

April 23, 2018

**Outperform**  
**Unchanged**

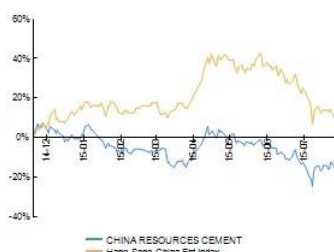
## Profit expansion

### CHINA RESOURCES CEMENT (1313:HK)

#### Market Data: 20 April, 2018

|                          |           |
|--------------------------|-----------|
| Closing Price (HK\$)     | 7.13      |
| Price Target (HK\$)      | 8.50      |
| HSCEI                    | 12054     |
| HSCCI                    | 4439      |
| 52-week High/Low (HK\$)  | 7.65/3.74 |
| Market Cap (US\$m)       | 5941      |
| Market Cap (HK\$m)       | 46,580    |
| Shares Outstanding (m)   | 6,533     |
| Exchange Rate (Rmb-HK\$) | 1.25      |

#### Price Performance Chart:



Source: Bloomberg

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#### Financial summary and valuation

|                    | 2016   | 2017   | 2018E  | 2019E  | 2020E  |
|--------------------|--------|--------|--------|--------|--------|
| Revenue (HK\$m)    | 25,647 | 29,958 | 33,431 | 34,802 | 35,048 |
| YOY (%)            | (4.2)  | 16.8   | 11.6   | 4.1    | 0.7    |
| Net Income (HK\$m) | 1,326  | 3,617  | 6,547  | 7,269  | 7,642  |
| YOY (%)            | 30.6   | 183.8  | 81.0   | 11.0   | 5.1    |
| EPS (HK\$)         | 0.20   | 0.58   | 1.00   | 1.11   | 1.17   |
| Diluted EPS (HK\$) | 0.20   | 0.58   | 1.00   | 1.11   | 1.17   |
| ROE (%)            | 5.1    | 13.5   | 19.5   | 19.9   | 19.3   |
| Net gearing        | 68.0   | 52.3   | 35.7   | 26.1   | 17.2   |
| Dividend yield (%) | 0.7    | 5.1    | 7.0    | 9.4    | 9.9    |
| P/E                | 27.8   | 9.8    | 7.1    | 6.4    | 6.1    |
| P/B                | 1.4    | 1.3    | 1.4    | 1.3    | 1.2    |
| EV/EBITDA          | 11.3   | 7.2    | 5.8    | 5.5    | 5.3    |

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

China Resources Cement announced its 1Q18 results, with net profit of HK\$1.8bn (+196% YoY) and EPS of HK\$0.27, in line with the company's previous guidance. We remain positive on the cement industry in southern China and raise our diluted EPS forecasts from HK\$0.62 to HK\$1.00 in 18E (+72% YoY), from HK\$0.64 to HK\$1.11 in 19E (+11% YoY), and from HK\$0.72 to HK\$1.17 in 20E (+5% YoY). We lift our target price from HK\$6.80 to HK\$8.50, representing an 18E EV/capacity of Rmb455/t and 9x 18E PE. With 19% upside, we maintain our Outperform recommendation.

**Strong margin in 1Q18.** China Resources Cement delivered 17.7mt of cement and clinker in 1Q18 (+7% YoY). The average selling price (ASP) of cement reached HK\$383/t in 1Q18 (+HK\$65/t QoQ; +HK\$92/t YoY). The company's average cost arrived at c.HK\$236/t over the same period, (vs HK\$206/t in 4Q17 and HK\$204/t in 1Q17). As a result, gross profit hit HK\$148/t in 1Q18 (vs HK\$112/t in 4Q17 and HK\$88/t in 1Q17). The firm's 1Q18 concrete sales reached 3.0 million m<sup>3</sup> (+19% YoY) at an ASP of HK\$417/t (+HK\$37/t QoQ; +HK\$43/t YoY). Unit gross profit reached HK\$104/t, vs HK\$92/t in 4Q17 and HK\$93/t in 1Q17. We expect the company's unit margin and volume to further improve in 2Q18E, as cement prices remain high.

**Low leverage.** China Resources Cement's net debt increased from HK\$11.7bn in 4Q17 to HK\$12.5bn in 1Q18, leading to a net gearing of 37% (vs 38.6% in 4Q17), amid the current downward cycle of the cement industry.

**Stable demand, higher dividend.** With demand in southern China recovering since end of March, we believe cement prices in the region will remain within the Rmb400-450/t range in 2Q18E. We expect the firm to benefit from infrastructure and residential real estate development in the Guangdong-Hong Kong-Macau Bay Area in 2018. We see new supply additions as having peaked in 2017. As the government's "supply-side reforms" progress and environmental regulations continue to tighten, we expect cement prices in southern China to remain stable at current high levels. With Capex likely to ease and a limited capacity expansion scheduled for 2018, we expect the firm to lift its dividend payout ratio to 50% in 18-19E, and its dividend yield to reach 5.3% in 18E.

**Maintain Outperform.** We remain positive on the cement industry in southern China and raise our diluted EPS forecasts from HK\$0.62 to HK\$1.00 in 18E (+72% YoY), from HK\$0.64 to HK\$1.11 in 19E (+11% YoY), and from HK\$0.72 to HK\$1.17 in 20E (+5% YoY). We lift our target price from HK\$6.80 to HK\$8.50, representing an 18E EV/capacity of Rmb455/t and 9x 18E PE. With 19% upside, we maintain our Outperform recommendation.

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华润水泥公布了一季度业绩，公司净利润 17.72 亿港元（同比增长 196%），对应 EPS 为 0.274 港币，与盈喜一致。我们对华南的水泥行业表现保持乐观，并上调预期，今年每股净利润从之前预测值 0.62 港币上调至 1.0 港币（同比增长 81%），19E 每股净利润从 0.64 港币上调至 1.1 港币（同比增长 10%），20E 每股净利润从 0.72 港币上调至 1.17 港币（同比增长 5%）。我们将目标价格从港币 6.8 元上调至 8.5 元，18E 对应吨企业价值 455 元人民币，9 倍市盈率。基于 19% 的上升空间，我们维持增持。

一季度毛利超强 一季度，华润水泥熟料销量为 1770 万吨（同比增长 7%），吨水泥价格达港币 383 元，环比增加 65 元，同比增加 92 元。由于煤价相对稳定，吨成本为港币 236 元，对比去年第四季度吨成本的 206 元和去年第一季度的 204 元。所以公司吨毛利为港币 148 元，对比去年第四季度的 112 元和去年第一季度的 88 元。华润混凝土的销量为 300 万立方米（同比增 19%），吨售价为港币 417 元，环比增加 37 元，同比增加 43 元。吨毛利为港币 104 元，对比去年四季度的 92 元和去年同期的 93 元。由于水泥价格维持高位，我们认为公司毛利将持续攀升，销量也将进一步提高。

杠杆稳定 华润净负债从 17 年年底的港币 117 亿元调整至目前的 125 亿元，使得杠杆率从 38.6% 下降至目前的 37%，在行业需求下行的周期内强力去杠杆，且未来由于产能扩张结束，公司杠杆将长期保持低位。

需求稳定，分红增加 随着华南地区自三月开始恢复强劲的需求，我们预期第二季度华南水泥价格将维持在每吨人民币 400-450 元。2018 年，华润将受益于粤港澳大湾区的基建发展和广东区域地产龙头在 16-17 年的加快拿地措施。2017 年广东的水泥产能达到顶点。随着供给侧改革和环保趋严，两广的水泥价格将保持在高位，未来资本支出随着没有新产能增加将大幅度减少，华润在 18 年-19 年的分红将逐渐提高，18E 分红率有望到 50%，股息率到 5.0%。

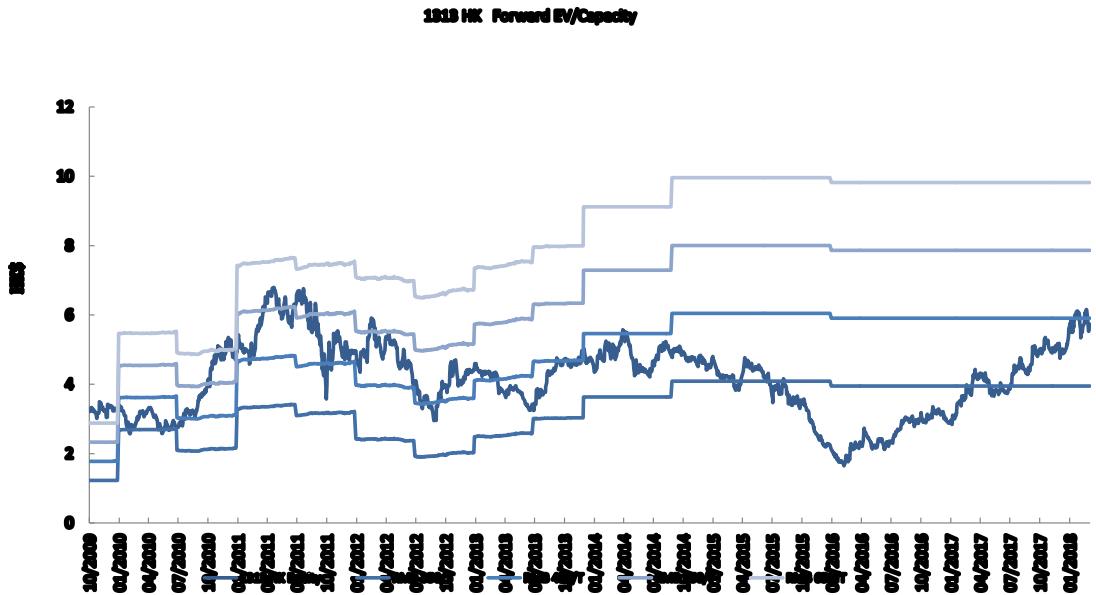
维持增持 对于华南区域的水泥基本面我们持乐观态度，并上调预期，今年每股净利润从之前预测值 0.62 港币上调至 1.0 港币（同比增长 81%），19E 每股净利润从 0.64 港币上调至 1.1 港币（同比增长 10%），20E 每股净利润从 0.72 港币上调至 1.17 港币（同比增长 5%）。我们将目标价从港币 6.8 元上调至 8.5 元，18E 对应吨企业价值 455 元人民币，9 倍市盈率。基于 19% 的上升空间，我们维持增持。

**Fig 1: 1Q18 CRC unit data**

| HK\$, M T     | Cement      | Clinker    | Cement+clinker | Concrete   |
|---------------|-------------|------------|----------------|------------|
| <b>Volume</b> | <b>16.5</b> | <b>1.2</b> | <b>17.7</b>    | <b>3.0</b> |
| <b>ASP</b>    | <b>387</b>  | <b>329</b> | <b>383</b>     | <b>417</b> |
| <b>GM %</b>   | <b>39%</b>  | <b>35%</b> | <b>39%</b>     | <b>25%</b> |
| <b>ACP</b>    | <b>237</b>  | <b>215</b> | <b>236</b>     | <b>313</b> |
| <b>GM/T</b>   | <b>150</b>  | <b>114</b> | <b>148</b>     | <b>104</b> |

Source: SWS Research, Wind

**Fig 2: CRC's EV/capacity band**



Source: SWS Research, Bloomberg

# Appendix

## Consolidated Income Statement

| HK\$m                   | 2016   | 2017   | 2018E  | 2019E  | 2020E  |
|-------------------------|--------|--------|--------|--------|--------|
| Revenue                 | 25,647 | 29,958 | 33,431 | 34,802 | 35,048 |
| Cost of Sales           | 18,622 | 20,728 | 20,385 | 20,730 | 20,730 |
| Gross Profit            | 7,025  | 9,230  | 13,046 | 14,072 | 14,318 |
| Other Income            | 271    | 389    | 299    | 306    | 306    |
| Distribution expenses   | 1,676  | 1,784  | 3,881  | 3,978  | 3,978  |
| Administrative expenses | 2,302  | 2,676  | 796    | 816    | 816    |
| EBITDA                  | 4,901  | 7,638  | 11,173 | 11,817 | 12,280 |
| EBIT                    | 2,851  | 5,522  | 9,017  | 9,940  | 10,288 |
| Finance Costs           | 692    | 638    | 796    | 816    | 816    |
| Profit before tax       | 2,158  | 4,884  | 8,221  | 9,124  | 9,472  |
| Income tax expense      | 897    | 1,291  | 1,644  | 1,825  | 1,800  |
| Minority Interests      | -64    | -24    | 30     | 31     | 31     |
| Profit for the year     | 1,326  | 3,617  | 6,547  | 7,269  | 7,642  |

Source: Company data, SWS Research

## Consolidated Cash Flow

| HK\$m                              | 2016   | 2017   | 2018E   | 2019E   | 2020E   |
|------------------------------------|--------|--------|---------|---------|---------|
| Profit before taxation             | 2,158  | 4,884  | 8,221   | 9,124   | 9,472   |
| Plus: Depr. and amortisation       | 2,050  | 2,115  | 2,156   | 2,197   | 2,238   |
| Finance cost                       | 643    | 593    | 739     | 758     | 758     |
| Losses from investments            | 0      | 0      | 0       | 0       | 0       |
| Increase in working capital        | 736    | -928   | 2,018   | 95      | 35      |
| Others                             | -1,589 | -1,930 | (2,440) | (2,641) | (2,616) |
| CF from operating activities       | 2,526  | 6,591  | 6,658   | 9,343   | 9,818   |
| CAPEX                              | -2,702 | -1,640 | (1,691) | (1,714) | (1,721) |
| Other CF from investing activities | 49     | 0      | 0       | 0       | 0       |
| CF from investing activities       | -2,653 | -1,640 | (1,691) | (1,714) | (1,721) |
| Equity financing                   | 0      | 0      | 0       | 0       | 0       |
| Net borrowing                      | -2,982 | -625   | 699     | 769     | 846     |
| Dividend and interest paid         | -203   | -229   | (1,241) | (3,273) | (4,361) |
| Other CF from financing activities | 0      | 0      | 0       | 0       | 0       |
| CF from financing activities       | -3,185 | -854   | (542)   | (2,504) | (3,515) |
| Net cash flow                      | -3,292 | 4,097  | 4,425   | 5,124   | 4,582   |
|                                    | 4,087  | 5,894  | 12,011  | 10,570  | 11,034  |
|                                    | 369    | 6,197  | 10,692  | 11,244  | 11,844  |

Source: Company data, SWS Research

## Consolidated Balance Sheet

| HK\$m                               | 2016          | 2017          | 2018E         | 2019E         | 2020E         |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Current Assets</b>               |               |               |               |               |               |
| Bank balances and cash              | 3,160         | 5,385         | 5,144         | 8,581         | 12,117        |
| Trade and other receivables         | 3,401         | 3,449         | 4,763         | 4,958         | 4,993         |
| Inventories                         | 1,943         | 1,717         | 2,122         | 2,158         | 2,158         |
| Long-term investment                | 6,810         | 7,092         | 7,399         | 7,733         | 8,097         |
| PP&E                                | 29,784        | 30,903        | 29,197        | 27,853        | 26,525        |
| Intangible and other assets         | 4,938         | 5,151         | 6,332         | 6,600         | 6,865         |
| <b>Total Assets</b>                 | <b>52,157</b> | <b>56,527</b> | <b>62,196</b> | <b>64,904</b> | <b>67,783</b> |
| <b>Current Liabilities</b>          |               |               |               |               |               |
| Borrowings                          | 6,891         | 6,572         | 9,000         | 9,000         | 9,000         |
| Trade and other payables            | 7,592         | 8,341         | 8,042         | 8,178         | 8,178         |
| Other current liabilities           | 334           | 444           | 488           | 537           | 591           |
| Long-term liabilities               | 11,088        | 10,687        | 11,425        | 12,233        | 13,118        |
| <b>Total Liabilities</b>            | <b>25,905</b> | <b>26,044</b> | <b>28,955</b> | <b>29,948</b> | <b>30,887</b> |
| Minority interests                  | 245           | 173           | 932           | 1,013         | 1,097         |
| Shareholder Equity                  | 26,007        | 30,309        | 33,582        | 36,490        | 39,546        |
| Share Capital                       | 653           | 653           | 653           | 653           | 653           |
| Reserves                            | 25,353        | 29,656        | 32,929        | 35,836        | 38,893        |
| <b>Total Liabilities and equity</b> | <b>52,157</b> | <b>56,527</b> | <b>62,196</b> | <b>64,904</b> | <b>67,783</b> |

Source: Company data, SWS Research

## Key Financial Ratios

|                                | 2016  | 2017  | 2018E | 2019E | 2020E |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Ratios per share (HK\$)</b> |       |       |       |       |       |
| Earnings per share             | 0.20  | 0.55  | 1.00  | 1.11  | 1.17  |
| Diluted EPS                    | 0.20  | 0.55  | 1.00  | 1.11  | 1.17  |
| Operating CF per share         | 0.39  | 1.01  | 1.02  | 1.43  | 0.00  |
| Dividend per share             | 0.04  | 0.19  | 0.50  | 0.67  | 0.70  |
| Net assets per share           | 4.0   | 4.6   | 5.1   | 5.6   | 6.0   |
| <b>Key Operating Ratios(%)</b> |       |       |       |       |       |
| ROIC                           | 2.6   | 6.2   | 11.1  | 12.2  | 12.8  |
| ROE                            | 5.1   | 11.9  | 19.5  | 19.9  | 19.3  |
| Gross profit margin            | 27.4  | 30.8  | 39.0  | 40.4  | 40.9  |
| EBITDA Margin                  | 19.1  | 25.5  | 33.4  | 34.0  | 35.0  |
| EBIT Margin                    | 11.1  | 18.4  | 27.0  | 28.6  | 29.4  |
| Growth rate of Revenue(YoY)    | (4.2) | 16.8  | 11.6  | 4.1   | 0.7   |
| Growth rate of Profit(YoY)     | 30.6  | 172.8 | 81.0  | 11.0  | 5.1   |
| Net gearing                    | 68.0  | 38.8  | 35.7  | 26.1  | 17.2  |
| Turnover rate of net assets    | 97.7  | 98.3  | 114.9 | 113.2 | 110.0 |
| Turnover rate of total assets  | 49.2  | 53.0  | 48.8  | 47.7  | 46.4  |
| Effective tax rate (%)         | 41.6  | 26.4  | 20.0  | 20.0  | 19.0  |
| Dividend yield (%)             | 0.5   | 2.7   | 7.0   | 9.4   | 9.9   |
| <b>Valuation Ratios (X)</b>    |       |       |       |       |       |
| P/E                            | 35.0  | 12.8  | 7.1   | 6.4   | 6.1   |

|                  |             |            |            |            |            |
|------------------|-------------|------------|------------|------------|------------|
| <b>P/B</b>       | <b>1.8</b>  | <b>1.5</b> | <b>1.4</b> | <b>1.3</b> | <b>1.2</b> |
| <b>EV/Sales</b>  | <b>2.5</b>  | <b>2.2</b> | <b>1.9</b> | <b>1.9</b> | <b>1.9</b> |
| <b>EV/EBITDA</b> | <b>13.3</b> | <b>8.5</b> | <b>5.8</b> | <b>5.5</b> | <b>5.3</b> |

*Source: Company data, SWS Research*

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Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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