



Company Report: CMEC (01829 HK)

公司报告: 中国机械工程 (01829 HK)

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Tighter Credit and Stronger RMB Exchange Rate Continues to Dampen on Earnings, Cut TP

更加紧张的信贷以及较强的人民币汇率将继续压制盈利，下调目标价

- **Flat orders outlook but moderate revenue growth is expected in 2018.** CMEC's management guided targets for new contracts at US\$4.5 bn in 2018, and US\$3.0 bn for newly effective contracts for FY18, basically flat compared to the target for FY17. Tight credit continues to be the main obstacle for a boost in contracts to take effect, while the proportion of private investment with lower risk tolerance continued to climb in overseas infrastructure projects.
- **Overall ROIC will be dragged down post the consolidation of CNEEC.** CMEC's management indicated that margins from CNEEC were much lower than CMEC's, which implies that CMEC's margins will be diluted post financial results consolidation. Besides, following rapid appreciation of RMB against USD since Dec. 2017, CMEC's GPM may be further squeezed as major COGS are incurred in RMB, while revenue is denoted in USD.
- **Cut TP to HK\$4.70 and maintain "Accumulate".** CMEC is currently trading at 7.6x FY18 PE, much higher than the sector's 5.8x W.A FY18 PER. While most of its peers' operations were in mainland China, CMEC's pure overseas business exposure may lead its valuation, being more aligned with other Asian contractors. In the medium term, CMEC's earnings should be jointly constrained by the low RMB/USD exchange rate and the higher cost of borrowings from emerging markets due to the rate hike from the U.S.
- **2018 年订单展望将持平但收入预期温和增长。** 中国机械工程的管理层指引 2018 年新订单 45 亿美元，2018 年生效订单 30 亿美元，与 2017 财年相比基本持平。紧信用持续地作为订单生效的主要障碍，而拥有较低风险偏好的私人投资在海外基建项目中的占比持续攀升。
- **整体上的资本回报率将在与中电合并后受到拖累。** 中国机械工程的管理层指出来自中电的利润率显著低于中国机械工程，表明中国机械工程的利润率将在财务并表后受到摊薄。此外，在自 2017 年底人民币兑美元迅速升值后，中国机械工程的毛利率可能将进一步地被挤压，源于其主要的销售成本均以人民币发生但收入是以美元计价。
- **下调目标价至 4.70 港元并且维持“收集”的投资评级。** 中国机械工程目前股价相当于 7.6 倍的 2018 财年市盈率，显著高于同行的 5.8 倍 2018 年加权平均市盈率。在绝大多数同行的经营均在中国内地的背景下，中国机械工程的纯粹的海外业务敞口可能将引导其估值与其他亚洲建筑商的估值一致。中期来看，中国机械工程的盈利恐将被较低的人民币兑美元汇率以及由美国加息所造成的新兴市场借贷成本上升所压制。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$4.70

Revised from 原目标价:

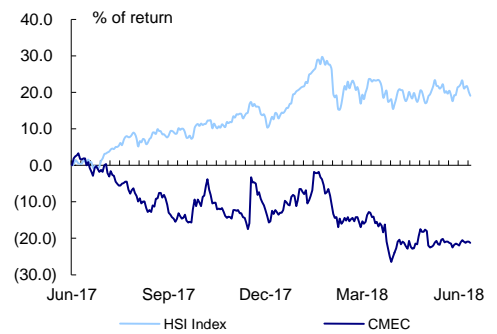
HK\$5.70

Share price 股价:

HK\$4.400

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 %	0.0	(7.8)	(20.7)
Rel. % to HS index 相对恒指变动 %	1.8	(5.0)	(44.0)
Avg. share price(HK\$) 平均股价 (港元)	4.4	4.4	4.9

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	21,017	2,107	0.511	(4.3)	7.7	3.715	1.1	0.204	5.2	14.1
2017A	23,682	1,711	0.415	(18.8)	8.5	3.910	0.9	0.206	5.8	10.9
2018F	24,210	1,943	0.471	13.5	7.5	4.175	0.8	0.195	5.5	11.7
2019F	26,041	2,099	0.509	8.1	7.0	4.489	0.8	0.211	6.0	11.7
2020F	27,673	2,213	0.536	5.3	6.6	4.814	0.7	0.223	6.3	11.5
Shares in issue (m) 总股数 (m)				4,215.7		Major shareholder 大股东				SINOMACH 77.9%
Market cap. (HK\$ m) 市值 (HK\$ m)				21,659.9		Free float (%) 自由流通比率 (%)				22.1%
3 month average vol. 3 个月平均成交股数 ('000)				3,779.3		FY18 Net gearing (%) FY18 净负债/股东资金 (%)				Net cash
52 Weeks high/low (HK\$) 52 周高/低				6.000 / 4.040		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				5.4

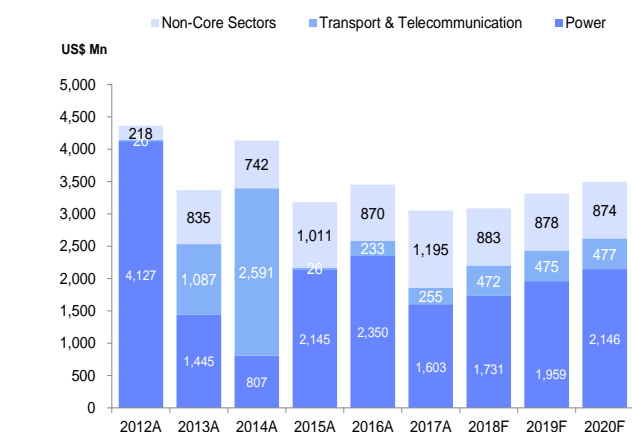
Source: the Company, Guotai Junan International.

KEY UPDATES

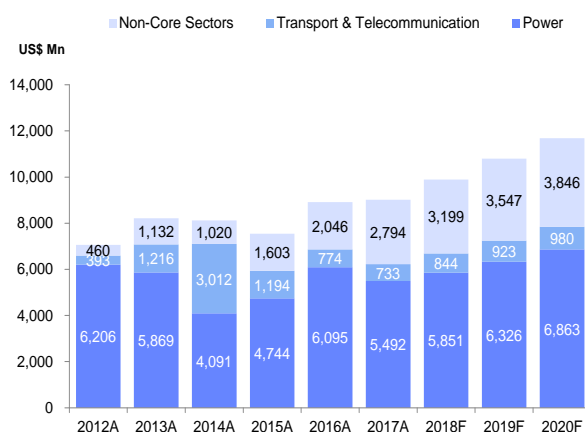
Flat order outlook but moderate revenue growth is expected in 2018. CMEC's management guided targets for new contracts at US\$4.5 bn in 2018, and US\$3.0 bn for newly effective contracts for FY18, basically flat compared to the target for FY17, while actual new contracts signed in 2017 was US\$6.0 bn. Tight credit continues to be the main obstacle for a boost in contracts to take effect, while the proportion of private investment with lower risk tolerance continued to climb in overseas infrastructure projects. However, on a marginal basis, we see that oil price hikes since 2018 set an important factor to improve credit for African countries; this may help to boost some of their projects to take effect in 2018. Based on project backlog and expectations of newly effective contracts, we see moderate revenue boost for CMEC's construction business in 2018.

Figure- 1: Newly Effective Contracts of CMEC's IEC Business

Figure- 2: Backlog of CMEC's IEC Business



Source: the Company, Guotai Junan International.



Source: the Company, Guotai Junan International.

Margins might be squeezed due to lower average RMB/USD rate in 2018. Following by a rapid appreciation of RMB against USD since Dec. 2017, we believe CMEC's revenue will continue to be squeezed by foreign exchange rate movement, as the majority of the Company's contracts were denoted in USD. In addition, this could also dampen CMEC's GPM as major COGS are incurred in RMB.

CMEC's overall ROIC will be dragged down post consolidation of CNEEC. The deal was completed in Apr. 2018 and CNEEC's financial results will be consolidated to CMEC's books. CMEC's management indicated that margins from CNEEC were much lower than CMEC's, but overall operations were continuously being improved after being taken over by CMEC. This implies that CMEC's margins will be diluted post financial results consolidation. In 2017, CNEEC's revenue is expected to approach US\$3.0 bn with net profit anticipated at being approx. US\$60 mn, showing net margin at 2.0% vs. the 7.2% from CMEC. Despite the margin dilution, CMEC's management expects consolidation to eliminate homogeneous competition between the original two entities, and they also believe in synergies arising from markets and technology; the management team is upbeat on the consolidated entity's outlook.

FX risks temporarily released. CMEC's FY17 bottom line was heavily affected by RMB893 mn foreign exchange loss from USD denoted assets, followed by an approx. 6.7% YTD RMB appreciation against USD in 2017. In our view, RMB will likely stay flat in the medium term due to the joint result of: 1) rate hikes from the U.S Federal Reserve supporting stronger USD, 2) continuing balance sheet unwinding from the U.S, and 3) motivation from the U.S to narrow down the trade deficit against China. We do not expect CMEC to record significant FX gains/losses in 2018.

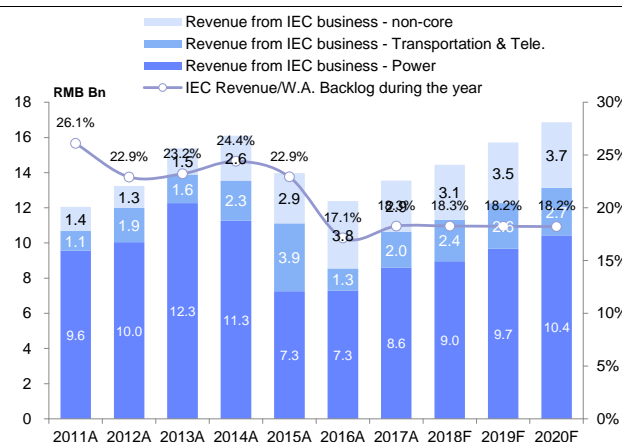
EARNINGS REVISIONS

- 1) **Cut forecasts for CMEC's newly effective contracts, pending to be effective contracts and backlog**, based on the management guidance for new contracts and contracts taking effect. This has in turn reflected on our revenue forecasts for CMEC's IEC business.
- 2) **FY18/FY19 top-line forecasts have been cut by 3.0%/5.0%, respectively**. Such revision is made based on our backlog revision for FY18 and FY19. We have revised revenue forecasts for transport & telecommunication projects, due to expectations of the start of the railway project in Argentina later this year.
- 3) **Slightly raise GPM for FY18/FY19**. Such revisions are based on expectations of higher GPM from transport and telecommunication projects, as well as higher GPM from service business. However, as revenue has been squeezed by RMB appreciation, overall GPM is expected to decline from 19.9% in FY17 to 17.8% in FY18.
- 4) **Lowering net finance income due to a slower progress of RMB/USD depreciation in FY18**. As we have revised down RMB/USD exchange rate forecasts for FY18/FY19 from 6.60/6.73 to 6.53/6.53, it ends up with lower FX gain from its USD denoted assets. Expectations of RMB/USD depreciation in 2018 will turn CMEC from a FX loss position to the FX gain position.
- 5) **Cut bottom-line forecasts by 12.1%/12.5% with our key assumption adjustments**. Although our earnings revisions have ended up with YoY growth of 13.6%/8.0% in FY18/FY19, the recurring net profit that subtracts FX losses/gains is estimated at RMB1,887 mn for FY18, down by 10.8% compared to the recurring net profit in FY17, mainly attributed by lower gross profit in FY18.
- 6) **We expect CMEC to maintain its dividend payout based on its core earnings**. While CMEC's bottom line is largely affected by FX movements, we expect it to maintain moderate investment return to investors by benchmarking its dividend payout to its core earnings. This has ended up with an approximate 5.5% dividend yield based on the last closing share price.

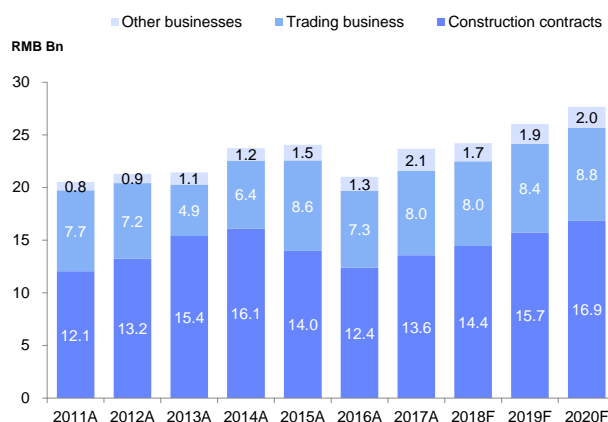
Table- 1: Key Earnings Assumptions

	Old Forecast			New Forecast			Revision		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Operating figures									
Newly Effective contract (US\$ Mn)	3,390	3,550	n.a.	3,086	3,312	3,497	-9.0%	-6.7%	n.a.
Pending to be effective (US\$ Mn)	20,162	20,907	n.a.	18,974	20,011	20,858	-5.9%	-4.3%	n.a.
Backlog	11,067	12,133	n.a.	9,893	10,796	11,688	-10.6%	-11.0%	n.a.
Average USD/RMB exchange rate	6.60	6.73	n.a.	6.53	6.53	6.48	-1.1%	-3.0%	n.a.
Financials (RMB Mn)									
Revenue	24,948	27,421	n.a.	24,210	26,041	27,673	-3.0%	-5.0%	n.a.
IEC business	15,008	16,708	n.a.	14,441	15,721	16,863	-3.8%	-5.9%	n.a.
- Power	8,723	9,839	n.a.	8,959	9,682	10,423	2.7%	-1.6%	n.a.
- Transport & Telecommunication	1,904	2,173	n.a.	2,361	2,581	2,719	24.0%	18.8%	n.a.
- Non-Core Sectors	4,381	4,695	n.a.	3,120	3,458	3,721	-28.8%	-26.3%	n.a.
Trading business	8,139	8,708	n.a.	8,036	8,433	8,787	-1.3%	-3.2%	n.a.
Service business	1,801	2,005	n.a.	1,733	1,887	2,024	-3.8%	-5.9%	n.a.
Gross profit	4,153	4,828	n.a.	4,301	4,810	5,106	3.5%	-0.4%	n.a.
Other revenue	39	40	n.a.	35	36	36	-10.3%	-10.4%	n.a.
Other income, net	52	54	n.a.	74	83	83	42.7%	54.9%	n.a.
Selling expenses	(1,078)	(1,184)	n.a.	(1,048)	(1,128)	(1,198)	-2.7%	-4.8%	n.a.
Administrative expenses	(865)	(953)	n.a.	(828)	(890)	(944)	-4.3%	-6.7%	n.a.
Profit from operations	2,263	2,745	n.a.	2,154	2,519	2,657	-4.8%	-8.2%	n.a.
Finance income	730	500	n.a.	409	246	264	-44.0%	-50.8%	n.a.
Finance expenses	(44)	(43)	n.a.	(80)	(77)	(82)	81.9%	81.3%	n.a.
Profit before taxation	2,987	3,242	n.a.	2,544	2,752	2,904	-14.8%	-15.1%	n.a.
Income tax expenses	(774)	(842)	n.a.	(599)	(651)	(689)	-22.6%	-22.7%	n.a.
Shareholders net profit	2,212	2,398	n.a.	1,943	2,099	2,213	-12.1%	-12.5%	n.a.
EPS (RMB)	0.536	0.581	n.a.	0.471	0.509	0.536	-12.1%	-12.5%	n.a.
Excluding finance income arose from exchange gains:									
Shareholders net profit	1,946	2,327	n.a.	1,887	2,165	2,285	-3.0%	-7.0%	n.a.
EPS (RMB)	0.472	0.564	n.a.	0.457	0.525	0.554	-3.0%	-7.0%	n.a.
Margins and ratios									
Revenue growth	6.3%	9.9%	n.a.	2.2%	7.6%	6.3%	-4.1ppt	-2.3ppt	n.a.
Gross profit growth	6.3%	16.3%	n.a.	-8.8%	11.9%	6.2%	-15.1ppt	-4.4ppt	n.a.
Net profit growth	61.0%	8.4%	n.a.	13.6%	8.0%	5.4%	-47.4ppt	-0.4ppt	n.a.
Gross margin	16.6%	17.6%	n.a.	17.8%	18.5%	18.5%	1.1ppt	0.9ppt	n.a.
IEC business	20.0%	20.7%	n.a.	22.0%	22.4%	22.3%	2.0ppt	1.7ppt	n.a.
- Energy	24.7%	25.3%	n.a.	24.0%	24.5%	24.4%	-0.7ppt	-0.8ppt	n.a.
- Transport & Telecommunication	19.7%	20.3%	n.a.	22.5%	23.0%	22.9%	2.8ppt	2.7ppt	n.a.
- Non-Core Sectors	10.7%	11.3%	n.a.	15.5%	16.0%	15.9%	4.8ppt	4.7ppt	n.a.
Trading business	6.5%	7.1%	n.a.	4.9%	5.5%	5.4%	-1.5ppt	-1.7ppt	n.a.
Service business	34.8%	37.2%	n.a.	42.3%	44.0%	43.6%	7.5ppt	6.8ppt	n.a.
Operating margin	9.1%	10.0%	n.a.	8.9%	9.7%	9.6%	-0.2ppt	-0.3ppt	n.a.
Net margin	8.9%	8.7%	n.a.	8.0%	8.1%	8.0%	-0.8ppt	-0.7ppt	n.a.
Net margin - excluding exchange gains	7.8%	8.5%	n.a.	7.8%	8.3%	8.3%	0.0ppt	-0.2ppt	n.a.
ROE	13.3%	13.1%	n.a.	11.7%	11.7%	11.5%	-1.6ppt	-1.4ppt	n.a.

Source: Guotai Junan International.

Figure- 3: IEC Business Revenue and Revenue Recognition Rate


Source: the Company, Guotai Junan International.

Figure- 4: Revenue Forecasts by Segment


Source: the Company, Guotai Junan International.

Table- 2: Key Newly Effective Contracts from IEC Business

Newly effective contract (US\$ Mn)	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Power	1,583	4,127	1,445	807	2,145	2,350	1,603	1,731	1,959	2,146
Transport & Telecommunication	616	20	1,087	2,591	26	233	255	472	475	477
Non-Core Sectors	28	218	835	742	1,011	870	1,195	883	878	874
Total	2,227	4,365	3,367	4,139	3,181	3,453	3,052	3,086	3,312	3,497

Source: the Company, Guotai Junan International.

Table- 3: Backlog from IEC Business

Backlog USD Million	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Power	4,162	6,206	5,869	4,091	4,744	6,095	5,492	5,851	6,326	6,863
Transportation & Telecommunication	679	393	1,216	3,012	1,194	774	733	844	923	980
Non-Core Sectors	444	460	1,132	1,020	1,603	2,046	2,794	3,199	3,547	3,846
Total	5,285	7,058	8,217	8,123	7,541	8,915	9,019	9,893	10,796	11,688

Source: the Company, Guotai Junan International.

Table- 4: Pending to be Effective Contracts from IEC Business

Pending to be effective (USD Mn)	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Power	6,735	5,173	5,799	7,695	7,494	6,980	6,114	7,884	8,925	9,778
Transportation & Telecommunication	2,812	3,914	3,619	1,154	1,049	2,611	5,405	5,433	5,458	5,481
Non-Core Sectors	2,912	3,016	4,058	4,009	3,648	5,606	5,688	5,658	5,628	5,598
Total	12,459	12,102	13,476	12,858	12,191	15,197	17,207	18,974	20,011	20,858

Source: the Company, Guotai Junan International.

Table- 5: Sensitivity Analysis on USD/RMB Exchange Rate against CMEC's Earnings

	RMB/USD exchange rate assumption at end of 2017							
	6.45	6.50	6.55	6.60	7.15	6.70	6.75	6.80
Exchange rate at the end of 2017	6.45	6.50	6.55	6.60	7.15	6.70	6.75	6.80
% change to base assumption	-0.8%	0.0%	0.8%	1.5%	0.0%	3.1%	3.8%	4.6%
Average exchange rate used in calculation	6.70	6.72	6.75	6.77	7.05	6.82	6.85	6.87
Backlog (RMB Mn)	64,092	64,340	64,587	64,834	65,082	65,329	65,576	65,824
Newly effective contract (RMB Mn)	19,992	20,069	20,146	20,223	20,301	20,378	20,455	20,532
Revenue (RMB Mn)	24,024	24,117	24,210	24,302	24,395	24,488	24,580	24,673
Gross profit (RMB Mn)	4,230	4,265	4,301	4,336	4,371	4,406	4,441	4,476
Exchange gain in finance income (RMB Mn)	-96	-11	73	158	243	328	414	500
Net profit (RMB Mn)	1,778	1,860	1,943	2,026	2,110	2,194	2,278	2,362

Source: Guotai Junan International.

VALUATION

Cut TP to HK\$4.70 and maintain "Accumulate". CMEC is currently trading at 7.6x FY18 PE based on our earnings forecasts, being much higher than the sector's 5.8x W.A FY18 PER. While most of the Company's peers' operations were in mainland China, CMEC's pure overseas exposure may lead its valuation, being more aligned with other Asian contractors, whose FY18 W.A PER is currently trading at approx. 10.9x. In our view, while the U.S aims to narrow down the trade deficit against China, the USD is not likely to appreciate dramatically against the RMB, instead it is more likely to see a depreciation against RMB in a bid to shore up exports. This implies that CMEC's earnings may continue to be squeezed by the strong RMB exchange rate, as most of its earnings are denoted in USD. As such, CMEC should accelerate its effective contracts to boost its earnings and deliver moderate growth in order to earn a higher valuation, which may be constrained by the low cost of borrowings from emerging markets due to the rate hike from the U.S. As such, CMEC may struggle to deliver any positive surprise in the short-to-medium term. Therefore, we cut CMEC's TP to HK\$4.70 based on 8.0x FY18 PER and maintain the "Accumulate" investment rating.

Figure-5: PER (Next Year) Curve for CMEC

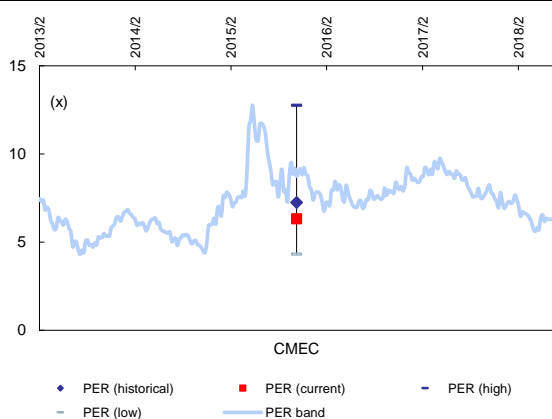
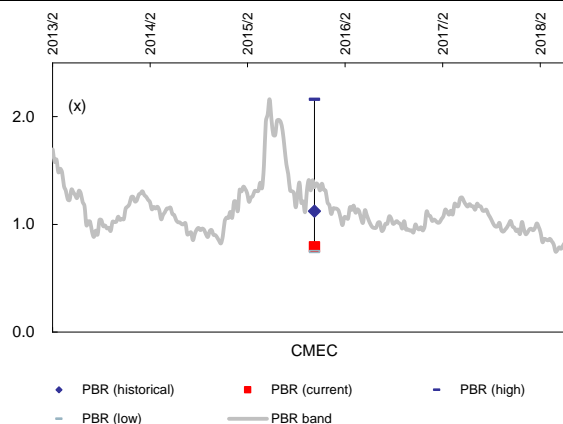


Figure-6: PBR (Current Year) Curve for CMEC



Source: Bloomberg, Guotai Junan International.

Source: Bloomberg, Guotai Junan International.

Table-6: Peers Comparison

Company	Stock Code	Currency	Last price	PE (fiscal year)				PB (fiscal year)				ROE(%)	GP Margin(%)	Net Margin(%)	Market Cap
				17A	18F	19F	20F	17A	18F	19F	20F	18F	18F	18F	HKD mil
HK - Listed Peers															
China Railway Group Ltd-H	390.HK	HKD	6.16	7.6	6.6	5.8	5.0	0.8	0.7	0.6	0.5	11.1	9.0	2.3	196,210
China Railway Construction-H	1186.HK	HKD	8.60	6.4	5.3	4.6	4.0	0.7	0.6	0.5	0.5	11.5	8.9	2.5	143,650
China Communications Const-H	1800.HK	HKD	8.39	5.6	5.4	4.7	4.1	0.6	0.6	0.5	0.5	11.2	13.4	4.1	206,848
Metallurgical Corp Of Chin-H	1618.HK	HKD	2.33	7.8	5.4	4.9	3.2	0.6	0.5	0.5	0.4	9.3	12.5	2.5	84,213
China Energy Engineering C-H	3996.HK	HKD	1.32	6.4	5.4	4.9	4.6	0.7	0.6	0.5	0.5	11.0	12.0	2.3	39,682
China State Construction Int	3311.HK	HKD	9.28	7.8	7.0	5.9	4.9	1.2	1.1	1.0	0.8	16.9	15.3	10.9	46,856
China Machinery Engineerin-H	1829.HK	HKD	4.40	9.3	6.4	6.0	6.9	0.9	0.8	0.7	0.7	12.9	19.3	9.3	18,153
Beijing Urban Construction-H	1599.HK	HKD	3.80	8.4	6.1	5.1	n.a.	1.1	0.9	0.8	n.a.	14.1	21.1	8.6	5,125
Simple Average				7.4	5.9	5.3	4.7	0.8	0.7	0.6	0.6	12.2	13.9	5.3	
Weighted Average				6.8	5.8	5.1	4.3	0.7	0.6	0.6	0.5	11.4	11.5	3.6	
China Listed Peers															
China State Construction -A	601668.CH	CNY	8.27	7.7	6.7	5.9	5.3	1.2	1.0	0.9	0.8	15.2	10.7	3.2	303,478
China Railway Group Ltd-A	601390.CH	CNY	7.47	10.6	9.6	8.5	7.3	1.2	1.0	0.9	0.8	10.9	9.7	2.4	196,210
China Railway Construction-A	601186.CH	CNY	8.94	7.7	6.7	5.8	5.0	0.8	0.7	0.7	0.6	11.6	9.2	2.5	143,650
China Communications Const-A	601800.CH	CNY	11.81	9.1	8.8	7.8	6.9	1.1	1.0	0.9	0.8	11.6	14.1	4.2	206,848
Metallurgical Corp Of Chin-A	601618.CH	CNY	3.55	13.7	10.7	9.6	7.4	1.1	0.9	0.8	0.7	8.5	12.7	2.5	84,212
Power Construction Corp Of-A	601669.CH	CNY	5.51	11.5	10.4	9.3	8.0	1.2	1.0	0.9	0.8	9.2	14.4	2.8	103,114
China Camc Engineering Co -A	002051.CH	CNY	15.27	11.5	9.7	8.3	7.1	2.0	1.7	1.5	1.3	18.1	23.5	14.2	20,783
Shanghai Tunnel Engineerin-A	600820.CH	CNY	6.33	10.9	9.8	9.0	8.9	1.0	1.0	0.9	0.8	9.9	12.0	5.6	24,344
Anhui Water Resources Deve-A	600502.CH	CNY	5.29	8.8	8.0	6.6	5.2	1.2	1.1	0.9	0.8	14.1	10.1	2.3	9,281
Simple Average				10.2	8.9	7.9	6.8	1.2	1.0	0.9	0.8	12.1	12.9	4.4	
Weighted Average				9.5	8.4	7.4	6.5	1.1	1.0	0.9	0.8	12.1	11.7	3.3	
Asia Listed Peers															
Hyundai Engineering & Const	000720.KS	KRW	63,800.00	35.2	13.6	11.9	11.3	1.1	1.0	1.0	0.9	7.9	11.1	3.0	50,903
Daewoo Engineering & Constr	047040.KS	KRW	6,450.00	10.2	6.2	6.0	6.0	1.2	1.0	0.9	0.7	17.9	9.9	4.1	19,208
Daelim Industrial Co Ltd	000210.KS	KRW	80,700.00	6.4	5.2	5.6	5.7	0.6	0.6	0.5	0.5	10.9	11.8	5.2	20,122
Gs Engineering & Construct	006360.KS	KRW	45,700.00	n.a.	7.1	8.1	7.5	1.0	0.9	0.8	0.7	14.2	11.3	3.9	23,839
Ctci Corp	9933.TT	TWD	49.20	13.4	16.5	14.3	12.6	2.1	2.1	2.0	2.0	13.1	8.0	3.3	9,819
Ijm Corp Bhd	IJM.MK	MYR	1.80	9.9	18.7	11.5	10.7	0.7	0.7	0.6	0.6	3.7	20.6	5.8	12,822
Ivrc Ltd	IVRC.IN	INR	1.40	n.a.	n.a.	n.a.	n.a.	(0.1)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	126
Gamuda Bhd	GAM.MK	MYR	3.50	14.1	11.4	10.4	9.6	1.1	1.1	1.0	0.9	10.4	25.4	20.2	16,979
Simple Average				14.9	11.2	9.7	9.0	1.0	1.1	1.0	0.9	11.1	14.0	6.5	
Weighted Average				17.0	10.9	9.7	9.1	1.1	1.0	0.9	0.8	10.8	13.2	5.7	

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total revenue	21,017	23,682	24,210	26,041	27,673
Cost of sales	(17,473)	(18,967)	(19,909)	(21,231)	(22,567)
Gross profit	3,544	4,715	4,301	4,810	5,106
Other revenue	29	201	35	36	36
Other income/(expenses), net	(14)	184	74	83	83
Selling and distribution expenses	(1,104)	(1,026)	(1,048)	(1,128)	(1,198)
Administrative expenses	(725)	(831)	(828)	(890)	(944)
Other operating income/(expenses)	(163)	(395)	(380)	(393)	(426)
Operating Profit	1,567	2,848	2,154	2,519	2,657
Finance income	1,249	322	409	246	264
Finance expenses	(47)	(977)	(80)	(77)	(82)
Share of profits and losses of:					
Associates	2	37	38	39	40
Joint ventures	13	24	24	25	25
Profit Before Tax	2,784	2,253	2,544	2,752	2,904
Income Tax	(674)	(538)	(599)	(651)	(689)
Profit After Tax	2,110	1,714	1,945	2,101	2,215
Non-controlling Interest	(3)	(3)	(2)	(2)	(2)
Shareholders' Profit / Loss	2,107	1,711	1,943	2,099	2,213
Basic EPS	0.511	0.415	0.471	0.509	0.536

Backlog (RMB million)					
Year end Dec (RMB million)	2016A	2017A	2018F	2019F	2020F
Power	38,042	43,106	45,114	47,617	50,285
Transportation	12,345	4,886	4,692	4,529	4,378
Non-Core Sectors	12,005	18,841	20,693	21,583	21,737
Total	64,557	66,834	70,499	73,729	76,400

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
CFO					
Profit before tax:	2,784	2,253	2,544	2,752	2,904
Finance costs	24	64	67	63	68
Interest income	(385)	(217)	(308)	(136)	(147)
Net losses on foreign currency	70	(57)	(25)	(25)	(25)
Depreciation	79	77	107	118	129
Amortisation	60	69	50	52	53
Others	(635)	991	314	325	357
Total cash flow before WC changes	1,997	3,179	2,749	3,149	3,339
WC changes	951	(1,631)	(1,968)	803	571
Cash generated from operations	2,948	1,547	781	3,951	3,910
Income tax paid	(771)	(853)	(514)	(555)	(586)
Cash from Operating Activities	2,177	694	268	3,396	3,324
CFI					
Interest received	385	217	308	136	147
Purchase of PP&E	(569)	(679)	(300)	(300)	(300)
Purchase of prepayments	(51)	(42)	(100)	(100)	(100)
Placing of non-pledged time deposits	(31,925)	(28,964)	(27,805)	(26,693)	(25,626)
Redemption of non-pledged time deposits	30,018	29,874	28,679	27,531	26,430
Others	(1,212)	(733)	(441)	(482)	(526)
Cash from Investing Activities	(3,354)	(328)	340	92	25
CFF					
Proceeds from borrowings	856	889	900	900	900
Repayment of borrowings	(750)	(929)	(919)	(841)	(900)
Dividends paid	(821)	(842)	(849)	(806)	(871)
Others	(36)	(48)	(67)	(63)	(69)
Cash from Financing Activities	(751)	(931)	(936)	(810)	(939)
Net Changes in Cash	(1,928)	(565)	(327)	2,678	2,410
Cash at Beg of Year	21,033	19,542	18,466	18,139	20,817
FX rate changes	437	(511)	0	0	0
Cash at End of Year	19,542	18,466	18,139	20,817	23,226

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
PP&E	1,606	1,617	1,822	2,015	2,198
Prepaid land lease payments	1,797	1,794	1,848	1,901	1,953
Trade and other receivables	554	847	988	985	1,024
Amounts due from contract customers	2,547	1,924	2,354	2,563	2,749
Deferred tax assets	412	320	321	364	407
Other non-current assets	1,187	2,049	2,100	2,153	2,207
Total Non-current Assets	8,103	8,551	9,433	9,981	10,537
Cash & Cash Equivalents	19,542	18,466	18,139	20,817	23,226
Inventories	496	653	796	856	910
Trade and other receivables	8,121	10,094	11,366	11,330	11,772
Amounts due from contract customers	4,694	3,564	4,372	4,760	5,105
Restricted deposits	555	1,179	1,615	2,092	2,613
Time deposits	5,942	5,032	4,159	3,321	2,516
Total Current Assets	39,349	38,988	40,447	43,175	46,143
Total Assets	47,452	47,539	49,880	53,156	56,680
Borrowings	577	755	584	646	686
Receipts in advance	12,474	12,881	13,266	14,269	15,164
Trade and other payables	17,541	16,541	17,711	18,485	19,616
Income tax payable	502	98	226	365	511
Other current liabilities	27	26	31	31	31
Total Current Liabilities	31,120	30,300	31,817	33,796	36,008
Borrowings	470	162	313	311	271
Trade and other payables	81	467	89	93	99
Defined benefit obligations	359	361	358	360	362
Deferred tax liabilities	46	44	2	2	2
Total Non-current Liabilities	956	1,034	762	765	733
Total Liabilities	32,077	31,334	32,579	34,561	36,741
Total Shareholders' Equity	15,329	16,133	17,226	18,519	19,860
Minority Interest	47	73	75	76	78
Total Equity	15,376	16,205	17,301	18,595	19,939

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Growth (%):					
Revenue	-12.6%	12.7%	2.2%	7.6%	6.3%
Gross profit	-4.9%	33.0%	-8.8%	11.9%	6.2%
Operating profit	-12.3%	81.7%	-24.4%	17.0%	5.4%
Net profit	-4.5%	-18.8%	13.6%	8.0%	5.4%
Profitability (%):					
Gross margin of:					
IEC business	22.7%	24.5%	22.0%	22.4%	22.3%
-Power	24.4%	24.8%	24.0%	24.5%	24.4%
-Transportation & telecommunication	21.5%	34.7%	22.5%	23.0%	22.9%
-Non-core sector	19.8%	16.6%	15.5%	16.0%	15.9%
Trading	4.8%	5.9%	4.9%	5.5%	5.4%
Other Business	28.7%	43.9%	42.3%	44.0%	43.6%
Consolidated GPM	16.9%	19.9%	17.8%	18.5%	18.5%
Operating margin	7.5%	12.0%	8.9%	9.7%	9.6%
Net margin	10.0%	7.2%	8.0%	8.1%	8.0%
ROA	4.4%	3.5%	3.8%	3.8%	3.9%
ROE	14.1%	10.9%	11.7%	11.7%	11.5%
Liquidity & Solvency					
Net gearing ratio	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio	1.5	1.6	1.6	1.6	1.6
Interest coverage (x)	33.4	2.9	26.8	32.7	32.2
Adjusted account receivables turnover days	257.6	249.3	267.7	271.3	265.7
Adjusted account payables turnover days	499.7	462.3	459.5	447.9	446.6

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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