

Up and coming architecture firm

 Rating **Not Rated**
 Current price **HK\$3.89**
Strategy investment from BMEDI, a SOE specialized in municipal construction design and research

In Apr 17, Beijing General Municipal Engineering Design & Research Institute Co., Ltd. (BMEDI), a wholly-owned subsidiary of Beijing Enterprises Group, subscribed 27.6% stake of C Cheng at HK\$1.99 per share. BMEDI is a leader in the municipal construction design and research in the PRC, involving in a wide range of projects such as urban roadwork, mass transit railway system, urban design and landscape.

Increasing revenue and new orders with BMEDI's support

With BMEDI's partnership, C Cheng is now able to participate in large scale state-owned projects, which is hardly accessible before. C Cheng also became more competitive for private projects in the PRC with the endorsement from BMEDI. C Cheng achieved 47% yoy revenue growth in 2H17 versus 3% in 1H17, and the Company secured a record high of HK\$658mn new contracts in FY17, up by 98% yoy. Management stated that the strong momentum continue YTD, the Company now has ~730 architects versus ~480/~670 as of end FY16/FY17 to support the robust demand.

Acquisition of Building Information Modeling ("BIM") firm to enhance the Company's technological capabilities

C Cheng acquired 49% of ISBIM Limited at HK21mn in Nov 17. ISBIM primarily engaged in Building Information Modeling ("BIM") related business, including software development, consultancy and training services. Management expressed that ISBIM is a leading BIM company in HK in terms of staff number, its client base includes the Hong Kong Housing Authority, the Architectural Services Department and reputable property developers. ISBIM contributed ~HK\$3mn revenue in FY17 for ~1 month of consolidation.

BIM technology basically provide a digitalized perform for architecture, engineering, and construction professionals to plan, design, construct and manage buildings and infrastructures. With BIM technology, various parties in the value chain could communicate in a more accurate and efficient way, so that projects could be completed in shorter timeline with lower costs. According to "HK 2017 Policy Address", government would adopt BIM technology for sizeable projects starting from 2018, management of ISBIM also stated that orders from the PRC increase dramatically YTD leverage on the network of C Cheng.

Expecting a substantial growth in FY18E

We view that C Cheng gradually establishes a strong position in the PRC market with SOE's support and technological edge. While current valuation at 33.5X FY17 PER does not look particular attractive, we expect C Cheng to achieve substantial growth in FY18E and enjoy a bright outlook in coming years. We advise investors to keep an eye on the transformation of C Cheng.

HKD mn (YE Dec)	FY13A	FY14A	FY15A	FY16A	FY17A
Revenue	324	384	355	359	456
Operating profit	35	39	36	32	38
Net profit	9	29	28	21	34
PE (x)	124.9	38.9	40.5	54.1	33.5

Sources: Bloomberg

Company Visit

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Trading data

52-Week Range (HK\$)	2.10/3.89
3 Mth Avg Daily Vol (m)	0.4
No of Shares (m)	288
Market Cap (HK\$m)	1,121
Major Shareholders (%)	BMEDI (27.6%) Mr. Liang Ronald (25.3%) Mr. Fu Chin Shing (12.6%)
Auditors	Deloitte
Result Due	1H18: Aug

Company description

Listed on the GEM Board in 2013 (stock code: 8320 hk) and transferred to the Main Board in 2015, C Cheng is a well-established architectural service provider in Hong Kong and the PRC, with over 30 years of history under the "LWK & Partners" brand. C Cheng provides a wide range of services, including architecture services, Landscape architecture, town planning, interior design and heritage conservation services.

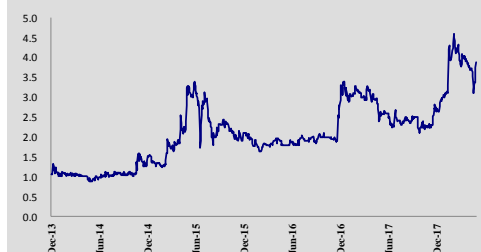
Price chart


Exhibit 1: Milestones of C Cheng


Source: The Company

Exhibit 2: Established relationship with various developers


Source: The Company

Exhibit 3: Business scope of BMEDI


Source: The Company

Exhibit 4: BIM technology is applied in the whole construction value chain


Source: Development Bureau of Hong Kong

Exhibit 5: Income statement

Year to Dec (HKD mn)	FY13A	FY14A	FY15A	FY16A	FY17A
Revenue					
- Hong Kong	77.0	118.1	136.0	149.2	159.5
- The PRC	241.5	255.8	216.8	206.3	285.2
- Others	5.5	10.5	1.9	3.5	11.1
	324.0	384.4	354.8	358.9	455.8
Staff costs	(203.3)	(240.6)	(223.4)	(227.6)	(291.2)
Other operating costs	(85.8)	(104.4)	(95.0)	(99.2)	(126.2)
Operating profit	34.9	39.5	36.4	32.1	38.4
Other income	0.8	0.3	0.7	0.3	2.3
Other gains and losses	1.2	(2.3)	(0.3)	(6.0)	1.8
Listing expenses	(16.1)	0.0	(1.8)	0.0	0.0
Finance costs	(0.1)	(0.1)	(0.1)	(0.0)	(0.6)
Income tax expenses	(9.5)	(9.1)	(7.8)	(6.1)	(8.4)
Non controlling interests	(2.2)	0.5	0.6	0.5	0.1
Net profit	9.0	28.8	27.7	20.7	33.5

Source: The Company

Exhibit 6: Balance sheet

Year to Dec (HKD mn)	FY13A	FY14A	FY15A	FY16A	FY17A
Cash & equiv	59.0	58.1	60.7	83.1	233.8
Trade and other receivables	205.4	242.7	251.7	243.8	240.2
Other current assets	10.1	3.1	3.8	5.4	10.8
Fixed assets	13.6	23.3	18.0	11.7	20.7
Intangible assets and goodwill	7.0	6.5	22.8	22.2	37.4
Available-for-sale investments	0.0	0.0	0.0	0.0	66.6
Other non current assets	4.1	6.0	6.1	6.9	8.1
Total assets	299.1	339.7	363.1	373.1	617.7
Short-term borrowings	1.1	0.0	0.0	0.0	35.4
Trade and other payables	183.4	199.8	173.7	164.9	155.4
Other current liabilities	8.7	5.9	6.0	7.1	9.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other non current liabilities	4.3	3.8	3.0	2.1	3.8
Total liabilities	197.4	209.5	182.7	174.1	203.5
Shareholders' equity	101.6	130.5	180.7	199.3	397.4
Minorities	0.2	(0.4)	(0.3)	(0.3)	16.8
Total equity	101.7	130.2	180.3	199.0	414.2
Net cash (debt)	57.8	58.1	60.7	83.1	198.5

Source: The Company

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

I, Lewis Pang hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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