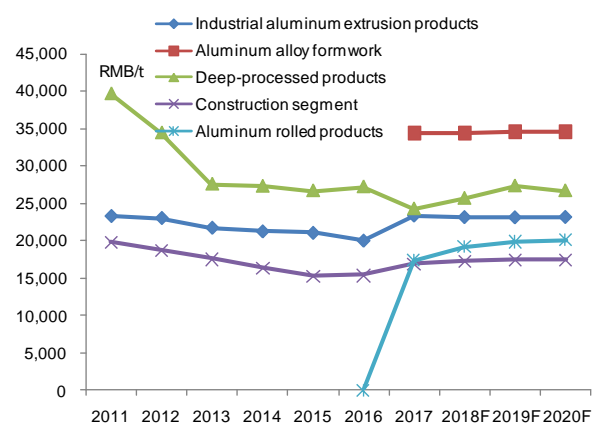
The 2017 annual results of the Company was 11.7% higher than market consensus and our expectation, mainly due to positive product mix change. Total revenue of the Company increased 16.6% yoy to RMB 19,458.8 million, net profit attributable to shareholders increased 23.1% yoy to RMB 3,533.4 million. Total sale of aluminum products decreased by 3.6% yoy to 737,366 tons in 2017, the average gross margin of the Company was down 5.1 ppts to 32.6%. The Company started the production of aluminum alloy formwork in 2017, and the restructuring of product mix took time and led to lower output. The output of aluminum alloy formwork surged in 2017 and became the largest single product of the Company. The Company sold 259,957 tons of aluminum alloy formwork, which accounted for 35.3% of total aluminum products but contributed 46.0% of total revenue. As a result, the sale of other aluminum extrusion products dropped accordingly. The sale of industrial aluminum extrusion products, deep-processed products and construction aluminum products amounted to 333,543 tons, 29,804 tons and 22,621 tons, which dropped by 45.1% yoy, 66.8% yoy and 66.4% yoy, respectively. Tianjin aluminum flat-rolled production line started operating in 2017 and the Company sold 91,401 tons of flat-rolled products. The ASP of the Company increased 20.9% yoy to RMB 26,390/t, mainly due to higher average processing fees and the rebound in aluminum price. The Company has continued to upgrade and expand its industrial extrusion production capacity, which will further strengthen its competitive advantages in the future.

Figure-1: Sale of Aluminum Products



Source: the Company, Guotai Junan International.

Figure-2: The ASP of Aluminum Products



Source: the Company, Guotai Junan International.

The Company expects the output of aluminum alloy formwork to continue to grow in 2018 and the aluminum flat-rolled production line is expected to contribute about 200,000 tons in output of aluminum plates. The Company continues to install more advanced and high-pressure extrusion machines, which will further expand its production capacity. The Company ordered 99 new extrusion machines in 2016 and these machines have been on the way for installation since 2017. In fact, parts of these machines have already been installed in 2017. As a result, we expect total aluminum extrusion production capacity to grow steadily with the installation of new extrusion machines. The Company also added auxiliary production lines to help the production of aluminum alloy formwork, which will improve production efficiency. We expect production efficiency of aluminum alloy formwork to continue to be lifted in 2018 and the output of aluminum alloy formwork to continue to grow. The Company expects to produce about 300,000 tons of aluminum alloy formwork in 2018. We also expect the output of industrial aluminum extrusion products to continue to grow with expanded production capacity. The first high-end flat-rolled aluminum production lines with a capacity of 600,000 tons per year started production in the second half of 2017 and contributed more than 90,000 tons of flat-rolled products in 2017. The flat-rolled production line is running smoothly and the Company expects that it will contribute about 200,000 tons of flat-rolled products in 2018. The Company has successfully acquired several certifications, and more qualification certification processes are still under way. The construction of the 2nd flat-rolled production line with a production capacity of 1.2 million tons per year has been completed and may start trial production in 2018, which will add more production capacity.

We expect that processing fees of each type of aluminum product will be stable in 2018. The Company holds great competitive advantages in the production of aluminum extrusion and flat-rolled products. The Company is the largest producer of aluminum alloy formwork in China and its output scale is much larger than other peers, hence the Company confronts little competition in domestic market. As the domestic market for aluminum alloy formwork is still growing, market competition is not expected to rise in 2018. Hence, we expect processing fees for aluminum alloy formwork to remain stable in 2018. The extrusion production lines of the Company always run at full capacity, so the Company has been able to choose to produce

aluminum extrusion products with higher processing fees. Hence, we expect processing fees for industrial aluminum extrusion products to also remain stable or even to rise slightly in 2018. The processing fees of deep-processed aluminum products were adversely impacted by the anti-dumping investigation in the U.S. and we believe that the negative impact will vanish in 2018. We also expect processing fees of flat-rolled products to remain stable in 2018 due to limited competition. The Company has constructed primary aluminum production lines with a total capacity of about 800,000 tons, which is helpful to reduce procurement costs of primary aluminum. The production of primary aluminum will reduce procurement costs and also melting cost, so it will raise general gross margin.

Revise up TP of the Company to HK\$ 6.00, and maintain “Buy”. China Zhongwang is a leading processed aluminum product developer and manufacturer in Asia. The Company has established competitive advantages in the aluminum processing industry. We expect the Company to continue to lead in the aluminum processing industry. The commencement in production of high-value aluminum flat-rolled products will be the future profit driver of the Company and has complementary and synergistic effects with current industrial aluminum extrusion products. The output of aluminum extrusion products and flat-rolled products is expected to grow steadily in 2018 and processing fees of all types of aluminum products are expected to remain stable. The production of primary aluminum has helped to lower production costs, especially when aluminum prices rebound significantly. We believe aluminum alloy formworks will still be the star product of the Company and will significantly lift the Company's profitability over the next 3 years. We believe net profit of the Company holds great growth potential due to product mix change and output growth. Hence, we revise up the TP of the Company to HK\$ 6.00, which is equivalent to 8.0x FY18 PE, and maintain “Buy” rating.

Table-1: Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)
				16A	17F	18F	19F	16A	17F	18F	19F	17F
International Listed aluminum companies												
Alcoa Inc	AA US	USD	45.77	n.a.	38.8	12.6	12.4	1.5	1.9	1.7	1.4	4.3
Norsk Hydro Asa	NHY NO	NOK	46.63	14.9	10.8	11.1	10.0	1.2	1.1	1.0	1.0	10.4
Aluar Aluminio	ALUA AR	ARS	13.60	31.6	19.4	14.0	16.4	4.7	4.1	n.a.	n.a.	22.2
Nippon Light Metal Holdings	5703 JP	JPY	279.00	9.8	8.1	9.0	8.6	1.2	1.1	1.0	0.9	13.5
Hindalco Industries Ltd	HNDL IN	INR	218.50	n.a.	23.7	10.4	9.2	1.1	1.1	1.0	1.0	4.4
National Aluminium Co Ltd	NACL IN	INR	67.60	22.2	22.8	11.9	9.9	1.3	1.3	n.a.	n.a.	5.7
Simple Average				19.6	20.6	11.5	11.1	1.8	1.7	1.2	1.1	10.1
Weighted Average				16.9	21.6	11.4	10.7	1.4	1.5	1.2	1.1	8.1
PRC listed aluminum companies												
Aluminum Corp Of China Ltd-A	601600 CH	CNY	4.84	242.0	53.8	15.2	10.9	1.9	1.8	1.6	1.4	3.3
Shandong Nanshan Aluminum-A	600219 CH	CNY	3.17	22.6	18.6	12.1	9.8	0.9	0.9	0.9	0.8	5.0
Henan Shenhua Coal & Power-A	000933 CH	CNY	7.45	41.4	10.2	8.6	6.9	2.5	2.1	1.8	1.6	21.7
Jiangsu Asia Pacific Light-A	002540 CH	CNY	7.12	24.9	26.9	20.1	14.2	2.5	2.3	2.1	n.a.	9.8
Simple Average				82.7	27.4	14.0	10.4	2.0	1.8	1.6	1.3	9.9
Weighted Average				147.8	37.9	14.0	10.4	1.8	1.7	1.5	1.2	6.4
HK listed aluminum companies												
Aluminum Corp Of China Ltd-H	2600 HK	HKD	4.33	185.2	41.7	13.4	10.7	1.5	1.4	1.2	1.1	3.3
China Hongqiao Group Ltd	1378 HK	HKD	8.82	7.9	11.0	5.8	4.4	1.3	1.2	0.9	0.8	10.7
China Zhongwang Holdings Ltd	1333 HK	HKD	4.52	9.4	6.0	n.a.	n.a.	0.8	0.7	n.a.	n.a.	12.1
Xingfa Aluminium Holdings	98 HK	HKD	6.20	7.5	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.
Simple Average				52.5	19.6	9.6	7.5	1.2	1.1	1.1	0.9	8.7
Weighted Average				86.7	24.1	9.7	7.6	1.3	1.2	1.1	1.0	7.5
HK listed nonferrous companies												
Jiangxi Copper Co Ltd-H	358 HK	HKD	11.28	40.2	14.6	10.9	9.1	0.8	0.7	0.6	0.6	4.4
Mmg Ltd	1208 HK	HKD	4.96	n.a.	34.4	8.9	7.9	4.9	4.2	2.2	1.7	13.1
China Molybdenum Co Ltd-H	3993 HK	HKD	6.34	90.4	35.8	23.3	22.8	5.1	2.6	2.5	2.3	8.7
United Co Rusal Plc	486 HK	HKD	4.72	7.8	7.6	4.9	4.9	2.8	2.1	1.5	1.2	31.6
Simple Average				46.1	23.1	12.0	11.2	3.4	2.4	1.7	1.5	14.5
Weighted Average				58.4	27.2	16.6	15.9	4.0	2.4	2.0	1.8	12.7

Source: Bloomberg, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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