



Company Report: CNBM (03323 HK)

公司报告: 中国建材 (03323 HK)

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A Gradually Improving Balance Sheet, "Accumulate"

资产负债表逐渐改善, “收集”

- **Regional differentiation has become more explicit.** Conditions of the national cement market have been similar to the corresponding period in 2018, while south central and northeast China was disappointing. Pressure may persist in July and August due to off-season effect, but overall balance of supply and demand is expected to be maintained by production curtailment.
- **Deleveraging through perpetual capital instruments, debt-for-equity swaps and strong operating cash flows.** It should be achievable for CNBM to lower its net gearing ratio to below 100% by 2020. Impairment of goodwill is still one concern but the risk is lowering. The Company will reorganize its operating entities of glass fiber, engineering and cement businesses.
- **1Q19 bottom line surged by 176.1% YoY on large fair value gains.** Stripping off the fair value gains, the Company's adjusted profit before tax increased by 43.2% YoY. Total revenue reached RMB42,878 million, amounting to 18.8% of our 2019F revenue.
- **We expect CNBM's revenue to increase YoY by 4.3%/ 1.7%/ 1.5% in 2019/ 2020/ 2021, respectively.** Higher materials cost due to the abolishment of low grade cement may push up unit cost in 2020 and 2021. Negative effect of extraordinary losses is expected to be smaller in 2019-2021 compared with 2018. EPS forecasts for 2019/ 2020/ 2021 are RMB1.324/ RMB1.221/ RMB1.205, respectively.
- **"Accumulate" with a TP of HK\$7.18.** Fair value derived from our DCF model is HK\$7.91 per share. We believe that the Company's valuation will recover as deleveraging and restructuring proceeds. Our TP represents 4.8x/ 5.2x/ 5.2x 2019-2021 PE ratio and 0.7x 2019 PB ratio.
- **区域分化更为显著。**全国水泥市场状况与 2018 年同期相近, 然而中南及东北地区令人失望。七月和八月或将因淡季效应而持续承压, 但整体的供需平衡预计将借助限产得以维持。
- **利用永久资本工具、债转股和强劲的经营现金流降低杠杆。**中国建材将净杠杆率在 2020 年前降至 100% 以下的目标应当可以实现。商誉减值仍然是个问题, 但风险正在下降。公司将对玻纤、工程和水泥业务的经营实体进行重组。
- **2019 年第一季度净利润因大额公允价值收益而激增 176.1%。**剔除公允价值收益后, 公司的经调整税前利润同比增长 43.2%。总收入达 428.78 亿元人民币, 相当于我们 2019 年预测收入的 18.8%。
- **我们预计中国建材 2019/ 2020/ 2021 年的收入将分别同比增长 4.3%/ 1.7%/ 1.5%。**低标水泥淘汰后, 较高的材料成本或将推升 2020 年和 2021 年的单位成本。与 2018 年相比, 非经常性损失的负面影响预计将会较小。2019/ 2020/ 2021 年的每股盈利预测分别为 1.324/ 1.221/ 1.205 元人民币。
- **“收集”, 目标价为 7.18 港元。**我们的 DCF 模型给出的公允价值为每股 7.91 港元。我们认为公司的估值将会随着去杠杆和重组的进行而得到修复。我们的目标价对应 4.8 倍/ 5.2 倍/ 5.2 倍的 2019-2021 年市盈率和 0.7 倍的 2019 年市净率。

Rating:

Accumulate

评级:

收集

6-18m TP 目标价:

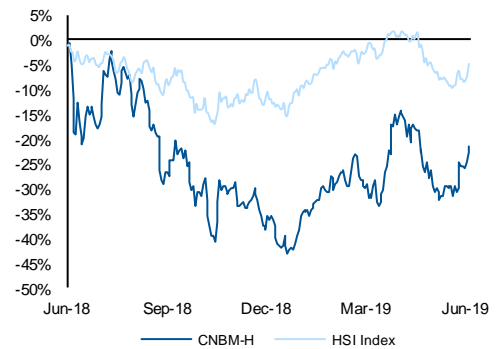
HK\$7.18

Share price 股价:

HK\$6.740

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 %	7.5	10.0	(24.6)
Rel. % to HSI Index 相对恒指变动 %	6.6	14.2	(20.3)
Avg. Share price(HK\$) 平均股价 (港元)	6.1	6.4	6.5

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)	(%)	(%)
2017A	184,121	4,939	0.586	96.0	9.6	7.620	0.7	0.100	1.8	8.0
2018A	218,955	8,067	0.956	63.1	6.2	8.561	0.7	0.180	3.0	11.8
2019F	228,340	11,171	1.324	38.5	4.5	9.709	0.6	0.250	4.2	14.5
2020F	232,282	10,295	1.221	(7.8)	4.9	10.681	0.6	0.230	3.9	12.0
2021F	235,716	10,167	1.205	(1.3)	4.9	11.659	0.5	0.230	3.9	10.8

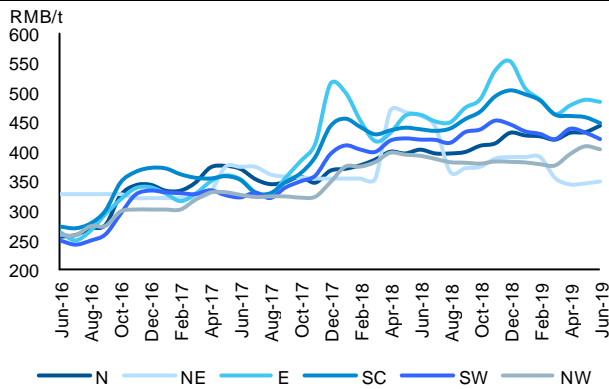
Shares in issue (m) 总股数 (m)	8,434.8	Major shareholder 大股东	CNBM Group 41.6%
Market cap. (HK\$ m) 市值 (HK\$ m)	56,850.6	Free float (%) 自由流通比率 (%)	58.4
3 month average vol. 3 个月平均成交股数 ('000)	44,703.2	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	106.7
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	9.420 / 4.960	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	7.9

Source: the Company, Guotai Junan International.

MARKET ENVIRONMENT

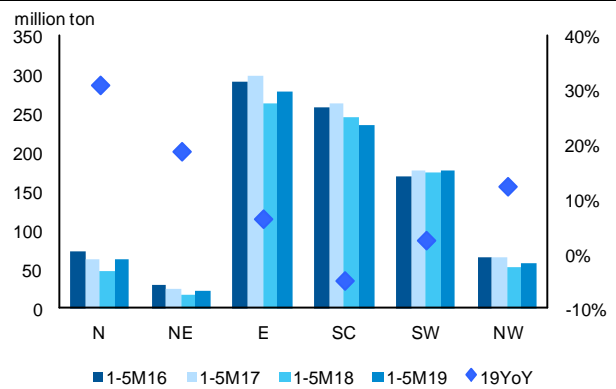
Regional differentiation has become more explicit. As the peak season came in April, performance in east China and northwest China lead the market, while that of south central China and northeast China was disappointing. Cement output in all regions except south central China recorded YoY growth and national cement output in 1-5M19 was up by 4.3% YoY to 833 million tons. The cement market in southern regions has started to suffer from the hot and rainy weather in June, while overall conditions have been similar to the corresponding period in 2018 in terms of price, inventory, shipment, and grinder utilization. We expect demand from property and infrastructure to remain stable as no big surprise has been found so far. Pressure may persist in July and August due to off-season effect, but so long as production curtailment is implemented as planned, the overall balance of supply and demand is expected to be maintained.

Figure-1: Cement Price by Region



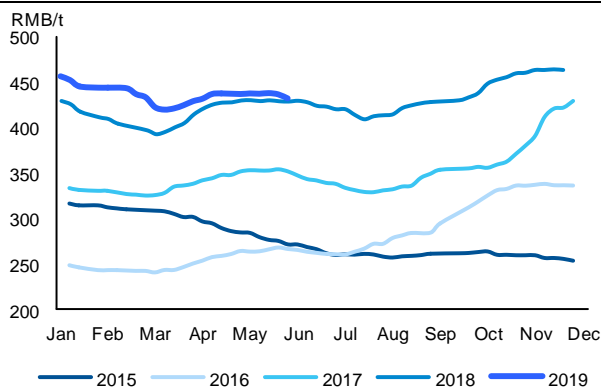
Source: Digital Cement, Guotai Junan International.

Figure-2: Cement Output by Region



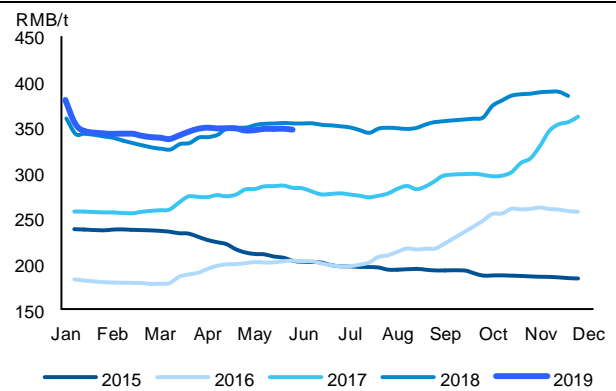
Source: Digital Cement, Guotai Junan International.

Figure-3: National Average Cement Price



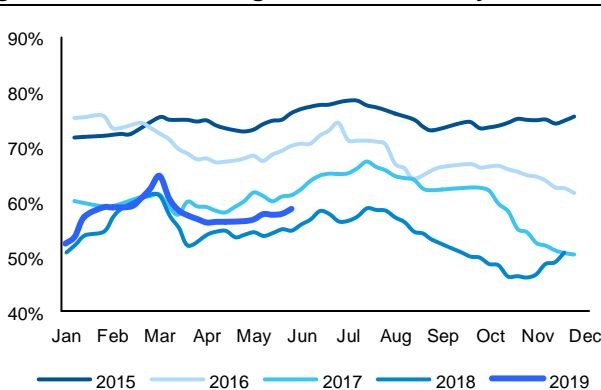
Source: Digital Cement, Guotai Junan International.

Figure-4: National Average Clinker Price



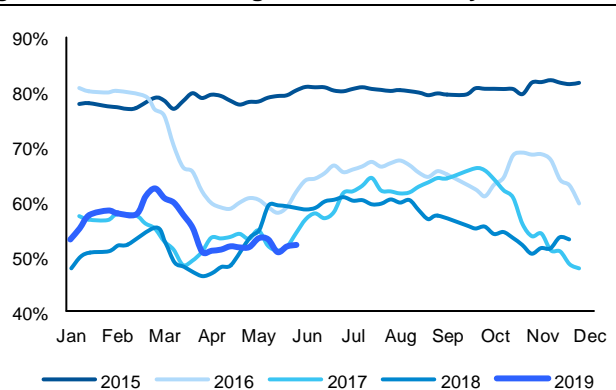
Source: SCI99, Guotai Junan International.

Figure-5: National Average Cement Inventory Level



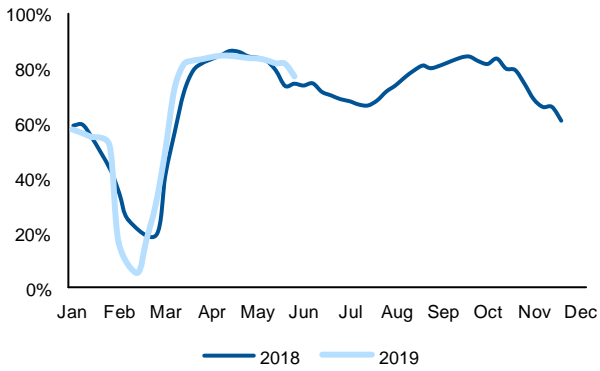
Source: Digital Cement, Guotai Junan International.

Figure-6: National Average Clinker Inventory Level



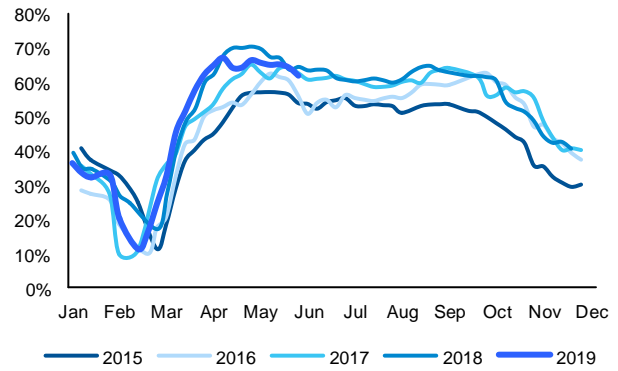
Source: SCI99, Guotai Junan International.

Figure-7: National Average Cement Shipment Ratio



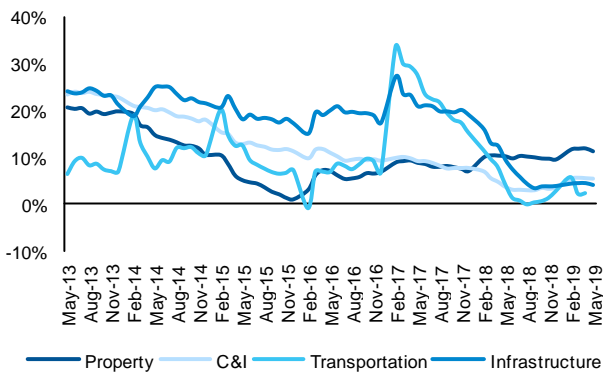
Source: Digital Cement, Guotai Junan International.

Figure-8: National Average Grinder Utilization Rate



Source: SCI99, Guotai Junan International.

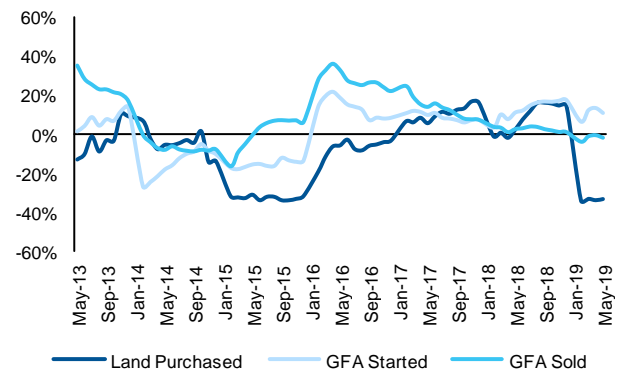
Figure-9: National Fixed Asset Investment Growth



Source: National Bureau of Statistics of China, Ministry of Transport of the PRC, Guotai Junan International.

Note: C&I = Construction & Installation.

Figure-10: National Property Development Area Growth

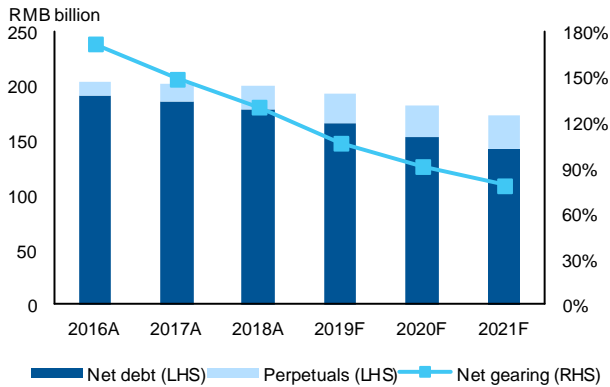


Source: National Bureau of Statistics of China, Guotai Junan International.

KEY UPDATES

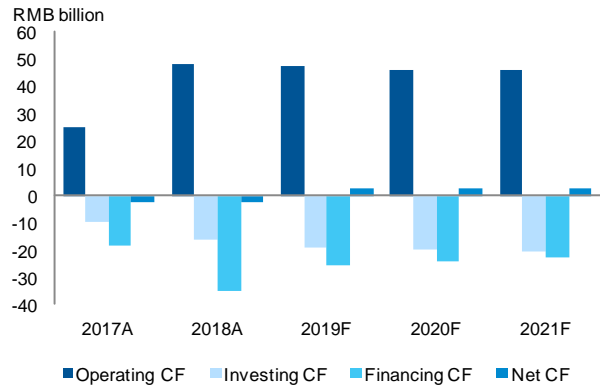
Deleveraging through perpetual capital instruments, debt-for-equity swaps and strong operating cash flows. As at 31 March 2019, the total principal amount of China National Building Materials' ("CNBM" or the "Company") perpetual capital instruments on hand was RMB22.3 billion. The weighted average interest rate of these perpetual capital instruments was 5.03%, which was only less than 1 ppt higher than the effective interest rates of the Company's banks loans and bonds. We believe that perpetual capital instruments will continue to play as an important role in the Company's deleveraging process. On 9 January 2019, the Company entered into an agreement with Agricultural Bank of China and Bank of Communications on debt-for-equity swaps of a total of RMB4 billion. In addition, the Company is expected to maintain strong operating cash inflows and conservative capex during 2019-2021, so it should be achievable for the Company to lower its net gearing ratio to below 100% by the end of 2020. However, the Company's earnings are expected to be diluted by perpetual capital instruments and debt-for-equity swaps.

Figure-11: CNBM's Debt and Gearing Ratio



Source: the Company, Guotai Junan International.

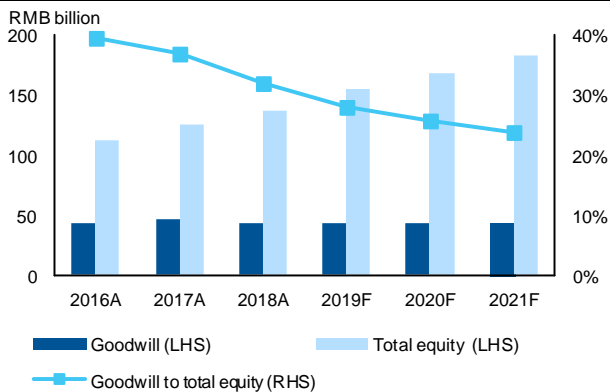
Figure-12: CNBM's Cash Flow



Source: the Company, Guotai Junan International.

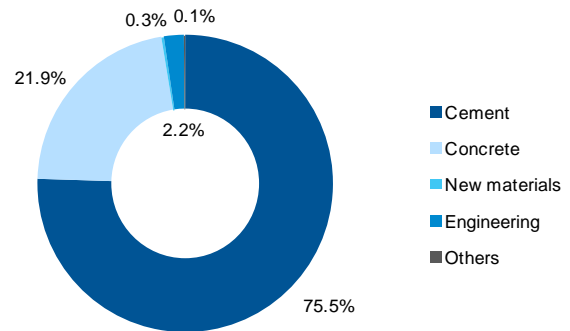
Impairment of goodwill is still one concern but the risk is lowering. After the large impairment loss of RMB2.25 billion, the carrying amount of CNBM's goodwill dropped to RMB43.66 billion in 2018, equivalent to 32.0% of the Company's total equity. Most of the goodwill was under the cement and concrete segment, primarily generated from aggressive M&As during 2011-2013. As the Company is expected to focus more on internal restructuring than external expansion after its merger with Sinoma, we expect the size of goodwill to remain controllable and the goodwill to total equity ratio to drop further. However, the Company's earnings are still sensitive to impairment of goodwill as 1% of impairment would result in a loss of RMB436 million, or a 3.9% drop in the Company's 2019F EPS.

Figure-13: CNBM's Goodwill vs. Total Equity



Source: the Company, Guotai Junan International.

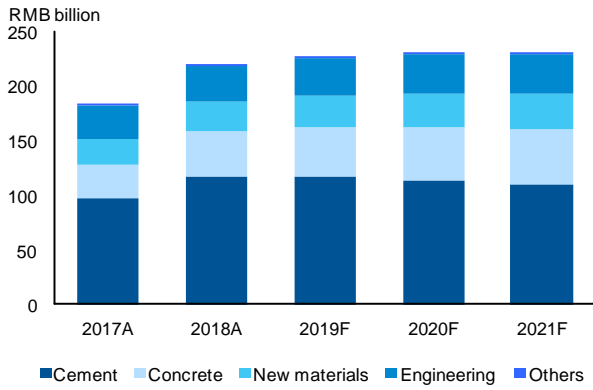
Figure-14: CNBM's Goodwill by Segment as at the End of 2018



Source: the Company, Guotai Junan International.

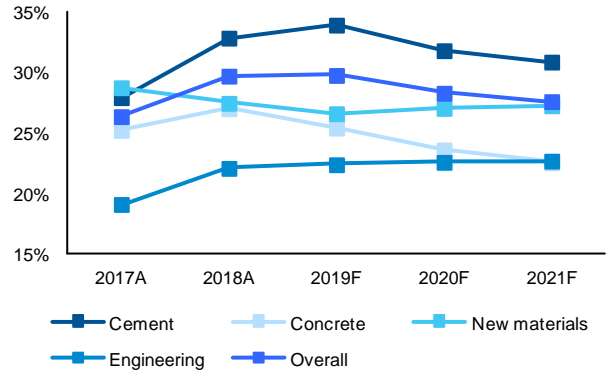
Internal restructuring is on track. CNBM has been planning to reorganize its operating entities in order to enhance regional coordination and eliminate horizontal competition among listed subsidiaries. In 2017, the Company promised to resolve horizontal competition issues within three years, namely by 2020. First of all, CNBM will consolidate its glass fiber business potentially by asset injections between China Jushi (600176 CH) and Sinoma Science & Technology (002080 CH). Engineering businesses will be consolidated into Sinoma International (600970 CH). The Company's cement and concrete business is currently operating under 8 major subsidiaries, which are expected to be merged into one or two major entities. In addition, the Company will also continue to optimize its capacity deployment by capacity swap, namely swapping out the smaller and outdated production lines with larger, more advanced and better positioned lines, but asset impairment may be incurred during the swap.

Figure-15: CNBM's Revenue by Segment



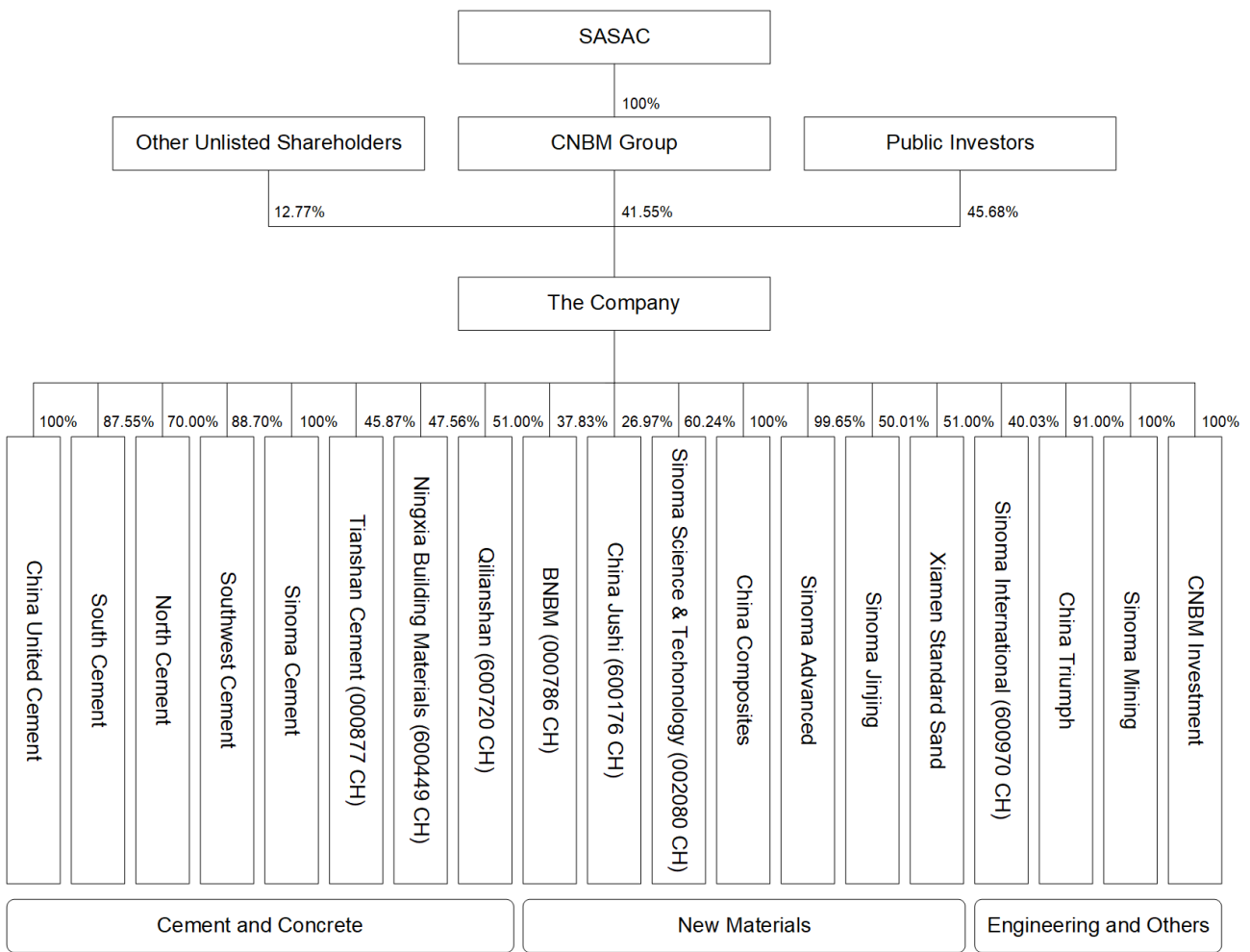
Source: the Company, Guotai Junan International.

Figure-16: CNBM's Gross Margin by Segment



Source: the Company, Guotai Junan International.

Figure-17: CNBM's Shareholding Structure as at the End of 2018



Source: the Company, Guotai Junan International.

Table-1: CNBM's Regional Dominance by Clinker Capacity in China as at the End of 2018

Region	Clinker Capacity (mn t)	Capacity Share (%)	Rank	Major Rivals ⁸
North¹	20.93	9.1	2	BBMG-Jidong, Shanshui
- Inner Mongolia	14.26	21.4	1	Mengxi, BBMG-Jidong
- Hebei	4.50	4.8	3	BBMG-Jidong, Quzhai, Xinfeng
- Shanxi	2.17	3.4	6	BBMG-Jidong, Shanshui, CRC
Northeast²	24.03	22.9	1	Yatai, Shanshui
- Heilongjiang	13.33	56.3	1	Yatai, BBMG-Jidong
- Jilin	6.67	25.0	2	Yatai, BBMG-Jidong
- Liaoning	4.03	7.4	5	Shanshui, Tianrui, Daying, Yatai
East³	138.42	28.4	1	Conch, Shanshui, Hongshi
- Zhejiang	37.14	58.5	1	Hongshi, Conch
- Shandong	35.87	32.1	1	Shanshui, Quanxing
- Jiangsu	23.72	39.0	1	Jinfeng, Helin, TCC, Conch
- Jiangxi	20.31	30.7	1	Wannianqing, Conch, ACC
- Anhui	19.84	14.7	2	Conch, Shangfeng
- Fujian	1.55	3.1	9	Fujian Cement, CRC, Hongshi
South Central⁴	58.84	13.6	1	Conch, CRC, LH
- Hunan	26.16	33.2	1	Conch, LH, Hongshi
- Henan	17.17	18.0	2	Tianrui, Tongli
- Guangdong	9.30	9.3	4	CRC, Conch, TCC, Tapai
- Guangxi	6.20	7.9	4	CRC, Conch, TCC
Southwest⁵	91.48	26.0	1	Conch, LH, TCC, Hongshi
- Sichuan	37.88	34.3	1	Esheng, LH, Conch
- Guizhou	22.60	25.4	1	Conch, Hongshi, TCC
- Yunnan	19.93	21.4	1	Yunnan Cement, LH, Conch
- Chongqing	11.07	20.9	1	East Hope, Conch, BBMG-Jidong
Northwest⁶	57.91	27.0	1	WCC, Conch, Qingsong
- Xinjiang	24.99	31.4	1	Qingsong
- Gansu	19.84	46.4	1	Conch, Hongshi
- Ningxia	8.59	40.5	1	Yinghai
- Qinghai	2.95	19.4	3	Jinyuan, Yanhu
- Shaanxi	1.55	2.8	8	WCC, BBMG-Jidong, Shengwei
National⁷	391.59	21.5	1	Conch, BBMG-Jidong, CRC, LH

Source: the Company, Digital Cement, CCement, Guotai Junan International.

- Note:
1. North: Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia;
 2. Northeast: Liaoning, Jilin and Heilongjiang;
 3. East: Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
 4. South Central: Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan;
 5. Southwest: Chongqing, Sichuan, Guizhou, Yunnan and Tibet;
 6. Northwest: Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
 7. National: mainland China only;
 8. BBMG: BBMG Corporation Ltd. (2009 HK / 601992 CH);
 Shanshui: China Shanshui Cement Group Ltd. (691 HK);
 Quzhai: Hebei Quzhai Group Co., Ltd.;
 CRC: China Resources Cement Holdings Limited (1313 HK);
 Tianrui: China Tianrui Group Cement Co., Ltd. (1252 HK);
 Conch: Anhui Conch Cement Co., Ltd. (914 HK / 600585 CH);
 TCC: Taiwan Cement Corporation (1101 TW);
 Jinfeng: Jiangsu Jinfeng Cement Group Co., Ltd.;
 Wannianqing: Jiangxi Wannianqing Cement Co., Ltd. (000789 CH);
 Shangfeng: Gansu Shangfeng Cement Co., Ltd. (000672 CH);
 LH: LafargeHolcim Ltd. (LHN SW);
 Tapai: Guangdong Tapai Cement Co., Ltd. (002233 CH);
 Yunnan Cement: Yunnan Cement & Building Materials Group Co., Ltd.;
 WCC: West China Cement Limited (2233 HK);
 Yinghai: Ningxia Yinghai Cement Group;
 Yanhu: Qinghai Yanhu Haina Chemical Co., Ltd.;
 Jidong: Tangshan Jidong Cement Co., Ltd. (000401 CH);
 Mengxi: Inner Mongolia Mengxi Cement Co., Ltd.;
 Xinfeng: Wu'an Xinfeng Cement Co., Ltd.;
 Yatai: Jilin Yatai Group Co., Ltd. (600881 CH);
 Daying: Liaoning Daying Cement Group Co., Ltd.;
 Hongshi: Hongshi Holding Group Co., Ltd.;
 Quanxing: Shandong Quanxing Cement Co., Ltd.;
 Helin: Jiangsu Helin Cement Co., Ltd.;
 ACC: Asia Cement (China) Holdings Corporation (743 HK);
 Fujian Cement: Fujian Cement Inc. (600802 CH);
 Tongli: Henan City Development Environment Co., Ltd. (000885 CH);
 Esheng: Sichuan Esheng Cement Group Co., Ltd.;
 East Hope: East Hope Group Co., Ltd.;
 Qingsong: Xinjiang Qingsong Building Materials and Chemicals (600425 CH);
 Jinyuan: Jinyuan EP Co., Ltd. (000546 CH);
 Shengwei: Shaanxi Shengwei Building Materials Group Co., Ltd.

1Q19 RESULTS REVIEW

1Q19 bottom line surged by 176.1% YoY on fair value gains. CNBM recorded record-breaking fair value gains of RMB1.172 billion in 1Q19. Stripping off the fair value gains, the Company's adjusted profit before tax increased by 43.2% YoY. Total revenue under PRC GAAP reached RMB42,878 million, amounting to 18.8% of our 2019F revenue. Driven by price hikes in east China and northwest China, ASP of cement products (cement & clinker) increased 7.6% YoY to RMB327 per ton. Sales volume of cement products was up by 4.6% YoY to 60.8 million tons, mainly attributed to higher sales volume of China United Cement and Southwest Cement. GP/t of cement products increased 8.8% YoY to RMB98, as GP/t improved YoY in all subsidiaries except North Cement and Ningxia Building Materials. The improvement in gross margin was partly offset by increased SG&A expenses due to higher R&D expenses and impairment losses on receivables. Thanks to the Company's ongoing deleveraging, finance costs dropped 9.4% YoY, or a 2.1 ppt decrease in finance cost ratio.

Table-2: CNBM's 1Q19 Results Review (PRC GAAP, with Adjustments)

	1Q19A	1Q18A	YoY
Key financial data (RMB mn)			
Revenue	42,878	35,923	19.4%
Cost of sales	(31,161)	(26,268)	18.6%
<u>Gross profit</u>	<u>11,717</u>	<u>9,655</u>	<u>21.4%</u>
Selling expenses	(2,206)	(1,773)	24.4%
Administrative expenses ¹	(3,988)	(2,975)	34.0%
Finance costs	(2,818)	(3,110)	-9.4%
<u>Profit before taxation</u>	<u>4,569</u>	<u>2,128</u>	<u>114.7%</u>
Income tax	(1,207)	(815)	48.2%
<u>Net profit²</u>	<u>2,605</u>	<u>943</u>	<u>176.1%</u>
Key ratios			
Gross margin	27.3%	26.9%	+0.5 ppts
Selling expense ratio	5.1%	4.9%	+0.2 ppts
Administrative expense ratio	9.3%	8.3%	+1.0 ppts
Finance cost ratio	6.6%	8.7%	-2.1 ppts
Effective tax rate	26.4%	38.3%	-11.9 ppts
<u>Net margin²</u>	<u>6.1%</u>	<u>2.6%</u>	<u>+3.4 ppts</u>

Source: the Company, Guotai Junan International.

Note:

1. Including research and development expenses;

2. Based on profit attributable to holders of both common shares and perpetual capital instruments.

EARNINGS FORECASTS

We expect CNBM's revenue to increase YoY by 4.3%/ 1.7%/ 1.5% in 2019/ 2020/ 2021, respectively. For cement products, we believe that sales volume is expected to be largely stable in more developed regions including east China and south China, and emerging western regions such as Chongqing and Shaanxi, based on balanced supply and demand. However, demand in northeast China and north China is still expected to be under pressure. Room for further cement price hike is expected to be limited given potential pressure from antitrust inspections, but current price level is expected to be supported by ongoing production curtailment as well as the nationwide abolishment of low grade cement starting from 1 October 2019. ASP of commercial concrete is expected to be pushed by rising material cost, especially from cost of aggregates. For new materials, we believe that CNBM is able to maintain its leading position and apply its competitive edge in overseas expansions in multiple fields including gypsum boards and glass fiber. Engineering business is expected to be supported by strong new order intakes.

EPS forecasts for 2019/ 2020/ 2021 are RMB1.324/ RMB1.221/ RMB1.205, respectively. We expect GP/t of cement products to reach RMB111.1 in 2019 thanks to lower coal prices, but higher materials cost due to the abolishment of low grade cement may push up unit cost in 2020 and 2021. On the other hand, the Company's 2018 earnings was significantly dragged by extraordinary items including impairment losses on PP&E, goodwill and bad debt as well as fair value loss on financial assets. We expect the negative effect of these items to be smaller in 2019-2021. The Company will be able to cut more on finance costs as deleveraging continues, though at the cost of dilution of perpetual capital instruments and debt-for-equity swaps. In our forecasts, only the dilution effect of the former has been taken into account while that of the latter has not.

Table-3: Key Assumptions for Earnings Forecasts

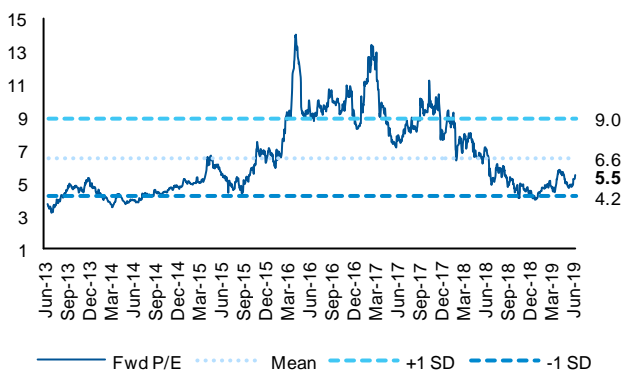
	2017A	2018A	2019F	2020F	2021F
Cement products					
Sales volume (mn t)	376.8	369.0	367.9	364.5	363.9
ASP (RMB)	254.7	318.4	327.1	327.9	328.4
Unit cost (RMB)	184.7	213.6	216.0	223.5	226.9
GP/t (RMB)	70.0	104.8	111.1	104.4	101.4
Commercial concrete					
Sales volume (mn t)	92.5	96.0	96.7	97.3	97.8
ASP (RMB)	341.4	432.1	466.5	477.7	483.4
Unit cost (RMB)	255.2	315.3	347.9	364.9	374.4
GP/m ³ (RMB)	86.2	116.8	118.6	112.8	109.0
Key financial data (RMB mn)					
Revenue	184,121	218,955	228,340	232,282	235,716
Gross profit	48,558	65,088	68,011	65,761	65,092
Shareholders' profit	4,939	8,067	11,171	10,295	10,167
EPS (RMB)	0.586	0.956	1.324	1.221	1.205

Source: the Company, Guotai Junan International.

VALUATION

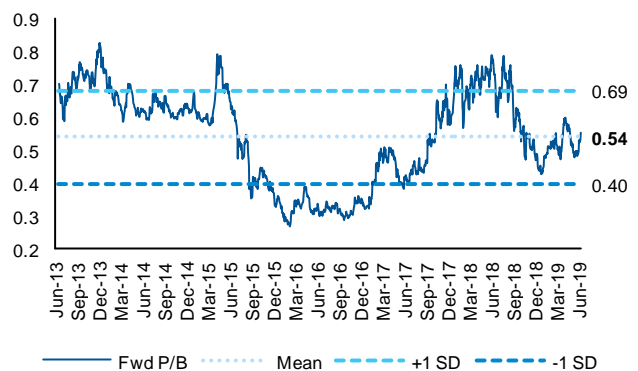
"Accumulate" with a target price of HK\$7.18. Based on coal and cement prices on 14 June 2019, a stock price of HK\$6.95 would be fair at this moment according to our regression on cement-coal spread. Fair value derived from our DCF model is HK\$7.91 per share. Given the DCF valuation's high sensitivity on CNBM's unstable capital structure, we have applied a relative valuation based on blended multiples of PE and PB ratios to derive our target price. Mainly due to the Company's considerable amount of goodwill, CNBM's PB ratio has been significantly lower than most of its peers. Based on core book value (net of goodwill) and the closing price of HK\$6.74 on 19 June 2019, the Company is valued at a core PB ratio of 1.3x. Overall, we believe that the Company is currently undervalued and the valuation will recover as deleveraging and restructuring proceeds. Our TP of HK\$7.18 represents 4.8x/ 5.2x/ 5.2x 2019-2021 PE ratio and 0.7x 2019 PB ratio. We assign an investment rating of "Accumulate" to the Company.

Figure-18: CNBM's Forward PE Ratio



Source: Bloomberg, Guotai Junan International.

Figure-19: CNBM's Forward PB Ratio



Source: Bloomberg, Guotai Junan International.

Figure-20: CNBM's Cement-Coal Spread Index

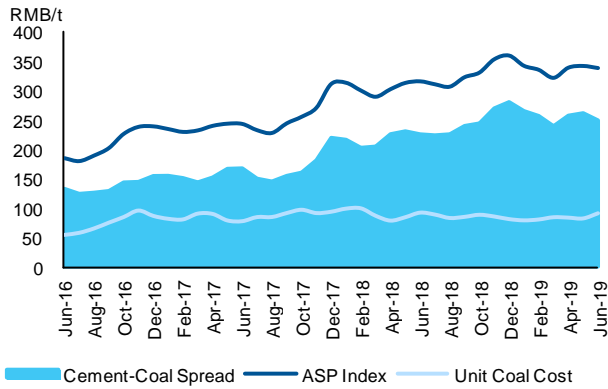
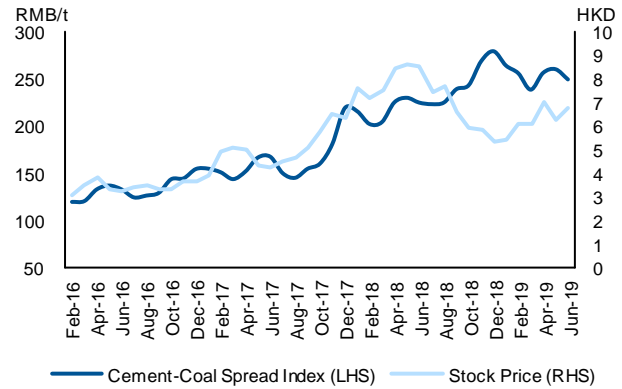


Figure-21: Cement-Coal Spread Index vs. Stock Price



Source: Bloomberg, Guotai Junan International.

Source: Bloomberg, Guotai Junan International.

Table-4: Peers Comparison

Company	Stock Code	Currency	Last Price	Market Cap (HKD mn)	PE (fiscal year)				PB (fiscal year)				ROE(%)	D/Y(%)	EV/EBITDA
					18A	19F	20F	21F	18A	19F	20F	21F	19F	19F	19F
Hong Kong Listed Peers															
China National Building Materials-H	3323 HK	HKD	6.740	56,850	5.9	5.4	5.6	6.0	0.7	0.6	0.5	0.5	11.0	3.3	6.9
Anhui Conch Cement Co Ltd-H	914 HK	HKD	47.900	241,301	7.2	7.7	8.0	8.0	2.0	1.7	1.5	1.3	24.1	4.3	4.4
China Resources Cement	1313 HK	HKD	7.290	50,906	6.2	6.5	6.4	6.8	1.4	1.2	1.1	1.0	19.5	7.2	3.7
BBMG Corporation-H	2009 HK	HKD	2.460	40,154	6.7	5.8	5.4	5.5	0.5	0.4	0.4	0.3	6.9	3.0	10.2
China Tianrui Group Cement Co Ltd	1252 HK	HKD	6.560	19,275	13.5	n.a.	n.a.	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Asia Cement China Holdings	743 HK	HKD	12.080	18,928	6.6	5.8	5.8	5.7	1.4	1.2	1.0	0.9	22.1	6.8	3.2
China Shanshui Cement Group	691 HK	HKD	2.910	12,670	4.0	n.a.	n.a.	n.a.	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
West China Cement Ltd	2233 HK	HKD	1.090	5,924	4.3	5.0	5.3	5.3	0.7	0.6	0.5	0.5	14.1	2.4	3.0
Simple Average					6.8	6.0	6.1	6.2	1.1	0.9	0.8	0.7	16.3	4.5	5.2
Weighted Average					7.0	6.9	7.1	7.2	1.5	1.3	1.2	1.0	19.8	4.5	5.1
Mainland China Listed Peers															
Anhui Conch Cement Co Ltd-A	600585 CH	CNY	39.500	241,300	7.0	6.9	7.0	7.0	1.9	1.6	1.4	1.2	24.5	4.6	4.3
BBMG Corporation-A	601992 CH	CNY	3.640	40,154	11.7	9.9	9.0	8.9	0.9	0.6	0.6	0.6	7.1	1.8	9.9
Huaxin Cement Co Ltd-A	600801 CH	CNY	18.960	41,641	7.7	7.0	6.7	6.3	2.4	1.9	1.6	1.4	28.3	5.0	n.a.
Tangshan Jidong Cement-A	000401 CH	CNY	16.940	25,870	15.4	8.9	7.9	7.1	1.5	1.4	1.2	1.0	15.8	4.1	n.a.
Guangdong Tapai Group Co-A	002233 CH	CNY	11.330	15,309	7.8	6.6	5.8	5.5	1.5	1.3	1.1	0.9	19.2	6.0	3.7
Xinjiang Tianshan Cement-A	000877 CH	CNY	10.820	12,860	9.1	7.7	7.0	6.8	1.4	1.2	1.1	1.1	16.0	7.4	n.a.
Gansu Shangfeng Cement-A	000672 CH	CNY	11.820	10,899	6.5	6.0	5.2	4.8	2.7	1.8	1.3	n.a.	32.9	n.a.	n.a.
Jiangxi Wannianqing Cement-A	000789 CH	CNY	9.550	8,630	6.7	5.6	5.1	4.6	1.9	1.5	1.3	1.1	26.1	7.5	2.6
Gansu Qilianshan Cement Group-A	600720 CH	CNY	8.570	7,540	10.2	7.7	7.0	6.4	1.2	1.0	0.9	0.9	13.2	3.9	n.a.
Ningxia Building Materials-A	600449 CH	CNY	8.320	4,509	9.3	9.1	7.6	7.1	0.8	0.8	0.7	0.7	9.1	2.8	n.a.
China Jushi Co Ltd -A	600176 CH	CNY	9.300	36,914	13.7	12.2	10.7	9.5	2.3	2.0	1.8	1.6	17.0	2.7	n.a.
Beijing New Building Materials-A	000786 CH	CNY	18.400	35,231	12.6	10.9	9.6	8.2	2.2	1.8	1.6	1.4	17.3	2.3	n.a.
Sinoma Science & Technology-A	002080 CH	CNY	8.270	15,728	14.9	10.0	8.4	7.5	1.5	1.2	1.1	1.0	11.9	3.4	n.a.
Sinoma International Engineering-A	600970 CH	CNY	6.500	12,815	8.3	6.8	5.7	5.0	1.3	1.1	1.0	0.9	16.8	4.8	4.4
Simple Average					10.1	8.2	7.3	6.8	1.7	1.4	1.2	1.1	18.2	4.3	5.0
Weighted Average					9.1	8.0	7.5	7.2	1.8	1.5	1.3	1.2	20.9	4.2	4.9
Global Listed Peers															
LafargeHolcim Ltd-Reg	LHN SW	CHF	48.890	233,469	19.4	13.8	12.4	11.2	1.1	1.0	1.0	1.0	7.5	4.1	7.0
CRH PLC	CRH ID	EUR	28.650	201,019	9.5	13.5	12.1	11.1	1.5	1.4	1.3	1.2	10.6	2.7	7.7
HeidelbergCement AG	HEI GR	EUR	70.160	123,259	12.2	10.7	9.7	8.9	0.9	0.9	0.8	0.8	8.1	3.3	6.9
Cemex SAB-CPO	CEMEXCPOIMM	MXN	7.940	48,683	11.7	9.2	7.4	6.1	0.6	0.6	0.5	0.5	7.1	1.9	6.5
Taiwan Cement	1101 TT	TWD	45.300	57,744	10.4	10.4	10.2	11.3	1.3	1.2	1.2	1.2	11.7	7.5	7.0
Asia Cement Corp	1102 TT	TWD	47.400	39,761	13.4	11.0	10.9	12.5	1.2	1.1	1.0	0.9	9.9	7.0	8.5
Taiheiyo Cement Corp	5233 JP	JPY	3,250.000	29,821	10.4	9.2	8.5	7.8	1.0	1.0	0.9	0.8	10.7	2.2	6.6
Sumitomo Osaka Cement Co Ltd	5232 JP	JPY	4,375.000	12,833	12.1	22.0	13.7	12.4	0.9	0.9	0.8	0.8	4.0	2.5	6.6
Simple Average					12.4	12.5	10.6	10.2	1.0	1.0	0.9	0.9	8.7	3.9	7.1
Weighted Average					13.5	12.4	11.2	10.4	1.1	1.1	1.0	1.0	8.9	3.8	7.2

Source: Bloomberg, Guotai Junan International.
Note: Based on closing prices on 19 June 2019.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Total revenue	184,121	218,955	228,340	232,282	235,716	Property, plant and equipment	176,474	175,476	175,704	175,943	176,193
Cost of sales	(135,563)	(153,868)	(160,328)	(166,521)	(170,624)	Prepaid lease payments	19,345	19,273	19,261	19,282	19,303
Gross profit	48,558	65,088	68,011	65,761	65,092	Goodwill	46,069	43,658	43,612	43,566	43,520
Investment and other income, net	4,458	2,083	3,220	3,348	3,444	Interests in associates & JVs	10,507	13,608	14,826	16,325	18,013
Selling and distribution costs	(10,441)	(11,535)	(11,779)	(11,881)	(11,968)	Others non-current assets	28,181	27,836	30,021	31,859	33,771
Administrative expenses	(18,668)	(26,538)	(23,109)	(23,382)	(23,628)	Total non-current assets	280,575	279,849	283,423	286,975	290,800
Operating profit	23,906	29,098	36,343	33,847	32,940	Inventories	22,207	19,676	21,820	24,032	26,026
Finance costs	(10,892)	(10,740)	(10,309)	(9,807)	(9,321)	Trade & other receivables	107,599	97,482	98,427	97,559	96,258
Share of results of associates & JVs	1,034	2,002	1,950	2,125	2,340	Cash & cash equivalents	23,374	20,898	23,522	26,107	28,426
Profit before tax	14,048	20,360	27,984	26,165	25,959	Other current assets	20,402	18,743	19,470	19,949	20,460
Income tax	(4,255)	(6,299)	(8,629)	(8,068)	(8,005)	Total current assets	173,583	156,799	163,238	167,647	171,170
Profit after tax	9,793	14,060	19,354	18,096	17,954	Total assets	454,158	436,648	446,662	454,622	461,971
Perpetual capital instruments	(653)	(981)	(1,243)	(1,404)	(1,470)	Trade & other payables	84,280	78,990	82,322	85,115	87,031
Non-controlling interests	(4,201)	(5,013)	(6,941)	(6,397)	(6,318)	ST borrowings	148,140	121,510	109,433	98,304	90,776
Shareholders' profit / loss	4,939	8,067	11,171	10,295	10,167	Other current liabilities	21,750	13,217	11,096	11,368	11,579
Basic EPS	0.586	0.956	1.324	1.221	1.205	Total current liabilities	254,170	213,717	202,851	194,788	189,386
						LT borrowings	61,113	77,530	80,070	82,119	81,002
						Other non-current liabilities	14,109	8,976	8,237	8,704	9,131
						Total non-current liabilities	75,222	86,506	88,307	90,823	90,134
						Total liabilities	329,392	300,223	291,158	285,611	279,520
						Share capital	5,399	8,435	8,435	8,435	8,435
						Reserves	58,875	63,776	73,456	81,657	89,904
						Total shareholders' equity	64,274	72,211	81,891	90,092	98,339
						Perpetual capital instruments	16,716	22,219	27,310	28,645	29,917
						Non-controlling interests	43,775	41,995	46,303	50,274	54,195
						Total equity	124,765	136,425	155,504	169,011	182,451
						Total equity & liabilities	454,158	436,648	446,662	454,622	461,971
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Profit before tax	14,048	20,360	27,984	26,165	25,959	Gross margin (%)	26.4	29.7	29.8	28.3	27.6
Depreciation & amortization	11,351	12,993	13,103	13,801	14,539	Operating margin (%)	13.0	13.3	15.9	14.6	14.0
Changes in working capital	(10,583)	333	1,359	2,377	1,985	Net margin (%)	2.7	3.7	4.9	4.4	4.3
Income tax paid	(3,354)	(5,955)	(7,796)	(8,243)	(8,392)	ROE (%)	8.0	11.8	14.5	12.0	10.8
Other adjustments	13,837	20,799	12,725	12,150	11,567	ROA (%)	3.9	4.8	6.0	5.5	5.3
Cash from operating activities	25,299	48,531	47,374	46,250	45,658	Net gearing ratio (%)	149.0	130.6	106.7	91.3	78.6
Capital expenditure	(13,594)	(15,622)	(16,316)	(17,103)	(17,927)	Interest coverage ratio (x)	2.3	2.9	3.7	3.7	3.8
Other investing activities	4,182	(669)	(3,003)	(2,513)	(2,509)						
Cash from investing activities	(9,412)	(16,290)	(19,319)	(19,615)	(20,436)						
Net changes in borrowings	(8,818)	(10,026)	(9,537)	(9,080)	(8,645)						
Interests paid	(12,195)	(12,312)	(12,058)	(11,684)	(11,247)						
Dividends paid	(2,821)	(2,963)	(4,151)	(4,545)	(4,349)						
Other financing activities	5,729	(9,528)	287	1,235	1,305						
Cash from financing activities	(18,105)	(34,829)	(25,459)	(24,074)	(22,936)						
Cash at beg of year	25,911	23,374	20,898	23,522	26,107						
Net changes in cash	(2,218)	(2,589)	2,596	2,561	2,287						
Effect of exchange rate changes	(319)	112	28	24	32						
Cash at end of year	23,374	20,898	23,522	26,107	28,426						

Source: the Company, 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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