



Rating
Buy

Asia
Hong Kong

Resources
Construction Materials

Company
CR Cement

Reuters 1313.HK Bloomberg 1313 HK Exchange HSI Ticker 1313

Date
12 June 2018

Breaking News

Price at 11 Jun 2018 (HKD)	10.32
Price target - 12mth (HKD)	11.53
52-week range (HKD)	10.32 - 3.83
HANG SENG INDEX	31,064

1H18 profit alert and share placement; outlook remains positive, reiterate Buy

Profit alert due to higher selling prices in 5M18 and share placement to resolve low public free-float

CRC issued a profit alert for 5M18 and a placement totaling USD540m after the close on June 11, 2018 – both events were a surprise to us. The profit alert clearly shows that 2Q GP/t is on track to be HKD15-20/t higher than in 1Q, which is anti-cyclical as 2Q is typically the slowest quarter of the year. We believe the primary objective of CRC's placement is to increase its free-float rather than to tap the market for cash, since its balance sheet has been extremely strong and it could have just geared up. Post the placement, the CR group's ownership reduces from 73.45% to 68.72%. We believe any weakness in the share price should represent a good opportunity to Buy as the outlook remains extremely strong for southern China, with the Greater Bay Area development plan set to be released in due course, in our view. We have also revised our model with a new target price of HKD11.53 post the 6.89% dilution.

Details of the placement

CRC issued 450m ordinary shares via a top-up placement at HKD9.3/sh to raise HKD4.185b and HKD4.18b net of fees. The issue price represents a 9.9% discount to the previous closing price of HKD10.32/sh. In reference to a 20-trading-day share price of HKD9.23, the issue price implies a slight premium. The main uses of the proceeds will be as follows: 1) 70% goes to the company's expansion in the prefabricated construction and aggregate areas for a vertical integration; 2) 20% to debt repayment; and 3) 10% to supplement the company's working capital and its subsidiaries. We see potential in both the pre-fab and aggregates business as both are emerging trends in the industry. MOHURD requires 20-25% of all residential housing in China to use pre-fab by 2020 while aggregate prices have doubled in the last 12 months as a result of the government's environmental crackdown.

What the profit alert entails

CRC issued a profit alert after market close on June 11 with the ASP of cement products in 5M18 at HKD387.4/t, equivalent to a 33.4% increase yoy. Based on our estimates, we believe CRC's 2Q18 GP/t will be c.HKD165/t, up from HKD148/t in 1Q. While CRC did not shed colour on the magnitude of its NP improvement, we believe its 1H18 net profit is set to increase more than 200% yoy.

South China has the best fundamentals

We wrote in our CRC NDR takeaways report on June 1 that southern China has the best fundamentals across all regions in China, accounting for 80%+ of CRC's

Valuation & Risks

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Key changes

TP	11.55 to 11.53	↓	-0.2%
Op prof margin (FYE)	28.3 to 28.5	↑	0.8%
Net profit (FYE)	7,938.9 to 8,046.4	↑	1.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	22.9	74.9	154.2
HANG SENG INDEX	-0.2	0.2	19.3

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	23.6
Net debt/equity (%)	14.3
Book value/share (HKD)	5.43
Price/book (x)	1.90
Net interest cover (x)	27.0
Operating profit margin (%)	28.5

Source: Deutsche Bank



profits. The main differentiating factors are that 4M18 cement demand in GD and GX was up 8% and 12% yoy, compared with the national average of -2% yoy. The divergence is due to 1) strong infrastructure demand supported by a wealthy government and impending Greater Bay Area development projects; 2) GX's strong cement demand stemmed from urbanization as the region has a bigger role in the Belt and Road Initiative. Supported by strong demand growth in south China, CRC's inventory level in June, its weakest month of the year, is still standing at 32% of storage capacity. Based on Digital Cement data, GD/GX prices in 2Q have appreciated by RMB11/t since 1Q and remain steady.

Earnings revisions and target price changes

We increase our earnings by 1.4% to HKD8.05bn but cut EPS to HKD1.15 (from HKD1.22 to factor in the dilution). We note that consensus earnings are now 24% lower than our estimates, which likely means that consensus upgrades could follow. We raise our target multiple to 10x, lower than its historical mid-cycle average of 11.5x, as we see 2018 approaching peak margins. This also implies a PB of 2.1x on 24% ROE, which we believe is justified. Risks: slower-than-expected demand from Greater Bay area development and higher-than-expected coal prices.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (HKDm)	25,647.5	29,958.4	38,232.7	39,904.4	41,405.0
EBITDA (HKDm)	5,317.4	7,263.4	12,950.8	13,803.9	14,300.8
Reported NPAT (HKDm)	1,325.9	3,616.7	8,046.4	8,712.1	9,178.2
Reported EPS FD(HKD)	0.20	0.55	1.15	1.25	1.31
DB EPS FD(HKD)	0.25	0.55	1.15	1.26	1.33
DB EPS growth (%)	-17.8	117.8	109.4	9.2	5.3
PER (x)	10.6	7.9	9.0	8.2	7.8
EV/EBITDA (x)	4.8	4.6	5.4	4.9	4.4
DPS (net) (HKD)	0.09	0.27	0.66	0.77	0.88
Yield (net) (%)	3.3	6.2	6.4	7.5	8.5

Source: Deutsche Bank estimates, company data



Model updated: 12 June 2018

Running the numbers

Asia

Hong Kong

Construction Materials

CR Cement

Reuters: 1313.HK

Bloomberg: 1313 HK

Buy

Price (11 Jun 18) HKD 10.32

Target Price HKD 11.53

52 Week range HKD 3.83 - 10.32

Market cap (m) HKDm 72,064
USDm 9,183.7

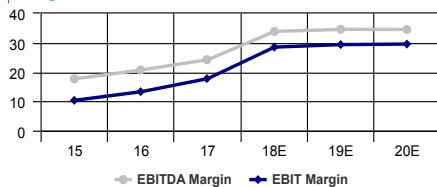
Company Profile

China Resources Cement Holdings Limited, through its subsidiaries, produces, distributes and sells cement, clinker and concrete.

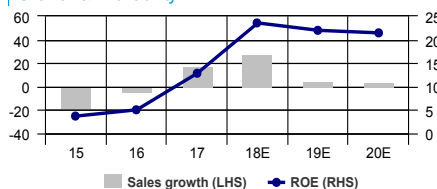
Price Performance



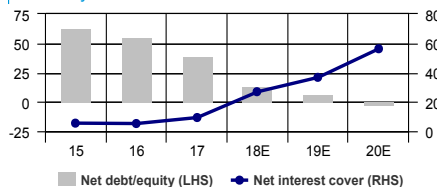
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (HKD)	0.31	0.25	0.55	1.15	1.26	1.33
Reported EPS (HKD)	0.16	0.20	0.55	1.15	1.25	1.31
DPS (HKD)	0.08	0.09	0.27	0.66	0.77	0.88
BVPS (HKD)	4.1	4.0	4.6	5.4	5.9	6.3
Weighted average shares (m)	6,533	6,533	6,533	6,983	6,983	6,983
Average market cap (HKDm)	26,577	17,578	28,548	72,064	72,064	72,064
Enterprise value (HKDm)	36,705	25,714	33,396	70,211	67,141	63,050

Valuation Metrics

P/E (DB) (x)	13.2	10.6	7.9	9.0	8.2	7.8
P/E (Reported) (x)	26.2	13.3	7.9	9.0	8.3	7.9
P/BV (x)	0.59	0.76	1.11	1.90	1.75	1.63
FCF Yield (%)	8.5	13.2	19.1	9.1	11.0	13.3
Dividend Yield (%)	2.0	3.3	6.2	6.4	7.5	8.5
EV/Sales (x)	1.4	1.0	1.1	1.8	1.7	1.5
EV/EBITDA (x)	7.7	4.8	4.6	5.4	4.9	4.4
EV/EBIT (x)	13.2	7.5	6.3	6.4	5.7	5.2

Income Statement (HKDm)

Sales revenue	26,779	25,647	29,958	38,233	39,904	41,405
Gross profit	6,417	7,025	9,230	14,923	15,658	16,173
EBITDA	4,744	5,317	7,263	12,951	13,804	14,301
Depreciation	1,967	1,902	1,936	2,047	2,079	2,059
Amortisation	0	0	0	0	0	0
EBIT	2,777	3,415	5,327	10,904	11,725	12,241
Net interest income/(expense)	-504	-650	-570	-404	-319	-217
Associates/affiliates	-244	-50	99	306	310	314
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-1,045	-557	28	-5	-100	-100
Profit before tax	984	2,158	4,884	10,801	11,616	12,238
Income tax expense	48	897	1,291	2,808	2,962	3,121
Minorities	-78	-64	-24	-54	-58	-61
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,015	1,326	3,617	8,046	8,712	9,178
DB adjustments (including dilution)	994	326	-20	4	75	75
DB Net profit	2,009	1,651	3,596	8,050	8,787	9,253

Cash Flow (HKDm)

Cash flow from operations	4,834	4,112	6,613	9,324	10,319	10,749
Net Capex	-2,586	-1,789	-1,157	-2,760	-2,423	-1,136
Free cash flow	2,247	2,323	5,456	6,564	7,896	9,613
Equity raised/(bought back)	0	0	0	4,181	0	0
Dividends paid	-1,045	-229	-1,241	-4,586	-5,402	-6,149
Net inc/(dec) in borrowings	-1,193	-639	-1,489	-2,559	-1,495	-1,495
Other investing/financing cash flows	-2,219	-50	-793	183	207	1,640
Net cash flow	-2,210	1,406	1,933	3,782	1,206	3,609
Change in working capital	1,573	-170	849	-226	103	138

Balance Sheet (HKDm)

Cash and other liquid assets	1,955	3,160	5,385	9,168	10,374	12,595
Tangible fixed assets	31,596	29,784	30,903	31,562	31,855	30,882
Goodwill/intangible assets	7,291	6,016	6,114	6,167	6,218	6,268
Associates/investments	7,271	6,810	7,092	7,398	7,708	8,022
Other assets	6,104	6,387	7,033	8,170	8,438	8,692
Total assets	54,217	52,157	56,527	62,465	64,594	66,458
Interest bearing debt	18,925	17,860	17,152	14,593	13,098	11,602
Other liabilities	8,306	8,044	8,893	9,803	10,174	10,566
Total liabilities	27,231	25,905	26,044	24,396	23,272	22,168
Shareholders' equity	26,557	26,007	30,309	37,949	41,260	44,289
Minorities	429	245	173	120	62	0
Total shareholders' equity	26,986	26,252	30,482	38,069	41,322	44,289
Net debt	16,970	14,700	11,767	5,425	2,723	-992

Key Company Metrics

Sales growth (%)	-18.0	-4.2	16.8	27.6	4.4	3.8
DB EPS growth (%)	-54.1	-17.8	117.8	109.4	9.2	5.3
EBITDA Margin (%)	17.7	20.7	24.2	33.9	34.6	34.5
EBIT Margin (%)	10.4	13.3	17.8	28.5	29.4	29.6
Payout ratio (%)	51.5	44.3	48.8	57.0	62.0	67.0
ROE (%)	3.7	5.0	12.8	23.6	22.0	21.5
Capex/sales (%)	9.7	7.1	3.9	7.2	6.1	2.7
Capex/depreciation (x)	1.3	1.0	0.6	1.3	1.2	0.6
Net debt/equity (%)	62.9	56.0	38.6	14.3	6.6	-2.2
Net interest cover (x)	5.5	5.3	9.3	27.0	36.8	56.3

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
CR Cement	1313.HK	10.32 (HKD) 11 Jun 2018	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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Historical recommendations and target price. CR Cement (1313.HK)

(as of 06/11/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	07/13/2016	Buy, Target Price Change HKD 3.35	Johnson Wan	7.	09/19/2017	Buy, Target Price Change HKD 6.15	Johnson Wan
2.	08/16/2016	Buy, Target Price Change HKD 3.70	Johnson Wan	8.	10/17/2017	Buy, Target Price Change HKD 6.49	Johnson Wan
3.	02/27/2017	Buy, Target Price Change HKD 4.50	Johnson Wan	9.	01/07/2018	Buy, Target Price Change HKD 6.81	Johnson Wan
4.	03/14/2017	Buy, Target Price Change HKD 5.26	Johnson Wan	10.	03/14/2018	Buy, Target Price Change HKD 8.54	Johnson Wan
5.	07/13/2017	Buy, Target Price Change HKD 5.25	Peng Xie	11.	04/25/2018	Buy, Target Price Change HKD 10.58	Johnson Wan
6.	08/09/2017	Buy, Target Price Change HKD 6.03	Johnson Wan	12.	05/31/2018	Buy, Target Price Change HKD 11.55	Johnson Wan



Equity Rating Key

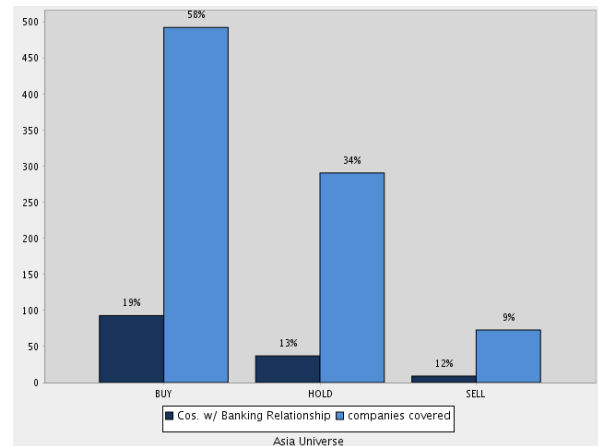
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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